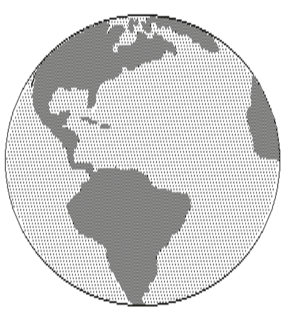
MOSAIC
FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Market Watch
4th Quarter 2008

Summary

- The S&P 500 finished the year at 903.25, down 21.9% for the quarter and 37% since the beginning of the year.
- Stocks in the financial sector were hit hard. The sector fell 36.9% in the fourth quarter and declined 63.4% from the market peak in October 2007.
- The US experienced deflation in the 4th quarter and a full year rate of only 0.1%
- The dollar appreciated this year making foreign goods cheaper but hurting Americans' foreign equity returns.
- Unemployment increased to 7.2%.
- Oil closed the year below $40 per barrel. Down from its intra-year high of $147.



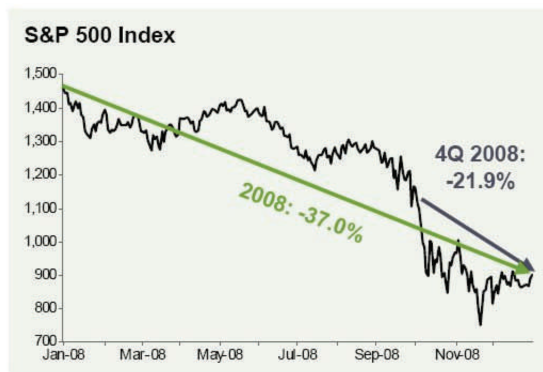
Mosaic Financial Partners, Inc.

San Francisco/Lafayette

415.788.1952

www.MosaicFP.com

2008 was a rough year. There was virtually no place to hide in the markets as nearly every sector was swept up in the panic swirling around the fear of a possible new Great Depression. As a result, investment returns were the worst since 1934. Because this is both a look at the full year as well as the quarter, and because of the unusual nature of the year and the investment results, this report will be longer than normal.



The economic storm that has engulfed the United States — and the world — is expected to continue for most of 2009. If there is a silver lining, it is that as the year progresses, economists expect the rate of decline in the economy to start to slow — with some modest growth possible by the last quarter of the year. Before the skies brighten, however, most forecasts unemployment will rise, business bankruptcies will accelerate, housing prices will continue to fall, and consumer confidence will remain low.

We citizens of the world find ourselves at a new point in our history. Before entering into commentary on the largely negative investment results, it may be worthwhile to take a look at the broader 2008 themes. There were a number worth noting:

Housing and Subprime Lending: At the heart of the economic problems were the difficulties in the housing markets. Looking back, the American Dream of owning your own home and the political and social desires to expand those opportunities to an ever-growing portion of the populous lie at the root of today's problems. Federal agencies were created to buy and hold mortgages, allowing banks and mortgage brokers to simply generate the loans, rather than also worrying about eventual repayment. Financial gurus created mortgage derivatives that further distanced loan originators from mortgage collection and repayment. Fees for mortgage generation were attractive and incented lenders to be primarily interested in loan generation rather than loan quality—many loans were simply fraudulent. Far too many people got into homes they couldn't afford, knowingly or otherwise. With demand exploding, home builders created far too many homes. Inevitably, it all "came home to roost." By the April 2008, foreclosures were a significant problem in 46 of 50 states and in 90 of the largest 100 metropolitan areas. There were over 1 million foreclosures in just the 2nd quarter of 2008. Home prices fell throughout the year, in record proportions. In October, the latest data available for the Case-Shiller Home Price Index showed a drop in housing prices of 18% from the previous year, bringing us back to March 2004 levels. By mid-year, home construction rates were the lowest since 1990. An October 9th report indicated that one in every six homeowners in the U.S. was "underwater" (the value of their home was less than what they owed on it). While programs were begun to help people in or being threatened by foreclosure, it soon became obvious that any fix would not be easy, as banks began reporting that the rate was quickly rising of people who were defaulting a second time after being helped through their first foreclosure.

Financial Institutions: The failure of many financial institutions, in large part due to the failure of their sub-prime loans, necessitated unprecedented and widespread federal support. Investment banks, which packaged and re-sold those sub-prime loans were caught, unable to sell their inventory as these loans lost value. Bear Stearns (May), Lehman Brothers (May) and Merrill Lynch (September) all failed. In September, the last two investment banks—Goldman Sachs and Morgan Stanley—changed to bank holding companies so they could access federal support. Nearly all large banks struggled—In July IndyMac was seized and closed. In September Washington Mutual and Wachovia failed and were bought by healthier institutions. In October the Federal Reserve Bank announced a $250 Billion program to invest in banks, and in November the Fed came to the rescue of Citibank, which was subsequently restructured. The two quasi-government housing agencies—Freddie Mac and Fannie Mae—were bailed out in July, and eventually the government took direct control in September. As the extent of the sub-prime crisis became clear, the large insurance company, AIG, which had a small division that had aggressively sold a kind of mortgage insurance to all sorts of institutions, had to be rescued. In July, an $85 Billion support program was announced; it eventually grew to $152.5 Billion.

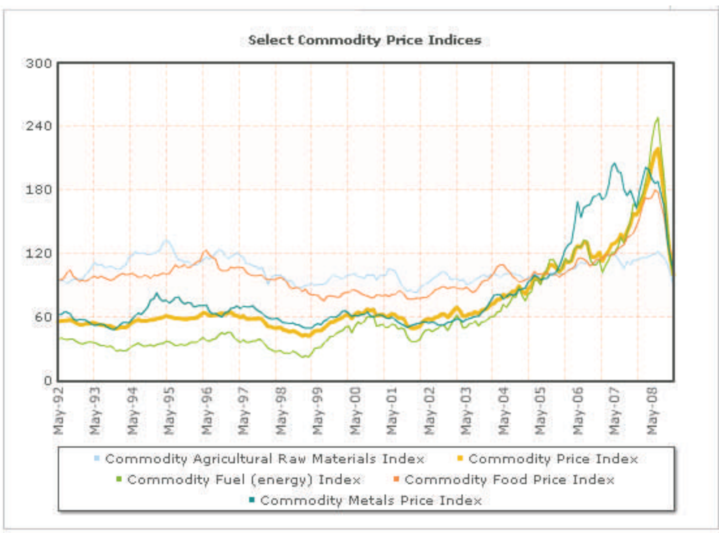
Credit Crisis: In some ways credit was and continues to be the big story of this period. In September, panic spread quickly on two of the scariest days ever in financial markets, and the biggest investors - not small investors - seemingly panicked the most. Nobody was sure how much damage would be caused before the panic ended. A credit crisis is not like a stock market crisis, where the scary plunge of stocks is obvious to all. A credit crisis plays out in ways that most people can't see. It's banks refusing to lend to other banks — even though that is one of the most essential functions of the banking system. It's a loss of confidence in seemingly healthy institutions like Morgan Stanley and Goldman Sachs — both of which reported profits even as the pressure was mounting. It's panicked hedge funds pulling out cash. It's frightened investors protecting themselves by buying credit-default swaps — a financial insurance policy against potential bankruptcy — at prices 30 times what they normally would pay. All of the failures and credit difficulties brought lending to a near-standstill. U.S. loan issuance in 2008 tumbled 55% to $764 billion, the lowest volume since 1994. The first failure of a public money market fund raised fears even further. In response, FDIC insurance levels were raised to $250,000 and to even higher levels for balances existing in September. In October, the Fed began buying massive amounts of commercial paper to get loans flowing. In conjunction with other central bank, the Fed lowered interest rates three times, finishing the year essentially at 0%.

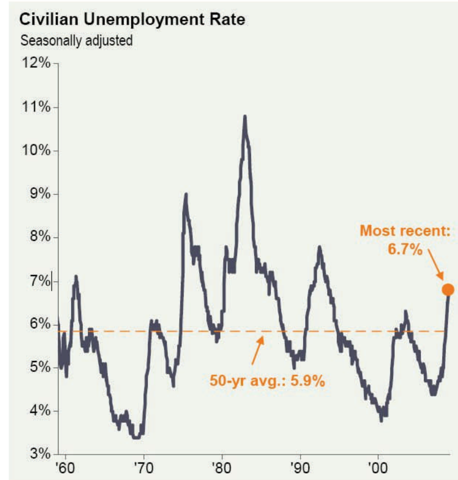
Fraud: In the ever-present desire to find a culprit, Congress and the Justice Department were active this year in seeking to assign blame for our financial collapse. Executives at Lehman Brothers, Bear Stearns, Countrywide, Fannie Mae, Freddie Mac and AIG, among others, were lambasted in Congressional testimonies and several were threatened with jail time for their failures. Auto industry executives were famously brought to Washington to publicly explain their failures. But there were also instances of real criminality. In June the FBI arrested 406 people for mortgage fraud. Bernard Madoff's $50 billion ponzi scheme finished off the year with a sickening feeling for the charities, the hedge fund managers and the many individuals who trusted him. While perhaps not criminal, the executives at the banks supported by the federal bailout reported compensation of $1.6 billion in salaries, bonuses and other benefits.

Jobs: As the economy faltered, jobs were lost. As early as June, 45% of all mortgage foreclosures were being caused, at least in part, by job loss. It is currently estimated that some 2.6 million jobs were lost in 2008, with joblessness hitting a 16 year record high. By November, manufacturing rates were the lowest in 26 years while housing and construction jobs nearly evaporated. The Institute for Supply Management's index of industrial production slipped to 32.4 percent in December, the lowest level since June 1980 (above 50 is considered positive). State and local government budgetary problems were causing extensive layoffs of their employees. Unemployment rose to 7.2% in December, and is expected to rise to 8% or more in 2009.

Consumers: In an October survey, 56% of Americans reported that they personally had been negatively impacted by the financial crisis. Consumer confidence reached record lows by December and personal bankruptcies were occurring at the highest rates in several years. With consumers cutting back, out of necessity or fear, retail sales experienced a record drop at the end of the year.

Economy: In April the International Monetary Fund called the U.S. problems the worst since the Great Depression. The U.S. economy officially shrank 0.3% in the 3rd quarter. An even larger decline is expected when 4th quarter numbers are reported. The Recession was officially pronounced to have begun at the end of 2007. In October, office vacancies hit a 2-year high. By the end of 2008, U.S. Auto sales declined to their lowest level in 25 years.





Source: BLS, JPMorgan Asset Management.
Data reflects most recently available as of 12/31/08.

Inflation: Driven by commodity prices, inflation was a key worry early in the year. Oil, of course, was a notable driver. Oil prices averaged $84.70 in January, rose to $126.33 in June (hitting a high during June of $147) and then fell to an average price in December of $32.94. As can be seen in the lower-left chart, it wasn't just oil that experienced a historically unusual spike in price. Food and agricultural prices rose to their highest levels in 20 years and July's inflation rate was the highest since 1990. In October, consumer prices experienced a record drop. By the end of the year, prices had dropped to such an extent that year-over-year CPI was only 0.1% (Bureau of Labor Statistics). By the end of the year, deflation rather than inflation was the larger concern.

Federal actions: As we moved through the year 2008, the government took on more and more burdens in an effort to re-charge the economy. Key bailout programs included the $700 billion TARP program (primarily intended to get banks over their bad loan problems and re-energize their lending activities) the AIG investment which grew to $152.5 billion, the Fannie and Freddie takeovers, and the $17 billion loan program to support the auto industry. Early in the year the tax rebate/stimulus program helped keep 2nd quarter economic activity growing. In March, the federal government created a new $300 billion program to help banks rebuild their weakened balance sheets. That same month, the Fed began lending to non-banks for the first time ever. By December, this extended to hedge funds, which help to move financial markets. The rate cuts, the programs to assist people in foreclosure, and the various efforts to re-stimulate the economy were impressive in their creativity, their breadth of reach and the speed with which they were implemented.

Elections: All the while, the U.S. presidential campaign held our attention. The choice was perhaps more distinct than had been the case in many years. Barack Obama's election was broadly believed to represent a new beginning, a new generation and a new way of thinking that would help solve our immediate problems and put us on a path to a more positive and inclusive way of life. He clearly has his hands full, with colossal problems both international and domestic. But hope and excitement are powerful emotions which can move people to great steps forward.

Stock Market: Finally, we get to the markets, and what all the above influences have wrought. For all of the above reasons, 2008 was a uniquely negative year in virtually all parts of the investment markets. The market began its decline mid-2007 and has hardly slowed since. In the 4th quarter, things only got worse, as markets collapsed. There were no good choices. U.S. and international stock markets fell in frightening ways. Due to a "flight to safety", most bond prices dropped and U.S.

	4th Qtr	**2008**
S&P 500 (Large Stocks)	**-21.9%**	**-37.0%**
Nasdaq (technology)	**-24.6%**	**-40.6%**
Russell 1000 (Lge Stocks)	**-22.5%**	**-37.6%**
S&P 600 (small cap)	**-25.2%**	**-31.1%**
S&P Mid Cap 400	**-25.6%**	**-36.2%**
Russell Micro Cap Index	**-28.1%**	**-39.8%**
REITs (real estate)	**-38.8%**	**-37.7%**

Treasury bill interest rates literally went negative for a short period. Cash returns came close to zero. Commodity prices also fell.

From the market high point of 1565 on October 9th, 2007, the S&P 500 fell 51% before hitting its 2008 low point of 752 on November 20. Since that low point, investors who were still in the market were rewarded with a rise of more than 20%. Despite the yearend rise, the S&P 500 was still 42% lower at the end of the year than it had been at its 2007 peak.

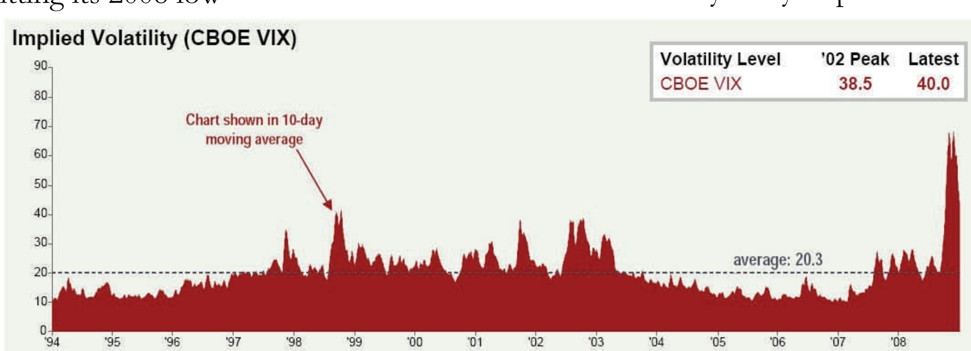
The sudden drop in the markets started about the time the US government rejected the initial TARP plan. Some have also theorized that hedge fund redemptions also pushed down the market as funds were forced to liquidate positions.

Market volatility typically evidences the degree of uncertainty, and the unusual problems of this year certainly brought out a high level of investor uncertainty. As can be seen in the chart at the bottom, in the 4th quarter the market experienced record levels of volatility. Over the 50 year period from 1950 to 2000 there were 27 days in which the S&P 500 moved up or down by 5% or more. In the 47 trading days in 2008 from October 1st to December 4th, the S&P 500 experienced 22 such days, almost half of the days the market was open!

Despite all the bad news, there are reasons to have hope for a turn-around:

- The one good thing about falling stock prices is that the accompanying fundamentals have become more attractive. Braver investors are beginning to "lick their chops" over the attractive prices of many stocks. Dividend yields are extremely attractive with the S&P 500 yielding 3.1% nearly twice its average over the last 10 years. This yield will shrink going forward as many companies are expected to cut their dividends but compared to the 10 year treasury yield at 2.25% this almost unique positive differential is certain to catch some investors' eyes.

- Another hopeful indicator is the amount of money on the 'sidelines'. The more cash investors hold, the more potential demand there is for stocks (since much of it will eventually be invested in stocks). Through November, $546 billion was being held in market funds. Almost uniquely, there was a net outflow of investment funds from both US equity mutual funds ($97 billion) and International/Global Equity funds ($60 billion). Once these investors choose to reenter the market, the increased demand for stocks is very likely to push stock



4Q08	2008
Large Value -22.2%	Small Value -28.9%
Large Growth -22.8%	Large Value -36.8%
Small Value -24.9%	Large Growth -38.4%
Mid Value -27.2%	Mid Value -38.4%
Mid Growth -27.4%	Small Growth -38.5%
Small Growth -27.5%	Mid Growth -44.3%

prices higher.

While we think there are more positives than negatives for long term investors, a cautionary message is still needed about the short term environment. The credit markets, while improved, are still not functioning normally. Residential real estate prices are still falling and the tight credit markets have not helped those few interested buyers find credit easily. We still have a glut of unsold homes. Commercial real estate is facing a coming slowdown. More jobs are expected to be lost in 2009. Consumer spending, which constitutes about 2/3rds of our economy, may remain cautious for an extended period of time, slowing earnings recovery and thus reining in equity prices. These conditions will eventually work themselves out, but are likely to influence the markets for the next few quarters.

REITS: Real Estate Investment Trusts are unique investments in that they have to distribute nearly all of their income to shareholders. Since they can't accumulate earnings to finance their growth, they generally use loans for expansion. If they previously financed some of their acquisitions with loans that came due in 2008 or 2009, the tightening of the credit markets made normal refinancing of such loans difficult and thus investors began to worry about the financial viability of some REITs. As jobs are lost and the work force declines, commercial real estate is often hurt by reduced demand. Vacancy rates had already risen significantly in 2008. More REITs could find themselves in troubled waters in 2009. That said, storage REITs and apartment complexes generally do well in this environment.

REITs have followed a different path in this crisis. Their investment results were flat through the first three quarters of 2008—one of the bright spots in the markets, but they returned to earth in the 4th quarter given worries about financing. REITS lost 38.8% for the quarter but "only" 37.7% for the year. The chart below shows how quickly the market pummeled the hardest hit REITs:

REIT Ticker	Price 10/1/09	Price 11/28/09	Return
DDR	31.69	4.8	-85%
GGP	15.10	1.38	-91%
AIV	35.02	11.47	-67%
MAC	63.65	18.16	-71%
SLG	64.80	18.96	-71%
PLD	41.27	13.89	-66%
KIM	36.94	18.28	-51%

Non-U.S. International markets: "MSCI EAFE" stands for Morgan Stanley Capital International Europe, Australasia, Far East index and is the most broadly used index of non-U.S. stock performance. International stocks now make up 55% of the value of available equities in the world. As with American investments, these securities were impacted by the slowing global economy. With foreign investments, one must look at the returns of the stocks in their country of origin, as well as consider the returns for U.S. investors after accounting for currency differences. In 2008, as the following chart shows, the average foreign market performed slightly better than the U.S. markets, until their returns were converted into dollars.

In 2008, the dollar appreciated strongly against the Euro, Canadian Dollar, Australian Dollar and the British Pound but lost significant value to the Japanese Yen, (which appreciated almost 23% against the dollar). Foreign exchange movements are extremely complex but, in

International Results	4th Qtr		2008	
	In U.S. dollars	Local currency	In U.S. dollars	Local currency
MSCI EAFE	-19.9%	-18.5%	-43.1%	-39.9%
Canada	-33.0%	-22.2%	-45.2%	-31.4%
MSCI Emerging Market Index	-27.6%	-22.0%	-53.2%	-45.8%

a global crisis, the perceived safety and certainty of US Treasuries attracted global investors who flocked to T-bills, strengthening of the dollar. Similarly, currency investors were attracted to the Yen thanks to its relatively minimal exposure to US subprime assets. This created a perception of safety which seems to have benefitted the Yen.

While the year was a struggle for the U.S., it was often even more extreme outside the U.S. The nation of Iceland declared bankruptcy in October, succumbing to the financial crisis that affected the rest of the world. Iceland finished privatizing its banking sector in 2000, which then leveraged itself heavily, growing quickly until the financial environment changed. This was an extreme example of how international financial centers were also contaminated by US subprime investments. The European Central Bank had to step in to aid some financial institutions. In February of 2008, the Irish government was forced to nationalize Northern Rock, a small struggling lender that had woven a web of loans that turned bad.

Contrary to domestic patterns, overseas growth stocks slightly outperformed value stocks in 2008. The MSCI EAFE Value index returned –20.3% in the fourth quarter and -46.2% for US investors while growth returned -20.1% and -42.5%, respectively. This performance difference is mostly attributable to the financial sector which typically resides in the "value sector." Again differing from US returns, larger stocks outperformed smaller stocks.

Emerging Markets: The emerging markets category enjoyed significant returns for several years prior to 2008. They gave some of it back this year as returns were somewhat worse than developed market returns. Brazil, Russia, India and China (BRIC) were the 2007 darlings of the investing world, but respectively lost 56.1%, 73.8%, 64.6% and 50.8% in 2008 as concerns about the global economy abruptly reversed last year's returns. Russia and Brazil's economies depend on natural resources and each saw earnings plummet as commodity prices fell. Exports, which China greatly depends on, have also been hurt as the global slowdown limited demand. Even with all the current turmoil, emerging market nations are among the few nations that are predicted to produce positive GDP growth, even during this difficult period. Over the long run, we believe this group should provide meaningful long term returns.

As with all other asset classes in the portfolio we have a value tilt among our emerging market holdings; this sector outperformed its growth counterpart by 6.1%.

Bonds: Investors found a steadier foothold in the bond sector. The Barclays Capital (formerly Lehman Brothers) Aggregate Bond Index, the most widely recognized bond index, returned 4.6% for the quarter and 5.2% for the year. Government bonds were the best performing bond sector returning 8.8% and 13.7% for the quarter and year. Corporate bonds rebounded from an especially difficult first three quarters, returning 4.0% in the 4th quarter but losing 4.9% for 2008. Corporate bonds lost value as investors questioned their ongoing ability to make payments. This perception of risk drove required yields ups and prices down.

TIPS (Treasury Inflation Protected Securities) were especially hurt among bonds this year. These securities outperformed almost all other bond categories early in the year because of investor concerns about inflation. However, the fall in commodity prices and the weak economy caused some to become concerned about deflation. Since, TIPS offer a payment linked to inflation (meaning they would be especially unattractive in a deflationary environment) TIPS' prices have fallen significantly. TIPS lost 3.5% in the 4th quarter and 2.4% for the year. We believe that inflation will resurface as a result of heavy government deficits, and a resumption of global demand will eventually reverse the losses TIPS suffered in Q4.

Municipal bonds also fell as investors preferred the safety of US government instruments, especially in light of weakening state government finances. While some muni bonds are funded by the taxation of their citizens, many muni bonds are funded by the revenues generated by projects (e.g., a bond that supports a bridge may be repaid by toll revenue). The risk of default pushed up muni yields as investors demanded a higher return for the additional perceived risk (and the only way yields can rise is if bond prices fall). California munis lost 0.5% in the 4th quarter and 4.2% for the year (when bond returns are negative, it means that the drop in the market value of the bond exceeded the interest yield received during the period). These results were exaggerated by California's large budget deficit, which created concerns about California's ability to pay back its bond obligations. National Munis returned +0.7% in the 4th quarter, but lost 2.2% for the full year.

Look at the chart on the right. Theoretically, muni bonds are nearly as safe as Treasuries, so their after tax yields should be roughly equal. Note how unusual the relationship has been in the last few months.

High yield bond prices fell as recessionary fears brought worries that these lower rated companies would default. These lowered-rated securities fell 17.9% in the 4th quarter and 26.2% for the year. Similar to micro cap stocks, these companies are vulnerable during recessionary periods but tend to lead when the economy signals a recovery.

The difference in government and corporate bond yields is a proxy for the risk valuation, which has been and still is at historically high levels. We believe that well chosen corporate and muni bond investments will eventually provide handsome rewards as these differentials move back into their normal relationship.

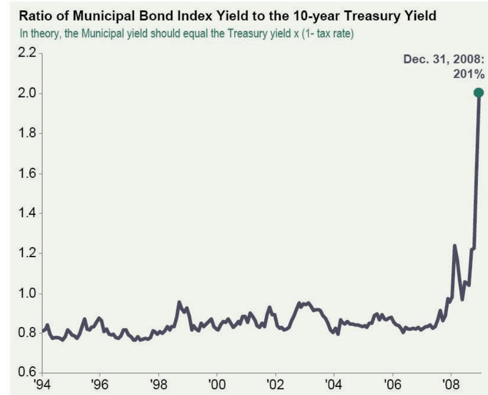
Alternatives:

Worries about falling construction starts lowered expectations about Plum Creek Timber's earnings. While housing and construction will influence Plum Creek's near term results it is important to remember Plum Creek has weathered in fine fashion earlier housing slowdowns. While sales may slow, trees it doesn't cut continue to grow and increase in value.

Currency funds borrow money (sell short) in countries with low interest rates then lend (buy long) that borrowed money in countries with higher interest rates.

While this is generally a sound formula for success, it is susceptible to unexpected currency movements. Like many other things in 2008, the unexpected consistently happened in this category.

The mergers and acquisitions front was in 2008 relatively quiet, so was the Merger Fund (though it was our best overall performer in a tough year).



Commodities, the largest holding in most investors' alternative allocation, fell in 2008, as described earlier. Our holdings, like commodities in general, went up in the first half of the year and fell as commodity prices tumbled. In addition, many of our investors hold PIMCO Commodity Real Return, which holds TIPS for collateral. With TIPS falling due to the (we believe) temporary concern over possible deflation, the TIPS losses magnified the commodity declines.

Alternatives	4th Qtr	2008
PIMCo local developing markets	**-11.75%**	**-14.55%**
Plum Creek Timber	**-29.5%**	**-21.4%**
Powershares Currency Harvest	**-20.0%**	**-28.3%**
Merger Fund	**-0.7%**	**-2.3%**
Commodities (PIMCO Real Return)	**-35.7%**	**-43.33%**

Comments about Mosaic Portfolios:

Several factors caused Mosaic portfolios to suffer particularly in 2008.

- Because "value" stocks have historically been less volatile than "growth" and have provided greater returns over time, Mosaic maintains a slight tilt toward value stocks. For most of 2008, value underperformed growth in the U.S., due to its heavy weighting to financial stocks which took a beating this year. Value stocks bounced back and outperformed growth stocks during the fourth quarter.

- To better diversify and because historical returns have been better, Mosaic investors also have their portfolios tilted slightly toward small company stocks. These small stocks are vulnerable to downturns but also tend to lead markets out of down periods.

- In early 2008, we moved most Mosaic portfolios to be equally weighted between U.S. and non-U.S. stocks because it more closely represented the world capital markets (of which the U.S. market is roughly 45%). On average, in local terms, foreign markets outperformed U.S. markets. However, because of the currency changes during the year (the dollar strengthening), for U.S. investors, foreign investments lagged their US counterparts. We believe this is a temporary trend that will reverse itself as a result of the continuing U.S. budget deficits and the massive injection of new dollars into the system to fight the credit problems.

- Also in early 2008, Mosaic portfolios were modified to hold more alternative investments, most notably commodities, because their competitive but non-correlated returns had historically helped moderate the volatility of overall portfolio returns. As discussed above, this was an extraordinary year for commodities, both in their rise and subsequent fall, causing especially disappointing results by yearend. The long-term projection for commodities continues to be high as demand for food and resources will likely grow worldwide.

- In our international holdings, we normally add Canada into the mix, since it is nonsensically omitted from the primary world indices. Canada is a strong U.S. trading partner and a significant part of the world economy, so its presence generally adds to global returns. Because its economy is natural resource heavy, the fall of agricultural, mining and oil prices in the latter half of the year pushed 2008 returns below U.S.-only returns.

- We allocate a significant portion of our bonds to TIPS (Treasury Inflation Protected Securities) because their returns are linked to inflation, protecting bond values when inflation is rising (but hurt values in a deflationary environment). The primary risk to bonds has historically been inflation, we believe TIPS offer the typical benefits of a bond while avoiding the primary risk. With the considerable government injection of money into the economy occurring in 2008 and 2009, as well as the continuing budget deficits, we believe inflation is inevitable. This suggests a long-term strategy to protect bond values and this leads us to TIPS.

While the various portfolio characterists noted did not help Mosaic investors in 2008, we believe that in the long run each of these elements will provide Mosaic investors with enhanced returns. We welcome the opportunity to talk with you at more length about any of these strategies.

This has been an exceptionally tough year for the market but we believe in the market's longevity and our portfolios are positioned for positive future returns. Each time the market has gone through a trauma, it has recovered and produced significant returns during that recovery. Unless you believe that the economy is failing, long run investors should be looking for opportunities like this to position themselves to take advantage when the market corrects itself. As Wayne Gretzky said, "I skate to where the puck is going to be, not where it has been."

Thank you for allowing us to serve you.

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

"Don't judge each day by the harvest you reap, but by the seeds you plant."

--Robert Louis Stevenson