MOSAIC
FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Market Watch
3rd Quarter 2014

Summary

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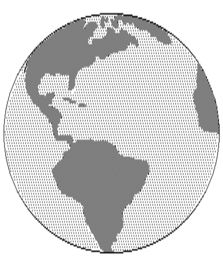
- U.S. markets reach new historic levels during Q3
- The U.S. Gross Domestic Product gained 4.6% in Q2
- At August 31st, the annualized U.S. inflation rate stood at 1.7%
- Eurozone inflation is now only 0.4%
- The U.S. unemployment rate dropped to 5.9% in September
- 10-year Treasury yield ended Q3 at 2.52%
- The Fed will end QE in October



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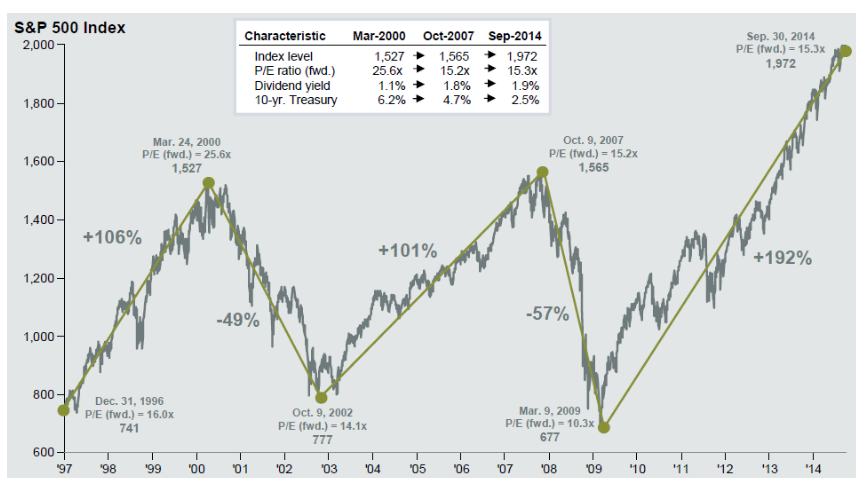
US Market Indexes reach historic levels

The market had "good news and bad news" during the Third Quarter. For the first time in history the S&P 500 Index crossed the psychologically important 2000 level and the Dow also pushed past its all-time high. Both settled back during September, but still posted small gains for the quarter

Most other equity sectors fell for the quarter, including small cap U.S., international and emerging market stocks. The Eurozone economies struggled to show any growth at all due to their debt overhang and reduced trade with Russia given Russia's actions in Ukraine. Japan's economy was faced with new slowdowns thanks to new taxes and its heavy debt burden. China took actions to boost its domestic economic activity while other developing economies showed mixed results.

The bond market was largely even this quarter. Interest rates are near all-time lows and were mostly stable for the quarter. This surprised many prognosticators who predicted higher rates were imminent as the Federal Reserve prepares for the next step in unwinding its easy money monetary policies (as a reminder, higher rates would hurt bond values) .

Movement of the U.S. stock market since 1997



The US Economy

The U.S. economy appears to have regained traction during the second quarter of 2014. Gross Domestic Product, the broadest measure of goods and services produced in the U.S., grew at an annual rate of 4.6% in the second quarter. This was a very strong rebound from the first quarter when real GDP declined a sharp 2.1% due to the bad weather and reduced consumer spending.

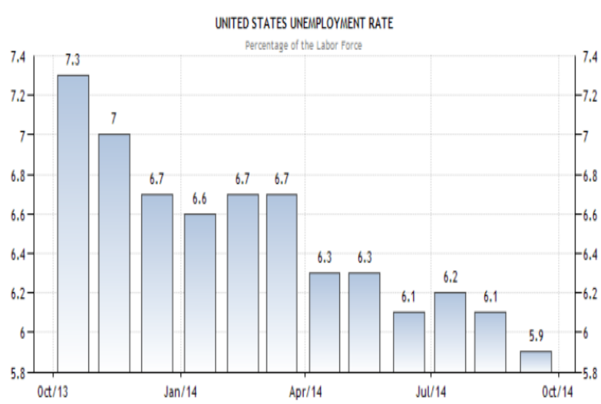
The second quarter's 4.6% growth in real GDP was broad-based and reflected growth in personal consumption, private inventory investment, exports, residential and nonresidential fixed investment, as well as growth in local government spending. All of these should bode well for stocks. These gains were partially offset by an increase in imports, which negatively impacts GDP, and a 0.9% decline in federal government expenditures. Economic growth figures for Q3 are not yet published.

Unemployment drops to lowest level in six years

The latest U.S. job numbers made a strong statement that the rebound in the job market continues. Over the last three months, payroll gains have averaged 224,000, which pushed unemployment rates down to 5.9 percent – its lowest level in six years. Over the last six years, consumers have made significant improvements in their overall debt levels, which, when added to continuing job growth should help increase consumer spending and demand for housing.

The number of people receiving unemployment benefits has fallen steadily—to 2.38 million in the week ended Sept. 27. This is the lowest level since May 2006. For many workers, this reduction means formerly unemployed works have found jobs. However, another reason for the drop in unemployment benefits is that many of the long-term unemployed are no longer eligible (with jobless aid only lasting for 26 weeks in most states).

The job market continues to bear scars from the recession. More than 7 million people hold part-time jobs but want full-time work. This is up from 4.6 million before the downturn. And there remain twice as many people who have been unemployed for longer than six months than there were before the recession (though this figure has improved steadily in the past three years).

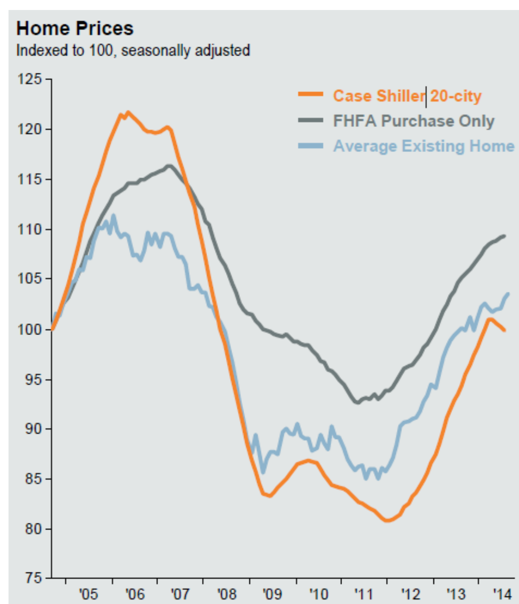


Housing

Sales of new single-family homes in the United States surged in August to their highest level in more than six years—a sign the housing recovery remains on course. While the U.S. Commerce Department reported that existing-home sales for August dropped by 1.8%, this was more than offset by new home purchases which jumped 18 percent to a 504,000 annualized pace – the strongest level since May 2008.

The S&P/Case-Shiller index of national home values shows home sale prices rising 6.7% over the last twelve months. While positive, it is the slowest rate of increase in the last two years. Unlike the anomaly of the Bay Area, in most major US cities, home prices are still below the peak that was seen prior to the Great Recession.

The share of first-time buyers in the market for existing homes has been stuck at around 29%. This is well below the 40 to 45% considered ideal by economists and by real estate agents. The U.S. housing market has been improving in fits and starts this year amid slow wage growth and still tight credit conditions. Sustained improvement in the job market will be needed to push up pay levels and sustain a stronger recovery.



The World Economy

The Euro-area economies remain challenged. The failure of the Eurozone economies to grow in the second quarter underlines the challenges faced by the bloc as it emerges from the acute phase of its sovereign debt crisis. Paying down national debt remains a significant challenge thanks to weak regional growth. Headwinds to economic growth in the Eurozone include a slowdown in demand from China, reduced trade with Russia (attributable to sanctions arising from the Ukraine crisis) and the threat of a deflationary spiral which could drop Eurozone economies back into recession.

The statistics agency Eurostat reported that seasonally adjusted GDP was unchanged in the second quarter, and is up just 0.7% from a year earlier. This slowdown reflected the failure of the Eurozone's three largest economies to grow in the 2nd quarter. Germany's GDP actually shrank by 0.2% during the quarter. This was true for Italy as well. France's GDP was flat for the period. Unemployment remains painfully high as well. According to Eurostat, unemployment among 18 nations of the Eurozone held at 11.5% in August.

Japan's economy contracted by the largest amount in more than five years. This contraction has highlighted the government's challenge in steering the nation through the aftermath of its national sales-tax increase. Japan's 2nd quarter GDP shrank at an annualized rate of 7.1%. The blow from April's sales-tax hike extended into the 3rd quarter with retail sales and household spending falling in July. The government signaled last week that it is prepared to boost stimulus to help weather a further increase in the tax levy currently scheduled for October 2015. This environment has made it difficult for the government to impose the structural changes needed for Japan to jumpstart its economy.

Chinese economic growth increased for the first time in three quarters after the government accelerated planned spending and freed up more loan money to counter a national property slump. In the April to June period, gross domestic product rose 7.5% from a year earlier. In a bid to avert a deeper slide in the housing market, on Sept. 30, China's central bank and banking regulator relaxed lending rules for second-home buyers. The rule changes included a 30 percent discount on mortgage rates and a reduction in the required down payment from 60-70% to only 30%. The rebound in second-quarter growth is stabilizing China's economy for now but is causing some economists to question whether the government's reliance on piecemeal stimulus measures is delaying needed reforms and piling up more bad debt.

Emerging Market growth remains lackluster. The HSBC Emerging Markets Index (EMI), a monthly indicator derived from producer manufacturing surveys, remained only just above the neutral threshold of 50.0 in September. It is believed that this signals expectations for muted output growth in the global emerging markets. The September EMI was little changed at 50.8, from August's reading of 50.7.

Data from 19 large emerging economies show that industrial output in August and consumer spending in the second quarter fell to their lowest levels since 2009. Export growth in August also plunged. The most rapid deterioration has come in Eastern Europe, where a faltering German economy has impacted the companies that form Germany's industrial supply chain. A stronger dollar combined with soft commodity and declining oil prices are also adding to the Emerging Markets' slowdown.

Investments

U.S. Equities

The S&P 500 index rose 1.13% for the quarter and was up 8.3% year to date through September 30. The Dow and Nasdaq had similar gains (1.87% and 2.2%, respectively, for the quarter and 4.6% and 8.5% for the year).

As the graph below indicates, the U.S. equity sectors showed mixed results in the 3rd quarter of 2014. While Large-Cap and Mid-Cap stocks ended up in the positive territory, Small-cap stocks were in the red. While such divergence may seem alarming, historically small-cap companies tend to be much more volatile than the established Large and Mid-cap stocks, so such divergence in quarterly results is not unusual.

Market Returns

3Q 2014

	Value	Blend	Growth
Large	1.9%	2.6%	3.0%
Mid	1.2%	1.7%	2.2%
Small	-2.0%	-1.4%	-0.8%

From a stock valuation perspective, using forward P/E (current stock price divided by estimated future earnings over the next twelve months), the S&P 500 is now priced at 15.3 times forecasted earnings. This is a small decrease from last quarter's 15.6 number, but still lower (and therefore theoretically more attractive) than the 15-year average of 16.3. The current dividend yield for the S&P 500 stands at 2.0%.

International Equities

The strength of the US dollar relative to many foreign currencies contributed to weaker returns in the international markets when measured in dollar terms. The MSCI

EAFE index, the most widely-used international index was down 5.8% for U.S. investors, compared to a 1% gain in local currency. Japan posted a gain of 5.9% for local investors, but lost 2.2% in dollar terms. Overall, the MSCI EAFE index was down 1.0% year to date vs. a gain of 8.3% for the S&P.

2014 Asset Class Returns

YTD	3Q14
REITs 13.4%	S&P 500 1.1%
S&P 500 8.3%	Barclays Agg 0.2%
Barclays Agg 4.1%	Cash 0.0%
Asset Alloc. 3.0%	Market Neutral -0.7%
MSCI EME 2.7%	Asset Alloc. -2.2%
Cash 0.0%	REITs -2.5%
MSCI EAFE -1.0%	MSCI EME -3.4%
Market Neutral -1.2%	MSCI EAFE -5.8%
Russell 2000 -4.4%	Russell 2000 -7.4%
Bberg Cmdty -5.6%	Bberg Cmdty -11.8%

The MSCI Emerging Markets Index had no upside surprises, posting a gain of 0.7% in local currency, but down 3.4% in dollar terms. While the Emerging Markets showed signs of revival in the second quarter of 2014, soft commodity prices paired with a slower growth in developed economies, continued to affect the Emerging Market returns. During the last quarter, BRIC countries (Brazil, Russia, India and China) posted mixed results. China was up 1.5% and India up 2.3%. This while Brazil and Russia (commodity-exporting economies) were down 8.6% and 15.1%, respectively.

Fixed Income

The bond market was essentially flat for the quarter, but continued to hold onto its 2014 gains. The Barclay's Capital US Bond market index, the barometer of overall US Bond Market, was up 0.2% for the quarter and 4.1% year to date. Short-term bonds were flat for the quarter (+0.04%)and up just under 0.6% year to date. Intermediate bonds were unchanged for the quarter (-0.03%), while generating a return of 2.2% year to date.

Treasury Inflation-Protected Securities (TIPS), which reflect investor's expectations about the future inflation, were down 2.0% for the quarter, as concerns about a possible deflationary cycle began to spread among investors. TIPS are still up nearly 3.7% year to date.

Emerging market debt ended Q3 in negative territory. The JP Morgan Emerging Bond Index declined 2.1% during the quarter but is still up nearly 7.2% year-to-date.

Alternatives

Many of our Alternative holdings finished the 3rd quarter in the red, while as a group, the category has a modestly positive return for the year.

Commodities (the Bloomberg Index of energy, precious metals, agriculture and livestock) had an unusually weak quarter, with the index finishing down 11.8%. The index has declined 5.6% year to date.

Timber, as measured by the FTSE NAREIT Timber REIT, posted a 6.4% loss for the quarter and is now down 0.7% since the beginning of the year.

Global real estate, represented by the NAREIT Real Estate Global Index was down 3.8% for the quarter but is up just under 7.2% for the year to date.

Managed Futures—the S&P Diversified Trends Indicator Index, which represents this category, was up 4.5% for the quarter and rose 5.7% year to date.

The Alerian Master Limited Partnership Infrastructure Index (which tracks energy transportation and storage facilities) gained almost 3.8% during the quarter and is up 19.9% year to date.

Summary

Despite the mixed third quarter results, both risks and opportunities continue to be present. The US economy is clearly improving. Absent any "Black Swan" events, we see no reason for this trend to reverse for quite a while. Yes, there are problems we can point to (Europe's slowdown, Japan's struggle to restart its economy, softening commodity prices, Russian and ISIS aggression, to name just a few) but we expect each of these to prove to be blips on the broader, long term landscape.

After experiencing extraordinary returns in 2013, many investors may have created unrealistic expectations for a continuation in 2014. Some pundits worry that stocks are overdue for a correction. At some point they will inevitably be right. But no one can know when. Currently we are in the fourth-longest bull market since 1928, and we've not experienced even a small 10% correction since 2011. A correction will eventually come but it is very hard, if not impossible, to time such things. The Great Recession was deep and the recovery has been slow, helping to extend this recovery beyond many expectations. Our guidance is always to ignore the "noise" and maintain your discipline. A rational, long-term perspective has always served investors well and we expect it always will.

Although market results can never be assured, we at Mosaic Financial Partners believe that it is a disciplined investment approach with a proper diversification and risk management that will help keep your emotions in check and take you closer toward your long-term financial goals. We want to thank you for your trust in our company and it is our hope and expectation that you continue to rely on us during your financial journey.

Sources: Bloomberg.com, Reuters, JP Morgan Asset Management, Morningstar, National Association of Realtors, Reuters, Wall Street Journal, Eurostat, US Bureau of Labor Statistics.