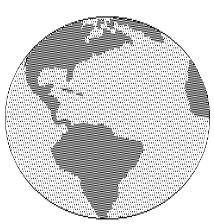
MOSAIC FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Market Watch
2nd Quarter 2010

Summary

- The broad US market lost over 11% in the quarter, with most asset classes experiencing double-digit declines.
- Small cap outperformed large cap over the last year, with small value producing 25+% returns.
- International returns were weaker than those in the U.S.—particularly returns in the European markets.
- While negative, real estate was the best performer among equities for the quarter and is still up 53.9% for the last twelve months.
- Bonds were generally positive, with longer term bonds benefitting the most from the sliding interest rates.
- Commodity returns were marginally positive for the last twelve months.
- Inflation remains low, at 1.28% over the last twelve months.



Mosaic Financial Partners, Inc.

San Francisco/Lafayette

415.788.1952

www.MosaicFP.com

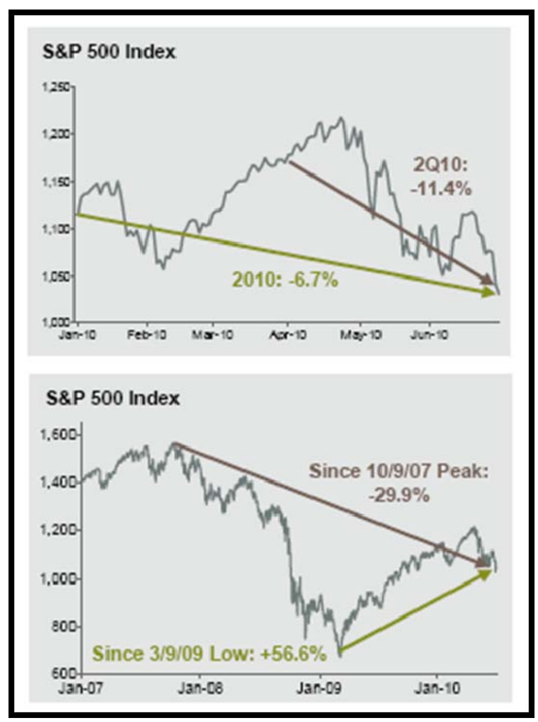
The Financial Markets Pause

After twelve months of rising markets, this quarter experienced a reversal. In the second quarter, the S&P 500 Index, representing the largest U.S. companies, finished down 11.4%. Even so, it is still up 56.6% from the market low on March 9th 2009. While this is a strong recovery, the index is down nearly 30% from the market's all-time peak in October 2007.

Like the domestic markets, international markets were down during the quarter. The MSCI EAFE Index (the mostly widely used index to track non-US stocks in developed countries) declined by 13.8%. The steeper decline of international equities was attributable, in part, to the strengthening of the dollar relative to other major currencies.

Global markets continued to experience significant volatility arising from economic concerns including the Greek debt crisis and continued worries about the stability of the European banking system. Mixed US economic data also dented investor confidence and raised concerns about the potential for a double dip recession. After the experience of the economic "meltdown" of 2007 to 2009 — when many questioned the fundamental viability of the global economic system — fears were easily re-ignited as these problems came to the forefront. With an increasing investor emphasis on short-term events, the market has been increasingly volatile. This is adding to investor nervousness. We think the extent of the recent market decline is probably an over-reaction to the recent news.

Although serious problems continue to confront the global economy, we believe the economy is getting better. While our economic recovery will undoubtedly be slower than anyone would like, the world economy is healing.



Source: J.P. Morgan Asset Management

A Perspective on Economic Recoveries

Economic recoveries never move in a straight line. As the adjacent chart shows, in the last seven recessions, U.S. economic activity grew rapidly following the worst of the recession but then paused for a period of time before trending upward again. This subsequent slowdown occurred anywhere from two quarters to seven quarters into the recovery. On average, this pause occurred 4½ quarters into the recovery —about where we were in the 2nd quarter.

In the recessions since World War II, growth has re-accelerated following the mid-recovery pause. In fact, in four of these recoveries, the pace of economic growth was greater after the pause than before it. More importantly, during this Post World II period, only once, after the unique circumstances of the recovery from the 1980 recession, did the economy sink back into a second recession. **In other words, based on the evidence, the current recovery and the recent pause are very much in line with past experience.**

Moving forward, while there are clearly divergent views, the prevailing economic sentiment is that the likelihood of a near term (double dip) recession seems remote. We agree with this view but question whether economic growth will see much acceleration in the near term.

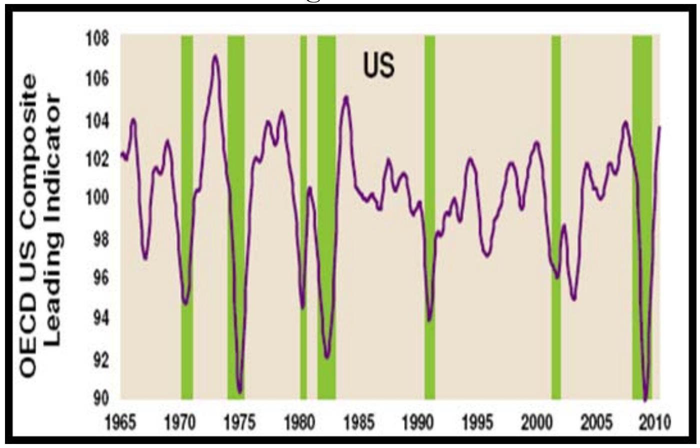
Tax rates are scheduled to increase in January. The pressure on the government to reduce the deficit will continue to grow — and this may well lead to a reduction in government stimulus programs. Consumers continue to be nervous and are still reducing spending and seeking to pay down debt.

Given a reduction in governmental and consumer spending, there are only two other alternatives that can help economic growth: 1) An increase in corporate spending; or 2) An increase in export trade.

Corporate cash balances today are extraordinarily high. Corporate spending would clearly help the economy but companies remain cautious about committing too much capital in an uncertain political and economic climate. In this same vein, building a trade surplus would certainly help. But, with virtually every other country seeking a similar increase in its exports and with our continuing need to buy foreign oil (not to mention a strengthening dollar), growing our way out of the recent Great Recession is likely to be a long, slow process.

Recession and Recovery

The chart below shows recessions in green with the line graph plotting U.S. economic activity as measured by the OECD Leading Indicator Index.



Source: The Organization of Economic Cooperation and Development

U.S. Economy

Employment

It is quite possible we'll see worsening employment numbers in the coming months. The U.S. economy needs to create about 200,000 jobs each month to make any significant impact on reducing unemployment. Employment growth finally turned positive in November 2009. Employment has seen a positive trend for seven of the eight past months, but the average monthly net growth in jobs over those eight months has been only 73,000. The recent dip in unemployment to 9.5% was largely driven by those exiting the workforce rather than by employment growth. This may be an indication of a further weakening of consumer confidence.

The U.S. manufacturing sector continued to expand in June — its 11th straight month of growth, but the rate of growth has recently slowed. While production is growing and new jobs are being added, growth has been slow and has recently gotten slower. Similarly, the service sector, which accounts for about 90 percent of U.S. employment, has been growing, but that growth too has slowed recently.

U.S. Housing

The housing market continues to be weak. The $8,000 home buyers' credit boosted both sales numbers and prices. Unfortunately, its major effect seems to have been to simply accelerate housing sales that were likely to happen anyway. Since the April 30 expiration of the tax credit, both sales activity and prices have fallen somewhat. We expect to see a continued weak housing market until the existing inventory of unsold homes and the pool of pending foreclosures gets back into a more normal range. It's projected that this will take at least two or three years.

Economic Growth

The Conference Board's Consumer Confidence Index®, which rose to as high as 62.7 in May, declined sharply to 52.9 in June. This decline reflects consumers' increasing uncertainty and apprehension about the future state of the U.S. labor market and economy. Consumer fears have been further exacerbated by worries about the sovereign debt problems in Europe and the state of the global economy.

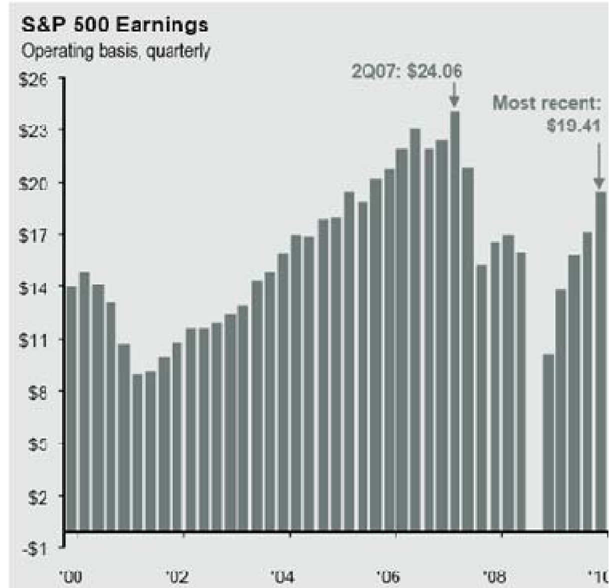
Economic concerns have led consumers to continue to reduce debt and increase savings. Today's savings rate is at 3.7% of disposable income (down somewhat from the prior recent high of 4%). While increased saving and reduced debt are good for the economy in the long run, the associated reduction in spending hurts economic growth in the near term.

Without more spending, economic growth and therefore growth in jobs, becomes less likely. Unfortunately, until the pace of job growth picks up, consumer spending, which accounts for more than 2/3rds of the American economy, is not likely to accelerate. It can be something of a vicious circle.

Inflation: Remains low

One of the more positive elements of the current economic situation is that inflation remains low. Few economists see inflation becoming a concern in the near future (in fact, a more near term concern involves the possibility of *deflation*). Low inflation creates a stable environment that generally supports growing corporate profits and this usually leads to a rising stock market. Over the last 12 months, the Consumer Price Index rose 1.3%, compared to an average of 4.1% over the last 50 years.

Given an expected low inflationary environment, market analysts continue to expect growing business earnings. After the May and June sell-off, the S&P 500 was trading at 11.5 times estimated 2010 earnings, compared with a historical average of about 15 times. Despite the recent downturn, it's still early in the economic cycle. Should current forecasts hold true, continued earnings growth should push market valuations higher.



Source: JP Morgan Asset Management

World Economy

During the second quarter, the Eurozone took center stage. Amid a backdrop of slowing global economic growth, a sovereign debt crisis — directly affecting Greece, Spain, Portugal, Ireland and Iceland, threatened to undo the very fabric of Eurozone cooperation.

With most EU countries needing to reduce their governmental spending, concerns increased that a reduction in spending would lead to a renewed European recession. Recession concerns along with concerns about the sovereign debt problem led the European Central Bank to take a number of aggressive actions to ease the problems.

ECB actions included a €750 billion bailout package to help address the concerns that Greece or others might be forced into national bankruptcy. The ECB also extended liquidity provisions for banks to ensure their solvency and to encourage lending. They also announced new stress tests for the largest banks.

Perhaps believing that the European Union would support Greece rather than dissolve the Union, world investors willingly lent money at reasonable prices to the over-leveraged countries and the major crises now appear to have stabilized. Still, sovereign debt issues remain a concern. Over time, tensions in credit markets may ease if governments follow through on deficit-reduction measures. However, austerity measures and the need to adjust for lack of labor competitiveness are likely to depress growth in the Eurozone.

Investments – U.S. Equities

All equity sectors lost ground during the 2nd quarter. Large value stocks declined slightly less than large growth stocks during the second quarter (-11.15 vs. -11.75%, respectively). At the same time, small growth stocks outperformed small value stocks (-9.22% vs. -10.60%). Value stocks tend to include the "cheap" companies, while growth stocks generally include companies with high earnings growth rates.

When one looks only at the quarterly results, it appears the markets have suffered a significant setback, but **we view the recent pullback as part of the normal course of the markets and likely a temporary pause.** Over the last twelve months, the S&P 500 rose 14%, while the Dow and Nasdaq increased 19% and 16%, respectively. During this same period, value stocks outperformed growth. Large growth was up 13.6% over the twelve months ending June 30th while large value stocks rose 16.9%. Small value also outperformed small growth (25.1% as compared to 17.96%). Your diversified portfolio is designed with a value tilt.

Investments — International Equities

The MSCI EAFE Index represents stocks domiciled in developed non-US countries. That index declined 10.9% (in local currency); however due to the strengthening of the dollar the index declined 13.8% for U.S. investors. International investments rose 6.4% over the last year. While most non-U.S. stocks fell during the quarter, small companies suffered less than large ones.

The emerging markets, which had been so impressive during the recovery, declined 8.3% this quarter. They still show an increase of 23.5% over the last year.

The best performing countries this quarter were India and China, which still suffered single digit declines. The worst performing international markets were France, Brazil and Russia.

A few emerging countries ended June with market valuations above their 2007 highs. These included Sri Lanka, Tunisia, Venezuela, Colombia, Chile and Indonesia. Most developed countries are still well below their prior market highs. The Dow Jones Industrial Average ended June 31% below its 2007 peak. Japan and the U.K. are below their peaks by 49% and 27%, respectively. The best performing developed market was Canada. Given the demand for its natural resources, Canada's market ended June "only" 22% below its peak.

Market Returns

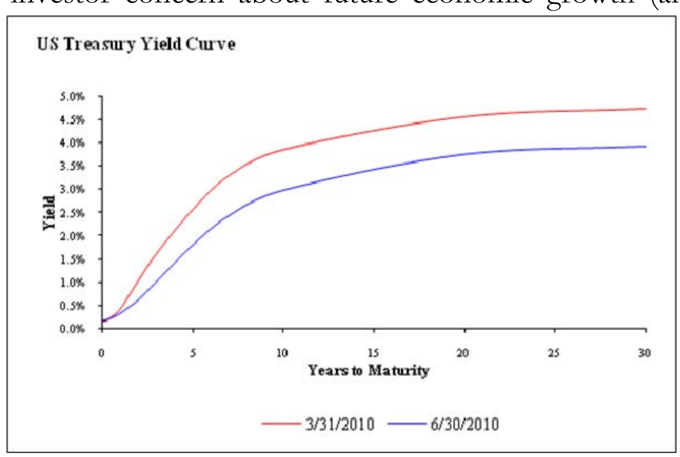
2nd Qtr	1 Year
3.49 US Bonds	53.9 R Est
-4.06 R Est	25.07 Sm Val
-4.81 Comm	17.96 Sm Grth
-9.22 Sm Grth	16.92 Lg Val
-10.60 Sm Val	14.43 S&P 500
-11.15 Lg Val	13.62 Lrg Grth
-11.43 S&P 500	9.99 Sm Int'l
-11.75 Lg Grth	9.50 US Bonds
-11.99 Sm Int'l	6.38 Lg Int'l
-13.75 Lg Int'l	2.75 Comm

Investments – Real Estate

The FTSE NAREIT Equity REIT index, denoting real estate performance, declined 4% in the second quarter. It ended June up 54% over the prior twelve months. Hotels and office buildings were hurt the most by the market's extra focus on risk, while apartments and healthcare properties did the best. The sovereign debt problems hurt European real estate generally, and Japan experienced similar negative results due to their own concerns about deficits. China's pull-back hurt Chinese and Hong Kong housing stocks while Australia seemed to be on the most solid footing.

Investments – Fixed Income

Generally, the longer the term of the bond, the higher the interest rate. The bond "yield curve" is considered an important indicator of economic health. When the yield curve is steep (when long bonds offer a higher rate than short term bonds), as was the case earlier in 2010, that is generally a good sign. When the curve flattens it is often an indication of investor concern about future economic growth (and



Source: Dimensional Fund Advisors

some flattening was observed in May and June). The silver lining of a flattening yield curve is that it becomes less expensive to service debt. This helps mortgage borrowers and it especially helps the U.S. government.

The bond market, as measured by the Barclays Aggregate Bond Index, returned 3.5% over the quarter. The best performers among bonds included Treasury bonds (4.7%), corporate bonds (3.6%) and Treasury Inflation Protected Securities (TIPS), which returned 3.8%. The worst performing fixed income asset class was high yield bonds (-0.1%).

Investments – Alternatives

We maintain an exposure to alternatives to increase diversification in our portfolios. Because their returns can be driven by factors different from the stock and bond markets, alternatives will sometimes provide an offset when the broader markets perform badly. Over time, we believe alternatives will help reduce portfolio volatility and improve total portfolio performance. While several of our alternative holdings fell in value this quarter, the sector did help cushion the impact of equity market declines.

- Given low inflation and broader economic weakness, commodity returns were negative during the second quarter. The DJ-UBS Commodity Index lost 4.8% during the quarter.
- The Alerian Master Limited Partnerships ETN that was recently introduced to most portfolios gained 1.2%.
- Plum Creek Timber declined 11.3%.
- The Merger Fund dropped 1.4%.
- Managed Futures fell 1.7%.
- PIMCO Developing Local Markets (an emerging markets fixed income investment) declined 4.6%. (due to a strengthening dollar).

Financial Reform

As you are undoubtedly aware, Congress has been struggling to develop a comprehensive reform for financial institutions. One of the more significant elements of the bill involves holding advisors to a "fiduciary standard." This is the highest standard of care. Fundamentally, a fiduciary does what is right by the client. As Lori Richards of the SEC put it: "Fiduciary duty is the *first principle* of the investment adviser in common law. Fiduciary comes from the Latin word for "trust." A fiduciary must act for the benefit of the person to whom he owes fiduciary duties, to the exclusion of any contrary interest."

Many financial professionals are not subject to this standard. Big banks, brokerage houses, and insurance companies are all currently exempt from this standard. And, they are actively lobbying against legislation that would require them to be fiduciaries. Their concern is that the fiduciary standard would require them to change their business practices — and they are probably right about that. As long as they are free to place their own interests above those of their clients, consumers will suffer. We think that is wrong.

We believe all persons and companies who advise others about their investments should at all times act and be held accountable to a fiduciary standard. As a registered investment advisory firm, we at Mosaic are held to this higher standard. We continue to be committed to putting our clients' interests first and doing everything we can reduce or eliminate the potential for conflicts of interest, or should a conflict exist, to fully disclose it.

Summary

The second quarter of 2010 brought a pause to the recovery of the financial markets. To this point, we have experienced a fairly typical recovery from what has been called the "Great Recession." European debt levels and the health of the continent's banking system created a scare for global markets this quarter. The US economic data was also mixed as the economy took a breather from a year of fast revitalization. Short of a "big surprise," we anticipate a slow but probably uneven continuation of the recovery from here on out.

We continue to focus on maintaining an appropriate strategic asset allocation for your portfolio — the optimal mix of cash, bonds, stocks and alternative investments given your time horizon, risk tolerances and financial objectives. These decisions don't shift greatly with the inevitable volatility in the market — rather, they provide an anchor to help you keep your eye on your longer-term objectives.

Sources: *Morningstar, JP Morgan, Bureau of Labor Statistics, Ibbotson, The Federal Reserve, Reuters, Wall Street Journal , Bloomberg, Standard & Poor's, Charles Schwab and Company.*