

Improving Portfolios

At Mosaic Financial Partners, we continually look for ways to improve our clients' investment performance. There are, of course, no guarantees in the investment world, but for us, "improvement" comes from enhancing the likelihood of generating better portfolio returns, lowering the volatility of the portfolio, or, ideally, a combination of both.

In our search for ways to upgrade portfolios, our research suggests that an increased allocation to non-correlated assets best accomplishes our goals of reducing risk or improving returns. We've long advocated for alternatives in our portfolios because of their lack of correlation with stocks and bonds. "Alternatives" are investments that are expected to produce positive and competitive returns yet display low correlation with traditional stocks and bonds. Recently, many new alternative investment vehicles with daily liquidity have become available to help improve portfolios.

A "correlation" is a single number that describes the degree of relationship between two variables. A correlation of positive 1 means that the assets move perfectly in sync; conversely, a correlation of negative 1 means they move in mirror opposition. In constructing portfolios, we look for assets that move independently of each other (a zero correlation), so the chance exists that one can periodically cancel out the other's negative volatility. If one asset rises while another is falling, then the portfolio as a whole will be less volatile.

One of the lessons from 2008 was that in a severe financial downturn, correlations move closer. To try to minimize this effect in the future, we researched investments with different return drivers, so that if one piece of the portfolio is falling another may be rising.

One of the best examples of this is our newly added Rydex Managed Futures Strategy. This fund trades depending on the trend in currency and commodity

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Insurance for Medical Emergencies While Abroad

A couple of weeks ago, the father of a Mosaic staff member became critically ill while travelling in London – emergency attention and immediate surgery were required. Fortunately, excellent care was at hand and the parent is well on the way to a full recovery. But an expensive bill, close to \$10,000, was incurred for hospital-related costs. His insurance company is resisting paying the bill. The same parent had previously been in Nigeria – what would his options have been had his illness occurred there?

At first blush, one would think that his regular health insurance would cover his expense. While this sometimes might be the case, the typical experience suggests coverage can be inconsistent and incomplete. Some private healthcare providers pay for nothing; others pay for "customary and reasonable" medical costs abroad. Most generally do not pay for evacuation back to the U.S.. Even more shocking, Medicare pays for no health care costs outside the US. So, would it have been smart to have purchased specific travel medical insurance beforehand?

If you plan to travel to a country that does not have first world health facilities widely available, you need to get Medical Evacuation Insurance. Medical Evacuation Insurance provides a medically configured jet and

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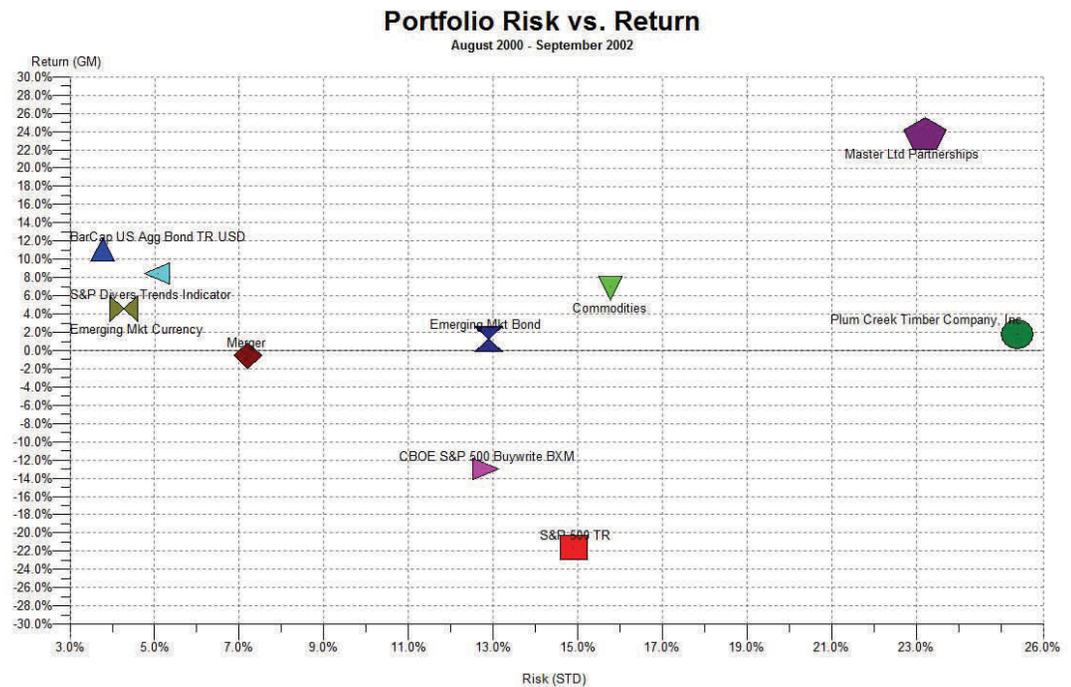
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markets. If wheat prices have been rising (or falling) then the fund would buy (or sell) futures on the expectation that the price trend will continue. In academic circles this type of investing is called “momentum investing” and has been studied and verified at such institutions as the University of Chicago. The S&P Diversified Trends Indicator Index had a correlation of -.28 with the S&P 500 from January 1991 to December 2009.

Another example is the Alerian Master Limited Partnerships (MLPs) Index ETN. This is an “exchange traded note” (ETN) issued by JP Morgan that tracks the performance of the Alerian index of energy-oriented master limited partnerships (MLPs). MLPs are publicly traded limited partnership interests that typically own energy pipelines or storage facilities. MLPs charge regulated fees for their services and normally do not own the oil or gas they are transporting so their performance is largely unrelated to the price of oil. MLPs pay high dividends since they are required to pass through their earnings (and taxable income) directly to the limited partners and thus avoid “double taxation.” The ETN trades on the stock exchange like a stock so it is liquid and does not have to be held to maturity. Over the period 1/91-12/09, the Alerian index had a correlation of 0.34 with the S&P 500.

Historically these alternatives improved portfolio performance or lowered volatility depending on the combination used in a portfolio. These alternatives can be especially beneficial during down periods. A perfect example of this was the “Dot.com” bust. The chart below illustrates this point. If a investment is high on the vertical axis, it means it has greater returns. At the same time, if it is further to the right on the horizontal axis, it means it bears more risk. As you can see, every alternative outperformed the S&P 500, and most did so with less volatility, during this market decline.

If we have not already talked to you about the improvement your portfolio is likely to experience with the addition of our newest alternative investments, please call us to discuss our recommendations.



(Continued from page 1—Travel Insurance)

medical team to air lift you to a hospital of your choice in the event of a medical emergency. According to Harvard Health Publications, flying a patient from Florida to Boston will cost at least \$10,000. The bill for “medical evacuation” from Africa to the United States is at least \$50,000; from India, it could exceed \$100,000. An annual membership for this type of insurance can cost \$250 for an individual, \$385 for a family and \$95 for a short term membership.

The other option is Travel Medical Insurance. It generally covers you for accidental and emergency medical situations. These plans can also include emergency

medical evacuation and 24/7 assistance in helping family members deal with medical bureaucracies and logistic issues. The cost and extent of coverage depends on the planned destination, deductibles, amount of coverage, age, health and other factors. The cost of coverage typically starts at around \$180 for a family of four on a 15 day trip.

Ultimately, the decision hinges on one’s own tolerance for personal risk combined with the ability to bear the expense of a medical event. If you are interested you can call us for guidance. We can refer you to several insurance providers who specialize in this area.

The Importance of Planning For Your Retirement

We often have clients who come to us and say, “I am thinking of retiring.” The concept is simple enough – you stop working and enjoy the fruits of many years of work, saving and wise investing. Some clients dream of a life of ease or at least of doing something dramatically different with their time. The problem is that this change brings to light many critical and typically unanticipated matters. These things range from the mundane — as to when should I start taking Social Security and to what Medicare plans should I enroll in — to the profound, such as what do I really want to do in retirement.

In the Mosaic planning process, we certainly encourage clients to save for retirement (and whatever else they expect to spend money on) but we have found it is important to also help people think about what they really want to do in that stage of life. Many people assume that they will just be able to automatically fill the days with meaningful activities – spending time with the grandchildren, reading great books, playing tennis or whatever it is that they dreamed about while at work. The problem is that while many people find these activities fun for the first six months, they ultimately find themselves bored or unfulfilled. Remember, the average life expectancy of someone who reaches 65 is 83 years old – that means more than 50% of those who retire at 65 will live more than 18 years in retirement. That is a long period to be doing not much of anything.

We all need to think about what it is we really want to do in retirement. Often, clients find a discussion with a “retirement coach” or a life coach (which we have in house at Mosaic) can be helpful. We try to get

clients to envision their perfect day and their perfect week and then try to have them figure out what a successful retirement might look like. Many clients don’t really want to stop working – many just want a change or to spend time in new ways. Sometimes a great solution is to work part time and spend their free time travelling and enjoying a more relaxed lifestyle.

Retirement planning also needs to consider whether you have enough set aside to last the rest of your life. We each need to know our own “Number”—the amount of savings we need to have accumulated to secure our desired lifestyle for the rest of our lives. We can run scenarios to see if buying that dream house is feasible, if starting up a small winery is going to bust you or if you can afford to travel first class for your three big trips per year. Often these questions are not “yes” or “no” but finding the right trade-off among the things we want.

Most people need help with complex decisions like how and when to apply for Social Security and Medicare. We try to help simplify the issues, so you can make the best decision for your circumstances.

If you are retiring, we can help roll over your 401k and other retirement plans. We encourage you to set up a cash reserve to help you avoid having to pull from your portfolio when the market is being disagreeable. We also can help you with your changing insurance needs (e.g., do you still need life insurance?)

We want you to talk to us as you begin to think about retirement. There are big questions to answer and lots of technical ones – we can help you work through it all so your retirement will work for you.

Employee Spotlight—Chris Vind

Chris Vind is a new hire at Mosaic. He is a graduating from Santa Clara University in June with a bachelor’s degree in Finance, with minors in Information Systems and Spanish Studies. While at Santa Clara, Chris worked for four years in insurance processing for the school’s athletic medicine department. Also, Chris has been an officer for the Santa Clara Finance Association and a member of the Beta Gamma

Sigma honors business and Phi Sigma Iota honors foreign language fraternities. In his free time, Chris enjoys playing basketball, traveling and hanging with his friends.

Chris will be taking over the responsibilities of Andrew Boone at Mosaic. Andrew is going back to school to get his MBA and will be missed. Please welcome Chris when you are next in our office.

AROUND THE OFFICE

At the Podium... Norm and Linda Boone led a seminar discussion at the April FPA Retreat in San Antonio on the benefits of developing clear investment policies with clients. In early April, **Kevin Gahagan** traveled to Southern California to speak to the Ventura County chapter of the Financial Planning Association on "Planning and Investment Strategy in a Post-Crash World." At the end of April, **Kevin** spoke to MBA students at the University of San Francisco on "Industry Trends and Direction in the Independent Advisory Profession."

Giving Back to the Community... Norm continues to be heavily involved with Saybrook University, which is a graduate school based in San Francisco, offering accredited masters and PhD degrees in psychology, Mind-Body Medicine, transitional leadership and other humanistic psychology subject areas. **Mary Ballin** just completed a Junior Achievement 5 week session at San Ramon Valley High School teaching financial literacy to a class of seniors. **Geoff Zimmerman** is the incoming President of the Rotary Club of Lafayette. **Geoff** is also continuing his volunteer work with the Lafayette Town Hall Theater both as a Board Member and as a member of the Theater Finance Committee

Education a Continuing Affair... At the end of February, Kevin attended the Investment Manage-

ment Consultant's Association (IMCA) Asset Allocation Conference. With a range of sessions focusing on new trends and developments in portfolio analysis and construction, the conference provided attendees with a host of thought provoking content. **Norm and Linda** attended another IMCA conference in Orlando in May, getting an update on economic projections and regulatory changes. **Benson Choy** completed Tax Procedure and Partnership Taxation graduate classes.

Furthering the Profession... Norm will serve as the president of the San Francisco Estate Planning Council beginning July 1. **Kevin** is organizing three conferences for IMCA while serving on the association's conference committee. He continues to serve on the advisory board for UC Berkeley's Financial Planning program. Norm was a member of the conference Task Force for the recent FPA Retreat in San Antonio. **Geoff** will be returning to the Board of Directors of the Estate Planning Council of Diablo Valley and was elected to as the Membership Chair for the coming term beginning July 1st.

Congratulations... After three years of classes and studying at night, **Mary** passed the 10 hour Certified Financial Planner exam. This means that she is now our newest Certified Financial Planner. Please be sure to congratulate Mary on her success if you see her – it's a significant accomplishment.

Employee Spotlight—Doreen Davis-Owen

Doreen Davis-Owen is the new Director of Business Development for Mosaic. She joins Mosaic with over 20 years of international and domestic experience in the financial services industry. Her mandate is to help Mosaic build new business opportunities and grow the firm.

Prior to joining Mosaic, Doreen was Vice President and Director in the Private Wealth Management Department of Bank of New York Mellon in San Francisco, where her primary responsibility involved working closely with prospective clients and their advisors. Before that, she held executive leadership positions with the NYSE Euronext and NASDAQ

OMX. In that capacity, she officiated NASDAQ Market Opening Ceremonies and worked closely with CEOs of private and Fortune 500 companies, major institutional clients, High Net Worth investors and high-ranking non-US government officials. Doreen brings to Mosaic her vast knowledge of business development and relationship management skills.

Doreen attended Vanderbilt University in Nashville, Tennessee and received her Bachelor of Science degree from the University of Texas, Austin. She completed her Masters of Business degree in Finance from Fordham University in New York. Doreen lives in Tiburon with her husband Phil and dog, Dunkin.

Managing Equity Compensation

Equity Compensation Instruments (ECIs) are a component of many corporate employees' total compensation. Common forms of ECIs include Incentive and Non-Qualified Stock Options, Restricted Stock, Stock Appreciation Rights, and Performance-Based Stock Grants. The tax aspects of ECIs range from simple to complex and the ECI landscape is constantly changing. We have special skills to help in these areas. If you or a friend have holdings in this area, please call us early in the process. We can help.

Successful development of equity compensation strategies begin with a discussion of the ECI holder's current financial position, and the role that ECIs will play in the person's financial life. In addition to quantifiable financial goals, the planning process should also consider the person's life goals, overall financial circumstances and values, and how the decisions will support what is most important to the client. Well-designed wealth management and equity compensation strategies support these primary objectives, minimize the risk of failure, and simultaneously provide a prudent balance between efficiency and simplicity.

Other factors may play a role as well, especially if the ECI holder is a corporate insider and subject to

external factors such as trading windows or corporate political pressures. In these situations, trading plans can help avoid the risk of an ECI (e.g., a stock option) expiring in-the-money because it is unexercisable due to a closed trading window. However, regardless of the circumstances, the design of any plan involving equity compensation assets should include specific, actionable steps based on measurable triggers and which may then be tracked and acted upon.

Once the plan is implemented, decision metrics need to be monitored regularly to determine when action is needed. At Mosaic, we use software to provide us with an efficient means of alerting us when an action trigger is about to occur. Such activation may be date based, price based, or event based. These various types of action triggers can operate either individually or in combination, allowing us a more flexible way to maximize the value of the client's ECIs.

Finally, we have found that regularly scheduled reviews with the client helps ensure the plan runs smoothly, remains relevant, and evolves as needed to remain aligned with the client's ongoing needs. If you have questions about your ECIs or know anyone who might, please call us.

Mosaic Client Document Vault Announcement

Earlier this year we introduced the Mosaic Document Vault to clients. The Document Vault is a secure website that stores files electronically so clients can access them anywhere in the world. We are excited to be able to provide access to important documents should the want or need ever occur.

The Document Vault uses Amazon.com's state of the art "cloud servers" to access your documents and to ensure your documents' security. The cloud server is constantly being "pinged" by our computers to see if there is a request for documents. When you log into your secure website you alert the cloud server that a document needs to be accessed. This alerts the cloud server to tell the next "ping" that a document needs to be created. A new short term temporary website then houses your document. This allows us to initiate all file transfers and to ensure no third party can intercept the data.

This state of the art technology is ideal for documents that you may need in a moment's notice but do not keep with you at all times. Suitable examples might include passports, power of attorney documents and other emergency documents. The document vault is also a great place to keep additional copies of documents that can be stored electronically instead of cluttering the physical space inside your house. While we may already have many of these documents, which can be uploaded to your vault at your request, feel free to bring in other documents you'd like to store and have access to the next time you come into our office. We'll scan it, file it, upload it and return it to you before you leave the office.

If you'd like immediate access to the vault please contact Chris Vind at 415-788-1952. He will provide you with all the information you need to get started.

Thoughts to Live By

"When I became a man I put away childish things, including the fear of childishness and the desire to be very grown up." - [C.S. Lewis](#)

"Life is a succession of moments. To live each one is to succeed." - [Corita Kent](#)

"Happiness comes when your work and words are of benefit to yourself and others." - [Buddha](#)

"Tragic sins become moral failures only if we should have known better from the outset." - [Jared Diamond](#)

"The problems of the world cannot possibly be solved by skeptics or cynics whose horizons are limited by obvious realities. We need men and women who can dream of things that never were." - [John F. Kennedy](#)