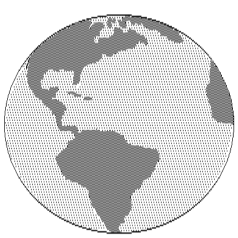
MOSAIC FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Market Watch
4th Quarter 2012

Summary

- Despite a weak 4th quarter, over the full year, U.S. equities enjoyed strong growth with returns of 16% or more.
- U.S. equities have now fully recovered from the financial crisis and show modest growth above the October 2007 highs.
- In part attributable to reform progress in the Eurozone, developed international stocks experienced market gains exceeding those in the U.S.
- Even with a slowing in the Chinese economy, Emerging Markets equities enjoyed strong returns in 2012.
- Bonds achieved steady returns over the year with the riskier fixed income categories—high yield and EM debt—producing the greatest gains.
- Global real estate (REITs) was the best performing "alternative" category investment with an annual return of nearly 30%. Over the last three years, real estate has been among the very best performing asset classes.



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A Strong Year for Financial Markets

After a strong 3rd quarter, the U.S. equity markets ended the 4th quarter largely unchanged. That said, U.S. investors were rewarded with gains of 16% over the full year. Since the market's low point in March 2009, the S&P 500 has risen nearly 129% and is roughly 2% above its October 2007 peak. Small U.S. stocks have done even better and are now 8% above their prior high (161% above their 2009 lows).

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

Despite record low interest rates, many areas of the fixed income markets turned in surprisingly strong returns (particularly Treasury Inflation Protected Securities (TIPS) and corporate bond issues). Bond investors willing to take on greater risk in the high yield and emerging markets debt markets enjoyed even better returns.

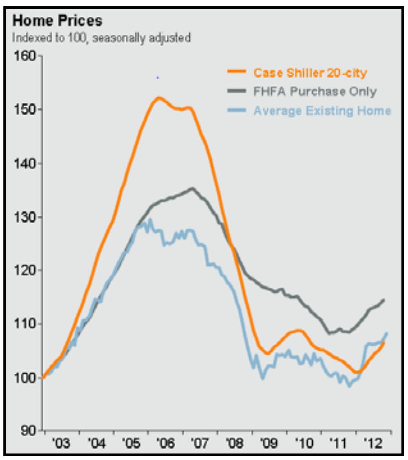
While 4th quarter returns were flat in the U.S., this was not the case internationally. The MSCI EAFE Index (the most widely used index to track non-U.S. stocks) posted a gain of 6.6% for the quarter and 17.9% for all of 2012. The emerging markets also experienced strong gains with returns of 5.6% for the quarter, and 18.6% for the year. The largest gain in developed international markets was experienced by Germany, up 32.1% for the year.

A look back at 2012

Judging by the headlines in the financial press, investors spent much of the past year anxious about a host of economic and market concerns—concerns that did not impact the markets as feared. These concerns included worries about U.S. economic growth, the fiscal cliff, fears of a Eurozone break-up, China's economic slowdown, a potential bond market bubble and the disruption and divisiveness of the recently completed election.

Instead of the expected problems, stock investors were rewarded handsomely. For the full year, the MSCI World Index achieved a total return of 16.5% (for U.S. investors). Among the forty-five global stock markets tracked by MSCI, only three (Chile, Israel, and Morocco) posted negative results. Twelve markets had total returns in excess of 25%, with Turkey leading the pack at 55.8%. Results like these provided a reminder of the importance of maintaining a long term discipline and avoiding getting caught up in the day-to-day headlines.

U.S. Economy



Source: National Association of Realtors Standard & Poor's, JP Morgan Asset Mgmt

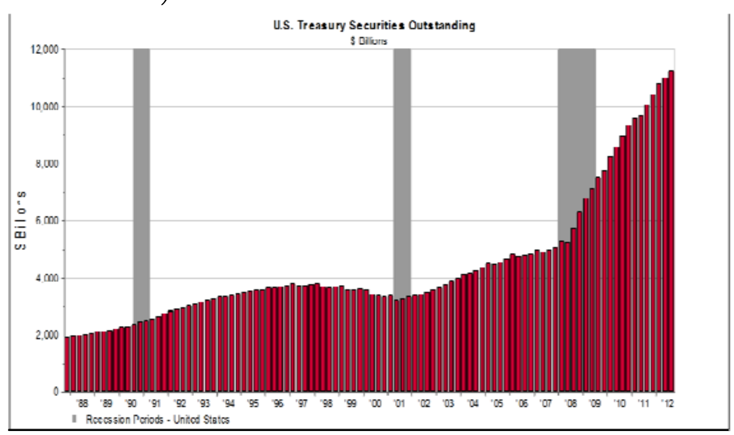
Despite the oftentimes negative headlines, the U.S. economy continued to mend. Job growth was relatively steady throughout the year, causing unemployment to fall from a January unemployment reading of 8.5% to 7.7% at year-end.

Housing appears to be firmly in recovery mode, with 2013 expected to continue the trend. For the 12-month period ending in October, the S&P/Case Shiller home price index rose by 4.3% - with further improvement expected for the rest of the year.

Source: Compustat, BEA. JP Morgan Asset Mgmt

The final estimate for 3rd quarter real GDP was revised to a 3.1% annualized rate (this is above the 2.5% twenty-year average). On the corporate front, earnings rose 18.6% for the year. After tax corporate profits now represent 9.6% of GDP (well above the 6.2% average over the last fifty years and the average of 8.0% during past recovery periods).

The Federal Reserve has two charges: 1) to hold inflation in check, and 2) to help grow the economy. It has been doing everything it can to achieve these goals, helping to keep the economy on the road to recovery. In its continuing efforts, the Federal Reserve expanded its policy of quantitative easing with ongoing purchases of mortgage backed securities ($40 billion a month) and its continued purchase of longer-term Treasury securities. More importantly, the Fed has pledged to continue to maintain its current efforts until the economy shows significant improvement (in other words, as long as inflation stays below 2.5% and the unemployment remains rate above 6.5%).



Source: Econtrarian, LLC,

The worst fears associated with the fiscal cliff were largely averted. Unfortunately, a number of contentious issues remain and future Congressional action is still required on the debt ceiling and on the scheduled reduction in federal spending. We expect the planned reductions in government spending and higher tax rates approved on New Year's Day will likely create some drag on near term economic growth. Nonetheless, we believe there are enough positive economic trends emerging to largely offset the impact of these changes.

International Markets

Like the U.S., the international markets experienced significant volatility in 2012. The Eurozone slowdown that started in the peripheral PIIGS (Portugal, Ireland, Italy, Greece and Spain) spread to the core of Europe in 2012 (and extended to the economic strongholds of Germany and France). Despite slowing economies, there were "positive" surprises. Overall economic growth was generally positive and reforms along with austerity measures have begun in many nations. Moreover, the European Central Bank (ECB) undertook several non-standard measures to preserve the Euro, including a new bond-buying program aimed at stemming the region's debt crisis, coupled with the ECB President's pledge to "do whatever it takes" to support the currency.

	4Q12		2012	
Country / Region	Local	USD	Local	USD
Regions / Broad Indexes				
USA (S&P 500)	-	-0.4	-	16.0
EAFE	7.6	6.6	17.9	17.9
Europe ex-U.K.	6.1	8.6	20.0	22.5
Pacific ex-Japan	6.1	6.1	22.6	24.7
Emerging Markets	5.4	5.6	17.4	18.6

Source: Standard & Poor's, Morgan Stanley Capital Int'l, FactSet, JP Morgan Asset Mgmt

As the risks appeared to decrease across Europe, the markets responded positively. This translated into a gain of 17.9% for the MSCI EAFE Index over the full year. While the European markets experienced significant growth in 2012, Japan's continued economic problems produced relatively weak returns. For the year, Japan's stock market saw an increase of 8.4% and has only risen 59% from its low point following the financial crisis. (thus remaining well below its prior market high point).

Growth in Emerging Market economies continued to outpace that of the developed markets. China and India grew 8.2% and 5.1%, respectively (over the prior quarter). In contrast, 4th quarter growth in major non-U.S. developed countries contracted slightly on average.

U.S. Equities

U.S. equity sectors were mixed during the 4th quarter. Small stocks outpaced large stocks (gaining 1.9% versus a slight decline among large caps). Value stocks outperformed growth stocks. For the year, large and small stocks gained roughly 16%. The best performing sectors of 2012 were the financial and consumer discretionary sectors, with gains of 28.8% and 23.9%, respectively.

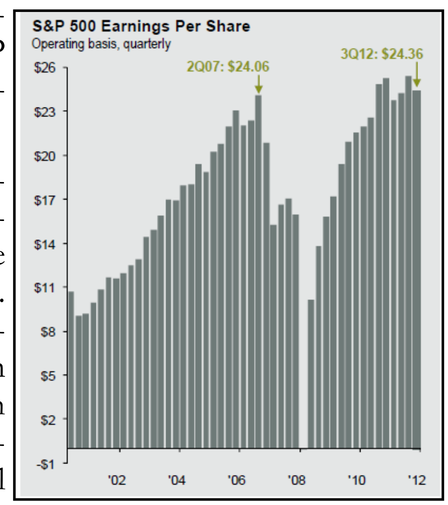
The S&P 500 was positive on a total return basis for nine of the twelve months of the year, and surprisingly, has been positive in nine of the last ten calendar years. Patience and a long term focus to investing continue to be keys to investment success. Had one missed just the three best percentage gain days in 2012, the year's results would have dropped to just 8.4% for the S&P 500 (versus the 16.0% gain for those invested over the full year).

U.S. Returns by Size and Style

2012	Value	Blend	Growth
Large	17.5%	16.0%	15.3%
Mid	18.5%	17.3%	15.8%
Small	18.1%	16.3%	14.6%

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

U.S. large companies continue to show strong performance. Q3 earnings for the S&P 500 were at a historical high of $24.36.



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

Corporate cash remains at record levels (as a percentage of current assets). Eventually, companies will either begin to invest their cash in plant and equipment or they will distribute it to shareholders in the form of dividends. Either alternative would be good for the economy.

Even after a strong 2012, the U.S. stock market still seems attractively priced. The forward Price/

Earnings ratio (current stock price divided by forecasted 2013 earnings) of 12.5 is well below the fifteen year average of 16.2. In addition, at 2.2%, the dividend yield on the S&P 500 is now higher than the 1.8% yield on the 10-Year Treasury bond. This type of yield differential tends to make equities attractive to a wider range of investors.

Investments – Fixed Income

In the fixed income world, there is a very direct correlation between risk and yield. The riskier the bond is perceived to be, the higher the yield investors will demand to hold that investment. All fixed income sectors showed positive returns for the year, but those bond categories deemed riskiest generated the highest returns in 2012.

High yield and Emerging Markets debt both gained approximately 3.3% for the quarter, and ended 2012 with returns of 15.8% and 18%, respectively. In contrast, the overall U.S. bond market (BarCap Aggregate Bond Index) gained only 0.2% for the quarter and rose a modest 4.2% for the year. Two-year Treasuries grew 0.3% for the year while 10-year U.S. Treasuries returned 4.1% for the year. Investors wanting more yield had to take the risk of buying longer maturity Treasuries. Treasury Inflation Protected Securities (TIPS) returned almost 7.0% while long term municipals rose 6.8% in 2012.

As the adjacent chart illustrates, yield on overseas government debts declined significantly as the European Central Bank purchased sovereign bonds and structural reforms or austerity measures were put in place.

Yield 10-Year Govenment Debt	12/31/2011	12/31/2012
U.S.	1.9%	1.8%
Greece	31.7%	11.8%
Portugal	11.5%	6.8%
Ireland	8.3%	5.6%
Italy	7.0%	4.4%
Spain	5.1%	5.2%
France	3.2%	1.9%
Germany	1.80%	1.3%

Source: FactSet, CME Group

Investments – Real Estate

Real estate posted strong gains in 2012. The FTSE/EPRA NAREIT Global Index rose 6.3% for the quarter and nearly 30.0% for the year. It was the 2nd best performing asset class of 2012. Over the last three years, REITs have been one of the best performing asset classes with an average increase of 12.7% over that time.

Investments – Alternatives

A number of our alternative holdings posted favorable returns this quarter.

With an improving housing market, lumber was in demand. As a result, timber, was the best performing investment in our alternatives asset class. The FTSE NAREIT Timber Index gained 5.7% in Q4 and 37% for the year.

The Alerian Master Limited Partnerships Infrastructure Index (energy transportation and storage) lost ground during the 4th quarter with a decline of 3.1% but ended the year with a gain of 4.2%.

Commodities (broadly: energy, precious metals, agriculture and livestock) had a tough year in 2012. The Dow Jones UBS Commodity Index suffered a 6.3% decline in the quarter and a 1.1% loss for the year.

Summary

Risks and opportunities are both present as we look ahead. The U.S. is likely to face more legislative acrimony and this could easily damage consumer confidence and create market volatility. The recently approved tax laws are likely to create a small drag on the economy. Europe still has much to do to rebuild its economies and Japan's outlook is uncertain with a new aggressive government and its no-growth economy. China has its own significant challenges and the Middle East is always a concern. Despite these concerns, the current positive economic trends are numerous and extend broadly. This suggests to us that these positives are likely to be enough to overcome most of the potential problems.

We believe that our diversified portfolios are well positioned (although market results can never be assured). It is our hope and expectation that we can continue to help you progress toward your long term financial goals. Thank you for your continued confidence.

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