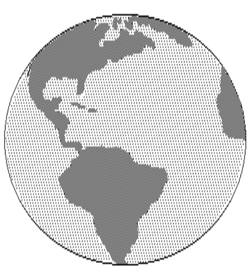
MOSAIC
FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Market Watch
1st Quarter 2014

Summary

- **The U.S. stock market reached another record high.**
- **The U.S. economy is showing signs of continued improvement.**
- **Inflation remained low at 1.5% in 2013 and 1.1% for the 12 months ending in February 2014.**
- **Disruptive weather across the US affected GDP.**
- **The Federal Reserve reduced its bond buying program by $10 billion (to $55 billion per month).**
- **The political crisis in Ukraine added volatility in the markets.**
- **The 10-year Treasury yield fell to 2.72%.**
- **Most U.S. sectors were up for the quarter.**
- **The unemployment rate stabi-**



Mosaic Financial Partners
www.MosaicFP.com
San Francisco/Lafayette

U.S. Markets reach new all-time high

The U.S. stock market continued its positive performance from 2013 reaching yet another all-time high in March. The S&P 500 rose to 1883 on March 21st posting a modest gain of 1.8% for the quarter . Small stocks also rose, gaining 1.1% during the quarter.

International markets experienced mixed results for the quarter. Europe was up while Japanese markets fell. Small foreign stocks outperformed their larger company counterparts. Returns in the Emerging Markets were essentially flat with the MSCI Emerging Market Index finishing down 0.37% for the quarter. Of the more important emerging markets, China had the weakest performance while India performed the best.

With interest rates falling modestly during the quarter (the 10-year Treasury yield stood at 2.72% at quarter end), bonds finished the 1st quarter in solidly positive territory.

The Fed continues to insist that it will do what it can to keep interest rates at low levels at least through mid-2015. This has fostered rising stock prices and kept bond prices reasonably stable.

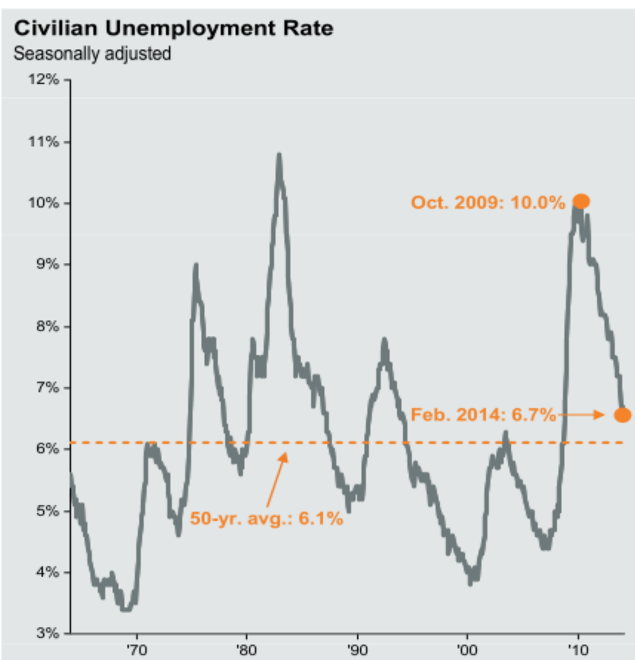
On the geopolitical front, the political crisis in Ukraine and security concerns over Russia have added some volatility to the financial markets. Concerns about the Ukraine situation threaten the Eurozone's still-fragile economic outlook. Still, some market analysts believe the stock market has already priced in this risk.

The Stock Market's Rise and Fall since 1997

U.S. Economy

The U.S. economy experienced a slight slowdown in the first quarter of 2014. Last month, the government slashed its Gross Domestic Product (GDP) estimate for the 4th quarter of 2013 from a previously reported 3.2% to a 2.4% annual rate. 2014 first-quarter growth estimates were also lowered thanks to harsh weather in much of the country. Still, the economy is expected to regain momentum as the year progresses. The IMF sees the U.S. growing by 2.8% this year and 3% in 2015. Economists generally believe growth needs to be above 3% for job growth and economic prosperity to be satisfactory.

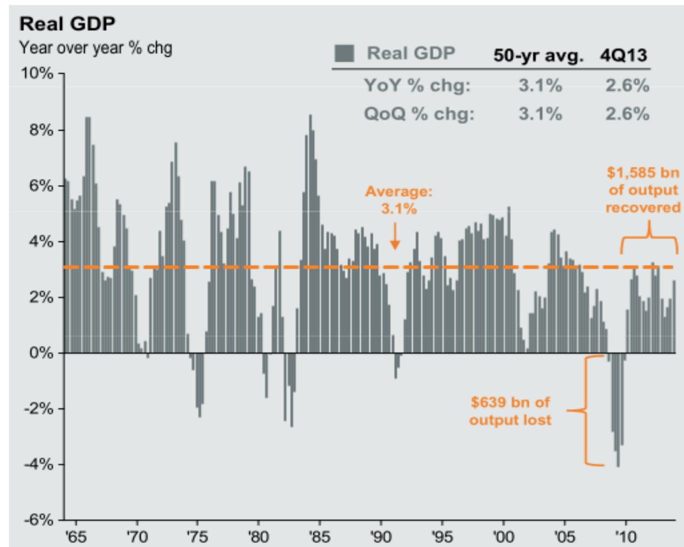
The latest Labor Department reports showed **unemployment** at 6.7% (with an increasing number of people entering the workforce). While the number of jobs lost during the Great Recession have now been regained, they are not necessarily equivalent to those that were lost. Most job growth has been concentrated in retail, construction and health-care.



Housing is improving — Residential building activity fell this quarter, partially the result of the bad weather experienced across the country. Despite the slow first quarter, permits for new home construction were up and the housing industry appears to be continuing its recovery.

Residential real estate prices have also continued to recover. The S&P/Case-Shiller 20-city index of property values increased 13.2% from a year earlier. While continuing to improve, the rise in home prices has slowed as mortgage interest rates have risen.

Although recent measures of U.S. **manufacturing** output have reflected weather-related slowing, trends have been positive. This suggests that U.S. economic activity continues to gain momentum. Overall, most signs point to a continued recovery.



Economy is growing — As the graph above reflects, the U.S. economy, as measured by the Gross National Product (GDP), has been in a growth mode since the Great Recession (the deep decline in activity in the lower right segment of the graph). But the growth rate in this recovery has been notably below the 3.1% historical average (growth briefly rose to 4.1% in Q3 of 2013 but subsequently declined to its present level).

GDP is made up of a) consumer spending, b) business spending, c) government spending, and d) net exports. A decline in federal spending has been the largest drag on growth, reducing GDP growth by about 1%. Consumer confidence also plays a role in our economic growth. Since 67% of GDP comes from consumer spending, how confident consumers are feeling is important. As interest rates have begun to rise, Americans have shown less interest in large ticket purchases (cars and homes). The University of Michigan said its consumer sentiment index dipped to 80 in March from 81.6 in February.

Inflation remains low — According to figures from the Labor Department, inflation was 1.5% in 2013 and 1.1% for the 12 months ending February 2014. This is well below the Federal Reserve's 2% target. This means the Fed still has maneuvering room in its efforts to promote U.S. economic growth.

World Economy

The **Euro-area** economy grew more slowly than expected late last year, suggesting the EU's recovery remains fragile. Still, consumer attitudes are improving. The latest sentiment survey reflected improved sentiment in all five of the largest European economies. Factors contributing to this improvement included an improving employment picture along with positive economic and business growth.

Market Returns

2013	1Q14
Russell 2000 38.8%	REITs 8.5%
S&P 500 32.4%	DJ UBS Cmdty 7.0%
MSCI EAFE 23.3%	Asset Alloc. 1.9%
Asset Alloc. 14.9%	Barclays Agg 1.8%
Market Neutral 7.9%	S&P 500 1.8%
REITs 2.9%	Russell 2000 1.1%
Cash 0.0%	MSCI EAFE 0.8%
Barclays Agg -2.0%	Market Neutral 0.3%
MSCI EME -2.3%	Cash 0.0%
DJ UBS Cmdty -9.5%	MSCI EME -0.4%

Japan — the International Monetary Fund (IMF) cut its 2014 growth forecast for Japan. The IMF warned that Prime Minister Shinzo Abe must follow through on promised reforms to cement a turnaround in the world's number three economy. In its World Economic Outlook, the IMF said it expected Japan's economy to grow 1.4 percent this year, down from an earlier forecast. Of 1.7%.

In March, **China** lowered its 2014 growth target to 7.5% (compared to the 7.7% growth rate actually achieved in 2013). Concerns about China's economic momentum are emerging. In March, Chinese factory activity contracted for the fifth straight month. Also in March, China's onshore bond market experienced its first default — signaling that the government will not necessarily bail out companies with bad debt. With signs that China's economy is losing steam, the government's top decision-making body, the State Council, announced a spending package consisting of expansions in railways and subways, low-income housing and tax breaks for small business.

Business activity across the **Emerging Markets** fell for the fourth straight month in March, with output contracting in three of the four biggest economies. Furthering the uncertainty, key elections are being held in India and Indonesia while concerns mount over the potential for conflict in Ukraine.

Investments – U.S. Equities

As the below graph indicates, all of the U.S. equity sectors rose in the first quarter of 2014. Value stocks (companies with lower market valuations) outperformed growth stocks (generally those with high earnings growth rates). This trend held across all stock size categories.

Over the last twelve months, the S&P 500 rose 21.8%, while the Dow and Nasdaq increased 15.7% and 30.2%, respectively. Over this time, growth stocks slightly outperformed value among both large and small stocks.

Market Returns

1Q 2014

	Value	Blend	Growth
Large	3.0%	1.8%	1.1%
Mid	5.2%	3.5%	2.0%
Small	1.8%	1.1%	0.5%

All US equity sectors posted positive quarterly returns, except for Consumer Discretionary. In the 1st quarter, the best-performing sectors included utilities (+ 10.1%) and health care (+5.8%).

The S&P 500 index has now risen about 208% from its March 2009 lows (including dividends) and as of March 31st, was 37.9% above its October 2007 peak.

Investments — International Equities

The MSCI EAFE index, the most widely-used international index, rose 0.77% for U.S. investors in the first quarter.. This occurred despite a number of global currencies weakening relative to the dollar. Over the last twelve months, the EAFE Index has risen 18.1% in dollar terms.

The MSCI Emerging Markets Index has continued to lag, declining 0.37% for the quarter and 1.07% over the last 12 months.

While the global economy shows signs of revival, the emerging markets have experienced some headwinds in the last 3 months. The BRIC countries (Brazil, Russia, India and China) showed mixed results. For the quarter, India and Brazil were up 8.2% and 2.9% respectively. Conversely, China, amid growing indications of a weakening economy, declined 5.9% during the quarter. Russia's market declined 14.4% in dollar terms —a likely response to Russia's involvement in the Ukrainian crisis and the possibility of economic sanctions to come.

Fixed Income

The bond market has started the year strongly. The Barclays Capital US Bond market index, the barometer of overall US Bond market, was up 1.8% for the quarter (but is still down -0.1% over the last twelve months). During the quarter, bond prices rose as the yield on 10-year Treasuries fell from 3.04% to 2.72%. Inflation (1.1% over the last twelve months) has remained well below its 50-year average of 2.5%.

Short-term bonds rose 0.23% for the quarter, and 0.68% over the last 12 months. For the quarter, intermediate bonds gained 1% while posting a modest decline of 0.13% for the twelve months ending March 31.

Treasury Inflation-Protected Securities (TIPS) reflect investor concerns about the future of inflation. TIPS experienced a solid gain of 1.95% during the 1st quarter (but still experienced a decline of 6.5% over he last twelve months).

Emerging market debt posted strong returns in the quarter as dollar-denominated emerging market bonds gained 3.45%. Returns over the twelve months ending March 31 were negative at –1.9%.

Investments – Alternatives

Alternative holdings experienced mixed returns.

- The Alerian Master Limited Partnership Infrastructure Index, which tracks energy transportation and storage facilities, gained 1.6% during the quarter and is up 9.5% over the last 12 months.
- Global real estate, represented by the NAREIT Real Estate Global Index, rose nearly 4% over the quarter but only 0.43% over the last 12 months.
- Timber, as measured by the FTSE NAREIT Timber REIT, posted a 4.3% loss for the quarter and is now down 10.6% over the last 12 months. This, despite being one of the best performers over the last five years.
- Commodities (the basket of energy, precious metals, agriculture and livestock) experienced significant growth in the quarter. The Dow Jones UBS Commodity Index posted a solid 6.99% gain for the quarter but was still down 2.10% over the last twelve months.

Summary

Despite the cacophony of voices claiming that the world is on the verge of another recession or a significant pullback, the US equity market posted positive returns during the first quarter of 2014.

The economy is still fragile and vulnerable to various economic headwinds. Still, improving employment numbers, a recovering housing market and a more confident consumer, provide a reason for optimism that our economy will continue to improve. Further, despite reductions in its QE program, the Federal Reserve has been clear that it will continue to provide support for the economy.

Many commentators will argue that following a 6-year bull market and the double-digit returns of 2013, a significant market correction is imminent. A market correction may well occur—they often do. Nonetheless, we at Mosaic Financial Partners remain optimistic about the future. We stand by our belief that a disciplined investment approach, portfolio diversification and prudent planning and expense management is the key to your long-term financial success.

We appreciate the honor you do us by allowing us to continue to serve you. Please think of us should a friend or colleague have a need for disciplined, thoughtful financial advice.

Sources: Bloomberg, Wall Street Journal, Reuters, BusinessInsider.com, Europa.eu, CNBC.com, Forbes.com, BusinessWeek, GMA-network.com and NST.com. Graphs—JP Morgan Asset Management