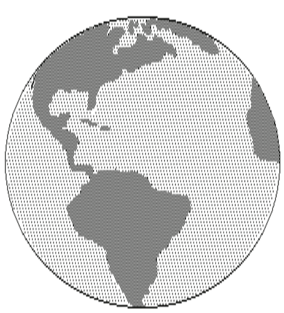
MOSAIC
FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Market Watch
4th Quarter 2009

Summary

- Despite the difficult first 68 days of the year, 2009 turned out to be an exceptionally good year for investments—for those who stayed with the long-term discipline.
- U.S. large company stocks were up 6% for the 4th quarter and 26.5% for all of 2009.
- Small U.S. stocks enjoyed a very good year, but generally performed less well than large stocks. The S&P Small Cap 600 was up 25.6% for the year while the Russell 2000 Index was up 27.2% for the same period.
- Growth outperformed value for both the quarter and the full year for both large and small stocks.
- The best overall performers were emerging market stocks, jumping 79% for the year and 8.6% for the quarter. Latin America, and particularly Brazil, led the way for this group with returns of 104.2% for the year and 12.5% for the quarter
- The developed non-U.S. world (MSCI EAFE + Canada) for U.S. investors grew 34.4% over the year and 2.5% in Q4.
- Despite concerns about their looming problems, real estate stocks were up 9.4% for the quarter and 28% for all of 2009.

Mosaic Financial Partners, Inc.
San Francisco/Lafayette
415.788.1952



Despite a frightening first quarter, 2009 ended up being a very successful year for investors. With the economy in both the U.S. and around the world appearing to be emerging from its “near-death” experience of 2008, the fourth quarter of 2009 produced the third consecutive quarter of rising markets. In direct contrast to 2008 when everything crashed, virtually all asset classes enjoyed positive results in 2009.

The S&P 500 finished up 6.0% for the 4th quarter and was up 26.5% over the full year. The Dow Jones Industrial Average and NASDAQ enjoyed even better quarterly results, gaining 8.1% and 10.3%, respectively. For the quarter US markets slightly outperformed their overseas counterparts and stocks of large companies outperformed those of smaller companies. The reverse was true for the full year.

Not only did US and international stocks enjoy an unusually good year, but most categories of bonds did too. Alternative investments also saw meaningful recovery.

Price appreciation for stocks continued in the fourth quarter largely due to the growing shared expectation that our economic recovery is gaining momentum and the financial crisis is behind us. In September, Ben Bernanke, the chairman of the Federal Reserve, said the recession is “very likely over”. As optimism grew, the stock market continued its rise. More often than not, when market surprises occurred, they were largely on the side of beating expectations. This all contributed to excellent market results for 2009.

The Overall Economy

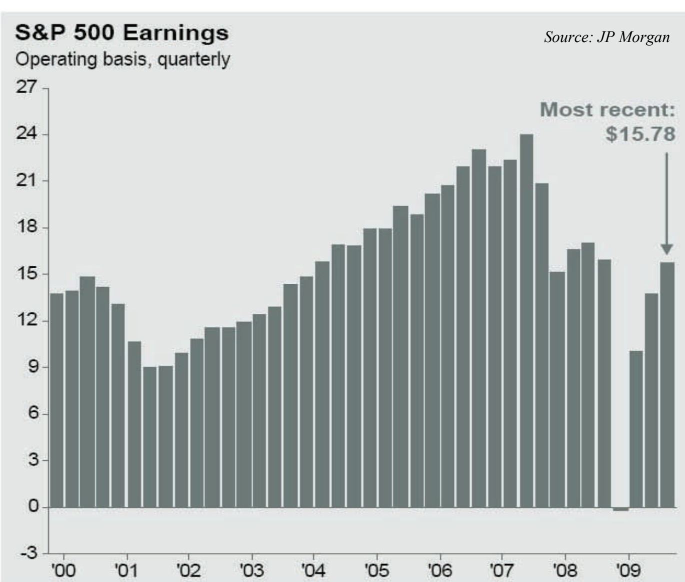
The health of the economy has a direct impact on market results. We, therefore, think it is important to keep you informed about the overall trends in the economy.

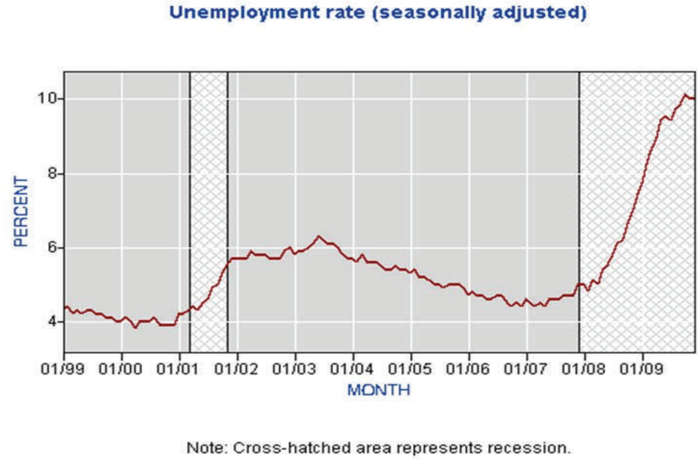
While the economy finally moved itself out of Recession status in the latter half of 2009, several key economic drivers concern us with regards to a long-term outlook, suggesting to us that, at best, it will take at least a few years to return to historically normal growth rates:

- Consumer spending is unlikely to return to its pre-recession frantic pace. People will continue to pay down debt and save more.
- High unemployment rates are likely to be with us for quite a while, costing tax revenues and reducing overall consumer spending.
- Housing prices are likely to stabilize at levels below their previous highs and won't provide the borrowing power that helped to spur consumer spending.
- Tax rates are likely to rise, which will almost certainly restrict economic growth.
- Government deficits have become structural, which will likely push interest rates higher.

The US Department of Commerce estimates that the annual rate of growth in the third quarter (the most recent data available) was 2.2%. After the previous four quarters of negative growth, this growth was viewed very positively. Increases in personal consumption, residential housing demand, inventory rebuilding, and government spending all contributed.

Much of our economic boost is coming from the government. The cash for clunkers program alone





Source: Bureau of Labor Statistics

provided a temporary 1.45% increase in GDP. Federal government spending overall increased by 8% in the third quarter. Even so, according to Recovery.gov, only 24% of contracts, grants and loans have been paid out to date which suggests that even more impact will be felt across the economy this year and next.

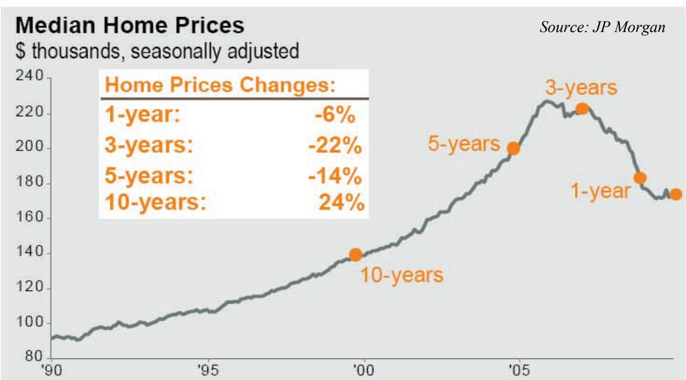
With the drop in consumer spending, the U.S. trade imbalance, while still negative, improved (it is now somewhat more than half its 2006 level). A continued trade imbalance threatens to weaken the dollar and make foreign goods and overseas travel more expensive. The silver lining for global investors is that as the dollar weakens, the more we benefit from investing in non-U.S. stocks and bonds.

The fourth quarter of 2008 saw corporate earnings (as measured by the aggregate of S&P 500 companies) shrink for the first time in history. Stock valuations start with corporate earnings—the higher the earnings, the higher the stock prices are likely to be (and the reverse is true). In anticipation of shrinking earnings, stock prices fell significantly in 2008. During 2009, companies reported steadily improving earnings, though they are still more than 25% below 2006 earnings. This recovery in earnings is reflected in 2009 rise in market values.

Unemployment

Unemployment rose to 10.1% early in the fourth quarter before falling back to 10% in the last half of the quarter. The more complete unemployment calculation (known as "U-6" unemployment) finished the year at 17.3%. This measure includes those forced into part time work and those who are discouraged by the job market and have stopped looking. Both of these unemployment measures are historically high. While beginning to stabilize, there remain many reasons to believe that the employment picture will not improve significantly for quite a while yet.

There are now six times as many job seekers as there are job openings, far more than typical after a recession. Nearly 60% of the unemployed have been so for 15 weeks or longer and two thirds of those have been out of work for 27 weeks or more. Deteriorating skills will make these people less employable.



Housing

The slowdown in commercial and residential real estate markets has played an important part in the recent economic weakness. The good news is that half the 20 cities monitored by the Case-Shiller index showed quarter-over-quarter gains and the aggregate index gained .3%. For example, the San Francisco area was down 2.6% over the last year but gained 1.2% from September to October (the most recently available data). This may signal that the housing market has found a bottom and may finally be ready to experience a recovery.

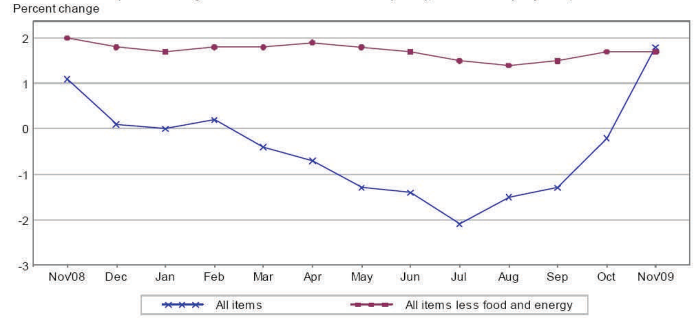
Roughly 1.7 million homes are now owned by banks and mortgage companies (as a result of foreclosures or other similar actions) but are not yet on the market. As long as these stand by to be put on sale at some future point, home prices are not likely to improve significantly.

In addition to the above, a large number of adjustable rate mortgages will reset (scheduled interest rates will increase) over the next 3 years. Residential delinquency rates are historically high today (currently 9%) and are continuing to rise (up 1.2% over the last quarter). Continued delinquencies will likely lead to a further increase in foreclosures. This could cause a loss of traction for the recent stability in housing prices.

Commercial real estate landlords are also facing pressure as their rent revenues and property values decline but loan payments remain the same. The larger their debt, the larger their problem. In September The NCREIF Property Index, which tracks large pools of commercial real estate, reported a one year fall in property values of 22.1%.

The widespread banking problems have made the real estate problem more difficult. If lenders can't or won't lend, then refinancing existing debts isn't an available solution. Foreclosure or selling at a loss will sometimes be the only option. Government regulators and required capital ratios will increasingly be limiting commercial property owner choices.

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, Nov. 2008 - Nov. 2009
Percent change



Source: Bureau of Labor Statistics

Low Inflation:

Despite the federal stimulus funding, as the chart above shows, inflation remained low but still rose in 2009. Prices fell broadly in the first half of the 2009 before rising as the economy began to grow in the second half. Excluding the volatile food and energy components, inflation remained remarkably steady at just below 2% throughout the year. The poor job market and meager consumer appetite kept demand low and prices in line. Only the fall in the dollar's value threatened to push prices and interest rates higher.

Investment Review

Domestic Stock Markets:

Russell 1000 Large Stock Indices			
	Growth	Blend	Value
Q4	7.9%	6.0%	4.2%
2009	37.2%	28.4%	19.7%

The stock market maintained its mid-year momentum as it continued its upward run last quarter. Growth stocks (which have a larger allocation to technology based companies) outperformed value stocks during the quarter as software and technology stocks were the best performing sectors. Value stocks have a large allocation to financials, which was the only major sector to have negative returns last quarter.

Small companies are typically more nimble than large companies but also are more severely impacted by changes to the economy—they are generally the first to be hit by recession and the first to recover. Small company stocks outperformed their larger brethren this year but not this quarter. The two major small stock indices, the Russell 2000 & the S&P 600, both underperformed the S&P 500 this quarter. The Russell Micro Cap Index returned 27.5% for the year but lost .5% for the quarter compared with the S&P 500 returning 26.5% for the year and 6.0% for the quarter. Mosaic portfolios are generally tilted toward smaller company stocks, so your portfolio benefitted this year from this allocation.

Real estate stocks tumbled badly at the end of 2008 due to the anticipated difficulty many expected REITs would have in refinancing their maturing debts. As refinancing concerns moderated, the market calmed and the REIT sector enjoyed very positive results—up 9.4% for the fourth quarter and 28% for the full year.

International Stocks:

Generally the weaker the dollar, the more attractive international stocks become. The dollar fell in value this year, boosting international returns. The trend reversed in the fourth quarter. The MSCI EAFE index, the most widely used international index, returned 32.5% for the year but rose only 2.2% for the quarter.

Emerging markets maintained their momentum throughout 2009. The sector rose 8.6% in the quarter and a spectacular 79.0% for the year. The developing world did not widely participate in the housing boom. As a result those countries largely escaped the housing bust and related financial crisis. Government debt levels in developing countries are also comparatively are much healthier. Many emerging market countries have created stimulus programs - not to recover, but to boost their economies and offset the restricted spending among the developed world's consumers. As the consumer portion of the developing economies continues to gain strength, its relative impact within the global financial balance will likely grow.

2009	4Q09
MSCI EME 79.0%	MSCI EME 8.6%
EAFE Small 47.3%	S&P 500 6.0%
EAFE Value 35.1%	EAFE Growth 4.2%
MSCI EAFE 32.5%	MSCI EAFE 2.2%
EAFE Growth 29.9%	EAFE Value 0.3%
S&P 500 26.5%	EAFE Small -1.0%

Emerging markets have also benefited from the commodity rebound and the return-to-risk behavior of investors over the last year. A good example of this is Russia, where, in 2008, political stability was faltering and oil prices were slumping. As a result, Russian assets were aggressively sold around the world. In 2009, Russia rebounded and its markets gained 104.9%. India also enjoyed tremendous market growth rising 102.8% in 2009. Latin American markets led all emerging market groups in the fourth quarter with a 12.5% gain and 104.2% for the year.

Fixed Income (Bonds):

The overall bond market, as represented by the BarCap Aggregate Bond Index, gained .2% for the quarter and 5.9% for the year. These returns belie the notable differences between the best and worst bond segments. At one extreme, high yield corporate bonds enjoyed a strong quarter (6.2%) and experienced a substantial recovery from 2008 (up 58.2% for 2009). In contrast, Treasuries, which were the one safe port in 2008 fell 1% in the fourth quarter and 2.2% over the full year.

The broader market of intermediate corporate bonds rose 0.5% for the quarter and were up 6.5% for the year. Municipal bonds were up about 12% for the year but fell slightly in the fourth quarter.

Inflation has not been a factor since the summer of 2008. If the US government continues its current level of budgetary deficits, inflation can be expected to become a growing concern in the coming years as the government is forced to inflate away debt. To attract investors to buy government bonds needed to finance our deficits, U.S. interest rates will need to rise. In anticipation, we allocate a significant portion of clients' intermediate bonds to Treasury Inflation Protected Securities (TIPS). These bonds tie their coupon payments to inflation, producing returns over time of inflation plus a real interest rate. TIPS returned 1.7% last quarter and 11.4% for the year as inflationary fears began to rise.

Alternative Investments:

Our alternative investment selections are intended to help dampen the overall volatility of the portfolio while still contributing to portfolio returns. Overall, our alternatives performed well in 2009 with their performance driven by a declining dollar and the rebound in commodity prices.

PowerShares DB G10 Currency Harvest is a long-short currency investment. PIMCo Developing Local Markets invests in short-term emerging market debt instruments. Both benefited directly this year from the dollar's slide, respectively returning 21.2% and 21.6% in 2009.

As a timber company, Plum Creek Timber is a unique holding because even if the economy isn't strong, its inventory (trees) still continues to grow. Despite the housing construction slowdown, Plum Creek closed out the year strongly with a return of 24.7% in the 4th quarter (it was up 14.7% for the year).

The Merger fund invests in arbitrage situations involving the changing price of companies which are merging or being acquired. It was up 1.8% for the quarter and 8.5% for the year.

Investing in commodities can be volatile, but often beneficial to a portfolio because the price of commodities is expected to rise over time and, often, their prices move quite differently from stock prices. Commodity prices rose in 2009 due to a weaker dollar and rising expectations of economic growth. The Dow Jones Commodity Index finished the year up 18.9%.

Summary:

2009 ended up being a great investment year. That said, most benchmarks are still significantly below their 2007 highs. Nonetheless, a return to normalcy was the year's theme – investors returned to normal levels of risk taking and prices moved back to more normal levels.

It is virtually impossible to know where the market is headed next. Historical assessments cannot tell us whether the markets are now 'correctly' priced, whether 'another shoe will drop' or if the market still has room to climb. Past performance is, in fact, not a predictor of future results. As a result, our portfolios remain diversified so that whichever asset classes do well next, you'll participate in some of those gains.

The last two years have been some of the most volatile in history. Even those who have maintained a well diversified portfolio have experienced the 'bungee-like" effect of a death-defying fall in 2008 then recovering (but not all the way back) in 2009. Those who lost faith in the middle have missed out on huge gains from the 2009 rebound.

Over the next couple of months we will be introducing changes to our portfolio strategy that we believe will help mitigate portfolio volatility while contributing to long term investment returns. While market results can never be promised, it is our hope and expectation that these changes will improve your ability to reach your long term financial goals. We look forward to your questions and comments and to continuing our work with you.

Your Mosaic Team

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