MOSAIC FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Effective Financial Strategies

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What Not to Say to Your Insurance Company

Our good friends at *United Policyholders (www.UnitedPolicyholders.org)*, a consumer advocacy group dedicated to educating the public on insurance issues, recently worked with a local broadcaster to list things to never tell your insurance company. We're passing along a few of these tips – tips that can mean the difference between a prompt settlement and a nightmarish process. Insurance companies are sensitive to certain words, and using them incorrectly can result in a claim delay or even denial.

Flood: Homeowners often use the word "flood" casually, but to an insurer that word is anything but. Flood damage is not covered under a standard homeowner's insurance policy. To an insurance company, "flood" means water from a nearby lake, stream, river or other body of water. This may seem like a minor distinction, but your insurer has a very narrow definition of flooding. If your water damage did not come from an overflow of a nearby lake, stream, river or other body of water, don't even say the word "flood". If your basement is filled with water due to a burst pipe, it's not considered a "flood" and should be covered.

'In my opinion…': If you don't know for certain...don't guess! For example, after a car accident, people can rarely provide an accurate estimate of the rate, speed and flow of traffic. Unless you were staring at the speedometer (in which case you weren't watching the road), you don't know. And, don't estimate distances – like how far other vehicles or objects were in relation to your car before the impact. Your estimate could turn out to be false unless you jumped out of the car and measured it with a measuring tape. If your estimates of such things are wrong, they can be used against you when fault's being determined – and be prepared for an insurance adjuster to try to finagle

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Year End Stock Option Strategies

With the end of the calendar year upon us, now is the ideal time to update existing strategies around company stock options, stock appreciation rights and restricted stock. Because holders of these instruments frequently find their portfolios highly concentrated in their own company stock, proper planning and management of these assets is often the key to successful wealth accumulation and preservation.

Employees with **stock options** that are "deep in-the money" and close to expiration and who also have access to a **Non-Qualified Deferred Compensation** Plan will find the last calendar quarter to be a good time for planning. Open enrollment for NQDC programs typically occurs in these months, allowing eligible employees to coordinate participation in the plan with the cashless exercise of stock options to replace the salary deferrals. The desired outcomes of this tax-neutral strategy reduces the risk of permanent capital loss due to a temporary drop in the price of the underlying stock and deferral of the income taxes that would otherwise be due at the exercise of the option to a later date - perhaps even until retirement or later.

December is an excellent time for planning around **Non Qualified Stock Options, SARs and Restricted Stock** since reasonable estimates of regular income tax for the year should be possible. Individuals

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these estimates out of you. The insurance adjuster will try to ask you that same question in multiple ways. Don't say, 'I think,' 'I feel,' 'I felt.' Just give them the details you *know*.

'It was my fault' or 'Sorry!': In most car accident aftermaths, all the facts are not immediately known. Do not interpret the situation and speculate about who's at fault. Don't use words like "it's my fault," "it's not your fault," or "I'm not sure what happened." Describe what happened to the best of your ability. If you're not sure about how something happened, let the authorities and insurance companies figure it out. But when you talk to your insurance company and you are not at fault, then tell them you are not at fault.

In general, don't give a recorded statement to anybody until you speak with your insurance company. It's true that you are required to cooperate but you don't need to guess, estimate or analyze information in order to do so. Again, stick with the facts.

What not to do after a car accident

Until you've spoken with your insurance company or attorney, do not give a recorded statement to the other driver's insurance company. Things you say, especially when you are nervous, upset or in shock can be used against you later on. Insurance companies must ask you for your permission in order to record an interview.

Do not make friendly conversation with adjusters. Stick to business and only tell them the "who," "what," "when" and "where." Avoid telling them the "how".

Do not give out any information about your family. Do not give out the names of your doctors. And, do not sign broad releases, legal documents and/or medical release forms without understanding your rights.

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who are not already in the top income tax brackets may wish to spread the exercise of NQSOs across multiple years to stay under higher tax brackets. Also, as currently legislated, the income tax reductions enacted in 2001 and 2003 are due to expire at the end of this year. While it is unclear whether Congress will extend the tax cuts beyond 2010, the possibility of a higher income tax structure beginning in January lends some urgency to doing some year-end planning.

Individuals with **Incentive Stock Options** (ISO) face some challenges this year due to Congress' inaction on the **Alternative Minimum Tax**. In recent years, Congress has applied a one year "patch" to the AMT to avoid having people of moderate incomes and means fall under the AMT. As of the writing of this article, Congress has not enacted the "patch" for 2010. While this makes year end planning more challenging, this should also be a reminder for those who have already exercised Incentive Stock Options in 2010 to do **a year end review** with their tax advisor. You want to determine whether further action (e.g., a disqualifying disposition) may be appropriate this year. Other tax strategies involving AMT Preference Items (e.g., deciding to accelerate or to defer certain itemized deductions such as payment of property taxes or Q4 estimated state income taxes) should be considered as well.

Preservation of wealth is best achieved first by building a properly diversified portfolio. Minimization of income taxes, while important, should play a supporting role.

Looking ahead, January and February still represent an ideal time for initiating **ISO exercise strategies**. Doing so gives you the remainder of the calendar year to weigh the investment merits of holding the stock and the potential for long-term capital gains treatment against the risk of possible price declines and AMT considerations. Should the decision be made to hold the shares past the end of the calendar year, the risk of paying both the AMT and ordinary income tax (due to the sale of immature ISO shares) is minimized. This is so due to the relatively short time period between the end of the calendar year and the end of the required holding period.

Last but not least: While we have focused on strategies that discuss the potential for tax reduction or tax deferral, we believe that preservation of wealth is best achieved first through the building a properly diversified portfolio. Minimization of income taxes, while important, should play a supporting role.

Key points to remember:

Mosaic Financial Partners helps its clients analyze, evaluate and develop strategies that integrate equity-based compensation into their overall plan. To ensure alignment with your other tax or legal advisors, we coordinate with them whenever we can.

Changes in Cost Basis Reporting

New IRS Cost Basis Reporting

The Emergency Economic Stabilization Act of 2008 included new tax reporting requirements that will dramatically change the way investors think about cost basis. The first phase of the legislation goes into effect on January 1, 2011.

What's Changing?

Custodians will be required to report the adjusted cost basis of sold securities (including whether the gain or loss is short or long-term) to the IRS and taxpayers on Form 1099-B. Currently, custodians are only required to report the gross sale proceeds to the IRS. Taxpayers are still responsible for reporting accurate cost basis to the IRS on their tax returns for all securities sold.

Requirements, which will be phased in over three years, 2011–2013, apply to:

- Equities acquired after January 1, 2011
- Mutual funds, ETFs and dividend reinvestment plans (DRIPs) acquired after January 1, 2012
- Other securities, including fixed income and options, acquired on or after January 1, 2013

Securities acquired prior to the above dates are not covered by the new legislation so their cost basis will not be reported to the IRS when sold. However, most custodians intend to report the cost basis of these "uncovered" securities to ***clients*** to assist in completing their income tax returns. We are working closely with our custodians to reconcile the historical cost basis in our portfolio accounting system with the custodians' records to ensure the accuracy of this reporting.

Cost Methods

Different accounting methods are allowed for determining the cost of shares sold when the holding has more than one cost "lot", which typically happens when the security was purchased on different dates or when periodic dividends were reinvested in additional shares. Our custodians will use the IRS default method of FIFO (first in, first out) for all security types except mutual funds which will use average cost. Under FIFO, shares sold come out of the lots in the order they were acquired. For mutual funds, the cost of all shares held is averaged and the resulting per share cost amount is used to calculate the cost of any shares sold.

Keep in mind that the concept of "cost basis" only applies to taxable accounts so this discussion has no impact on retirement accounts.

If you have any questions on how these new cost basis reporting requirements impact your situation, please let us know.

Employee Spotlight: Natalie Victorio

Natalie Victorio is a recent addition to the Mosaic team in the Internal Firm Services department. She obtained a BA in Psychology from Sonoma State University in 2009, graduating in just 3 years time with honors and academic acknowledgement. Natalie has experience in working with family owned businesses through a post-collegiate internship with the Family Business Resource Center, event planning, and client service. Natalie enjoys salsa dancing, reading novels, playing paintball, and the occasional motorcycle ride.

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AROUND THE OFFICE

At the Podium…**Susan Morse** led a panel at our well-received Mosaic event in mid-September addressing the important issues associated with Aging Parents (or any aging individual). In September **Holly Gillian Kindel** presented Mosaic's use of client coaching within the firm at the first national Financial Therapy Association conference. Also in September, **Kevin Gahagan** spoke to the American Association of Individual Investors on investment strategy. In October, **Kevin** participated on a panel for the University of San Francisco's Fall Fest

Ricci Victorio provided a presentation titled, "Family Succession Planning – Bridging the Generation Gap" to the John Muir Foundation in November. In December she will be speaking to the Electronic Security Association's Young Security Professionals on "Surviving Succession – Empowering Managers and Family Members through the Next Generation."

Exotic Travel...**Susan** and her husband, Frank, travelled to Bryce and Zion National Parks in September and did lots of hiking. Thanks to a charity auction purchase, **Norm & Linda Boone** cruised from Athens to Istanbul, lingered in the latter and spent five peaceful days on the Greek Island of Santorini. To pick up some extra airline miles, **Norm & Linda** also enjoyed a quick trip to Beijing in October. **Sabrina Lowell** spent the post Thanksgiving week in Cuba.

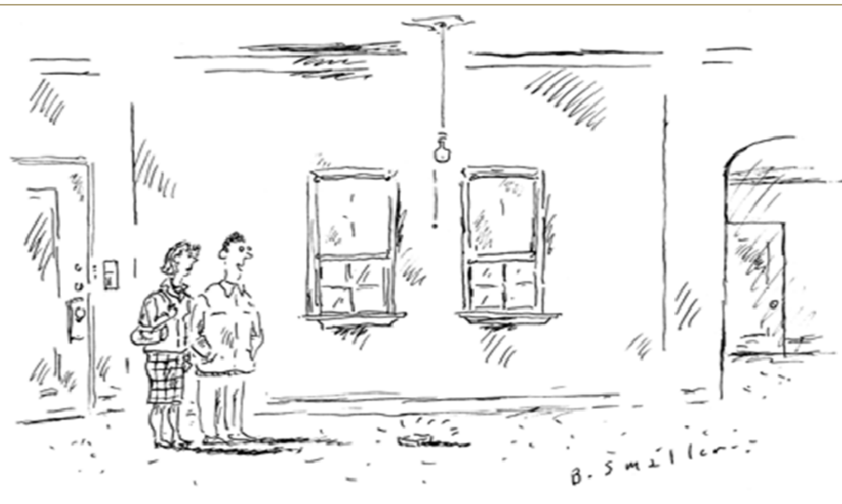
Education a Continuing Affair…**Susan, Norm and Dave** attended Schwab's three-day conference that focused on economic and financial issues affecting the capital markets and investments. Guest speakers included Henry Paulson and Condoleezza Rice.

David Lawrence recently completed a six week course on coaching skills that focused on how to best work with clients of differing types and personalities.

Benson completed two more graduate tax courses: Taxation of Financial Instruments and Corporate Tax. He is scheduled to complete his Masters of Science in Taxation at Golden Gate University in December 2010.

Giving Back to the Community...**Geoff Zimmerman**, as president, led the Lafayette Rotarians in volunteering for the Lafayette Art and Wine festival in September. They also served breakfast to the community during Lafayette's "Reservoir Run" in October. **Geoff** and **Mary Ballin** volunteered at the Financial Planning Association's East Bay Pro Bono day in Oakland in October. The purpose of the day was to raise awareness of the value of financial planning and to give underserved segments of the community access to expert advice for a day with no cost or obligation. A parallel event was held in San Francisco with **Kevin Gahagan** and **Sabrina Lowell** both participating.

Family Matters...Norm's kids Anaelisa (also known as "Nani," now 25) is living in San Francisco and working for GAP in their select Management Development Program. Andrew (27, who formerly worked at Mosaic) passed his CFA exam in June and is now in Austin working on his MBA at the University of Texas.



"I've simplified my life by converting all my possessions into one gold brick."

2010 Tax Planning Tips

As the end of the tax year approaches, you should be working with your tax professional to develop an estimate of how much you'll owe in taxes for 2010 and, to the extent possible, an estimate for your 2011 tax liability. Taking certain steps at year-end can save taxes.

Deadlines to Set-up a 2010 Retirement Account:

December 31, 2010

- Profit Sharing Plans
- Solo or Individual 401(k)s
- Company 401(k)s

April 15, 2011

- IRAs
- Roth IRAs

Deadline to set up a SEP-IRA is your tax filing deadline (including extension) up to October 15th, 2011.

2010 Retirement Plan Contribution Limits:

401(k) = $16,500 + $5,500*

Solo or Individual 401(k) = $49,000 + $5,500*

PSP and SEP IRA = lesser of ~25% of compensation or $49,000

IRA or Roth IRA = $5,000 + $1,000*

* *catch-up allowance for ages 50 or older*

Tax Planning Opportunities:

No Overall Itemized Deduction Phase-out: For 2010, itemized deductions and personal and dependency exemptions are *not reduced* for higher-income individuals, but (at least for now) that's going to change in 2011: these deductions will once again be subject to a phase-out based on adjusted gross income. This should be taken into account if you're considering timing income and deductions as part of your year-end planning. Note, however, that limits on certain individual deductions (e.g., charity, casualty losses, etc.) still apply.

Hybrid vehicle tax credit: Expires for all models.

Energy Efficient Home Improvement Credit: A 30% tax credit for energy-efficient improvements you make to your principal residence, or the cost of certain energy-efficient equipment you install (including furnaces, water heaters, and central air conditioning units) expires at the end of 2010. There's an aggregate credit cap of $1,500 for 2009 and 2010, so if you claimed the full $1,500 in 2009, you're out of luck for 2010. But if you haven't reached the maximum credit amount yet, consider timing qualifying expenditures to take advantage of the credit.

College Savings Plans and Gifting: The annual gift exclusion for 2010 is $13,000 per donee/per donor. Consider funding a college savings plan (529). You can combine your gifting limits by pre-funding your 529 account with five years of gifting in one year for a total of up to $65,000 (5 x $13,000) in 2010. 529 college savings plan accounts may be set-up at anytime.

Required IRA Distributions: When you reach age 70½, you're generally required to start taking required minimum distributions (RMDs) from any traditional IRAs or employer-sponsored retirement plans you own. RMD requirements, however, were suspended for 2009, so you may not have taken a withdrawal last year. RMD requirements are back for 2010, though, and the penalty is steep (50%) for failing to take an RMD by the date required--the end of the year for most individuals. ***If you have not already satisfied your 2010 distribution requirement, and we have not contacted you, call us immediately so that we can make arrangements.*** Remember: if you have IRA accounts outside Mosaic's management, required distributions from those accounts must be included in your calculation.

Still time for 2010 Roth conversions There's still time to take advantage of the special rule that applies to Roth conversions in 2010: if you convert funds in a traditional IRA or an employer plan--like a 401(k)--to a Roth in 2010, half the income that results from the conversion will be reported on your 2011 federal income tax return and half on your 2012 return unless you elect to report all of the resulting income on your 2010 return). Whether a Roth conversion makes sense for you depends on a number of factors, including your marginal tax rate for 2010, 2011, and 2012. However, the ability to postpone tax on the resulting income to 2011 and 2012, combined with the flexibility of being able to wait until you file your 2010 federal income tax return to decide whether you want to do so, makes a Roth conversion a strategy worth considering before year-end.

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We wish you all the best throughout the holiday season.

May the coming year bring you continued health, happiness and prosperity!

Thoughts to Live By

"The major value in life is not what you get. The major value in life is what you become. That is why I wish to pay fair price for every value. If I have to pay for it or earn it, that makes something of me. If I get it for free, that makes nothing of me." - Jim Rohn

"Always bear in mind that your own resolution to succeed is more important than any other one thing." - Abraham Lincoln

"The happiness of a man in this life does not consist in the absence but in the mastery of his passions." - Alfred Lord Tennyson

"In matters of style, swim with the current; in matters of principle, stand like a rock." - Thomas Jefferson

"Obstacles cannot crush me. Every obstacle yields to stern resolve. He who is fixed to a star does not change his mind." - Leonardo da Vinci