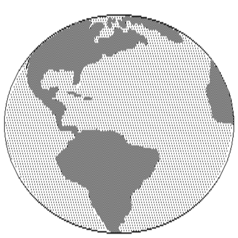
MOSAIC FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Market Watch
3rd Quarter 2013

Summary

- The U.S. stock market reached new highs with strong quarterly and year-to-date returns.
- Most US equity sectors were up for the quarter.
- The Federal Reserve continued its $85 billion per month bond buying program. While creating uncertainty in the bond markets, it continues to be a boon for the equity markets.
- The Eurozone appears to be out of its recession.
- Emerging Market Index up 5.9% for the quarter (though still down on a YTD basis).
- Inflation remains low at 1.8% on a year-to-date basis. Over the last 12 months, inflation has been a very low 1.0%.
- Unemployment rate currently stands at 7.3%.



Mosaic Financial Partners, Inc.
San Francisco/Lafayette
415.788.1952
www.MosaicFP.com

U.S. stocks reach new levels

After a volatile 2nd quarter, the U.S. stock market reached a new all-time high in the 3rd quarter. The S&P 500 reached 1729 points on September 19. Although the index has since pulled back a bit, for the quarter, the index was up 5.2%. Since the beginning of the year, the index is up 19.8% (through 9/30).

International markets have started to show signs of recovery with the Eurozone officially pulling out of a 1-1/2 year-long recession. The Asian markets have also shown signs of strength. China has exhibited strong economic data in the last six months, while Japan, the world's third-largest economy, is seeing recovery as well. The Emerging Markets broke out of their downward trend with MSCI Emerging Market Index up 5.9% for the quarter.

Source: Standard & Poor's, JP Morgan Asset Mgmt.

3rd quarter fixed income results were less volatile than in the preceding quarter. As of September 30, the 10-year Treasury yield stood at 2.64% (a 0.1% increase from 2nd quarter).

Decisions by the Federal Reserve have continued to contribute to market uncertainty. While the start of gradual tapering of the $85 billion-per-month bond buying program was highly anticipated, the Fed's decision to continue the programmed purchases surprised investors. On the geopolitical front, neither the conflict in Syria nor the uncertain political situation in Egypt seemed to have much effect on the financial markets.

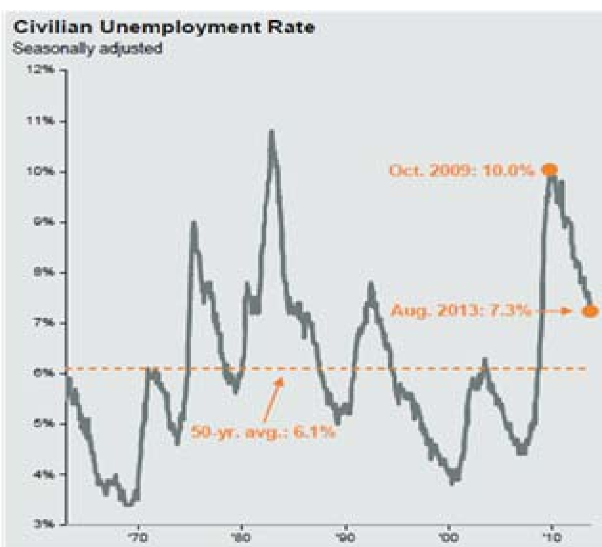
Fed Policy stays unchanged

During September's Federal Reserve Bank meeting, the Fed unexpectedly refrained from beginning its widely anticipated reductions in its $85 billion monthly bond buying program. They said they needed more evidence of lasting improvement in the economy and warned that an increase in interest rates could curb the expansion. The central bank left unchanged the outlook that its target interest rate will remain near zero "at least as long as" unemployment exceeds 6.5 percent and so long as the outlook for inflation is no higher than 2.5 percent. Their announcement helped send the Standard & Poor's 500 Stock Index to its record high, while Treasuries and gold also rallied.

At the same time, Fed officials reduced their forecasts for economic growth for 2013 and 2014. U.S. gross domestic product has been forecast to increase 2 to 2.3% this year, down from a June projection of 2.3 to 2.6% growth. In fact, analysts suggest that growth so far this year has only been about 1.7%.

Employment

U.S. companies created 169,000 jobs in August. This is fewer than economists projected. Job numbers from the prior two months were also revised downward. While the unemployment rate declined to 7.3%, it is believed this reflects the impact of discouraged workers leaving the labor force rather than a real improvement in unemployment. July and August were the year's weakest back-to-back months for employment / payroll gains.



Source: Bureau of Labor Statistics, JP Morgan Asset Mgmt.

Faster employment gains may be needed to spur consumer spending (which accounts for 70 percent of the U.S. economy). The Commerce Department reported that retail sales last month rose less than forecast, with purchases climbing 0.2 percent, the smallest gain in four months.

U.S. Housing

An improving housing market helps bolster both consumer confidence and net worth. Housing starts this quarter rose 0.9% to an annual rate of 891,000 new homes—slightly below estimates. Permits for new homes were also below forecast. The national median existing-home price for all housing types was $212,100 in August, a 14.7 % increase over the prior year. The average interest rate on a 30-year fixed home loan dropped to 4.32%, low, but notably higher than the record-low of 3.31 % in November 2012. Despite lower-than-expected housing numbers, homebuilding and manufacturing remain bright spots for the economy.

Source: Nat'l Association of Realtors, JP Morgan Asset Mgmt.

Economic Growth - Forecast Reduced

U.S. consumer sentiment slid in September to its lowest level in five months, as consumers appeared concerned about higher interest rates and the continued sluggishness of the economy. The Thomson Reuters/University of Michigan's final reading on the overall index on consumer sentiment slipped to 77.5 in September from 82.1 in August - the lowest final reading since April.

On the brighter side, the latest figures from the Commerce Department show that personal income grew by 0.4%, an acceleration from July's 0.2% growth and in line with consensus estimates. The personal saving rate also grew slightly, from 4.5 to 4.6%. While increased saving is not a bad thing, this uptick may signal that Americans are still wary of spending. Pre-crisis, the personal saving rate ran in the 2 to 4% range.

Inflation

Some Federal Reserve policy makers are citing the lowest inflation rate in at least five decades as a potential concern for the economy. While these analysts may be concerned about the possibility of deflation, low inflation typically creates a stable environment that supports growing corporate profits. This, in turn, often leads to a rising stock market. Over the last 12 months, the Consumer Price Index rose a very low 1.0%, compared to an average of 4.1% over the last 50 years.

Source: USinflation.Org; 2013 data is YTD through 8/31.

World Economy

As is usual, the state of the world's economies varied this quarter. The Eurozone appears to have emerged from its recession after a record 18 months of economic contraction. The bloc's GDP grew by 0.3% in the second quarter of 2013, slightly ahead of forecasts. The Purchasing Managers Index (PMI) surveys suggest the Eurozone recovery is gaining momentum.

Signs of China's struggles (particularly when added to the political and economic arguments in the U.S.) has increased uncertainty in financial markets. Analysts worry that China's economy, which has slowed this year, may not rebound as quickly as hoped. Unlike the recent past, the Chinese government appears to be reluctant to implement strong stimulus policies for fear they might create longer-term problems.

Among the more positive signs: Canadian manufacturing grew at its fastest pace in more than a year, helped by a jump in new orders. Meanwhile, Japan's manufacturing activity expanded in September at its fastest pace since the 2011 earthquake and tsunami.

Investments – U.S. Equities

The stunning stock rally of 2013 continued its torrid pace during the 3rd quarter with both the Standard & Poor's 500 and Dow Industrials achieving new all-time highs on September 19th (they did fall back a bit afterward). The S&P 500 rose 5.2% in the quarter. Its renewed rise followed the Federal Reserve's surprise announcement that it will continue its market-friendly bond buying program.

U.S. Small Cap stocks have experienced even stronger returns this year – up 10.2% for the quarter and 27.7% year-to-date. Despite a 2nd quarter pullback, to date, U.S. stocks are experiencing one of the best years since 1998.

Except for real estate, all US equity sectors posted positive quarterly returns. The quarter's best-performing sectors were technology, healthcare and industrial – each gaining 10+%.

The S&P 500 index has now risen more than 174% from its March 2009 lows (including dividends) and at the end of the quarter was 22.6% above its prior peak on October 9, 2007.

Investments — International Equities

The U.S. Dollar continued to weaken throughout the much of the third quarter, trading at near to its lowest level since February. The MSCI EAFE index, the most widely-used international index, gained 7.5% in local currency, which U.S. investors saw boosted by another 4.1% thanks to the falling dollar. Japanese markets rose 5.4% for local investors, but 6.7% in dollar terms. In dollar terms, year-to-date, the MSCI EAFE index is up 16.6% vs. 19.8% for S&P 500.

Emerging Markets continued to lag. The MSCI

Emerging Markets Index posted 5.9% for the quarter, but is still down 4.1% year-to-date in dollar terms. While the global economy shows signs of revival, the emerging markets' dependence on global commodity prices continued to negatively impact their economic growth. Year-to-date returns for China and Russia are largely flat, with Brazil and India down 10.9% and 12.8% respectively.

Investments – Fixed Income

After a difficult 2nd quarter, the fixed income sector, as measured by the Barclays Aggregate Bond Index, finished the 3rd quarter with a modest gains of 0.6%. Bond values fall when interest rates rise. With the Fed announcing it will continue to hold rates low, fears of rising rates declined and bond prices stabilized during the quarter. As of September 30th, the 10-year Treasury yield stood at 2.64% (an 0.1% increase from last quarter). With the core CPI inflation rate currently at 1.8%, the "real" inflation-adjusted returns of the 10-year Treasury note stands at 0.84%, well below the 2.5% historical real returns of the last 50 years.

As noted, The Barclays Aggregate Bond Index rose 0.6% for the quarter though it is down 1.9% on a year-to-date basis. Short-term bonds gained 0.40% for the quarter, while intermediate bonds rose 0.62%.

Market Returns

YTD '13	3Q13
Russell 2000 27.7%	MSCI EAFE 11.6%
S&P 500 19.8%	Russell 2000 10.2%
MSCI EAFE 16.6%	MSCI EME 5.9%
Asset Alloc. 9.4%	S&P 500 5.2%
REITs 3.0%	Asset Alloc. 4.5%
Market Neutral 3.0%	DJ UBS Cmdty 2.1%
Cash 0.0%	Barclays Agg 0.6%
Barclays Agg -1.9%	Market Neutral 0.3%
MSCI EME -4.1%	Cash 0.0%
DJ UBS Cmdty -8.6%	REITs -2.6%

Source: JP Morgan Asset Mgmt.

Prices for Inflation-Protected Securities (TIPS) stabilized during the 3rd quarter and showed a modest 0.70% gain. While investors remain skeptical about the Fed's ability to suppress long term inflation, year to date, TIPS are still down 6.74% . This is the result of rising rates earlier in the year (with little inflation).

Emerging market debt posted a modest gain during the last quarter. Dollar-denominated emerging market bonds gained 0.51% for the quarter but have declined by 8.9% year-to-date.

Investments – Alternatives

Alternative holdings posted mixed results during the 3rd quarter:

- The Alerian Master Limited Partnership Infrastructure Index, which tracks energy transportation and storage facilities, gained 0.4% during the 3rd quarter and has risen 24.9% year to date.
- Global real estate, represented by the NAREIT Real Estate Global Index, rose 2.1% during the quarter and is up 3.4% year to date.
- Timber, as measured by the FTSE NAREIT Timber Index, posted a 1.2% gain during the quarter and is up 6.85% year-to-date.
- Commodities (the basket of energy, precious metals, agriculture and livestock) posted a 2.1% gain for the quarter. Given continued weak global demand, The Dow Jones UBS Commodity Index is down 8.6% year to date and has fallen 14.3% over the last 12 months.

Summary

US equity markets have experienced double digit returns this year. With 3 more months remaining until the year end, the question is whether these gains will hold. While the economy is still vulnerable to various economic factors, we've seen employment numbers improving, the housing market recovering to the pre-crisis levels and consumers are gradually shaking off the last signs of the economic downturn. Fed policy is unquestionably playing a big role in this recovery by keeping the interest rates at historic lows and providing liquidity to the financial markets. Some analysts could say that the bull has run its course and higher volatility is around the corner. However, so far, the reaction to such negative news as Federal government shut down and uncertainty with the next Fed chairman policy has not caused major reactions from the investors. While market returns can never be assured, we believe that a disciplined investment approach, global portfolio diversification and prudent financial planning is the key to financial success and stability. At Mosaic, our goal is to help you put all your financial pieces together so that you can be on the right track toward your long term financial goals.