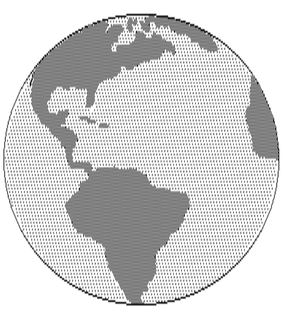
MOSAIC FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Market Watch
2nd Quarter 2008

Summary

- The Dow Jones Industrial Average finished the quarter at 11,350, down 11.9% since the beginning of the year. The index fell 10% in the month of June alone.
- Stocks in the financial sector were hit hard. The sector fell 18.1% in the second quarter and have declined 29.7% year-to-date.
- Housing prices fell a record 15.3% from April '07 to April '08. A bottom *may* be nearing as 8 of the 20 cities in the Case-Shiller index had positive returns from March to April
- Foreign markets also fell as developed countries represented by the MSCI EAFE Index fell by 2.25% in the quarter.
- Unemployment increased to 5.5%.
- The Dow Jones—AIG Commodity Index gained 16.1% for the quarter as oil finished the quarter at $140 per barrel.



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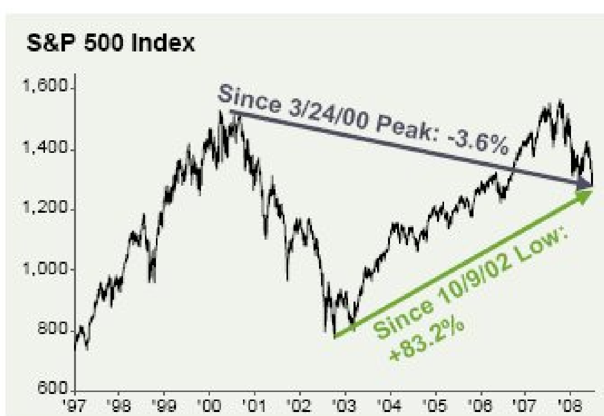
The first half of 2008 dramatically reinforced the idea that over the short term the stock market is *predictably unpredictable*. After experiencing a positive April and May, the major US indexes declined 8-10% in June resulting in the third consecutive quarter of declining markets.

Since the Dow Jones Industrial Average hit a new high of 14,164 on October 9th last year, the market has fallen dramatically. The Dow finished June at 11,350, down 7.4% for the 2nd quarter and 19.8% from its October high. While the Dow did not fall into an "official" bear market during the second quarter, it did hit bear territory (20% off the last market peak) two days into July. Following a June decline of 8.4%, the S&P 500 finished the quarter down 2.7%. The more volatile NASDAQ, which entered bear territory in the first quarter, recovered a bit rising 0.8% for the quarter — this despite a 9% decline in June. Because few financial firms are listed on NASDAQ, year-to-date, the index outperformed both the Dow and S&P — though all declined. The Dow, S&P 500 and NASDAQ are down 14.4%, 12.8% and 13.5%, respectively.

Equities: The market dropped dramatically at the end of the second quarter as investors experienced the worst June for the Dow and S&P 500 since the Great Depression. This was particularly noticeable when looking at the number of individual stocks that performed poorly: At the end of the quarter, 296 of the benchmark S&P 500 were down 20% or more from their 52-week highs, 303 stocks in the Russell 1500



were down 50% or more and 35 were down more than 80%.

2Q08	YTD
Mid Growth 4.6%	Mid Growth -6.8%
Small Growth 4.5%	Mid Value -8.6%
Large Growth 1.2%	Small Growth -8.9%
Mid Value 0.1%	Large Growth -9.1%
Small Value -3.5%	Small Value -9.8%
Large Value -5.3%	Large Value -13.6%

Not surprisingly, the best performing sector in the second quarter was energy, which gained more than 17%. Financials fell on the other end of the spectrum losing more than 18%. Of the ten sectors in the S&P 500, four had positive returns. As the chart on the right shows, the growth category of investments outperformed value investments in all size categories. Financials dragged down value indexes (they make up a particularly large portion of the major value indices — almost 25% of the Russell 1000 Value index). As is most often true historically, smaller stocks outperformed larger ones during the second quarter (the small stock Russell 2000 index returned 0.6% while the large stock Russell 1000 index fell 1.9%).

The key drivers in this sell off have been

- the falling housing market,
- the tightening of the credit market, and
- the increase in the price of oil

While broader markets have suffered, we can take solace in the fact that our client portfolios have significantly outperformed the market during these difficult conditions.

Credit: Despite the statements to the contrary from many bankers and policy makers, the national and worldwide credit problems have not yet been contained. Financial service firms are down 18.3% and 29.7% for the quarter and year-to-date, respectively. Since the credit problems came to the public's attention, each quarter has offered up a new sacrificial financial firm. Bear Stearns' hedge funds collapsed last year, leading to its takeover by JP Morgan. Bank of America swallowed Countrywide. Just this week, the Fed initiated the take over of Indy Mac Bank. Credit problems have led most financial firms to write down at least some of the loans on their books. All of this has created an environment that has limited the availability of credit in the financial markets. The accomodative markets that allowed consumers to get equity from their homes (and spend it) without verifying income, job status or assets during the market run up has dried up — and the result has been a slow down in consumer spending.

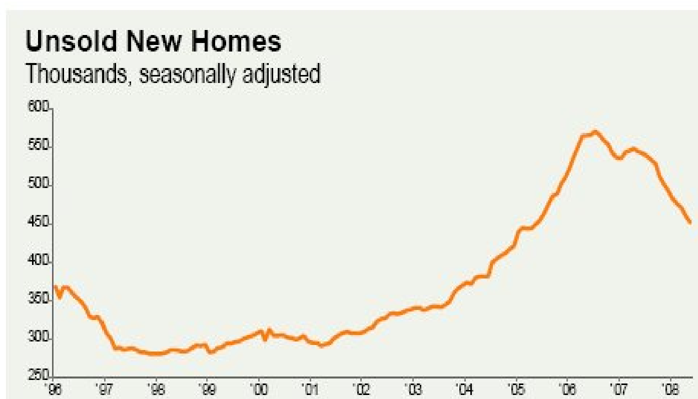
Inflation: At the same that time borrowing has become more difficult, oil prices have skyrocketed. Prices have risen about 50% just this year, settling on the last day of the quarter around $140 per barrel and $4.08 (nationally) for a gallon of regular gas. While core inflation (which excludes energy and food prices) has been steady and relatively tempered, overall inflationary concerns are still a large concern. Along with energy costs, food items have also significant price increases given higher global demand, lower worldwide production, and higher transportation costs. By way of example, partly as a result of the demand from bio-fuel / ethanol producers, corn prices are up about 55% for the year.

In theory, higher interest rates can help lower inflationary pressures by slowing economic growth. However, the Federal Reserve Bank's desire to stimulate the economy has caused it to cut the core inter-bank borrowing rate from 5.25% in September of 2007 to today's 2%. Lately it has been signaling less inclination to lower rates further due to the Fed's growing concern over inflation. Worldwide, the demand for goods is growing quickly. This is pushing prices higher for goods with a relatively finite supply, including oil, food and grains, and infrastructure items like cement.

It was a relatively short while ago that Americans enjoyed lower inflation because we benefited from moving labor costs overseas. As labor rates in emerging markets rise, as the cost of transportation rises, and as the cost of producing goods at a distance becomes clearer, more and more manufacturers are bringing things back onshore, which will be good for our jobs picture, but will give us less control over rising prices.

Real Estate: The Case-Shiller index, the most widely recognized index of residential real estate, continues to decline. In April it was down 15.3% over the prior April, the largest drop in the index's history. Foreclosures and stricter lending policies are making it harder for prospective buyers to get financing. With relatively few buyers and lots of sellers, we have a glut in residential housing.

That said, there are two positive factors influencing the



2Q08	YTD
High Yield 1.8%	TIPS 4.9%
Muni 0.6%	Treas. 2.2%
TIPS -0.3%	MBS 1.9%
EMD -0.4%	Lehman Agg 1.1%
MBS -0.5%	Muni 0.0%
Corp. -0.7%	EMD -0.2%
Lehman Agg -1.0%	Corp. -0.8%
Treas. -2.1%	High Yield -1.3%

housing market. First, housing starts have decreased dramatically (lowering the supply of housing for sale). Second, with the lower prices, more buyers are eligible and demand is growing. The number of pending home sales is once again growing according to the National Association of Realtors' index. As further proof, the latest Case-Shiller 20 city index showed 8 cities which had home sale prices higher than the prior month. We appear to be nearing the bottom.

In your portfolio we use Real Estate Investment Trusts (REITs) to track the investment real estate market. The REIT index was down 4.9% in the 2nd quarter, as the result of a particularly hard June in which it dropped almost 11%. Commercial real estate (office buildings, hotels, shopping malls, warehouses, etc.) depends on rental income for its valuation. As predictions about the future economy turn sour, so do the analysts' projections for commercial rental income.

As oil and food prices have risen, home values fallen and unemployment claims jumped, consumer confidence has understandably fallen. In June, the Conference Board's Consumer Confidence Index hit 50.4 the lowest level since 1980. 32.5% of households surveyed claimed business conditions are "bad" while only 11.5% of households surveyed claimed conditions were "good". This is worrisome as 2/3 of US GDP is driven by consumer spending.

One positive trend was the dollar's rebound. After closing out the first quarter of 2008 at a record low against the Euro, the dollar has rebounded against both the Euro and the Yen. While a stronger dollar makes it harder to do well investing overseas, it improves our ability to control costs and interest rates.

While a recession may feel very present to you, the latest numbers for US GDP growth have yet to turn negative. The adjusted GDP growth rate from the first quarter was 1%. This actually improved on fourth quarter GDP growth which came in at a tepid .6%. While neither of these numbers is far away from negative territory, it's a positive that the economy's growth is improving.

Bonds: We hold bonds in your portfolio primarily to help bring stability to your portfolio. They did their job this quarter, once again. TIPS (Treasury Inflation Protected Securities—inflation adjusting government bonds) continued to be a safe investment that investors flocked towards in seeking protection against inflation. High yield bonds provided the best returns among the fixed income sector during the quarter, returning 1.8%. It appears that investor confidence rose somewhat as they began to move to riskier assets and away from the more conservative ones (treasuries experienced a sell off, falling 2.1%). Tax-free municipal bonds also began to move toward normalcy, returning .6% in the second quarter.

International Markets: Like the US, overseas markets struggled — though they generally outperformed US markets. The world market excluding the US lost 1.2% in US dollars with the foreign developed world represented by the MSCI EAFE index losing 2.2% and the developing world represented by the MSCI emerging index losing .80% for US investors.

Latin America was the best returning geographical area in the first quarter. It made up for first quarter losses by returning +10.1%. Japan's markets also performed well growing 7.6% for the quarter. Japanese banks were less involved with the difficulties of worldwide financial systems, so avoided the large write downs that affected the rest of the world's financial institutions. The rest of the Pacific (excluding Japan) also remained in the black, returning +1.7%.

European markets limped along, losing 3.72%. On June 29th Denmark became the first European country to announce that they were in a recession, reporting that it had consecutive quarters with negative output. Germany, France and the United Kingdom have all been hit exceedingly hard so far this year, respectively losing, 20.4%, 21.0% and 12.9% for the year to date. Mainland Europe's market declines were magnified by the dollar rebounding slightly against the euro in the second quarter.

European Real Estate was also hit particularly hard as they are experiencing many of the same problems facing the US. Loose lending infected European financial institutions expecting, just as US speculators did, that real estate prices would continue to increase. The results on the two continents are similar. Second quarter European real estate fell 16.12%, but thanks to a still positive first quarter, it's down only 13.12% year to date.

A bright spot for our portfolios has been Canada's return. Canadian markets returned 4.6% last quarter and are up 8.6% year to date. When we invest in non-US developed markets, we generally track the MSCI index, but because that index does not include Canada as a major non-U.S. economy, we have manually added it to many of our client portfolios, which helped results this quarter.

For foreign investment returns by style, similar to US investments, growth outperformed value. Growth returned a meager but positive .3% while value was down by 4.1%. International small companies fell 4.3%.

Emerging markets were a double edged sword for investors as they worked out extremely well or very poorly. Chinese markets were down only 3.5% for US investors in the second quarter but year to date, China has lost 26.3%. Unlike China, which was able to slow its fall, losses in India continued to build. India was down 19.7% for the 2nd quarter, and 41.4% for the first half of the year.

Rising inflation has hit the developing world particularly hard. China has experienced 7.7% inflation (up from 3.4% a year ago), India suffered through 7.8% inflation (more than a point higher than the previous year) and Russia endured 15.1% inflation (up from a previous rate of 7.8%). Growth also slowed according to the World Bank as they now are predicting a 5% growth rate for the developing world for 2008, down from 7.3% in 2007.

While growth slowed, Russia and Brazil were still able to produce strong returns thanks to their strong commodity-based exporting economies. In the second quarter Brazil discovered the largest oil field ever discovered in the world, helping it to 18.4% returns for the quarter. Russia also benefited from the run up in oil prices. It returned 10.9% for the second quarter as it continued to sell its black gold to the rest of the world.

Alternative Investments: With the considerable stresses driving the financial markets, one of the bright spots in our client portfolios has been the "alternatives" category. We employ the investments in this sector of your portfolio to provide additional diversification. While our alternative investments do not always achieve positive returns when the financial markets are down, their sources of return are sufficiently different that they often do. They certainly helped during the recent market downdraft when most of the investments in this category (notably excluding timber) contributed positive returns.

Over the past year and particularly in the first half of 2008, commodities (a significant component within our Alternative category) have seen a substantial increase in value. The Dow Jones / AIG commodity index rose by 16% in the quarter and by more than 27% since the beginning of the year. Over the last twelve months, the index increased by 41.5%. Not surprisingly, commodities has been the best returning investment within our "Alternatives" category.

Clearly, the level of returns experienced by commodities over the past year are not sustainable long term. Commodities prices will rise and fall and we'll experience periods when returns are negative. Nonetheless, we see them as a valuable diversifier for our portfolios.

Watching a market drop as ours has over the past nine months can be unnerving. But just as markets rise, they do go down from time to time. From 1926 to 2007 the S&P 500 index has had 23 years where returns finished in negative territory. As portfolio managers, we seek to minimize the impact of negative market cycles by broadly diversifying your portfolio. And, while most portfolios are down year-to-date, they have not declined nearly as much as the markets would indicate or as the media might suggest. While the volatility of recent markets may disturb some investors, other investors welcome down markets, adopting the Warren Buffett guidance, "try to be greedy when others are fearful and be fearful when others are greedy."

As the JP Morgan graph below suggests, we've seen periodic down periods since 1980 and yet the market has averaged 13% over that time period. While do not know what the market will do tomorrow or a year from now, markets historically have bounced back from their low points. A great example of this can be found on the first page of this Market Watch; it shows the rise equities enjoyed after hitting the bottom caused by the tech bubble. If it is possible for you, now may be a great time to add to your portfolio, buying while the market is "on sale".

As is always the case, we appreciate the opportunity to serve you and welcome any questions you may have about

your account or the market.

Sources: Wall Street Journal, Morningstar, JP Morgan, Deutsche Bank, Bureau of Labor Statistics, Ibbotson & Google Finance, *The Federal Reserve, Reuters, Forbes, Bloomberg, Standard & Poors*