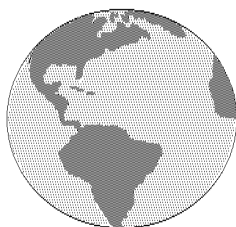


2nd Quarter 2011

Summary

- The broad U.S. market indices remained largely unchanged over the quarter.
- Large U.S. stocks outperformed small stocks during the quarter. Small caps were modestly negative for the quarter.
- International developed market returns were in positive territory while those of the Emerging markets were slightly negative (-1.0%).
- Real estate (REITs) was the best performing asset class for the quarter and has risen 34% over the last twelve months.
- Returns for the commodity indices were negative for the quarter but are up 26% over the last twelve months.
- Inflation for the quarter rose slightly to an annualized rate of 1.7%



Mosaic Financial Partners, Inc.

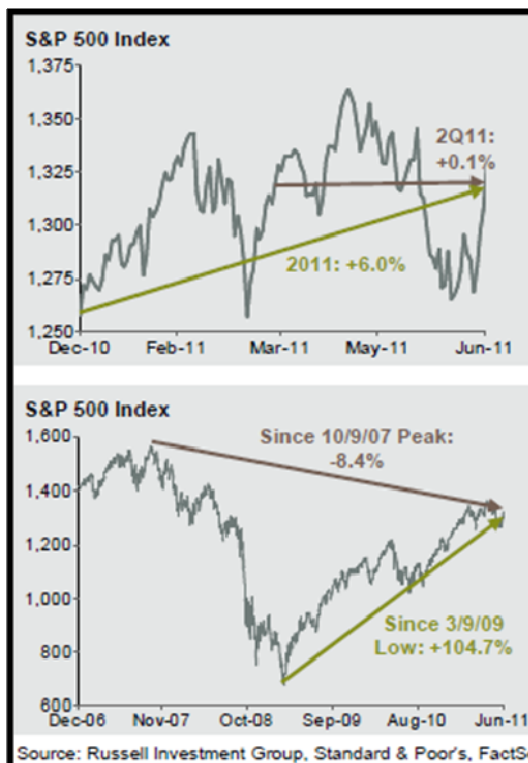
San Francisco/Lafayette

415.788.1952

www.MosaicFP.com

A See-Saw for the Financial Markets

After an uphill ride in April, a retreat in May and a strong recovery in June, the financial markets ended the 2nd quarter virtually unchanged. The S&P 500 has gained 6% year to date and over 30% for the 12 month period ending June 30th. Since the market's low point on March 9, 2009, the S&P 500 has now gained nearly 105% and is now roughly 8% off its October 2007 peak. Small stocks have done even better and have now risen almost 149% from their 2009 lows. Investors who remained fully invested through the low point of the market have been rewarded for their discipline.



As in the U.S., the international markets also experienced considerable volatility during the quarter. The MSCI EAFE Index (the most widely used index to track non-U.S. stocks) remained largely unchanged posting a gain of 1.8% to U. S. investors. Emerging markets declined by 1.0% for U.S. investors. The largest declines in this asset class were experienced by Brazil and Russia each falling roughly 7% (in local currency).

A range of concerns contributed to global financial market volatility during the 2nd quarter. These concerns include the Eurozone debt crisis, the end of the Federal Reserve's bond purchase program (QE 2), the growth in the U.S. debt, and uncertainties relating to the resolution of the U.S. debt ceiling expiration. Global economic data was also disappointing reflecting continued weakness in the overall global economy. The range of natural disasters both in the U.S. and abroad added to the challenges facing the global economy. Should these issues recede, the potential for second half improvement may exist. Still, the range

of significant problems facing the global economy is considerable and any optimism must be tempered with a distinct note of caution.

U.S. Economy

During the 2nd quarter, weak economic data plagued the markets. Manufacturing activity dipped into negative territory, jobless claims remain stubbornly high, and housing continued to scrape along the bottom. Despite weakness in a number of economic areas, the Index of Leading Economic Indicators rebounded with a positive gain of 0.8%. Meanwhile, core inflation remains relatively low at 1.5%. As detailed below, there has been some improvement in a number of the economy's underlying fundamentals since June 2010.

Economic Fundamentals	Last Year	Current
Initial unemployment claims (4-week moving average)	468	427
Private employment (millions of persons)	107.2	108.9
Corporate profits (\$, billions)	\$1,567	\$1,727
Durable goods orders (\$, billions)	\$2,153	\$2,347
S&P 500® index	1027	1340
Vehicle sales (millions of units)	11.0	11.8
Manufacturing PMI	55.3%	55.3%
10-year Treasury yield	2.96%	3.22%

Source: FactSet and ISI Group, as of July 1, 2011.

Employment—the June labor report, showed the U.S. unemployment rate increased slightly to 9.2%. The private sector added 57,000 jobs last month, while government employment declined by 39,000. Unemployment rates across the country vary significantly with high unemployment states having rates in the 10-12% range, while states like Nebraska and the Dakotas have unemployment rates in the 3-5% range.

Given the employment picture, not surprisingly, wage growth has remained virtually flat. For the near term, the weak employment market will continue to limit any wage-driven inflation risk.

World Economy

As illustrated by the chart of the Purchasing Managers Index (PMI), signs of slowing economic growth have not been exclusive to the U.S. The PMI is an indicator that monitors economic activity in the manufacturing sector. A measure above 50 reflects economic expan-

sion, and a reading under 50, contraction. The global manufacturing PMI index declined for a fifth consecutive month and fell to 52.3 in June. This slowdown is broadly observed across many of the major economies. Although the index is above the 50 “break-even” mark (and the survey's long-run average of 51.9) it is now



lower than the low point reported following last summer's slowdown (52.9 in September 2010).

As for the Eurozone, economic growth often parallels trends in the U.S. economy. A combination of slower U.S. growth, fiscal austerity measures in the EU countries, and continuing concerns about sovereign debt have all dampened economic growth in the EU.

More recently, the Eurozone has not been among the largest contributors to global growth. The three largest drivers of global growth have been U.S. consumer demand, Japanese manufacturing output, and Chinese investment in property and infrastructure. The simultaneous slowdown in all three areas has clearly affected global growth.

Going forward, Japan is likely to be weighed down by capacity constraints, electrical generation problems, and the demands of reconstruction (though it must be noted that these same elements will create some opportunities for growth). In the case of China, its economy is moderating and measures have been put in place to slow lending and property speculation.

Quantitative Easing (QE 2)

In August of 2010, after the U.S. economy slowed unexpectedly, the central bank announced plans to purchase another \$600 billion in Treasury securities in a second round of quantitative easing (QE2). The Fed's goal was to put more money into the financial system and keep the economy growing. The last QE2 purchase occurred on June 30 (though the Fed will maintain its existing policy of reinvesting principal payments from its securities holdings). While initially benefiting Treasury securities, the program has done more to bolster commodity and stock prices since the program's initial announcement and implementation.

Since August, the S&P 500 index is up 26%, gold has jumped 21%, crude oil is up 30%, and the index of global commodities has gained 28%. Over this same period, 10-year bond yields have risen to 3.10% from 2.50%. The dollar index, which



measures the performance of the dollar against a basket of six currencies, has fallen more than 10% while inflation rose from 1.1% in November, when the program launched, to 1.8% by the end of June. On the employment front, the unemployment rate has fallen from 9.6% to 9.2%.

QE 2 was a centerpiece of the U.S. central bank's monetary policy and showed that the Fed can conduct a monetary stabilization policy even when rates are near zero.

Investments – U.S. Equities

U.S. equity sectors were mixed during the 2nd quarter with large stocks outperforming small stocks, while growth stocks outperformed their value style counterparts. The returns for large growth versus large value were 0.8% and -0.5%, respectively. Small company stocks underperformed large with returns of -1.6% as compared to +.1% for large caps. Both large and small

company stocks have gained approximately 6% year to date. For the quarter, the best performing S&P 500 sector was healthcare with a gain of almost 8% while, financials ended the quarter with a 6% decline.

Using forward P/E (the current stock price divided by forecasted 2011 earnings), the S&P 500 P/E is now at 12.4 times forecasted earnings (a decline from the 1st quarter 2011 (13.1 times) and lower than its 15 year average of 17.1). On this basis, large stocks are now roughly 28% cheaper than their more recent levels. The small stock Russell 2000 now has a P/E of 17.2 times the forecasted earnings—consistent with its historical average and down from 20.5 at the end of 2010.

Investments – International Stocks

Most developed international countries posted slight gains during the 2nd quarter, enhanced by favorable currency valuations. For the 2nd quarter, the MSCI EAFE index, the most widely used international index, declined -0.5% (in local currency). However, given a weaker dollar, the index returned 1.8% to U.S. investors. Germany was the best performing international developed country with dollar-based returns of 7.0%. U.S. investors saw a 1% decline in their Emerging Markets holdings. Notable declines included Brazil and Russia which fell 4.0% and 5.4% respectively (in dollar terms)

Using forecasted 2011 earnings, the P/E ratio for the developed markets MSCI EAFE Index remained virtually unchanged from last quarter. It is now at 11.2 times forecasted earnings (versus a 10 year average of 13.8). The Emerging Markets Index P/E declined to 10.4 as compared to its 10 year average of 10.9.

REITs

The FTSE NAREIT All-Equity REIT Index was one of the best performing asset classes, with a gain of almost 3% for the quarter and 34% for the prior 12 month period. International REITs gained almost 2% for the quarter and were up 30% for the 12 month period. All sectors of the U.S. REIT market had positive returns in the 2nd quarter, and are the best performing asset class year-to date.

Investments – Fixed Income

The overall bond market, as represented by the BarCap

Aggregate Bond Index, gained 2.3 % for the quarter and 2.7% year-to-date. All fixed income sectors had positive returns. 2-year U.S. Treasuries gained 0.9% for the quarter, with the 10 year and 30-year gaining 3.6% and 3.3%, respectively. Municipals and Treasury Inflation Protection Securities (TIPS) were the best performing sectors gaining almost 4.0% in the quarter. On a year to date basis, TIPS have been the best performing sector with a gain of 5.8% followed by Emerging Market bonds at 5.0%. We allocate approximately half of our clients' intermediate bond allocation to TIPS. These bonds link their payments to inflation, producing a real return over inflation over time.

While inflation has picked up in recent months (reflecting higher prices for some commodities and imported goods), near-term inflation expectations remain stable. Inflation finished the quarter at 1.7%. Longer term, it is expected that inflation will rise in response to the level of governmental debt that has been issued, rising commodity prices and an eventual improvement in the labor market.

Investments- Alternatives

Alternative investments are intended to help dampen the overall volatility of the portfolio while still contributing to portfolio returns. A number of our alternative holdings had modestly negative returns in the quarter. Nonetheless, looking over the preceding 12-month period, the "alternative" category contributed positive returns to client portfolios.

Oil prices ended the quarter at \$95 per barrel down from \$107. Meanwhile, gold prices hit new highs, ending the quarter at \$1,505 per ounce. Given a mixed commodity background, the Dow Jones UBS Commodity Index declined 6.7% in the quarter (a result of depressed oil prices, dollar volatility and a slowdown in global demand). However, the index rose over 25.9% for the preceding 1-year period.

Timber (the Plum Creek Timber REIT) declined 2.7% during the quarter (22.2% for the preceding 12 months). The Alerian Master Limited Partnerships Index (investing in energy transportation and storage) declined 0.7% for the quarter, but has a 27.9% gain for

2Q11	2011 YTD
REITs 2.9%	REITs 10.6%
Market Neutral 2.3%	Russell 2000 6.2%
Barclays Agg 2.3%	S&P 500 6.0%
MSCI EAFE 1.8%	Market Neutral 5.8%
S&P 500 0.1%	MSCI EAFE 5.4%
MSCI EME -1.0%	Barclays Agg 2.7%
Russell 2000 -1.6%	MSCI EME 1.0%
DJ UBS Comdy -6.7%	DJ UBS Comdy -2.6%

the preceding 12 month period.

The Merger Fund, which invests in arbitrage situations involving the changing price of companies involved in mergers or acquisitions was up 0.4% during the 2nd quarter.

Summary

As we close the first half of 2011, slow economic growth, global debt concerns, and the very slow recovery of housing and jobs are still the themes for the year. In light of these concerns, we believe it is important to stay focused on your long term spending, savings and investing goals and to remember in particular that investing should not be a short-term activity.

At Mosaic Financial Partners, we continue to focus on maintaining an appropriate strategic asset allocation for your portfolio — the right mix of cash, bonds, stocks, real estate and alternative investments, given your unique time horizon, risk tolerances and financial objectives. These decisions don't shift greatly with the constant volatility in the market — rather, they provide an anchor to help you keep your eye on your longer-term objectives.

While real problems abound, we remain cautiously optimistic about the economic recovery. While no one can reliably predict the precise path events will follow, ultimately, there will be a resolution on the debt ceiling issue. Sovereign debt overloads will be addressed in some fashion. And, while progress will inevitably be slow, improvement in jobs and housing will also emerge.

We thank you for the continued opportunity to be of service to you and your family.

MOSAIC FINANCIAL PARTNERS, INC.

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Sources: Morningstar, JP Morgan, Bureau of Labor Statistics, The Federal Reserve, Reuters, Forbes, Bloomberg, Standard & Poors, The Economist. Performance figures noted for the sectors and security types do not imply similar performance in client portfolios. Past performance of these sectors and security types is not an indicator of future returns.