MOSAIC
FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Effective Financial Strategies

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Norm: a Perspective on 25 Years

I began Mosaic, as it has come to be known, 25 years ago this summer, in 1987. After business school, I'd spent some time as a banker and as the CFO for a couple of companies, but hadn't found either particularly satisfying. I'd discovered financial planning a few years before and became a CERTIFIED FINANCIAL PLANNER® in 1984. With more passion than good sense, I took the plunge in 1987, with two young children, no clients and no staff. Shortly afterward, on Monday October 19, 1987, the stock markets around the world crashed. The Dow Jones Industrial Average (DJIA) dropped that one day by 508 points to 1,739 (22.6%). It was the largest one-day percentage decline in Dow Jones history. It was quite a way to start a business!

In some ways, starting with no clients worked in my favor, since there wasn't much money to be lost when the October downfall rolled around. Additionally, with a "clean record" I had no negative experiences working against me.

I slowly built up my business and hired my first employee, Sandy Barras, after a couple of years. Sandy helped me use my time better and we started to really grow. A year later, we hired a second employee and things started to hum. By the mid-90's, we dropped all our sales licenses and converted to a fee-only revenue model to eliminate as many conflicts of interest as possible. From national and local conferences, I was learning how to be the best possible financial planner, and we were trying to put those Best Practices to work in our firm. We were growing and getting better.

Kevin Gahagan joined our growing firm in June, 1998. He added new perspectives and important leadership strength, becoming a partner in 2004.

The late 90's saw the stock markets jump virtually

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Tax Loss Harvesting

One thing we have always done at Mosaic is take advantage of dips in the market to "harvest" losses for tax purposes. While no one likes to see the market go down, if we can convert that unpleasant experience into a tax deduction, at least Uncle Sam will share some of that pain. We sell the security at a loss and replace it with a similar security. You get to use that loss to offset current or future gains, or to a limited extent, to offset other income. This reduces your taxes.

First a little tax refresher. When you sell a security you typically realize a capital gain or loss, which can be either "short term" (securities held less than one year) or "long term" (securities held longer than a year). At tax time, all of the gains and losses are netted against each other. Any remaining net **gain** will either be taxed at your ordinary income rate of up to 35% if it is short term or will be taxed at a maximum capital gain tax rate of 15% if long term (this rate could rise to 20% next January, depending on what Congress does about the Bush-era tax cuts).

But what if the netting process results in a net **loss**? This is where the tax savings part comes in. Each year, up to $3,000 of net capital losses may be used as a deduction against your ordinary taxable in-

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every year. While it certainly benefitted everyone, some clients wanted more than a diversified portfolio would achieve—convinced that Cisco and other stocks would rise forever. Holding to our belief that diversification was a better approach, we lost some key clients during that period. When the "dot.com" stock momentum shifted in early 2000, the market crash began. After hitting bottom, the market started to recover, and then 9/11 happened, which pushed the markets back down. The year after, the corporate fraud of Enron, Adelphia and others happened. Three sets of concerns each year for three years, each created uncertainty in their own way, and each pushing the market down further. While our clients' portfolios declined, they did much better than the broader markets, largely thanks to being well diversified.

The lessons we learned in that period? Sticking with a consistent set of principles ultimately pays off much better than chasing current market trends. The importance of financial planning and helping clients clarify their goals and their needs—knowing how much is enough—was reinforced along with the importance of helping to actively guide them through difficult times.

Things started to recover in late 2002 and kept rising until 2007. Our exposure to overseas markets, commodities and small stocks once again helped our portfolios relative to the major US markets. Then, the housing crash arrived. Lehman Brothers fell and the markets were on the brink of disaster. It was a very tough 18 months for us, for our clients, for the US and the world, but as things started to recover in March of 2009 we were ready to enjoy the recovery.

Some additional lessons were reinforced during that downturn, which was frighteningly severe. Financial flexibility was critical; those with low fixed expenses, low debt payments and some extra cash on hand got through the market decline in reasonable comfort, because they were more able to look beyond the moment's intense emotions. We re-discovered the important role that we play in helping provide perspective and a sense of calm.

We have, over the years, led our profession in a number of ways: our focus on financial planning and the importance of life issues; our early entry into fee-only services; our fast adoption of ETFs as an alternative to mutual funds; our use of investment policy statements with every client; our emphasis on international diversification and the growing inclusion of alternative investment strategies in our investment portfolios.

Obviously, the world and the markets today are not where we all want them to be, but I believe we have served our clients well, not just on the investment side, but in trying to help our clients clarify what they want out of life and helping them make the decisions and take the actions needed to help them move toward their hoped for future for themselves and their loved ones.

Today, Mosaic Financial Partners has 17 employees and is considered one of the leading financial advisory firms in the nation. It has been my pleasure and honor to serve you these last 25 years, to make many dear friends of our clients and to help build careers for our wonderful employees, many of whom have been with us a decade or more. Thank you all. It has been my sincere privilege and I look forward to continuing with you all for many more years!

25 Years: *Then & Now*	**1987**	**2012**
Cost of a new home (median)	$109,000	$154,700
Median household income	$26,000	$49,445
Cost of a first class stamp	$0.22	$0.45
Cost of gallon of regular gas	$0.95	$4.02
Cost of gallon of milk	$2.28	$3.67
Hot Consumer Technology	CD Player	iPhone
Federal debt	$2.3 trillion	$15.7 trillion
President	Ronald Reagan	Barack Obama
Dow Jones Ind Index - June 1st	2,288	12,119
Top grossing movie	Three Men and a Baby	The Avengers

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come, such as salaries or interest—income that can be taxed at rates up to 35%. Any remaining capital losses can be carried forward *indefinitely* to future tax years where they can either be used to offset new capital gains or take another $3,000 deduction from ordinary income.

So how does harvesting work? We use specialized software (called "iRebal") to monitor client accounts. Part of its task is to look through the taxable accounts for securities that show unrealized losses large enough that the tax savings will far exceed the transaction costs necessary to harvest the loss. If found, we sell that holding to realize the capital loss and invest the proceeds in a "similar" holding in the same asset class to keep the account fully invested and maintain the desired asset allocation. To avoid the "wash sale rule," which would void the tax savings, we can't buy back the same holding for at least 31 days. But to keep you fully invested, we can buy a similar security, as long as the IRS would not consider it "substantially identical." If you really want to keep the security that was harvested, you must wait 31 days before repurchasing it.

At Mosaic, we will typically sell the fund with a loss, say the Schwab Fundamental US Large Stock index, and replace it with a similar, *but not identical*, fund that invests in the same type of stocks, for example the Vanguard S&P 500 Index of large US stocks. Depending on the fund being sold, we may decide to repurchase it after the 31 day period. This decision might depend on whether the replacement fund went up in value during the waiting period.

The important thing to remember is capital losses may be carried over so there really is no disadvantage to harvesting losses whenever they are available. We look to harvest losses throughout the year, not just at year end tax season.

How to Reduce or Stop the Endless Paper Flow in Five Minutes

Let's be honest here. Schwab and Fidelity *really* like to send you stuff: statements, notices of trades, prospectuses, tax forms, and—our personal favorite—pages intentionally left blank. Sometimes it can seem as if it is their secret mission to keep the US Postal Service alive.

Needless to say, we often get requests from clients to make the paper stop—or at least reduce the volume of mail (the most commonly hated mail: prospectuses). Unfortunately, regulations prohibit us from taking care of this directly on your behalf. BUT we can give you the secret to managing the paper mail: request email notification for the items you don't want to receive in the mail. Your custodian will alert you by email when the prospectus/statement/whatnot is available and then you can choose to read it securely through your account at your leisure. All you need is an email address and five minutes.

Ready? Great. Here is what you do:

Schwab

The fastest and easiest way is to simply call the Schwab Alliance team at 1-800-515-2157. It should take less than five minutes.

Alternatively, if you have on-line access to your account, you can take care of this yourself by doing the following: Log into your Schwab account

- Click on the SERVICE tab
- Click on ACCOUNT SETTINGS
- Scroll down to ELECTRONIC COMMUNICATIONS and click on your preferences for electronic delivery.

Even if you prefer to handle it yourself on-line, we (and Schwab) still suggest you call the Schwab Alliance Team (1-800-515-2157). They are happy to be on the phone with you and will make sure you get everything set the way *you* like it quickly and easily.

Fidelity

To sign up for e-delivery, you will need to have on-line access to your account or sign up for on-line access at www.fidelity.com before you can proceed. Log into your Fidelity account

- Click on the CUSTOMER SERVICE tab
- Click on UPDATE PROFILE
- Click on DELIVERY PREFERENCES

If you require any assistance at any time during the process, please call Fidelity at 1-800-544-7595. They will make sure you get everything set up the way *you* like quickly. and easily.

Around The Office...

At the Podium:

Norm Boone spoke at the Financial Advisor magazine Retirement Income Symposium in May in Weston, Florida on the Mosaic Client Withdrawal Calculation program. He spoke on the same topic at the Northern California Financial Planning Conference in San Francisco in late May. **Norm and Linda** also did a 2.5 hour program in Washington on Investment Policy Best Practices in late April at the national Investment Management Consultants Association conference.

Exotic Travel:

Mary Ballin spent spring break with her husband and kids relaxing in Puerto Vallarta. A lot of time was spent by the pool reading and relaxing, but the highlight of the trip was being able to hold a 2 week old Bengal Tiger cub.

Steve Branton was in Tokyo in mid-April with day trips to see temples and gardens in Nikko and Kamakura. Highlight was sushi for breakfast at Tokyo Fish Market and cherry blossom viewing (*hanami*).

Education - A Continuing Affair:

At the beginning of May, **Kevin Gahagan** and **Norm** attended the Strategic Investment Conference in Carlsbad, CA. A range of presentations were heard on the global economy and economic trends. Numerous well known speakers included Niall Ferguson, Woody Brock, Jeffrey Gundlach and John Mauldin.

In late May, **Dave Cowles** traveled to Newport Beach, California for three days of intensive discussion at the PIMCo Institute for Wealth Managers. There PIMCo fund managers presented their views on multiple topics ranging from the European debt crisis to the question on everyone's mind "when are interest rates likely to go back up?" PIMCo is one of our primary managers of fixed income, commodity, and currency funds.

Mosaic's professional team – both planners and advisors, spent May 29-30 at the Northern California Financial Planning Association Conference in San Francisco at the Palace Hotel. Annually we attend this conference and come away with extensive information that enables us to better serve our clients and the financial planning community.

During the first weekend in June, **Chris Vind** took the second level of the examination to become a CFA charter holder.

Giving Back to the Community:

After 8 years, in May **Norm** attended his final board meeting of the San Francisco Estate Planning Council (leading lawyers, CPAs, Trust Officers and Financial Services people involved in estate planning). **Norm** continues in his role as co-chair of the board of trustees of Saybrook University (www.Saybrook.edu)

Mary's first weekend in June was spent with her daughter's Girl Scout troop staying at and doing needed yard work and yard maintenance at Oakland's Home of Peace, a non-profit where missionaries from around the world stay while visiting the Bay Area. On June 23 – 24 Mary will spend the weekend walking in San Ramon's Relay for Life Cancer walk. This is Mary's 3rd year participating in the event raising money to fight the war against cancer. This year Mary is dedicating her walk to her sister who lost the battle to breast cancer in February

David Lawrence helped to organize and run a large emergency day-long drill as a CERT (Community Emergency Response Team) in Mill Valley. The drill was done in conjunction with the Police and Fire Departments and other Southern Marin emergency responders. The drill tried to simulate the chaos that would ensue after a large scale neighborhood flood. David is part of the Mill Valley CERT steering committee that runs the organization's training and volunteer teams.

Other Fun Stuff:

David completed an "8 hour" mountain bike race in Boggs Mt, California in mid-May. The object of the race was to see how many laps of a nearly 8.5 mile circuit (with 1,200 feet of climbing per lap) each rider could do in the 8 hour period. David managed 8 laps (the winner did 11!) and swore that he would never do anything so unpleasant again. But once the shock of it all wore off he signed up for an even harder one to take place later this summer.

And, **thank you** to all who attended our Speaking Event with Jennifer Raymond, PhD at the Olympic Club on May 15th. It was a fun and wonderful event and we were glad so many of you all could make it.

College Too Expensive?

For many families – even those with significant savings and means – the cost of college has become a daunting burden. Tuition, fees, room and board cost an average of $17,100 in state and $38,600 for private four year school – and these figures continue to grow faster than the rate of inflation. This has caused families and students to stretch all financial means available to them. In fact, according to a report by the independent non-profit organization, The Project on Student Debt, the college class of 2010 graduated with the highest level of student debt ever – two-thirds of college seniors carried an average of $25,250 in debt (and up to $55,000 for those attending private schools in the Northeast US). This coupled with high unemployment rates means that the debt can be overwhelming.

If you are unable to fully fund a college student's education, how can you best avoid having this happen to you? Well, here are some tips that might help your child or you taking on more debt than is needed.

First, **start saving as soon as possible,** ideally in a 529 plan. Every dollar saved (and growing tax free in a 529 plan) lowers the amount a student has to borrow.

Apply for ANY scholarship for which the student might be eligible. There is no cost to do this and you just might uncover substantial help. Fill out the FAFSA (*Free Application for Federal Student Aid*). Think organizations like your local Rotary, private clubs, and do research on the internet. This path is starting to get a little more worn so the competition has heated up but it's still worth the effort. Don't be afraid to ask the school you're applying to for aid – some are offering aid to families who earn $200,000 or less.

This is a strange one but having **two kids who are close in age will help** you on your financial aid eligibility – it essentially reduces the burden parents are expected to carry on each child. One way to use this is have an older child delay going to college by a year.

Avoid putting assets into the name of the student. Assets put into the name of the parents have less weight in calculating financial need. Since a custodial account (e.g., an UTMA) is seen as being the kid's property, it is much more beneficial to have those funds in a 529 plan, which are considered a parental asset. Even better, money set aside by a **grandparent in a 529 plan** for a child does not factor into financial aid calculations at all – these funds are not treated as available.

On the flip side, **do not *ever* count on getting any kind of a "full ride" or a scholarship**. Stories abound of students who were star athletes in high school, but injure themselves and are no longer qualified prospects for the college team. According to Morningstar, fewer than 0.3% of students will get full ride scholarships. But almost 2/3rds of all undergrads receive some kind of financial aid (this includes student loans).

Do not sell assets the year before applying for aid. Doing so can have the unintended effect of raising your reportable income for that year. This will reduce your ability to qualify for aid (withdrawals from IRAs or converting a traditional IRA to a Roth IRA also impact you in this way). The ideal is to have college money already set aside in a 529 plan, so that all gains remain untaxed, while still retaining control over how aggressive or conservative you want your 529 portfolio to be.

Paying for college is likely going to be an expensive affair, no matter how you save. The more you can plan ahead, together with making some smart decisions about your savings, the better prepared you'll be for the considerable sums involved. We here at Mosaic can help you learn more about any of these strategies or help you think longer term about your college funding needs.

Welcome New Employee: *Melissa Cheong*

Welcome to the newest member of our team—Melissa Cheong. For most of her business career Melissa was a financial operations associate at Wetherby Asset Management. Prior to working at Wetherby, Melissa worked with Charles Schwab in their Global Operations area. Melissa received her BA in Economics and Law from Leicester University in England. Originally from Singapore, Melissa now lives in Dublin with her family.

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Celebrating our 25th Year

Thoughts to Live By

"Read, every day, something no one else is reading. Think, every day, something no one else is thinking. Do, every day, something no one else would be silly enough to do. It is bad for the mind to continually be part of unanimity." - Christopher Morley

"It is the still, small voice that the soul heeds, not the deafening blasts of doom." - William Dean Howells

"Obstacles are those frightful things you see when you take your eyes off your goal." - Henry Ford

"Work spares us from three evils: boredom, vice, and need." - Voltaire

"What is not started today is never finished tomorrow." - Goethe