MOSAIC FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Effective Financial Strategies

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Valuing Value

Over most rolling measurement periods, value stocks have outperformed growth stocks. Accordingly, Mosaic portfolios have been structured to take advantage of this by overweighting value within each of our major equity asset classes. As a continuation of this strategy, over the next quarter we'll be gradually moving portfolios toward an even stronger value orientation (increasing our value tilt to 67% from its current level of 60%).

Over the last 30 years, US large company value stocks have outperformed their growth counterparts and done so with less volatility. These results are even more pronounced when comparing value and growth stock returns for small US companies and international stocks. Value stocks are typically characterized as those whose share price is 'cheap' relative to the rest of the market. This is usually measured by comparing a stock's price in relation to its book value or reported or projected earnings. Conversely, growth

Index	Return
US Large Cap (1/79 - 12/09)	
Russell 1000 Value	12.00%
Russell 1000 Growth	10.50%
US Small Cap (1/79 - 12/09)	
Russell 2000 Value	13.30%
Russell 2000 Growth	8.90%
International Large Cap (1/75 - 12/09)	
MSCI EAFE + Canada Value	13.30%
MSCI EAFE + Canada Growth	9.40%
International Small Cap (8/89 - 12/09)	
S&P Developed Ex US, Small Value	6.90%
S&P Developed Ex US, Small Growth	4.40%
Emerging Markets (1/97 - 12/09)	
MSCI Emerging Markets Value	9.70%
MSCI Emerging Markets Growth	7.10%

Source: Morningstar

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2010 & Your Estate Plan

It was one of those things that was never meant to happen: after dithering for years, Congress effectively allowed **the estate tax** and **the generation skipping transfer tax** (the "GSTT") to be eliminated for 2010. While this might seem like a release from the dreaded "death tax," it is only a temporary respite. In 2011, the estate tax will revert back to rates and exemption levels that were in force in 2001. Theoretically, this means that for those who die in 2010, their estate will pass to their heirs *estate tax free* — regardless of how much their estate is worth. If that same death occurs in 2011, the rules will be different. *Only* $1 million will pass estate tax free. Anything over that amount for non-spouse beneficiaries will be taxed at rates from 18% increasing to 55% depending on the size of the estate. In this case, one minute can make a huge difference.

It gets even more complex. The law changes the way in which basis is calculated on assets inherited in 2010. Before 2010, inherited asset were generally eligible to receive a *step up in basis* (i.e., when calculating capital gains on inherited assets, the IRS would consider the "cost" of an asset to be its fair market value *as of the date of death*). This made it fairly easy for someone to keep track of what their investment gain would be on an inherited asset. But, for 2010, the step up in basis is eliminated. The new *carryover basis* is the fair market value of the asset *when the decedent originally pur-*

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What's Inside

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stocks are usually characterized by companies that have high expected growth rates in future earnings and price.

Growth stock indexes currently favor technology, health care and consumer stocks. Value indexes currently favor financial services, energy and utility stocks. These differences in sector exposure suggest that different economic factors will drive performance.

Value stocks have traditionally been relatively high dividend payers. Historically, this has given value stocks a larger stream of ongoing income.

At least one factor that has influenced the performance differential between value and growth stocks relates to investor expectations of future performance. Investors are often overly optimistic about the future prospects of a fast rising company (anticipating that the stock price will continue to rise rapidly). Typically, the prices of growth stocks have already been bid up given expectations about future growth. Should a company fail to live up to these lofty expectations, its stock price can fall. In contrast, value stocks, having lower expectations, typically experience less volatile price movements in response to market and economic news. This contributes to higher returns with lower volatility.

We expect to talk with you further about the different facets of our strategy. If you have immediate questions about our value approach, please call us.

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chased it. Beneficiaries will now have to know (or determine) the purchase price of an asset that may have been bought decades earlier. And, more importantly, you'll pay income tax on any gain in value over that time. For example, your great uncle George leaves you 800 shares of GE he bought in 1965 for $5 per share. At his death the shares are worth $100 each (a gain of $95 per share). Under the old rules, your GE shares would receive a step up in basis to $100 per share. If you immediately sold those shares, no income tax would be due on the sale (as there would be no "gain"). Given this same situation in 2010, you would owe income tax on a gain of $76,000 (800 shares at $100 per share less the "basis" of $4,000). This is a substantial difference. Congress has attempted to address this problem by allowing every estate to allocate $1.3 million in basis to assets within the estate (an additional $3.0mm in basis can be allocated to assets passing to a surviving spouse). This means that estates of $1.3mm (and up to $4.3mm if a surviving spouse is involved) will effectively get a full step up in basis. In our opinion, it is still badly designed law.

So, what do these changes mean for all of us? At the very least, uncertainty. Here are some of our thoughts:

1. If you have a loved one who is seriously ill or aged, you should have their estate planning documents immediately reviewed by an estate planning attorney to make sure their plan will still accomplish what is intended. This is especially true if one's estate documents have not been updated in many years. Also, consider gathering information on the cost basis for estate assets if the estate is likely to be above the $1.3mm threshold. It is often easier to find this information when the original purchaser is still alive.
2. For the rest of us, it is our view that it is worth the time and expense to have your estate planning documents reviewed for any potential issues. Make sure your testamentary trusts would fund as planned and that your estate is able to take appropriate advantage of all available tax benefits. This is can be particularly problematic where distribution amounts are determined by formula. Brief amendments are often enough to get this done.
3. Decide on how you might want the $1.3mm allocation of basis to be applied. Do you want to set that out in your estate plan via a brief amendment or will your executor or successor trustee decide how to apportion the allocation of basis? A brief amendment to your trust document can be drafted to set this out.
4. Given the uncertainties surrounding future congressional action, most observers do *not* believe that one should make gifts to younger generations expecting the elimination of the GSTT to be upheld. It is quite possible that any modifications to current law will be made retroactive. If so, the avoidance of the GSTT may only be temporary and any benefit illusory.

At this point there is no clear indication on what actions Congress may take with respect to the estate tax. The longer they wait to resolve this issue, the greater the likelihood that legal challenges will be initiated on any question of retroactivity.

If you have questions or concerns, please give us a call and we can discuss the possible implications of all of this with you and help you consider whether you should update your estate planning documents.

Mosaic Family Business Center—Grand Opening

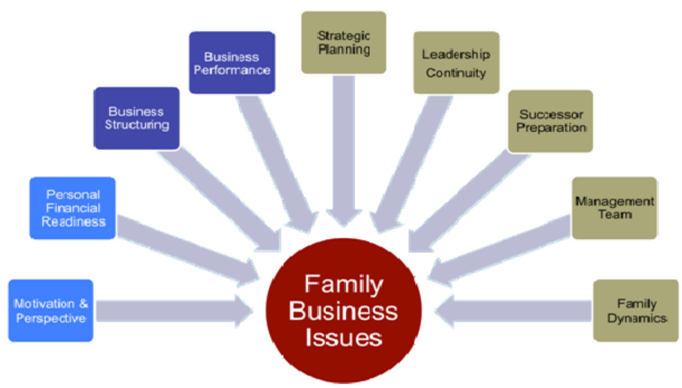
We are pleased to announce the opening of the Mosaic Family Business Center, the newest Mosaic Financial Partners affiliate. The Mosaic Family Business Center (FBC) is intended to help families and their businesses grow and flourish into the next generation. The FBC mission is to help secure our clients' family business legacies and to improve their family relationships through caring, knowledgeable succession advice and customized solutions to help them successfully transfer ownership and leadership control from one generation to the next.

A family business presents an interesting dichotomy. Family relationships are primarily based upon maintaining harmony, unconditional love and acceptance. Business relationships are based upon performance, accountability and the bottom line. Whenever family and business are intermingled, there are inevitable challenges to both entities. With the experienced leadership from Managing Director, Ricci M. Victorio, CSP®, (see the next page for more about Ricci) the FBC will provide guidance to business owners, their successors, family members and management teams to enhance communication, successor development, strategic planning and most importantly, the realignment of families and their organizations to help transition ownership change.

Succession planning requires far more than creating and addressing your wills, trusts and buy/sell agreements.

Succession planning is a process that requires significant planning of leadership, operations, human assets, family matters, and more. Here are some important questions for business owners to consider: What is your vision for the future for you? Your family? Your business? *(Motivation and Perspective)* Are you financially independent from your business or are you still living out of it? *(Personal Financial Readiness)* Some structures are more succession friendly than others. Are you aware of the tax implications related to a C-Corporation versus a Sub-S Corporation? *(Business Structuring)* Without business success, there will be nothing to pass on to the next generation. Can your business sustain the predictable drop in productivity that usually accompanies a leadership change? *(Business Performance)* Have you developed, documented and communicated a 3-5 year strategic plan to fulfill your expectations of the company, whether or not you are at the helm? *(Strategic Planning)* Have you identified and locked in key managers who are instrumental to your business success? *(Leadership Continuity)* Have you communicated your expectations to family and key management what family members need to become your successor? *(Successor Preparation)* What is your bench strength? Are you developing upcoming leaders beyond yourself and your existing senior management team? *(Management Team)* It is extremely difficult to manage your own children. Are you addressing the difficult family or partner emotional issues that can inhibit business performance and ultimately, business succession? *(Family Dynamics)*

Every business environment is unique—its people, complexities and industry demands. The Mosaic Family Business Center works with each client to create a plan that is specific and uniquely designed to fit to those needs. Current clients of FBC include a large multi-state auto dealer, a wine distribution company, and a single-point retail business.



Designing a Succession Plan Program involves several steps. A comprehensive assessment is made of your family and business environment through personal interviews of family and key personnel to gain a 360° view of the impact each individual plays within the family and business environment. A thorough review of your current financial, strategic and business plans provides an analysis of the challenges and opportunities and what it will take to achieve your goals.

Working closely with the client's existing advisors, we develop a Succession Implementation Plan. The goal is to enhance the performance of the management team, improve family and inter-departmental cooperation and communication, and help the family and business enjoy a successful succession.

If you or someone you know would be interested in learning more about the Mosaic Family Business Center, please contact Ricci Victorio, at Ricci@MosaicFP.com.

AROUND THE OFFICE

At the Podium… In November, **Holly Gillian Kindel** returned to her graduate alma mater, San Francisco State University to speak about the Financial Job Market Overview and Job Hunting Tips. She sat on a panel with professionals and recruiters representing different segments of finance industry, including: investment banking, retail banking and corporate finance. **Norm Boone** gave a talk last fall to the Oakland/Alameda estate planning Brown Bag Lunch group about how to help non-professional fiduciaries build a proper investment policy statement. They've asked him to do it again in May at the East Bay Estate Planning Council.

Giving Back to the Community… For the third consecutive year, **Holly** has mentored students as they provided financial planning to the working poor as part of the FPA Practicum at Golden Gate University. **Geoff Zimmerman** and his fellow Rotarians in the Rotary Club of Lafayette collected coats and blankets, and bought and wrapped gifts which were donated to the underprivileged through Shelter Inc. this past holiday season. **Geoff** is also serving on the Board of Directors of the Lafayette Town Hall Theatre and is actively seeking other volunteers with a passion for community theatre (especially those with a fundraising, finance or legal background) to play a role in the growth of this organization.

Education a Continuing Affair… In November, **Kevin Gahagan** attended the Advanced Wealth Management conference sponsored by the Investment Management Consultant's Association. As one of the conference committee members, Kevin participated in the development of the conference. One of the highlights was a presentation by past Federal Reserve Governor, Randall Kroszner, who discussed some of the decisions and debates occurring at the Fed during the financial crisis. **Benson Choy** completed two more graduate tax courses: Tax Timing and Property Transactions. **Geoff** attended a seminar sponsored by the Byster Institute on Employee Stock Plans, Equity Compensation and ESOP's. Several members of the **Mosaic staff** attended a training and were licensed to use ProScan, a survey of personality and attitudinal traits that can be utilized to help understand individuals and to build teams. We expect to use this new capability in our client work.

Exotic Travel… Susan and her husband Frank returned from a very interesting trip to Cuba, visiting three of Cuba's UNESCO World Heritage sites. They showed their pictures and discussed their trip with clients and friends of the firm on February 25th. **Norm and Linda Boone** spent New Year's Eve in the unique town of Pigeon Forge, TN (home of Dollywood, for you Dolly Parton fans) celebrating a friend's 60th birthday.

Employee Spotlight—Ricci M. Victorio, CSP

Ricci M. Victorio is the new Managing Director of the Mosaic Family Business Center, which came into being on January 1 of this year. Since 1994, Ricci has coached and facilitated multiple generation family business owners, their families and management teams through difficult ownership and management transitions. She has developed educational programs for executive coaching, teamwork enhancement, strategic planning facilitation and successor development for companies across the United States.

Ricci will be bringing her significant skills to bear in helping Mosaic's work with existing clients and helping us build a new clientele among family business owners. Ricci is a Certified Succession Planner®, one of the founding members of the International Succession Planning Association and is co-developer of the online Succession Planning Assessment (SPA) Tool ®. Ricci was previously President of the Rawls Family Business Resource Center and a Partner/Director of The Rawls Group. If you are curious about how she might be able to help a family business you know, Ricci would be pleased to hear from you.

Ricci lives in Fairfield with her husband, Raymond, her daughter, Natalie, and her son, Joey. She's restarted her painting career lately and has sold several of her paintings. She's a wine aficionado and can often be found on weekends touring the Napa countryside.

Is Long Term Care Insurance For You?

Thanks to medical advances, people are living longer than ever before. In old age, many will need assistance with daily living (e.g., eating, bathing, transferring, etc.) But, long-term care is not only for the elderly. Both young and old may require long-term care as a result of physical injury or illness. Those who do not want to burden their families or rely on welfare must plan for the costs of such long-term custodial care (note that most medical policies will only cover custodial care when nursing or medical attention is also needed). The cost of such care can be high.

If you have sufficient assets to cover your long-term care contingencies, you may decide to "self-insure". Or, if you have relatively few assets, you could decide to rely on Medicaid (called "Medi-Cal" in California). But, those of us who fall in between these extremes should consider Long-Term Care insurance. Comprehensive policies are available that cover assisted living facilities, nursing homes, and even home care. And since care costs are expected to increase, compound inflation protection to keep up with costs can also be obtained.

What you will pay for a policy depends on your age, the level of care covered, inflation protection, your deductible (i.e., elimination period), selections you make about maximum daily benefit and benefit period, and other features like return of premium or lapse protection. Obviously, the greater the benefits, the more costly the policy, but all else being equal, the younger you are, the lower your premium will be.

The cheapest policy is not always the best in the long term. That's because if the insurance company's underwriting department has failed to accurately price a policy based on expected claims, then premiums can be increased after a policy is issued. Such an increase can only be done with the approval of the state's department of insurance and must be done across a whole class of policies, but it remains possible. Choosing the right policy with the right company becomes vitally important.

If you are self-employed, you may benefit by purchasing a policy for you (and your spouse) through your company, making it a pre-tax expense and thus lowering its cost to you. For most people, long-term care premium deductions are available only if all medical costs for the year, including the long term care premium, exceed 7.5% of your adjusted gross income. (Note that the IRS limits the amount of long-term care premiums that are deductible each year based on your age.)

Ultimately, your need for long-term care insurance will depend on the amount of assets you have available for long-term care, your family health history, your risk of physical injury based on your lifestyle, and your desire to avoid having to worry about it. There is no magic age to purchase long-term care insurance, although premium costs rise quickly after age 60.

Long term care is an increasing concern as people age. Most people who get it find it gives them important peace of mind. If you'd like to discuss it, call us.

Important RMD Notice

Unlike last year, this year people 70.5 or older have to take distributions from their retirement accounts. If you are in this group, we have calculated your IRA Required Minimum Distributions (RMD) for 2010. You can take your distributions at the beginning or end or throughout the year, but to avoid penalties, you must at least take the minimum amount required. This calculation must include the value of all your retirement accounts as of the end of last year. Please contact Janette Rodriguez at Janette@MosaicFP.com to advise on how and when you would like to have your IRA RMD distributed. Please be sure to tell her if you have any retirement accounts outside of Mosaic so we can be sure your RMD calculation is accurate.

"The chicken is for this year's taxes. The egg is my estimated for next year"

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Thoughts to Live By

"When we accept tough jobs as a challenge and wade into them with joy and enthusiasm, miracles can happen." - Arland Gilbert

"To be content with what one has is the greatest and truest of riches." - Cicero

"In the final analysis, there is no solution to man's progress but the day's honest work, the day's honest decisions, the day's generous utterances and the day's good deed." - Clare Booth Luce

"If you're strong enough, there are no precedents." - F. Scott Fitzgerald

"The only true gift is a portion of yourself." - Ralph Waldo Emerson

"The hardest thing in the world to understand is Income Tax" - Albert Einstein