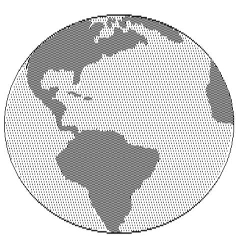
MOSAIC FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Market Watch
3rd Quarter 2012

Summary

- Central bank actions in the U.S., European Union and China injected significant liquidity into the financial markets, lowered borrowing costs for business and consumers, and helped calm investor fears.
- U.S. stock market indices rose across the board as the 3rd quarter produced significant gains in all equity categories. Year-to-date through September 30, U.S. indices have achieved double-digit returns.
- International stocks also posted strong gains in the quarter and year-to-date. Given ECB interventions and increasing economic cooperation among EU members, fears relating to Europe's financial problems have abated somewhat.
- Bonds continued to generate positive, if modest, returns. Bond yields remains at or near historic lows.
- Alternative investments enjoyed strong quarterly and year-to-date returns. Particularly strong 12-month returns were achieved by timber, energy infrastructure and global real estate.



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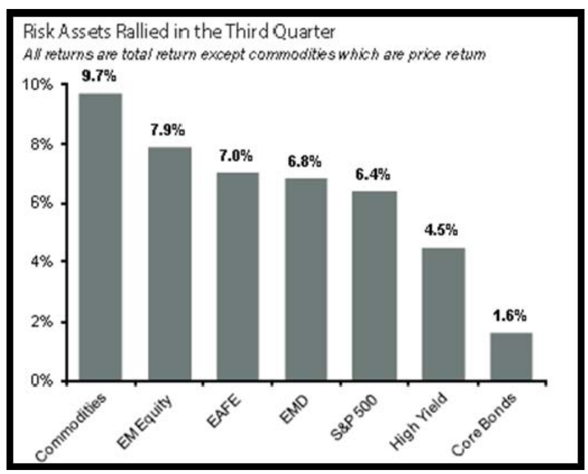
The Financial Markets Regain Momentum

Stock markets in the U.S. and the world experienced very strong gains during the 3rd quarter. This followed the strongest first quarter for the U.S. stock market since 1998, and a 2nd quarter which largely erased those gains. The S&P 500, which tracks the largest U.S. companies, finished up 6.4% for the 3rd quarter and has now risen 30.2% over the 12 month period ending September 30th.

Source: Standard & Poor's and JP Morgan Asset Mgmt

The MSCI EAFE Index (the mostly widely used index to track non-U.S. stocks in developed countries) gained 7.0% in the quarter and 14.3% over the preceding twelve months. Similarly, the emerging markets also posted strong gains – rising 7.9% for the quarter and 17.3% for the full 12 month period.

In a global effort to boost the economy, the third quarter saw massive central bank efforts to increase financial market liquidity. With bond and fixed income yields at or near historic lows, investors have begun looking to riskier asset classes to generate the returns they need.



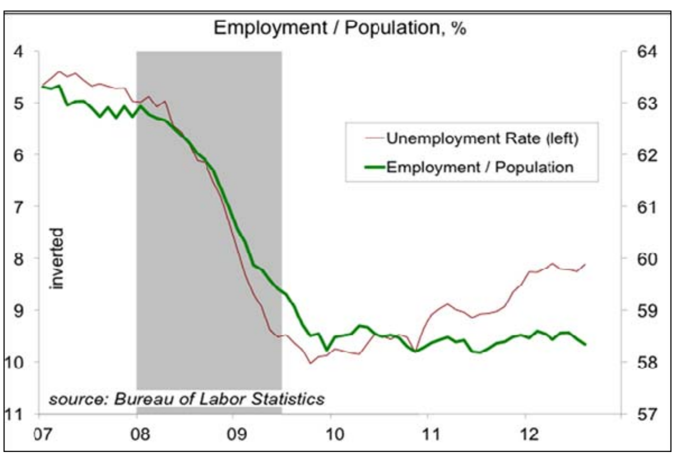
Source: JP Morgan Asset Management

As reflected in the above chart, this increased demand has contributed to a significant increase in investment returns in many of these risk asset categories.

Although the pace of economic growth has moderated, most economists expect that GDP growth will continue in the fourth quarter. The U.S. housing market is showing signs of improvement as prices have stabilized and the pace of foreclosures has slowed significantly. Manufacturing has more or less stabilized and there are an increasing number of stories indicating that jobs are being brought back to the U.S. from overseas. At the same time, questions about Europe and its future continue. China is struggling to control its economy in the midst of its scheduled leadership change. And, the coming election and "fiscal cliff" facing the U.S. carry substantial uncertainty.

U.S. Economy

The U.S. economy gave mixed signals during the quarter. Although job growth continued to be slow, the unemployment rate unexpectedly fell to 7.8% in September, down from 8.1% in August. Unfortunately, most of the new jobs were part-time and the percentage of Americans working was lower than at



Source: Bureau of Labor Statistics

any time in the last 50 years. September nonfarm payrolls increased by 114,000, led by the healthcare, transportation and warehousing sectors. So far in 2012, employment has grown by an average of 146,000 jobs per month (versus an average of 153,000 in 2011). This growth rate is only modestly higher than the estimated growth rate of new entrants to the job market (about 140,000 per month). At this pace, there is little opportunity for unemployment to fall further. In other words, we're growing fast enough to keep pace with the growth in the population, but not fast enough to make up much of the ground lost in the job market during the downturn.

After three consecutive months of contraction, economic activity in the manufacturing sector, as measured by the Institute for Supply Management (ISM), rose in September. The ISM report showed new orders, production, employment and prices all rising over the prior period. Of the 18 manufacturing industries analyzed, 11 reported growth in September.

Although economic growth in the U.S. has continued to be positive, the rate of growth has slowed. According to the Bureau of Economic Analysis, 2nd quarter, GDP grew at an annualized rate of 1.3% -- a drop from the 2% growth rate of the 1st quarter. One factor contributing to this decline in GDP is the severe U.S. drought which is the most widespread since 1956 (and now extends to nearly 65% of the country). On the inflation front, consumer prices rose 0.6% in August and are up 1.7% year-over-year. The August increase, the largest monthly increase since June 2009, was fueled in part by the surge in energy prices in August (up 5.6%).

Housing has not only stabilized but appears to be getting stronger. Both the rate of sales and home prices have improved, and with them, construction has increased. Housing posted a 7.8% month-over-month increase in existing home sales. As the chart below reflects, housing prices are up and inventories are down – both are good news. The number of new

Source: Fact Set, National Association of Realtors housing units started has increased almost 60% since the April 2009 lows. Still, new home starts remain below the pre-crisis levels. Home prices (July 2012) also increased again, according to the S&P/Case-Shiller Home Price Index, the leading measure of U.S. home prices. And perhaps even more encouragingly, the number of sales attributable to distressed homes fell to 22% in September, down from 29% in March.

While U.S. economic numbers have been mixed, we believe the general trend is toward improvement. This, coupled with a continued improvement in consumer sentiment, will hopefully portend continued positive, if moderate, economic growth.

World Economy

2nd quarter (the most recent available) GDP growth in the G7 economies slowed to 0.9% from 1.8% in the 1st quarter. Japan grew at a rate of 1.4% while GDP in the three largest Euro countries (Germany, France and Italy) contracted by .3%. Despite this slower growth, the prospects for the global economy are somewhat brighter than six months ago. Given the European Central Bank's more recent actions, the immediate downside risks in the Eurozone area appear to have been contained. While financial fears have calmed, Eurozone issues remain as significant concerns for the global economy.

Across a range of global markets, economic slowing has been particularly evident in the manufacturing sector, where there has been a decline in both manufacturing production and new orders. While September saw manufacturing production declines in the European Union and Asia, it hasn't been all bad news. In contrast, a number of developed country markets and many of the emerging countries reported manufacturing growth in September. New job creation was also reported in September, with increases recorded in Japan, Germany, India, Canada, Mexico and Russia.

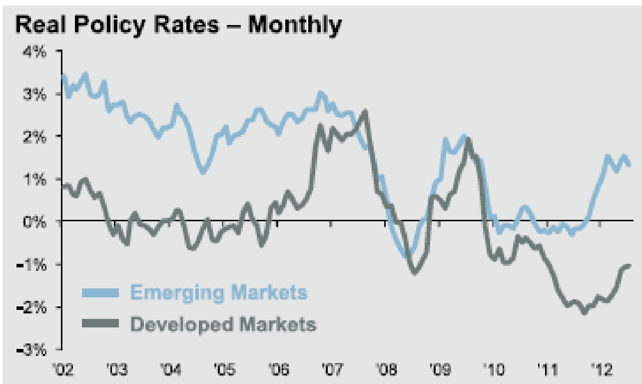
Economic weakness continues to be evident in the Chinese economy. In response, the Chinese government has taken steps to stimulate their economy, by injecting liquidity into their financial system (seeking to lower domestic borrowing costs for Chinese companies). However new business orders remain weak given diminished demand from Europe and China's other trading partners. The International Monetary Fund has lowered its forecast for China's economic growth to 7.8% for 2012 and 8.2% in 2013.

Source: JP Morgan Asset Management

Central Banks Around the World Take Action

The last four weeks have witnessed significant central bank actions around the globe. Major initiatives have been undertaken in Europe, China and the U.S. At home, the Federal Reserve Open Market Committee has committed to expand its asset purchase program with an open-ended commitment to purchase up to $40 billion of mortgage-backed securities each month. This action is intended to keep mortgage rates low. But those who rely on income from savings continue to pay a high price. Moreover, it is not clear that continuing marginally lower rates will appreciably improve the housing market – jobs and economic growth will be the fundamental drivers to longer term improvement. The Fed also announced its guidance on holding the Fed Funds rate between 0 and .25% until mid-2015.

The European Central Bank (ECB) also announced a new open ended asset purchasing program. The Outright Monetary Transaction (OMT) will buy short-term European debt. This initiative has already lowered borrowing costs for Spain, Italy and Portugal. Although these bond purchases will not alleviate Europe's structural problems, they should help address financial liquidity concerns and may provide a window of opportunity for European politicians to act. In Germany, the courts ratified the European Stability Mechanism (ESM), a $640 billion rescue fund for making loans to indebted European governments. While these actions all help contribute to greater financial market stability, it is important to emphasize that Europe is not out of the woods. There remain major structural reforms that have yet to be implemented. Three areas that will need to be addressed more fully include: tighter fiscal integration within the Union, structural growth initiatives, and banking system reforms.



Source: JP Morgan Asset Management

As noted previously, China's central bank recently injected more liquidity into its banking system. The liquidity injection, the second-largest of its kind ever in China, is aimed at lowering domestic borrowing costs for companies grappling with slow economic growth. The Chinese central bank appears committed to supporting economic growth and improving financial market sentiment. Central bank officials have stated that the economy faces "relatively big" pressures and that the bank is prepared to take more "pre-emptive, targeted and effective measures." These may include reducing banks' reserve-requirements, thus freeing up more funds for lending.

Investments – U.S. Equities

The financial markets regained momentum during the 3rd quarter. All equity sectors experienced solid gains despite a backdrop of slower economic growth, the ongoing European debt crisis, and continuing turmoil in the Middle East. The S&P 500 gained 6.4% for the quarter and 30.2% over the preceding 12 months. It is now up 16.4% year to date. The S&P 500 has risen 129% from its March 2009 low, and is now 2.7% below its October 2007 peak.

Source: Standard & Poors and JP Morgan Asset Mgmt

As can be seen in the chart below, during the quarter, value stocks modestly outpaced growth stocks in each of the size categories (small, mid and large cap). This same trend also holds for the 2012 year-to-date returns.

3Q 2012

	Value	Blend	Growth
Large	6.5%	6.4%	6.1%
Mid	5.8%	5.6%	5.3%
Small	5.7%	5.3%	4.8%

2012 YTD

	Value	Blend	Growth
Large	15.7%	16.4%	16.8%
Mid	14.0%	14.0%	13.9%
Small	14.4%	14.2%	14.1%

Source: Russell Investment Group and JP Morgan Asset Mgmt

Given rising energy prices, it will not be a surprise to learn that the best performing sector for the 3rd quarter was energy (up 10.1% for the quarter). Since the March 2009 low, the best performing U.S. sector has been consumer discretionary which has risen 211%, and is now 34.7% above its October 2007 peak.

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 12.9 times forecasted earnings. This is lower than the S&P's 15-year forward P/E average of 16.8. Based solely on this measure, it could be argued that there continues to be room for further stock market growth. The critical factors will be future growth and corporate earnings.

In the 3rd quarter, S&P 500 earnings increased by 5%. Over the last few years, corporate earnings and profits have risen significantly. Much of this rise can be attributed to corporate efforts to cut costs and improve efficiency. As a result, future earnings growth will be more dependent on sales growth to drive profits (as companies will be less able to rely on improved margins to drive earnings).

2012 Global Market Performance

2012	U.S.	Europe	Emerging markets	Global returns
Q1	+13%	+11%	+14%	+12%
Q2	(3%)	(7%)	(9%)	(5%)
Q3	+6%	+9%	+8%	+7%
2012 to date	+16%	+12%	+12%	+13%

Source: Morgan Stanley Capital International

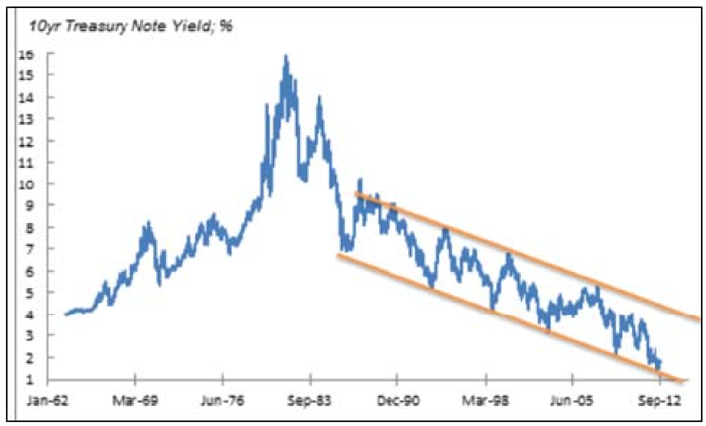
Investments – International Stocks

In times of uncertainty, the U.S. dollar continues to be a "safe haven" for investors globally. This can hurt non-dollar-denominated returns. But, even with a stronger dollar, our international holdings have performed well. Most international markets posted strong gains during the 3rd quarter. The MSCI EAFE index, the most widely used international index, gained 7.0% for the quarter and is up 10.6% year-to-date. The index has risen 14.3% over the last 12 months. The Emerging Markets (MSCI index) rose 7.9% in the quarter, 12.3% year-to-date, and is up more than 17% over the last 12 months. India and Germany have been the best performing international countries with year-to-date returns of 25.4% and 21.7%, respectively. The table below provides a summary of the 2012 year-to-date global market performance (in U.S. dollars).

Using forecasted 2012 earnings, the MSCI EAFE Index has a forward P/E ratio of 10.9. This compares to a 10-year average P/E of 12.9 (suggesting that international market valuations may still have room for appreciation). The current dividend yield for the EAFE Index is 3.7% while the Emerging Markets Index yield is at 2.9%. Both look very attractive when compared to the 1.7% yield on the 10-year U.S. Treasury bond.

Investments – Fixed Income

Virtually all fixed income sectors showed positive returns for the quarter. The overall bond market, as represented by the BarCap Aggregate Bond Index, gained 1.6% for the quarter and is up 5.2% over the last 12 months. In the government bond sector, Intermediate U.S. Treasuries gained 1.4% for the quarter and 4.4% over the last 12 months, while short-term Treasuries (1 to 3 years) rose 0.52% in the quarter and are up 1.36% in the last 12 months. Treasury Inflation Protected Securities (TIPS) rose 2.1% during the quarter and 9.1% over the last 12 months. The Barclays Municipal Bond Index rose



Source: Federal Reserve Bank of St. Louis

2.3% during the quarter and 8.3% over the one year period.

As illustrated in the chart below, there has been a 30 year downward trend in bond yields. It is inevitable that at some point, this trend will reverse and rates will begin to rise. The timing of when this will occur and by what amount rates will rise are the questions that continue to be debated. In the interim, with a 10-year Treasury yield of 1.7%, many investors have moved toward riskier assets for investment.

Over the last year, the best performing fixed income sector has been high yield bonds with a return of 19.4% (4.5% during the 3rd quarter). In the international arena, dollar denominated emerging markets bonds were the best performing, generating returns of 6.9% for the quarter and 20.3% over the last 12 months

Alternative Strategies

Our alternative investment holdings are intended to help dampen the volatility of the portfolio while still contributing to portfolio growth over time. Each alternative strategy pursues a different path to generate returns. And, each has returns driven by factors less closely linked to the economic factors that drive the stock and bond markets. Our alternative holdings posted strong returns, as follows:

- Timber, represented by the FTSE NAREIT Timber REIT, had the largest gain of our alternative strategies with an increase of 14.5% for the 3rd quarter and 50.3% for the preceding 12 months.
- Global real estate, represented by the FTSE EPRA/ NAREIT Global REIT Index, had a gain of 6.1 % during the quarter and is up 30.4% over the preceding 12 month period.
- Energy transportation and storage (the "Alerian Index") gained 8.7% for the quarter, and is up 25.6% for the 12 month period.
- Commodities (the Dow Jones UBS Commodity Index) finished the quarter with a gain of 9.7%. Over the last year the index is up 6.0%. Oil prices ended the quarter at $92 per barrel up from $85 the prior quarter. Meanwhile, gold prices rose to $1,763 per ounce versus $1,599 at the end of the 2nd quarter.

Summary

As evidenced by the economic and market shifts of the past five years, we have contended with challenges on a variety of fronts – a global financial crisis, unemployment – both domestically and abroad, weak economic growth, extreme sovereign debt loads (in the U.S. and internationally), and geopolitical turmoil in many parts of the globe. Despite these significant challenges, the financial markets have largely recovered from the crisis and the global economy has made positive progress.

In some respects, the experience of the last nine months may be seen as a microcosm of our post-crisis recovery – challenging at times but ultimately trending in a positive direction. Although many problems continue to confront us, we remain long-term optimists (admittedly, cautiously so).

As strategic investors, we continue to believe in the importance of investing in the global financial markets. While we are certain to face challenges ahead, we don't believe any of these will prove insurmountable. Market results can never be promised. Still, we believe the following principles will continue to serve you well during times of uncertainty and volatility in the financial markets:

- Structure your portfolio in consideration of the return required to achieve your long term goals. Maintain a well-diversified global portfolio.
- Adhere to your documented Investment Policy. This is your investment blueprint. Maintain your investment discipline even when markets are most challenging.
- During uncertain markets and periods of slow economic growth, focus on what you can control: your spending, saving and investing goals.
- If your portfolio is providing ongoing cash flow, maintain a liquidity reserve that can be drawn upon during periods of market turmoil.

We look forward to continuing to work with you in helping you achieve your long-term financial goals.

Sources: Morningstar, JP Morgan, Bureau of Labor Statistics, Morningstar Direct, The Federal Reserve, Standard & Poors, Russell Invrstment Group, Advisor Perspectives, FactSet, Nat'l Association of Realtors

"Our deficit-reduction plan is simple, but it will require a great deal of money."