MOSAIC FINANCIAL PARTNERS, INC.

Effective Financial Strategies

June 2016 MosaicFP.com

Creating a Diversified Portfolio

By Norm Boone, Founder and President

When we design a portfolio structure (an "asset allocation") for our clients, our objective is to strike a balance between the investment return we seek to achieve and the level of volatility (or risk) that this target return may experience. Risk and return are related. The more risk (or investment volatility) that you're willing to put up with, the higher the investment return you may be able to achieve. The lower your "risk tolerance," the lower the investment return you can reasonably expect to achieve. If you need a particular level of return, this will influence the amount of risk (investment volatility) your portfolio is likely to experience. Investment return and risk go hand in hand.

The behavior of any individual investment—its volatility and its return—isn't reliably predictable. The outcome achieved can vary widely. However, as you combine investments into a portfolio, the collective results of that portfolio's combined investments become more stable, and more predictable. A portfolio with 20 company stocks is more likely to perform as you might expect than if you just hold one stock. The less those 20 companies have in common—if they differ by size, industry, geography—then the less likely they are to experience performance difficulties at the same time. This extends to combining different types of investments and different types of investment strategies. As a general rule, the more you can diversify among investments that perform differently from one another, the more likely it is that your investment performance will be less volatile and closer to what you were expecting.

Ideally, we seek to design an investment portfolio mix in which each part of the portfolio produces positive returns over time—but where the individual investments do not necessarily "march to the same drummer." Traditional portfolios are made up of cash, bonds, stocks and real estate. More recently, other investments known as alternatives have become more widely available. The alternatives category has its own sub-groups, and each of these has its own risk and

(Continued on page 2)

15 Minutes a Month to Maintain Financial Health

By Megan Terzian, Associate Financial Planner

If you've been struggling to follow through with your financial goals for 2016, there's still plenty of time to get back on track. The key is to break down your goals into manageable chunks. Focusing on what you can do right now in about 15 minutes a month can help you set yourself up for long-term success.

Don't let the fact that we're near mid-year deter you. Here's a month-by-month rundown of simple steps you can start now that will improve your financial fitness throughout the year.

Now: Save for Retirement

Midway through the year, focus on saving for retirement. Contributing to your 401(k) early on will greatly benefit you later in life due to the magic of compound interest. If you are already contributing, can you afford to increase the amount?

Review your monthly budget to determine if you can curtail spending to save more.

Speaking of your 401(k): Log in to your account and check your asset allocation. Are your dollars being invested or sitting in cash? Often, if you don't specify how to allocate your 401(k) funds, the default is some sort of money market fund.

July: Check Your Credit Score

A good credit score doesn't just help you take out loans at favorable terms, it can also affect how much

(Continued on page 4)

What's Inside

(Continued from page 1 - Diversified Portfolio)

return characteristics. Individually, these alternative investments can often perform differently from one another in any given time period. They often perform differently from stocks and bonds as well.

To determine which investments will be included in your portfolio, we examine a variety of statistics and fund information. Key among the statistics: an evaluation of investment returns, volatility (as measured by "standard deviation") and correlation. Correlation is defined as "a mutual relationship or connection between two or more things." Each investment has a "correlation" to the other investments in your portfolio. Correlation can range from +1 to -1, with the former being a perfect match and the latter being a perfect mirror image (when one investment goes up 20%, the other goes down 20%). While it may seem counter-intuitive, having two investments with minimal correlation is actually desirable. Assuming each investment generates positive returns over time, holding a mix of investments with a low or negative correlation will actually smooth out the portfolio's investment returns and reduce overall portfolio volatility. Ideal diversification would have all holdings have a zero correlation to one another.

For example, large and small US stocks are highly correlated (they tend to move in the same direction, at roughly the same times, typically influenced by similar factors). Conversely, US stocks and Short Term US Bonds have a very weak correlation, while US stocks and Managed Futures have virtually no correlation. The "Correlation Matrix" below shows the correlation of some of our investment types and strategies to each other. To use the table below, find the intersection of one row and one column, each representing a different investment or strategy (an investment compared to itself will always be 1.0). For example: "Managed Futures" (row 7) has a correlation of +0.12 with "Foreign Bonds Hedged" (Column 3) while its correlation to "Global Real Estate" is –0.17.

To further complicate matters, how a particular investment will react to a given future economic condition is generally not predictable. While past performance is no guarantee, history remains the best available guide. As a result, our inputs for investment returns, volatility, and correlation all are derived from historical data. To be useful, we need to use a common data measurement period for the various investments we are analyzing. This necessarily limits the data to the shortest period available for any single asset. While the data for stocks go back 100 years or more, for some of the alternative investments, reliable data only extends to the last 25 years. This makes the overall portfolio analysis less robust than we would prefer. Nonetheless, we believe this gives us a fair basis for our expectations.

In designing a well-diversified portfolio, we first determine whether we are going to target a particular investment return or be more influenced by portfolio volatility (risk). We then consider the risk and return characteristics of the various investments we employ to develop a portfolio structure (or asset allocation). This structure will be modified based on the correlations between the investments within the portfolio. We then run our analysis to see how the particular portfolio mix would have performed in the past (considering long term investment return history, portfolio volatility, and performance during downturn and growth periods). Our ongoing due diligence reviews the key assumptions we use in constructing portfolio allocations, including the relevance and usefulness of the historical data. While we can't be certain that the markets or our portfolio design will perform as they have historically, having a disciplined and robust investment process is a key factor that will serve clients well over time.

Investment Correlation Matrix

Time Period: 1/1/1990 to 4/30/2016										
		1	2	3	4	5	6	7	8	9
1	Cash	1.00								
2	Short Term US Bonds	0.41	1.00							
3	Foreign Bonds Hedged	0.14	0.56	1.00						
4	US Large Value Stocks	0.02	0.02	0.06	1.00					
5	International Small Stocks	-0.08	-0.01	-0.01	0.66	1.00				
6	Real Estate - Global	-0.01	0.09	0.10	0.68	0.60	1.00			
7	Managed Futures	0.19	0.16	0.12	-0.16	-0.12	-0.17	1.00		
8	Energy Infrastructure MLPs	0.02	0.12	0.02	0.41	0.34	0.38	-0.07	1.00	
9	Timber REITs	0.00	0.06	0.04	0.54	0.42	0.49	0.27	0.27	1.00

Source: Morningstar Direct.

Why Not Try Your Hand at Some Magic?

By Holly Gillian Kindel, Advisor

In our cynical world, we often are so jaded that we forget that everyday magic is as easy as making a contribution to your IRA.

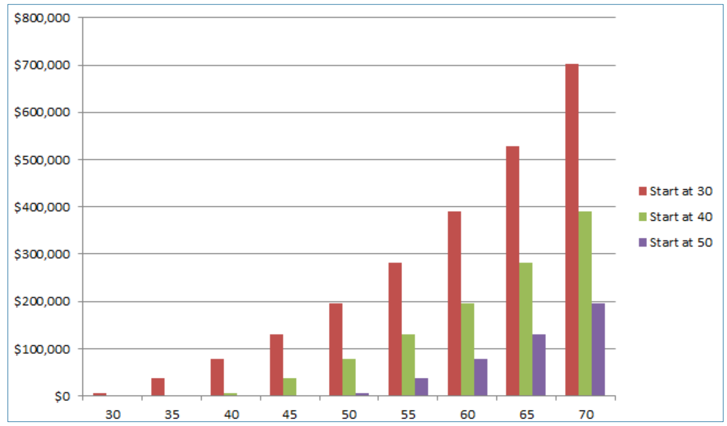
Magic? IRA? You probably weren't expecting that the twain would meet. Expect again. An IRA is an excellent vehicle for compound interest, one of the most powerful forces in the universe, at least according to Einstein: "Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it."

Saving is the key to wealth, and the humble IRA is too often overlooked. This may be because people can be quick to assume that big savings come from large contributions. The fact is: time is a key force behind substantial wealth accumulation.

One of our favorite ways to illustrate the power of compounding is the story of the triplets Jane, Jean and Joan, as illustrated in the chart accompanying this article. Jane starts saving $5,500 annually in her IRA at age 30, Jean starts saving $5,500 a year in her IRA at age 40, and Joan starts saving $5,500 in her IRA at age 50. Each of them sees her account grow at 5% per year compound. While Jane is clearly ahead, you can also still see the significant progress Jean and Joan make as compounding weaves its savings magic.

You can enjoy this same magic yourself!

These days, if you **or** your spouse are working, you **both** can contribute up to $5,500 to a non-deductible IRA. If you are over 50 you can contribute an additional $1,000. This means that for as little as $541.67 a month, a 50 year old could accumulate close to $200,000 in their IRA by age 70 (assuming an annual return of 5% a year). If you start sooner, or achieve larger investment returns, you could accumulate even more.



Excellent saving habits are largely a matter of consciousness, momentum and discipline. Articles such as this are designed to raise your consciousness and create some momentum. Pay yourself first. Have the amount you want to save automatically deducted from your checking account and deposited to your IRA. Turning your investing into a automated monthly practice takes the choice out of savings and creates discipline. As we've all experienced: if the money is in your checking account (versus a savings vehicle like an IRA), it's a whole lot easier to spend.

If this article has provoked some momentum, the best way to ensure your success would be to start today. We're here to help. Please contact us to help you set up a monthly contribution to your IRA.

Your 70 year old self will be sure to thank you.

MOSAIC WOMEN'S CIRCLES

Mosaic Women's Circles offer an opportunity to learn more about your finances through asking questions, sharing stories, and having conversations with other women in a safe environment that nurtures innovation, curiosity, and exploration.

Read about discussions sparked from a recent Circle on page 6, in the excerpt "Six Ways to Combat Bag Lady Syndrome" by Liz Revenko. This article was a hit on LinkedIn, where it generated 11,700 views, 860 likes, and 58 comments.

Circles are a great thing to do with a friend. Lunch will be served.

At Mosaic's East Bay Office
September 29th at 11:30 am

At Mosaic's San Francisco Office
September 15th at 11:30 am

Topic: The Big 5—Safety Nets That Are Not Insurance
Because life doesn't always go the way you expect.

Register at
MosaicFP.com/Circles

(Continued from page 1 - Fifteen Minutes a Month)

you pay for car insurance and even whether you get hired for certain jobs. It's worthwhile to regularly check your credit score to maintain or improve it.

August: Set Aside Holiday Shopping Funds

The holidays approach quickly and can be overwhelming—between the parties and presents, you can be left exhausted and broke by the time it's all over. To avoid taking on debt, it's a good idea to set up a dedicated savings account for holiday shopping.

Start thinking early on about who you'll be buying gifts for and put yourself on a budget. Early purchases will often be at more attractive prices.

September: Save For College

It's back-to-school season—the perfect time to think about saving for college. Consider opening a 529 savings plan for your child or grandchild. If you have one already, take a look at how it's done so far this year. Do you need to reallocate investments or increase your contribution? You may want to explore other college savings options, too. We can help you learn more about your options.

October: Assess Your Health Benefits

During open enrollment you can check out your company's benefits package. Many companies offer flexible spending accounts and health savings accounts. These allow you to save pretax dollars for out-of-pocket medical costs and other qualifying expenses. Some companies offer a commuter benefit too. Many also offer life insurance, short- and long-term disability insurance, and long-term care insurance—benefits that can offer a financial cushion in case a crisis takes you out of work. Talk to your company's plan administrator about your benefit options.

November: Ask For A Pay Raise

The end of the year often means employee reviews—and a chance to receive an increase in pay. Do your research, figure out what you're worth, and be prepared to have that conversation with your manager. You also may want to consider whether continuing your education could help you advance your career.

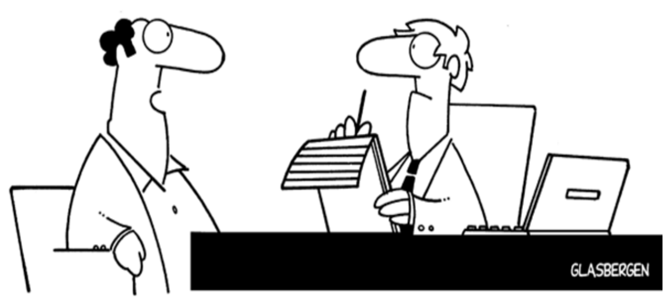
December: Evaluate Your Progress & Set Goals

Reflect on what approaches to achieving your goals worked for you throughout year and what didn't. Think about when you checked in on your progress each month. How did you measure success?

As you plan for the year ahead, carry forward the personal finance strategies that worked best for you.

Remember: Set smaller goals that you can spend a little bit of time checking in on every month.

That may mean committing to the same actions outlined above, or it could mean making slightly more aggressive goals as you continue to improve your financial health.



"You have to spend money to make money. So I bought myself a cabin cruiser, luxury sports car, and a giant screen plasma TV."

Shred Day at Mosaic

Saturday, August 13

8:30 am to11:30 am

Visit us at either office!

Pop in and drop off any personal or sensitive documents you need shredded at one of our offices.

San Francisco: 140 Geary Street, 6th floor. Dial 0600 at the front door call box.

East Bay: we'll be posted outside our building at 1340 Treat Blvd, in Walnut Creek.

How to Talk to Your Kids About Money

By Megan Terzian, Associate Financial Planner

Whether it's talking about the birds and the bees or explaining the death of a loved one, parents know that difficult conversations are essential for their kids' emotional and intellectual growth. For many parents, talking about money is one of the hard conversations they least want to have with their kids.

According to a 2015 T. Rowe Price study, over a quarter of surveyed parents say it's not important to include kids in discussions about family finances; 41% report that they sometimes avoid talking to their kids about money. So how do you start the conversation in a way that will be meaningful, comprehensible and engaging?

Here are some ideas for getting the conversation started, and for keeping it going.

Guide Them Through a Budget

Many parents use an allowance as a way to teach children about money. You can take it one step further by helping them create a budget for their cash.

Use real-world examples of monthly expenses—like a soccer uniform, a birthday present for a friend, new school clothes or favorite snacks—so your kids can see what a dollar is worth. By including real-life examples, you'll share with your children what it takes to maintain their lifestyle.

Help Set Long-Term Savings Goals

Most kids want something new—shoes, video games or gadgets. Why not have them save enough to make the purchase themselves?

Once you show your children the cost of what they want, introduce the idea of creating and putting into place a long-term savings plan. To track allowance and save toward goals try the app Bankaroo, thought up by an 11-year-old girl and developed by her family.

By helping your kids create a savings plan using concrete examples that actually matter to them, you pave the way for them to think about more complex goals, such as saving for college.

Explain Borrowing

Children might not even realize that your family has financial obligations to consider, such as the mortgage for your home. To explain the concept of a loan, provide your children with an example they can relate to, like borrowing money for lunch.

Ask your children to imagine that they loan a friend a few dollars to buy lunch, and the friend pays it back after a little while. The friend throws in a bag of chips as an extra "thanks" for the loan. A mortgage is like that—the bank loans you money to buy the house and requires that extra "thanks" in the form of interest. (Interest is a tricky concept, but snacks help.)

And if that friend doesn't pay back the loan, your child isn't going to want to lend him lunch money in the future. Similarly, banks hesitate to lend money to people who haven't paid off loans in the past.

Play Money-Themed Games

An activity that shows, instead of tells, how money works would be helpful for many families, especially for parents who are hesitant to talk to their kids about money. Kids want to have fun, so capitalize on this by using age-appropriate games, apps and toys that teach financial skills.

Try Pay Day or Cashflow for Kids, games that simulate real life financial strategies and situations in an engaging way. There are also classic options such as play cash registers, Monopoly, or the Game of Life app based on Milton Bradley's 1860 board game.

Start Small and At Home

The trick is to start small and at home, using everyday examples to teach your children about money. Over time, you'll be able to explain more complex topics, such as saving for college and buying a home.

And eventually the investment will pay off: You'll be more likely to see your children grow into happy, financially confident adults.

Excerpts From Other Great Articles This Quarter

Giving Back: Mosaic's Steve Branton at CCSF

By Elka Weber, Marketing Coordinator

Steve's volunteer efforts illuminate just how far we are from being a financially literate society. One student came from a family where no members have had a bank account; another expressed concerns that earning income from a paid internship might jeopardize his family's Section 8 housing status. Many students were looking to find ways out of their chronic dead end, low paying job cycles. "One particularly hot area is a degree in construction management where graduates can take part in the building boom happening in the city," Steve said. "Many students see this as a way to get a good job, get benefits and begin to plan for retirement. They have unique challenges but are excited about their futures and want to make sure they're making the right decision," Steve noted.

Continue reading: Mosaicfp.com/blog

Six Ways to Combat 'Bag Lady Syndrome'

By Liz Revenko, Senior Financial Planner

By popular request, "bag lady syndrome" was the focus of our firm's recent Women's Circle. Sara (all names have been changed) said she would sometimes lie awake at night worrying about her finances. Brynn admitted that she knew she was overly conservative with her investments because she couldn't bear to lose anything, even though intellectually she didn't agree with her own behavior. Sal said financial anxiety would, counterintuitively, cause her to ignore her bank balance and spend too much.

This anxiety and fear spans age groups and socioeconomic status. When fear takes over decision-making, people can make poor decisions—or no decisions at all. So what can you do? Here are six ways to effectively manage financial stress.

Continue reading on LinkedIn: https://goo.gl/RzzAEC

Ask An Advisor

What are some important items to consider after a divorce?

Once the divorce is over, you need to address these key points:

- **Estate planning:** If you have sole custody of minor children or share custody with your ex, estate planning is important. At the minimum, you will probably need a new will and a plan detailing who will care for your children—and how—should something happen to you.
- **Health insurance:** If your health insurance was through your spouse's employer, you will now have to secure your own. It's easiest if you have access to health benefits through COBRA or your employer. If neither of those is a viable solution, you can use the government Health Insurance Marketplace to find coverage.
- **Life and disability insurance:** If you have dependents who rely on you for financial support, you'll want to consider having both types of insurance—life insurance in case you die prematurely and disability insurance should you become unable to earn an income. Both may be available through an employee's benefit package. Start researching your insurance options now.
- **Long-term care:** Long-term care insurance can help ensure you have money available to pay for residential or facility care should you have a long-term care need and can no longer take care of yourself.
- **Taxes:** How will you file your taxes now? Single? Head of household? Who gets to claim the children as dependents? How are child support and spousal support taxed? Getting professional tax advice is a good idea, even if you think your taxes will be simple.
- **Beneficiaries:** You probably don't want your former spouse to collect the benefits of life insurance or your retirement accounts. Get the names changed on these documents.

It's important to take care of yourself no matter what your position in life, but after a divorce, you have to be a little bit selfish—your priority needs to be securing your own financial well-being. No one likes to think it could happen to them, but if divorce is unavoidable, it's important to take steps to ensure a good financial life afterward.

Let me know if I can be of further help to you on your journey.

Mary Ballin. CFP®
Client Advisor

2016 Women's Choice Award Financial Advisor

Ask an advisor!
Send questions to mfp@mosaicfp.com

Spotlight on Sabrina Lowell

How has your role changed over the last 14 years at Mosaic?

I originally joined Mosaic as an intern, and still work with a handful of clients I first met in 2002. We've gone from 7 to 19 employees, continuing to innovate and improve the work we do in helping clients achieve their financial goals. I've done a little bit of everything: client services, investment research and trading, financial planning work, and client-facing advisory work. While client work is still at the heart of what I do, the past two years have been an opportunity to also spend time helping to manage the business and our fantastic team.

What do you most love about the work you do each day?

The Mosaic team and the work we do each day with clients. I always say financial planning is the perfect career for people of my generation—the instant gratification of seeing the difference we make in clients' lives is rewarding. I feel fortunate to have found the field so early on in my career, and a firm that so actively supports the development and mission of the profession.

Around the Office...

At the Podium

Channing Hussey acted as master of ceremony for the annual OfficeNinjas Admin Week event.

Geoff Zimmerman spoke at an East Bay Regional Parks Foundation event in April focusing on estate planning and charitable giving.

In May, **Sabrina Lowell** spoke at the Invest in Women Conference, hosted by Financial Advisor magazine in Dallas, on Social Security options for women.

Sheila Schroeder moderated the SF CFA Society's May RIA/Wealth Management Series *Emerging Markets & China: Where Do They Belong in a Private Investor's Portfolio*?

Congratulations!

Alda Ng became a certified notary.

Education: A Continuing Affair

Mosaic's financial planning and advisory team members attended the annual Northern California Financial Planning Association's Regional Conference.

In April, **Dave Cowles** attended the Investment Management Consultants Association Conference, in Orlando, which focused on optimal rebalancing strategies (most already implemented at Mosaic), behavioral investing, and alternative investments.

Also in April, **Liz Revenko** and **Mary Ballin** attended the Financial Planning Association Retreat in Phoenix, focusing on ways to deepen relationships through "value based" discussion and planning.

Giving Back to the Community

In May, Mosaic volunteered at the SF–Marin Food Bank; we crated over 50,000 pounds of oranges.

Channing attended the Junior League of SF Advocacy Day at the state capitol.

In May, **Kevin Gahagan** gave a talk on "Getting Started on the Right Track" for members of Job Corps, an organization that provides low income young adults with job training and other life skills.

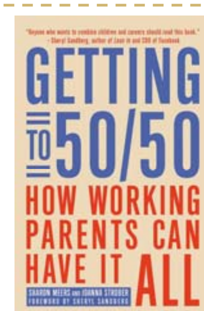
In June, **Sheila** spoke to caregivers on the importance of having a budget and a financial plan. **Sheila** is also volunteering as a mentor for American Corporate Partners (ACP) Veteran Mentoring Program, dedicated to assisting veterans in their transition from armed services to private enterprise.

As chair of the Junior League of San Francisco's Nominating Committee, **Sabrina** placed 110 women into leadership roles, helping to fulfill the JLSF's mission of training and developing community leaders.

Steve Branton volunteered as a pro-bono planner at City College of San Francisco in support of its financial literacy 1:1 meetings; story excerpted, p. 6.

Furthering the Profession

Norm Boone is participating as a mentor in the FPA Mentorship Program, which sets quarterly goals between mentor and mentee.



What We Are Reading: Getting to 50/50

On May 24, Author Sharon Meers was our featured speaker at the Olympic Club; she spoke to a packed house about better dealing with the demands of life, family and career by seeking and establishing parity in relationships.

As Sheryl Sandberg said, Sharon's book "shows you how the integration of professional achievement and family life can strengthen, rather than weaken, each part."

MOSAIC

FINANCIAL PARTNERS, INC.

140 Geary St., 6th Floor

San Francisco, CA 94108

Effective Financial Strategies

The Mosaic Newsletter

Thoughts to Live By

"If you are not willing to risk the usual, you will have to settle for the ordinary."

– Jim Rohn

"If you are willing to do more than you are paid to do, eventually you will be paid to do more than you do."

– Anonymous

"If you can't explain it simply, you don't understand it well enough."

– Albert Einstein

"Success is the sum of small efforts, repeated day in and day out."

– Robert Collier

"What would you attempt to do if you knew you would not fail?"

– Robert Schuller

Even more is available on our blog:

mosaicfp.com/blog

linkedin.com/company/mosaic-financial-partners

facebook.com/MosaicFP

@MosaicFP