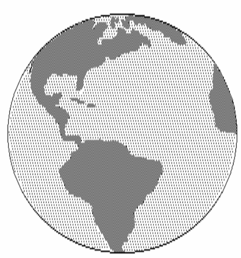
Market Watch

Q1 2006

MOSAIC FINANCIAL PARTNERS, INC.
formerly Boone Financial Advisors

Summary

- This was an outstanding first quarter.
- Small stocks jumped out well ahead of larger company stocks.
- Large company stocks still had their best first quarter in years.
- Real estate once again led the domestic markets.
- International markets were even stronger, led by Latin America. Japan's returns were more subdued.
- Interest rates rose, so bonds produced minimal returns, with long-term bonds turning slightly negative.
- The strongest returning bonds were those with characteristics most like stocks—high yield and emerging market bonds.



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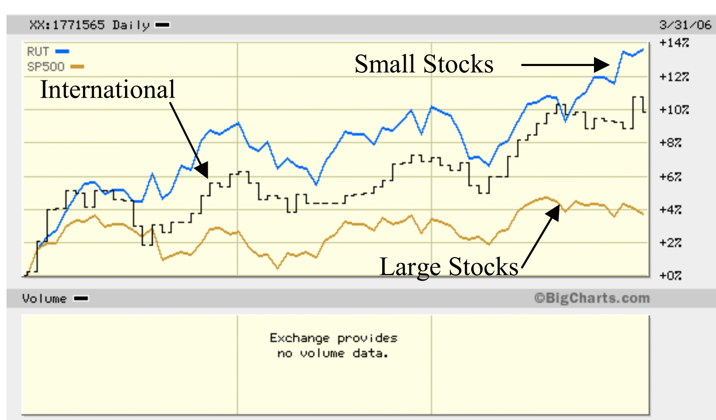
Stocks began the first quarter of 2006 where they left off in late 2005. The markets posted solid gains in the quarter despite a degree of economic uncertainty and continued geo-political strife. This potentially sets the stage for a fourth straight year of equity gains following the painful bear market from 2000 through 2002.

The main U.S. stock gauges enjoyed their best first quarter in years in 2006. The Dow Jones Industrial Average had its best first quarter since 2002, scoring a 3.7% quarterly gain. The Standard & Poors 500 Index increased 4.2% — its biggest first-quarter gain since the opening months of 1999. The NASDAQ Composite rose 6.1% during the period, marking its best first quarter since 2000. And the small-cap Russell 2000 Index reached its all-time high on the final Wednesday of the quarter.

All of this occurred in environment in which:

- The Federal Reserve Bank imposed its 15th straight rate hike and positioned itself, under new Fed chairman Bernanke, to stay tough on inflation.
- General Motors, a traditional bellwether, suffered another downgrade to its debt rating and bankruptcy became an increased possibility.
- Residential housing finally showed signs of a slowdown as rising rates took their toll.

A Good First Quarter



- The possibility for political reconciliation among the major factions in Iraq seemed to become less likely, setting the stage for ever-more civil violence.

At the same time, some things went well:

- With energy and other key commodities falling somewhat in price, the Dow Jones-AIG Commodity Index dropped nearly 7% for the quarter.
- The consumer sentiment strengthened notably in late March surprising economists, who had been forecasting only minimal improvement.
- Productivity statistics and corporate profits were both better than expected.

The Markets

Domestic Equities enjoy a strong quarter

Led by the 13.85% quarterly return for real estate stocks (36.31% over the last year and 21.91% annually over the last five years), U.S. stocks turned in surprisingly strong results.

Small company stocks were especially strong this quarter. The small stock mutual fund category was up 12.05% for the quarter. Over the last five years, small company mutual funds have risen 13.92% per year. On the other hand, returns for large stock funds, while positive, were more subdued—up 4.53% for the quarter and only 3.79% per year for the five-year period. This disparity has some prognosticators suggesting it may soon be the large stocks' turn to outperform.

Five Year Results:

Technology funds are still in negative territory for the five year period (-0.44% per year), but have started to show stronger returns recently (up 7.69% for the first quarter and 24.77% for the last twelve months).

Value-style investing versus Growth-style investing was a mixed bag this quarter. Value generated higher returns in the large cap segment while growth out-performed in the small and mid-cap categories. Over the prior twelve months, growth led value, but as can be seen in the following tables, value achieved higher returns over the last five years.

Returns 1st Quarter 2006

	Growth	Blend	Value
Large	3.62%	4.53%	4.83%
Mid	9.01%	7.23%	6.69%
Small	12.69%	12.05%	10.82%

Five-Year Returns as of 3/31/06

	Growth	Blend	Value
Large	1.72%	3.79%	5.98%
Mid	6.78%	11.18%	11.80%
Small	8.75%	13.92%	15.66%

Figures provided by Morningstar.com

Overseas stocks were even stronger

Latin American markets have experienced significant returns for some time now. Latin America led the non-U.S. sectors this quarter (17.22%), over the last year (76.57%), and through the last five years (26.82%). The Pacific/Asian markets (excluding Japan) have also enjoyed significant gains during this time (15.14%, 35.48%, and 17.88% for the quarter, year and five year periods, respectively). Due, in no small part, to the contributions of these two regions, diversified emerging market fund returns have been especially strong. The Emerging Markets category was up 12.44% for the quarter, 45.98% for the last twelve months, and 22.89% annually over the last five years.

The developed overseas markets have also performed quite well. European stock funds were up 12.86% for the quarter, 27.11% over the last year and have averaged 14.01% for the last five years. Japanese stock funds grew a more modest 4.51% this quarter, but still show impressive gains of 41.81% for the last year and 32.60 % annually over the last three years. Japan's five-year average is a much more subdued 7.34%. This is attributable to the difficult market years Japan experienced in 2000 and 2001.

Unlike the U.S., in the international markets over the last three years, there has been very little difference in the investment returns achieved between the value and growth styles of investing.

Bonds struggle as interest rates rise

The Federal Reserve's strategy of continuing to raise short term interest rates had its effect on bonds this quarter as the Lehman Brothers Aggregate Bond Index gained only 0.34% for the period. Among bond fund categories, Intermediate-Term Bonds fell by 0.53% for the quarter and are up only 2.92% per year over the last three years. Short-term bonds grew 0.35% for the quarter, but are up only 1.74% per year for the last three years. Both the short and intermediate categories are up less than 2.0% over the last twelve months.

California short/intermediate tax-free municipal bonds averaged growth of only 0.15% for the quarter. They are up 2.60% for the year and 2.38% over the last three years. National municipal bonds were flat for the quarter and are averaging 2.69% over the last three years.

High yield bonds did better than the other bond sectors — reflecting their sometimes stock-like characteristics. This quarter, high yield funds rose 2.60%. The category is up 6.86% for the last year and has averaged 10.93% over the last three years. While high yield returns are often higher when the equity markets are good, like stocks, the price for these higher returns is greater volatility in difficult markets.

Change in Portfolio Allocations

Thirty year ago, the U.S. equity market made up roughly two thirds of the total world market capitalization. Since that time, the U.S. share of the world's market capitalization has gradually declined as other international markets have grown in importance. Today, the U.S. represents a bit less than half of the world market value.

We have always been advocates of having a meaningful exposure to international investments. Our experience has shown that holding both domestic and international investments helps reduce portfolio volatility while maintaining or even improving portfolio return.

The total U.S. market is now less than half of the total world market value

We saw this most recently during the 2000 to 2002 market downturn. While the domestic equity market experienced substantial declines in most areas, many international categories (most notably emerging markets and international small cap stocks) produced positive returns that helped buoy our portfolios in this difficult period.

Given the growing significance of the international markets and the proven benefits of international diversification, Mosaic Financial Partners, Inc. has recently decided to increase the allocation we give to non-U.S. stocks. Most of our client portfolios have been structured to hold 1/3rd of the total stock allocation in non-U.S. investments. We are recommending this allocation be increased to 40% and will be speaking with you about this when we meet.

Along with modifying our international allocation, we are also now recognizing the differentiation between large and small international stocks (as we do with the U.S. holdings). In your quarterly report you will now note that we have segmented "International Stocks" into "International-Large" and "International-Small."

Sources: Morningstar, NY Times