MOSAIC FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Effective Financial Strategies

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Tax Planning Tips for Year-End 2011

As the end of the tax year approaches, your tax professional should be able to provide an estimate of how much you'll owe in taxes for 2011 and, if reasonable assumptions can be made, an estimate of taxes due next April. To lower your tax bite, it is wise to take certain steps at year-end.

Deadlines to Set-up a Retirement Account:

- December 31, 2011
    - Profit Sharing Plans
    - Solo or Individual 401(k)s
    - Company 401(k)s
- Latter of April 15, 2012 or return filing date, including extensions
    - IRAs
    - Roth IRAs
    - Set up of a new a SEP-IRA

2011 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:

There remains uncertainty around estate taxes for 2012 and beyond. There is an unusually generous estate tax exclusion for 2011, exempting the first $5 million of the estate from taxes. This effectively doubles to $10 million for a married couple.

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Bond Investing in a Zero Interest Rate World

The old Chinese proverb "May you live in interesting times" certainly applies to today's fixed income markets. In an attempt to stimulate the economy, on December 8, 2008 the Federal Reserve lowered its target short term interest rate to essentially zero. Rates have now been artificially low for almost three years. While this may be good for borrowers, it is a disaster for savers. According to bankrate.com, the national average rate for a 1 year CD is a measly 0.39%. On the other hand, annual inflation (as defined by the change in the Consumer Price Index) was 3.9% through September so buying that CD locks in a loss in real spending power of about -3.5%. Bill Gross, the bond guru at PIMCo, describes this situation as "financial repression" where the Federal government is effectively taking money from savers to give to borrowers [including the US Treasury]. Without the Fed's intervention, Gross believes short term rates would be near the growth rate in GDP, or about 2%.

Another bizarre consequence of artificially low rates occurs in the market for TIPS (Treasury Infla-

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Because of a special "portability" rule, the first spouse to die can elect to transfer any unused estate tax exclusion to the surviving spouse. These rules are scheduled to stay in place in 2012. There will also be an inflation adjustment that raises the unified estate and gift exemption to $5.12 million. Unfortunately, there is a widespread expectation that Congress will reduce the 2012 exemption in its efforts to cut federal deficits. This will also affect the current $5 million exemption that is linked to gift taxes on personal gifts.

College Savings Plans and Gifting:

The annual gift exclusion for 2011 is $13,000 per donor per donee. Consider funding a college savings plan (529). You can combine your gifting limits by pre-funding a 529 account with five years of gifts in one year for a total of up to $65,000 in 2011. 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 IRA or employer-sponsored retirement plan you own. The penalty for failing to take an RMD by the date required--the end of the year for most individuals — is steep (50%) . *If you have not already satisfied your 2011 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 2011 Roth conversions:

There's still time to take advantage of the special rule that applies to Roth conversions in 2011. While the IRS did not extend the 2010 option to report income over a two year period, it still may make sense. We look at a number of factors including current versus future tax rate, income relative to deductions, and how soon you may need to access funds from the account. A Roth conversion strategy may be worth considering before year-end. We'd be happy to take a look at whether or not this makes sense for you.

Capital Gains:

For 2011, the 15% maximum rate for long-term capital gains is certain. This is not the case for 2012 (the top rate for longer term gains could go back to 20%). Qualified dividends could also lose their preferred tax rate and revert back to being taxed as ordinary income.

Charitable Giving:

If you wish to make a tax-deductible gift for 2011, to maximize tax efficiency we typically advise using appreciated assets (most often, stocks, mutual funds or real estate) for your charitable contributions. Transfers of shares can be sent directly to your designated charity's brokerage account. For larger or regular gifting, it may make sense to set up and make your donations to a Donor Advised Fund.

Strategic Timing of Income and Expenses:

An often repeated principle of tax planning is to try to defer the payment of taxes into a future year whenever possible. Some ideas for accomplishing this feat include:

- Depending on changes between your 2011 and 2012 tax situation consider deferring bonuses or additional income until after December 31.
- Group your deductible expenses (professional fees, medical expenses, mortgage interest, etc.) into one year.
- Consider making your January mortgage payment in December to accelerate the interest deduction.

For those who expect to be in a higher tax bracket in the future or who are subject to the AMT, the opposite advice is true. For AMT purposes, try to increase your 2011 income. In this case, it is better to pay tax at today's lower rates or to accelerate income into 2011.

If you have questions or would like more information regarding year-end planning, please call us.

Did you know: Mosaic reviews all client portfolios for tax loss harvesting opportunities prior to year end?

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tion Protected Securities). TIPS are a special type of Treasury bond where the principal automatically adjusts by the change in inflation. Since the stated interest rate on the bond is applied to this changing principal amount, the interest payments also change with inflation. Compared to "regular" Treasuries, TIPS pay a lower nominal interest rate in exchange for not losing ground to inflation. So think about that, if TIPS have a stated interest rate less than regular Treasuries and regular Treasuries are paying about 0% guess what TIPS are paying today? That's right, a negative number! Recently, five year TIPS had an effective yield of -1%. But that is before the inflation adjustment, so assuming inflation remains at 3.9%, these TIPS should earn about 2.9% over the next five years. That is better than a 1 year CD but still loses ground to inflation.

So what can an investor do? Unfortunately, there is no free lunch and not many good choices. To earn higher interest rates you need to assume more risk. Treasuries and FDIC insured CDs essentially have no default risk. If you are willing to risk your principal, you can earn higher rates (Greek bonds anyone?). Stocks and High Yield Bonds are classic examples of this, but don't offer the safety that many investors are seeking.

Another way to increase yield is to take on more "interest rate" (or duration) risk by holding longer term bonds. The problem with this is, EVENTUALLY, the economy will improve—and when it does, the Fed will discontinue their intervention. When this occurs, interest rates will inevitably rise and bond prices decline. Long term bond prices will fall much farther than those of short or intermediate term bonds.

At Mosaic, we don't believe it makes sense to "fight the market". Just because today's bond yields are low does not mean it now makes sense to increase the credit or duration risk in our client portfolios. This is why we generally avoid high yield and long term bonds. Reaching for higher yields is most often not worth the corresponding risk.

As noted in the one year CD example, inflation remains a concern so we continue to use a significant allocation to TIPS in our client portfolios. The TIPS funds we currently use are considered "intermediate term". However, we have recently completed research that shows "short term" TIPS are more closely tied to changes in inflation than longer term TIPS. Also, ETFs that invest exclusively in short term TIPS are now available. These products provide better inflation protection with less "duration" risk should interest rates increase so we may be adding them to client portfolios in the near future.

Thank You for Your Help...

In mid-November, we sent to all of our investment management clients an invitation to participate in an opinion survey about the services we provide (the invitation was sent via e-mail). We've engaged Advisor Impact to conduct the survey to help us identify ways we can better serve our clients. Advisor Impact is an independent consultant in our industry. They will review and analyze the results of this survey while maintaining the confidentiality of our survey participants.

If you are an investment management client and have not yet responded to the survey, we would greatly appreciate your help in providing us with this feedback. Completing this survey should take no more than 5 or 10 minutes. Your participation in this process and your responses are important to us. We'll use the information we learn to better shape the service that we provide. We expect to share the findings of this survey in the early part of 2012.

We sent out an e-mail reminder with a link to the survey at the end of November. Responses are needed by December 9th. If you did not receive the invitation or if you have questions about the survey, please let us know.

Around The Office...

At the Podium:

Working with an interpreter, in November, **Kevin Gahagan** gave a series of talks about the financial services environment in the United States to visiting bankers from Korea's Kookmin Bank.

Holly Gillian Kindel traveled to Tennessee for the annual gathering of Nazrudin, a group of professionals who recognize that financial decisions can affect intangible life goals and larger social issues. Holly led a session using Byron Katie's "The Work" to discuss the emotional challenges of working with clients who are facing difficulties in their finances and their lives.

In October, **Ricci Victorio** participated as a panel member for the SF Bar Association, speaking on Business Succession Planning: Securing a Future and a Legacy for your Client's Family Business.

Exotic Travel:

Frank and **Susan Morse** were in NYC recently and enjoyed "The Book of Mormon" and "Warhorse". They were also able to visit the 9/11 Memorial at night – completely moving.

In August, **Holly** made her second trip to Burning Man in the Black Rock Desert in Nevada.

Lynn and **Geoff Zimmerman** enjoyed an "exotic" trip to Atlanta to visit Lynn's brother and his family in October, and enjoyed spending time with their niece, two nephews and seeing how they've grown over the past year.

Steve Branton enjoyed an exciting hike to the top of Wizard Island at Crater Lake National Park.

Education - A Continuing Affair:

In mid-November, **Kevin** attended a Dimensional Fund Advisors "college." Highlights included sessions led by noted academics from Stanford, Dartmouth and the University of Chicago.

Dave Cowles had a busy conference schedule this quarter: he attended an "Alternatives Conference" in Chicago in October and along with **Norm Boone, Glenda Wong** and **Susan**, he was at the Schwab Impact conference in November. The former UK Prime Minister, Tony Blair, gave the keynote speech.

Giving Back to the Community:

On October 1st **Mary Ballin** spent the day volunteering at Oakland's Financial Planning Day. **Sabrina Lowell, Steve**, and **Glenda** all participated in a similar event in San Francisco. As part of the annual national Financial Planning Days initiative, these events are designed to provide a day of free financial education to individuals who don't otherwise have access to planning professionals. The two events served about 500 participants in total.

Steve also taught a class on Treasure Island at Job Corps regarding how to creatively save for your holiday gifts for loved ones, even if you have no money.

David Lawrence led a group of second and third grade boys around various neighborhoods in Mill Valley collecting canned food for the Marin County Food Bank. The boys, in conjunction with other groups in Marin, collected over 37,000 lbs of food in one day.

Furthering the Profession:

Susan is now serving on the Advisory Council for Institutional Investors' forums for Registered Investment Advisors.

Sabrina is helping design education content for FPA Experience, the annual conference for financial planners.

Other Fun Stuff:

Mosaic's Lafayette Office hosted the November Lafayette Chamber of Commerce Mixer. We had approximately 55 attendees, and enjoyed seeing some old friends and making some new friends.

Susan was part of an NBC televised program in late November on the history of the Olympic Club, the nation's oldest athletic club, which will host golf's US Open in June 2012.

Glenda again ran the Nike Women's Half Marathon in October to add to her collection of Tiffany Nike necklaces.

Strengthening Family Harmony Through Better Understanding of Personality Styles: *ProScan*® Surveys

It's the end of the year when many families are reviewing their financial plans and setting goals for the upcoming year. Making important decisions related to your financial and business future can easily tie a couple and family into emotional knots. Differences in leadership, communication and decision-making styles can threaten even the best of families.

There are many things that families can do to become more effective communicators (and listeners) and in turn, improve the quality of their relationships. One of the tools we use to help couples and families understand each other is the *PDP ProScan® Personality Styles Survey*. Understanding the four basic behavioral personality traits and how these react under stress can be helpful in enhancing family interactions.

Some individuals enjoy exploring differences of opinion; others may have more difficulty sharing their feelings; and yet others may appear to just want it their way. Why do some people seem to have an easier time making decisions? Why do others seem to need more time, more discussion or more facts?

Since at least the days of Hippocrates, people have been classifying and describing behavioral patterns. The four descriptors the PDP survey uses are:

- Dominance – the control or "in charge" trait
- Extroversion – the social & personal influence trait
- Pace/Patience – the "response/reaction" trait
- Conformity – the organization and systems trait

The PDP ProScan® Personality Styles Report offers insights into predictable behavioral patterns, leadership styles, communications styles, motivational factors, and back-up behaviors, which are likely to intensify in stressful circumstances. Everyone has every characteristic, just in different amounts. Additionally, everyone applies every characteristic differently. People can learn to adapt and manage their behavior to fit the circumstances at hand. These adaptations always induce greater or lesser degrees of stress, thus requiring more or less discipline to manage and control.

We are pleased to offer this service for Mosaic clients and their families (ages 16 and above) for a special rate of $75 per person . This can be a big help in improving appreciation of the differences between family members, boosting the ability to have difficult family discussions, provide career insight to college-aged children and help getting "unstuck" when making group decisions.

The 26 page report includes feedback about individual self-perception, measures the gap between who we feel we are and who we feel others expect us to be, and provides insight into how we think we are perceived by others.

Ricci Victorio, our Managing Partner of the Mosaic Family Business Center, who has been using the survey for over a decade, will gladly share with you her insights so that you can gain further clarity into your family dynamics and guidance for avoiding predictable family communication landmines.

Welcome New Employee: Steve Branton, CFP®

Prior to joining the team at Mosaic, Steve was an Associate Advisor at Hilltop Advisors. He received his Bachelors in Economics from Tulane University and completed his financial planning studies at Southern Methodist University. He is a Certified Financial Planner®. Originally from Texas, Steve relocated to the Bay Area in 2007. Before beginning his career in financial planning, Steve explored a variety of jobs, including Spanish court interpreter, film & television location manager and staff assistant at the National Geographic Magazine. When not working with clients to create and monitor their financial plans, Steve enjoys travel, running and cooking.

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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

"We don't stop playing because we grow old; we grow old because we stop playing."- George Bernard Shaw

"Those who speak most of progress measure it by quantity and not by quality." - George Santayana

"It is better to fail at your own life than to succeed at someone else's." - Andre Gide

"No one can make you feel inferior without your consent." - Eleanor Roosevelt

"He who asks is a fool for five minutes, but he who does not ask remains a fool forever." - Chinese Proverb