

## Actively Underperforming

Over the last 20 years a steady stream of money has moved from “active” funds (those whose managers ‘actively’ pick stocks in an attempt to out-perform the market) to “passive” funds, which replicate a pre-selected index of stocks.

A report recently issued by Standard & Poor’s, called the *SPIVA Scorecard*, validated this trend by showing how active mutual funds have underperformed their passive siblings. In both the equity and fixed income markets, the majority of active managers underperformed the passive indexes over the five-year period ending December 31, 2008. This includes the dramatic market decline in the last quarter of 2008.

### **Equity Funds: The percentage of active funds which underperformed the passive index**

Active Fund Category	Passive Index	2004-2008
Large Cap Funds	S&P 500	71.90%
Mid-Cap Funds	S&P MidCap 400	79.06
Small-Cap Funds	S&P SmallCap 600	85.45%

### **Bond Funds: The percentage of active funds which underperformed the passive index**

Active Fund Category	Passive Index	2004-2008
Govn’t Long-Term	Barclays Long Govn’t	92.68%
Govn’t Interm-Term	Barclays Interm Govn’t	93.75%
Govn’t Short-Term	Barclays 1-3 yr Govn’t	91.43%
Invest Grade Long-Term	Barclays Long Govn’t/Credit	100%
Invest Grade Interm-Term	Barclays Interm Govn’t/Credit	90.18%
Invest Grade Short-Term	Barclays 1-3 yr Govn’t/Credit	100%
High Yield Funds	Barclays High Yield	52.29%
Mortgage-Backed	Barclays Mortgage-Backed	100%
Emerging Markets Debt	Barclays Emerging Markets	62.5%
California Munis	S&P California Muni	100%

Active fund investors have relied on the ability of active managers to reallocate portfolios to avoid downturns. Active managers can, in theory, choose to avoid certain sectors or, even more drastically, go to cash when the market is ‘obviously’ falling. Conversely, passive funds must track their benchmark. Even with this theoretical advantage, the majority of

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## Irrevocable Life Insurance Trusts – Pros and Cons

An irrevocable life insurance trust (ILIT), sometimes referred to as a wealth replacement trust, serves the primary purpose of removing the proceeds of a life insurance policy from being subject to estate taxes. If properly implemented, an ILIT can help maximize the estate left to heirs by providing an outside source of liquid funds to replace the wealth otherwise lost to taxes, debts, and expenses.

Generally, assets you own at death are subject to the federal estate tax. Your estate includes the value of any life insurance policies or proceeds if you are the owner of the policy. Currently, estates in excess of the exemption amount (\$3.5 million in 2009) may be subject to estate tax rates as high as 45 percent. If you own a life insurance policy and are subject to the estate tax, your family may receive less money from your life insurance than you originally planned, due to the taxes due on the death benefit.

An ILIT can solve this problem. It may be a particularly appropriate strategy if your estate would not otherwise have to pay estate taxes were it not for the inclusion of the life insurance proceeds.

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### Advantages

When set up properly, an ILIT can provide the following benefits:

- \* Exclude the proceeds of your life insurance policy from your (and your spouse's) estate.
- \* Through the payment of the insurance death benefit, create cash liquidity for your estate or heirs.
- \* Under the right conditions, insulate the policy proceeds from estate taxes over multiple generations.
- \* Protect the value of the policy and its eventual proceeds from future creditors.

### Disadvantages

The estate planning and tax details associated with an ILIT are complex and can be restrictive. For example:

- \* To qualify for its tax and asset protection benefits, a life insurance trust must be irrevocable.
- \* You must relinquish all decision-making authority over all benefits of property held in the ILIT.
- \* Any property transfers made to the trust must be complete and permanent.
- \* Appointing the wrong trustee or naming an inappropriate beneficiary can potentially reduce or eliminate the intended benefits of the trust.
- \* Funding the ILIT with an existing life insurance policy may trigger gift tax or other unintended consequences.

Individuals and couples with large estates, or with significant individually-owned life insurance policies are encouraged to consult with an appropriate team of professionals for further discussion on this subject.

## Credit Check: Client Story

In many of our meetings, we remind clients to periodically review the status of their credit using a free web site: [AnnualCreditReport.com](http://AnnualCreditReport.com). The site is sponsored by the big three credit reporting agencies: Equifax, Experian and TransUnion and is part of a legally mandated undertaking by the Federal Trade Commission.

Under federal law, each of the reporting agencies is required to provide you with free access to your personal credit history at least once yearly. Using the web site, you can check your credit history as collected by each of these companies. Once you sign in and after answering a range of security questions, you can review your current credit report. The report lists all credit accounts you have opened including mortgage loans, home equity lines of credit, credit cards, and in-store credit accounts. The report will also identify whether you have been reported for any late payments, have been sued, or filed for bankruptcy.

By reviewing your credit record, you can determine whether there is any incorrect data in your history. More importantly, you can determine if any credit accounts have been opened in your name (accounts you did not open). If an account has been opened that you were not aware of, it could be an indication of identity theft.

This past spring, after being prompted by Mosaic to check [AnnualCreditReport.com](http://AnnualCreditReport.com), a client discovered that someone was in the process of opening a credit line at a store for a jewelry purchase. Disaster was narrowly

averted. Two other clients recently told us stories relating to identity theft. Luckily, none resulted in a loss.

You can use [AnnualCreditReport.com](http://AnnualCreditReport.com) at least three times a year (checking a different agency each visit). You can also sign up for a legitimate credit monitoring service that will update you whenever there is any new or unexpected credit activity. The three big credit reporting agencies each have an annual subscription service providing this type of credit alert reporting.

Be aware that there are several “copy cat” sites with similar names: [CreditReport.com](http://CreditReport.com), [FreeAnnualCreditReportslimited.com](http://FreeAnnualCreditReportslimited.com), [FreeReportCredit.com](http://FreeReportCredit.com). These claim to offer “free credit reports,” “free credit scores,” or “free credit monitoring.” They are not part of the legally mandated free annual credit report program. In some cases, their “free” product comes with strings attached. For example, some sites sign you up for a supposedly “free” service that converts to one you have to pay for after a trial period. If you don’t cancel during the trial period, you may be unwittingly agreeing to let the company start charging fees to your credit card.

Also, as shown above, some “imposter” sites use terms like “free report” in their names; others have URLs that purposely misspell [annualcreditreport.com](http://annualcreditreport.com) in the hope that you will mistype the name of the official site. Some of these “imposter” sites direct you to other sites that try to sell you something or collect your personal information. Be careful, but stay informed!

## Powers of Attorney—Protecting your Loved Ones as They Age

One of the bigger challenges facing many of us as we age is coping with the issues affecting our parents and loved ones as they reach their advanced years. Many are wrestling with the difficulty of seeing a family member or close friend lose the ability to make sound financial and medical decisions. You can protect your loved ones' well being by having them execute both a power of attorney for financial matters and a healthcare power of attorney.

The **power of attorney for financial matters** enables someone to assume responsibility for everything from paying bills to making investment decisions. Typically a single individual is appointed but you may appoint different people to handle different aspects of your finances. To be safe, each person creating a power of attorney should also name several backups (known as "contingents") who can take over if the primary choice cannot fulfill his or her duties. While a spouse is often the obvious choice, when it comes to aging parents, it often makes sense for children or younger friends to take on this role. They are more likely to have the energy and mental acuity to deal with the many complex issues that can arise.

There are three basic types of powers of attorney relating to financial matters:

1. *Limited/specific power of attorney.* Giving someone special or limited power of attorney authorizes him or her to act on the grantor's behalf under very specific circumstances (e.g., selling someone's home). Generally this type of power of attorney is granted for a limited period of time.
2. *General power of attorney.* A general power of attorney

grants broad powers to the appointed person. Unless restrictions are added, it immediately allows an agent to write checks, borrow money in the grantor's name and sign contracts, among other things. It goes without saying that the appointed person should have your full confidence. A general power of attorney can be made "durable," meaning it remains in effect if you become mentally incompetent.

3. *Springing power of attorney.* This is designed to take effect when the grantor becomes seriously ill or otherwise incapacitated. People concerned about being unable to manage their affairs at some future date often use this type of power of attorney. It can include specific safeguards to ensure that the grantor is not forced to relinquish control before necessity compels it.

It's worth noting that these types of powers of attorney don't allow your chosen agent to make healthcare decisions for you. These decisions must be addressed by creating a separate **healthcare power of attorney** (also called a "durable power of attorney for healthcare" or a "medical power of attorney"). This document names a trusted person to make critical health care decisions for someone who can no longer do so, or simply does not wish to.

The health care agent works with health care providers to make sure the person who creates the document gets the kind of care they wish to receive. When arranging care, the agent is legally bound to follow the grantor's treatment preferences to the extent that these are known.

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active funds underperform their respective passive indices. This was true in the most recent study and is consistent with past research on this question.

### Equity Funds in Bear Markets: Percentage of active funds who underperformed the passive index

Active Fund Category	2000-2002 Bear Market	2008 Bear Market
Large Cap Funds	53.5%	54.3%
Mid-Cap Funds	77.3%	74.7%
Small-Cap Funds	71.6%	83.8%

Although there are time periods when some active

managers will outperform a passive index, the SPIVA scorecard illustrates that the odds of active management outperforming the market is low — particularly over the long-term. As with any statistical study, however, keep in mind that many may disagree with the assumptions and methodology used; no single study is authoritative.

At Mosaic, our disciplined strategic investment approach widely employs passive investment strategies across multiple asset classes, both domestic and international, with allocations customized to each client's target investment return and risk tolerance.

## AROUND THE OFFICE

**Congratulations...** Norm and Linda Boone's software (www.IPSAdvisorPro.com) was just named outstanding industry software by CPA Wealth Manager magazine.

**At the Podium...** Susan Morse recently spent a morning at the Finance Academy at Lincoln Public High School in San Francisco discussing the capital markets and careers in finance with several classes. In April Holly Gillian Kindel traveled to Palm Springs to give a presentation on how to review Property Casualty Insurance to financial planners at the Financial Planning Association's Annual "Retreat." Norm and Linda spent a day in Seattle in April and in San Diego in May talking to members of the advisory industry about the importance of having investment processes and using Investment Policy Statements.

**Furthering the Profession...** Holly started her stint as a member of the National Financial Planning Association (FPA) Leadership Advisory Group. Sabrina served on the Consumer Advisory Group which provides overall strategic advice to National FPA staff on consumer market development.

**Giving Back to the Community...** Norm continued in his role as a trustee of San Francisco-based Saybrook University, which grants masters and PhD degrees to mid-career adults working in fields relating to psychology, coaching and organizational development. Saybrook just announced a new program in Mind-Body Medicine. June will see the conclusion of Kevin Gahagan's seven year tenure on the board of the Estate Planning Council of Diablo Valley. He continues in his board roles for the UC Berkeley Personal

Financial Planning program and the local chapter of the American Association of Individual Investors. Susan continued in her role as a Director of the Bank of San Francisco and as a Member of the Pacific Dental Foundation Board, which supports the Dugoni Dental School in its community involvement in improving oral health care in San Francisco and Stockton. As a member of the Junior League Fashion Show Patrons Committee, Sabrina Lowell helped organize the successful event in March which raised roughly \$500K to benefit Bay Area Families in Need. In April Sabrina volunteered at Access to Adventure, a day of fitness and fun for kids and youth with special health care needs or disabilities in Golden Gate Park. Geoff Zimmerman, in partnership with the local Junior Achievement organization, volunteered to teach a ½ hour weekly class on basic financial awareness at a local elementary school. A common theme in the program was identifying "wants" versus "needs".

**Education a Continuing Affair...** Susan completed a several hour ethics class, which is required to maintain her CFP designation. Benson Choy began pursuing a Masters in Taxation at Golden Gate University. Geoff, Norm, Kevin and Sabrina will all attend the annual Northern California Regional FPA Conference in late May.

**Exotic Travel...** Geoff and his wife Lynn are traveling to Tanzania in May to enjoy a 10- day tour of the Serengeti and the Ngorongoro Crater. Susan recently attended the Masters Golf Tournament in Augusta, GA, and then went to Corning, NY, for her recurring meeting of the LPGA Advisory Committee.

### Employee Spotlight—Christine Damico

Christine Damico is an intern working at Mosaic this summer. She is a senior at Virginia Tech in Blacksburg, Virginia, and is pursuing a bachelor's degree in Finance with a minor in Leadership. She works as a tutor for VT student athletes and was a student volunteer at the 2008 Financial Planning Association (FPA) Conference. She is a member of Beta Gamma Sigma, the Pamplin Finance Mentorship Program, Pamplin Ambassadors, and

is Co-Founder and President of Global Outreach at VT, an organization that fundraises for international causes. In her free time, she enjoys running, reading, traveling, and completed her first marathon last spring.

While at Mosaic, she will be sitting in on a few client meetings (with permission) and she has a whole list of projects she's been assigned. Please welcome her when you are next in our offices.

## To Refinance or Not to Refinance: That is the Question

Rates on 30-year mortgages tied a record low during the final week of April, averaging 4.78%. Rates have risen a little since but are still at or near historic lows. This means it is time for many of us to review our mortgages and evaluate the benefits of refinancing.

The factors for deciding whether now is a good time to refinance typically include how your current mortgage rate compares to currently available rates, the term of your existing mortgage, and the time you expect to be in your home. Other personal needs and reasons for refinancing may also be factored into the decision. Considerations may include:

- \* The ability to lower your interest rate or payment.
- \* The ability to move from an adjustable rate to a fixed rate loan.
- \* To shorten or lengthen the term of the loan.
- \* To increase or reduce the loan amount.
- \* To cash out (a portion of) your home equity.

**Don't Ignore Total Costs:** When people refinance, they tend to focus solely on the loan interest rate and may not pay enough attention to the associated fees. These can be substantial. Typically, loan fees are divided into three main categories:

- \* Lender fees. These can include origination, points, application, credit report, and appraisal.
- \* Third-party fees. These will vary by state and the actual company you select to close your loan. They

can include fees for closing, title exam, title insurance, and recording.

- \* Pre-paid items. These are items collected at the time of closing but are not really considered costs. They include items you pay whether or not you refinance (for example, final interest on your current loan, property taxes, and hazard insurance).

All together, closing costs typically range from 2% to 3% of your loan amount. You will be provided with an estimate of your closing costs soon after your application has been received. This estimate may change if you subsequently modify the loan amount or type of loan for which you apply. If this should occur, be sure to ask how the changes will impact your closing costs.

**Loan Term Issues:** Just because your monthly payment will be less, your total loan costs are not necessarily lower. Multiply your current payment by the number of payments left and add your closing costs. Do the same for the new loan. How do they compare?

**Refinancing Rules of Thumb:** Refinancing is worthwhile if the savings on payments will pay for the refinancing costs within a few years. You can calculate your "break-even" date by dividing the up-front cost (the figure on the Good Faith Estimate form provided by the lender or broker) by the anticipated monthly savings. Be sure you expect to live in your house at least that long; otherwise refinancing is unlikely to make sense.

If you have questions, please speak with your advisor.

## Save The Date—Mosaic Presents: Gregory Valliere

We are pleased to announce that Mosaic Financial Partners will host Gregory R. Valliere, Chief Strategist and Managing Director of the Washington Research Group, to speak with clients and friends in San Francisco on **October 8, 2009**. Valliere is well known for his energetic and dynamic presentation style. He will present *A View from Washington* discussing tax and energy legislation, deficit reduction, geopolitical implications, and other key issues for investors. Final arrangements are still being made and invitation details will be provided in the coming months as they are available. We hope you will join us for this special lunch event.

**Gregory R. Valliere :** Mr. Valliere is the chief political strategist of the Washington Research Group, which

has provided political, economic and industry research to institutional investors for more than 30 years. Mr. Valliere coordinates political and economic research, focusing on how Washington shapes fiscal policies and how those developments affect investors.

Mr. Valliere is a regular guest on many financial programs, including CNN's Moneyline, Fox's Cavuto Report, CNBC's Closing Bell and Reuters Financial Television. He began his career as an intern at the Washington Post, and later became the chief congressional correspondent and news editor for F-D-C Reports, a trade publication that monitors the pharmaceutical industry. He received a bachelor's degree in journalism from George Washington University.

## Thoughts to Live By

"Each morning we are born again. What we do today is what matters most." -- [Buddha](#)

"The whole of life is but a moment of time. It is our duty, therefore to use it, not to misuse it."-- [Plutarch](#)

"There are only two ways to live your life. One is as though nothing is a miracle. The other is as though everything is a miracle." -- [Albert Einstein](#)

"Charity and personal force are the only investments that are worth anything ." - [Walt Whitman](#)

"If you are clear about what you want, the world responds with clarity." -- [Loretta Staples](#)