MOSAIC FINANCIAL PARTNERS, INC.

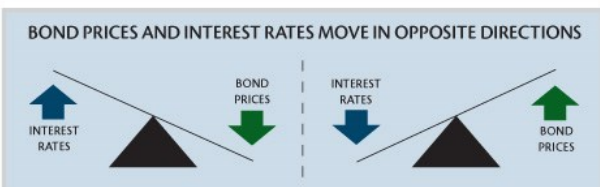
Effective Financial Strategies

September 2015 MosaicFP.com

Bond Funds vs. Individual Bonds

By Dave Cowles

The market has been predicting the Federal Reserve will raise interest rates "soon." So what will happen if and when they do? Interest rates and bond prices always move in opposite directions. If interest rates go up, the market value of existing bonds will go down.



Given this, some argue that it is better to own individual bonds that can be held to maturity rather than bond mutual funds which never mature. Individual bonds will receive their full face value at maturity which would avoid this loss, right?

This so-called advantages of bonds versus bond funds is a common misconception. As it turns out, the outcomes are generally very similar whether you hold bonds individually or in a mutual fund. An example of "bond math" illustrates this.

Let's say the current interest rate for a one year bond is 2%. If you purchased a $1,000 bond at face value you would expect to receive $1,000 one year from now, plus two semi-annual interest payments of $10 each. The market value of that bond is $1,000. This is the equivalent of $1,020/1.02—the <u>total amount</u> you receive as the investor, divided by one plus the interest rate.

Suppose immediately after purchasing this bond, the Federal Reserve increases interest rates such that one year bonds now yield 3%. The market value of your "old" bond will immediately drop to $990.29. This reduction in price is needed to give a new purchaser of your bond a 3% yield (at maturity, the $20 interest payment and $9.71

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How Well Are You Managing Your Biggest Asset?

By Holly Gillian Kindel

When you think of the things that are valuable to you, your first thoughts may be of tangible things like houses, investment portfolios, or even collectible baseball cards. But at this very moment your biggest, most valuable asset is YOURSELF. Your career is like your "secret weapon" from which all your financial wealth in this lifetime will come.

With this in mind, Career Asset Management is that part of financial planning which takes into consideration your ability to optimize your resources as the source of your prosperity. From this perspective, your career is the sum total of your time, talent and potential.

The Journey, Not the Destination

It's important to focus on what you want from life and how to make the most of what you have to work with. This goes beyond the old school practice of just settling for what's out there. Financial planning should really be about getting the most out of your life, and having satisfaction in your career plays a big part of that.

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What's Inside

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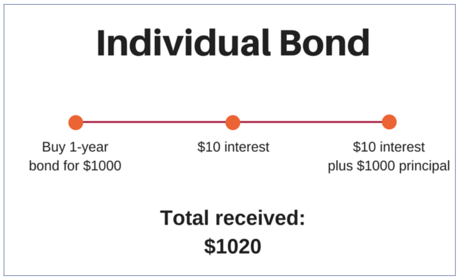
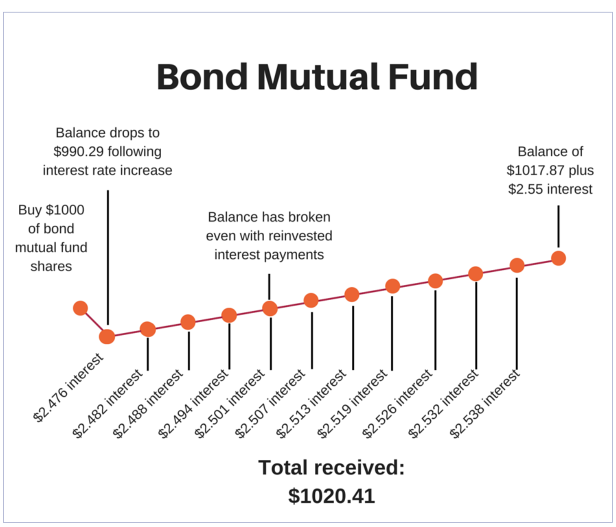
"discount" combine to give the buyer a 3% yield). But if you if will still receive the full $1,020 at maturity that you expected when you purchased the bond all is well ... right? Not necessarily.



If interest rates increase, the value of a bond mutual fund will drop (reflecting the drop in value of the bonds it holds). But from that point forward, the fund will be priced to receive the current market rate of interest—in our example, 3%. And, as bonds mature, new 3% bonds will be purchased with the proceeds. This will further enhance the fund's yield. With an individual bond, the income you earn over the bond's life will be locked in. In this case, you will earn 2% instead of 3%. In real terms, your loss is $10/1.03=$9.71.

A bond fund must recognize losses associated with rising interest rates immediately. Conversely, if held to maturity, the loss associated with an individual bond occurs over the life of the bond (due to the below market rate of interest that the bond will pay). The results, however, are essentially the same.



Given that the financial consequences of rising rates are so similar, we strongly prefer using funds over individual bonds for the following reasons:

- **Diversification**. Funds hold hundreds of different bonds, minimizing the impact of an individual bond issuer default. For example, the Vanguard California Intermediate Term Tax Exempt Bond fund holds 1,798 bonds. If any one of those were to default the impact on the value of the fund would be insignificant. Compare that to an individual bond portfolio of say, 20 different bonds. If one of those bonds defaults, you could be risking up to 5% of your bond portfolio. Do you recall what happened with Orange County bonds when they defaulted?
- **Cost**. Buying and selling individual bonds incurs a hidden cost referred to as the "bid/ask spread." This is the difference between the price you pay for a bond and what you would receive if you immediately sold the bond right after its purchase. Typically, the smaller the trade, the larger the spread.

  Most individual investors trade in "odd lot" sizes below $100,000. Studies have shown the average bid/ask spread for odd lot trades of municipal bonds is around 1.6% of the face value of the bond. Compare that to mutual fund spreads on trades over $1 million which are closer to 0.2%.

  Yes, mutual funds do charge an ongoing management fee, but if you use low cost, institutional funds like we do, the cost is minimal compared to the bid/ask spread. For example, the Vanguard CA fund referred to above charges 0.12% per year which is well worth it for the diversification benefits and lower spread costs.
- **Convenience**. Funds are far easier to buy and sell than individual bonds. This is especially true for small dollar (or "odd lot") purchases. Smaller purchase or sale amounts are often necessary when funds are deposited or withdrawals are needed.

Bottom line: if and when interest rates increase, all bond investments, whether implemented through a fund or with individual bonds, will lose about the same amount over the life of the bond. Given that, we continue to believe that most investors are best served holding funds for their vastly reduced credit risk, much lower institutional bid/ask spreads and simple convenience.

Sources: Dimensional Fund Advisors, Vanguard Group, Dow Jones.

MOSAIC FAMILY BUSINESS CENTER

What In-Laws Should Know Before Going to Work in the Family Business

By Ricci Victorio

As an in-law coming into a family business, you're stepping into one of the hardest working environments imaginable. A family member is held to a higher standard than are regular employees, but an in-law has to work even harder than a family member. It takes someone with vision, purpose and patience to overcome the extra challenges. If you lay the right groundwork, establish clear expectations, and work with an advisor familiar with the challenges that will occur, it can be a productive and joyous experience.

What challenges do in-laws face when coming into the family business?

The hardest thing to overcome is perception. It doesn't matter if you have an MBA from Cambridge or a Ph.D. from Harvard. When it comes to in-laws, the fact that you married into the business downgrades any credentials in the eyes of non-family managers or employees. People will tend to judge you harshly, so be patient and don't take it personally.

How can an in-law successfully enter into the business?

The position, pay scale and responsibility must match the in-law's experience and education. Thrusting an unqualified in-law upon your business team, no matter how great he or she is, makes it a much harder road. Engage your management team into the process of interviewing the in-law candidate to gain support and buy-in.

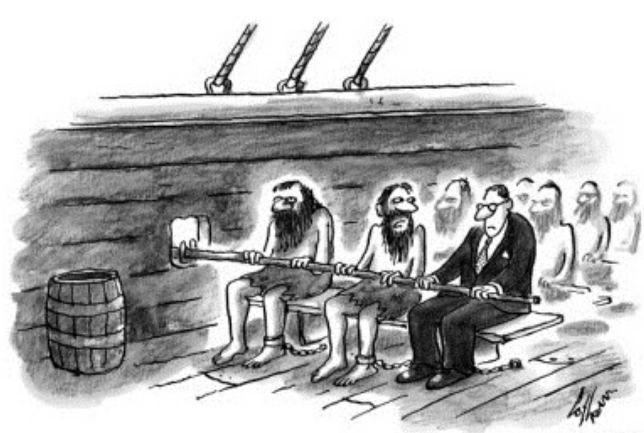
For example, an in-law had been a successful a sales manager making six-figures before he was downsized. Now, he's in trouble financially, and the family is worried. Bringing a successful in-law into the family business, which might be in another industry, can be a great solution, but beware of jumping to the top of the stairs. He shouldn't start as the VP of Sales. Bring him in appropriate to his experience and provide an opportunity for him to learn the business and earn his way up the corporate ladder. If parents are still concerned about the financial gap for the short term, they can consider gifting additional monies from outside of the business as parents, not as an employer — to help until he earns his way up.

Helpful tips how in-laws overcome the assumption that they have the boss's ear:

- Stay professional and never assume to be the heir apparent.
- Don't expect employees to be your friends, because they are going to assume that anything they reveal will get back to the boss. It can feel isolating and you have to be above reproach.
- If you have a problem, resolve things through the proper chain of command. If you're not reporting to your father-in-law, don't go to him when you have an issue.
- Remember when you come home and complain to your spouse about work that you're talking about a family member. Try to share more than just the bad days.

Why is having a succession coach valuable?

Engaging a coach who specializes in succession transitions to help employed family members can smooth the predictable challenges along the way. Family employees, including in-laws, need a safe place to talk, and guidance to strategize through the maze of issues that will occur. The coach also can facilitate a family business council, which provides a venue for family members to talk about business related topics, questions and issues that would normally feel inappropriate to bring up in a productive environment.



So. You married the bosses' daughter, huh?

(Continued from page 1— Your Biggest Asset)

Be Ready for Change

Life is not static and you need a plan that offers a process for navigating the changes in your life, not an antiquated approach that assumes a straight line path from the day you start work to the day you retire. By taking time to ensure your career can weather turbulent times you will actually have a better chance of being happier, as well as long-term financial success.

Widen Your Possibilities

By viewing your career as an asset, you can explore your options on a continuum that spans many possibilities: training, working, sabbaticals and financial independence (which can allow you to choose to work for the joy of it). Each of these choices represents an opportunity to optimize your career and extend the life-cycle of your career asset.

To get a better picture of the current state of your career as an asset, take some time to consider the questions listed below.

Once you answer these questions you'll have a better vision of what's important to you. If some of the questions brought-up issues that you may not have thought about before, congratulations! You are breaking new ground which creates a fabulous foundation for change.

What Happens Next?

The next step is for you to consider how you would like to proceed with embarking on the management of your career asset and who can support you in the life-long process. If you find that you are at a crossroads, it is helpful to do some planning to figure out how you can make a change to a career that is better able to give you what you want from life. Give us a call. Perhaps we can help!

What is the purpose of work to you?

- *Is it a paycheck, a source of personal fulfillment or something in between?*

What are you passionate about?

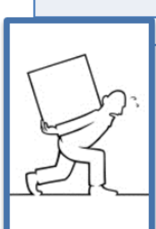
- *If you decided to gift a portion of your earning capacity to support a cause that expressed your values and beliefs, to whom would you give the money?*

If money weren't a necessity, what form of employment would you pursue?

- Even if you can't retire completely yet, you may be able to switch to an encore career.

If you lost your job, what would be your first thought?

- *With whom would you have your first conversations?*
- *What first steps would you take?*



Who are you working to oblige?

- *Do you feel a sense of obligation to any of the following when it comes to your career?*
  For what reason?
  - *Family? Friends? Society?*

What financial needs must you cover?

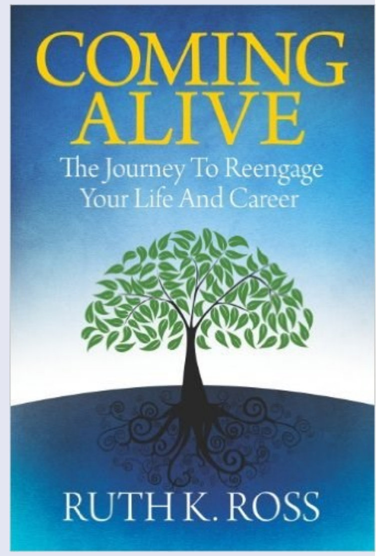
- *If you were to switch careers, what must you cover financially? (e.g. mortgage, emergency fund, education funding, living standards, etc.)?*

Reflections and Recalculations: Finding Life and Career Fulfillment

We at Mosaic want our clients to live the lives they dream of. Sadly, a majority of Americans are unhappy in their jobs. And yet, your career has the potential to be a major source of purpose and fulfillment in life.

With this in mind, we are offering a special presentation that will encourage re-finding joy and passion in your career and your life. Our much sought-after speaker, Ruth Ross, is the author of "Coming Alive: The Journey to Reengage Your Life and Career. " Ms. Ross specializes in helping companies and their employees fall in love with life and work again.

Mosaic's Liz Revenko sat down with Ruth to learn a little more about her background and how she came to focus her career on helping others find new passion in theirs.



Ruth, we are excited about your talk. Can you tell us a little about your background?

I spent 30 years as a senior human resources executive working for some of the world's best companies in both New York and San Francisco. For the last 10 years of my corporate life I was an Executive Vice President at Wells Fargo, running HR during some incredibly turbulent and challenging times

You had a successful career and the perks that came with it—the corner office, big paycheck, stock options, respect, status…why walk away from that at age 53?

I had a 'face-in-the-mirror' moment in 2010 that helped me to recognize that I had been truly disengaged at work. I wanted to find my passion again for what I was doing. I needed to work to thrive, not just survive. At some point we all need to figure out what is most important in life and it isn't always the trappings of a big job.

In your blog you said you diagnosed your own "disengagement". What does that mean?

In order to best answer this question, it's important to first understand what "engagement" is. It is what motivates people not only to feel dedicated to their job and their life, but also to feel rewarded by what they do and how they do it. It pushes people to look at things differently and go above and beyond, not because they have to but because they want to. Engagement is buying in, going all in and remaining within and contributing to the passion and mission of the company. As someone who had disengaged, I had lost that connection with my job and the people around me. I was getting the work done, but not with the enthusiasm and commitment I used to have and wanted to have.

Is it age-specific? What if I'm not in the corner office right now? And if I am, what if I want to stay there?

Disengagement doesn't discriminate. It doesn't care if you are young or old, black or white, male or female, a CEO or a secretary. It can happen to anyone at any time. I've seen college students who are disengaged and getting ready to graduate to a job, not a career because they aren't following their passion. I've seen C-suite executives, like me, who looked around and said "is this all there is"? It's important to understand that even if you are disengaged, quitting isn't the only answer. There are so many things people can do to reengage, no matter their age or stage in life.

Why should people come to this event?

We hope this will be an engaging evening in which we will take the time to reflect on where we are in our lives, recalibrate what the journey will look like going forward and who our partners should be on the adventure. It will be especially right for those who are searching for a deeper sense of meaning in life and work. I want to speak to those whose life has changed, or is about to. If you are feeling less than fully empowered, because of your work, an event in your life or an approaching (or realized) retirement, we hope this event will speak to you.

September 30th, 2015 at 6:00pm at the San Francisco Olympic Club. Contact Mosaic today to register!

Ask Your Advisor

Question: *Why continue to allocate assets to real estate at this time? Aren't there a lot of things happening that could have a negative effect on real estate in the short term?*

Mosaic: Over the last 15 years, real estate (REITs) have averaged 9.40% per year—which has been better than most stock categories over this time. If you look at sub-periods within that longer period, you'll find real estate has done both better and worse. For this reason, we try to keep our eye on the longer term and not get too swayed by short-term fluctuations. Moreover, real estate has been helpful not only because its returns have been positive, but also because of its diversification benefits—it often zigs when stocks are zagging.

When found in our portfolios, "Real Estate" is commercial real estate. The properties encompass virtually the whole range of real estate, other than sible family homes. This includes office buildings, warehouses, storage units, hotels, large apartment complexes, shopping malls, and similar properties. Roughly half of the real estate our chosen mutual funds hold are overseas—not just in the US. These funds own real estate through a broad range of Real Estate Investment Trusts (REITs). REITs are corporations that develop, own, and manage commercial real estate projects like those listed above. The funds we employ are broadly diversified, not only globally, but also across the range of property types and in many REITs and real estate companies.

Real estate is one of several different non-stock, non-bond strategies that we believe will serve investors well over longer periods of time. We are not choosing any of them as the next "hot" group to be invested in.

One of the attractive elements of REITs is that since they are priced daily, they offer a much better and quicker indicator of how the market is feeling about the future than does traditional real estate. If you own an office building or an apartment complex, you may not be up to date on its valuation. Since a REIT gets bought or sold throughout each and every day, the prices instantaneously reflect how buyers and sellers are feeling about that part of the market.

Client Survey

A critical priority for us is ensuring that we provide the highest level of service to you and our other clients. One way to help do that is to get feedback from you about whether or not we are serving you in the best way possible.

For this reason, we will be working with ActiFi to conduct a survey of our clients to help identify ways we can better meet your needs. Actifi is an independent consultant in our industry who will review and analyze the survey results in complete confidence.

We expect to send the survey in October of this year. It should take about 15 minutes to complete. Your assistance with this is greatly appreciated.

"Have you given much thought to what kind of job you want after you retire?"

Something on your mind? Send us your questions! Send questions to your advisor, or to our Marketing Manager Leslie Van Zee at Leslie@Mosaicfp.com.

Spotlight on Elka Weber

Elka Weber became a permanent member of the Mosaic team this year, holding down the front desk while also supporting Mosaic's administrative needs. She earned her Masters of Fine Arts in Creative Prose from Mills College in 2010, and has also studied book art. She spent seven years working in libraries, both public and private. Fun fact about Elka: she learned how to swim before she learned to walk.

Around The Office...

At the Podium

In mid-June, **Kevin Gahagan** spoke to the Silicon Valley Chapter of AAII. His talk, "Investing in Times of Transition," was well attended and well received. In early July, Kevin spoke to the North Bay Investors' Forum on "Bond Investing in a Rising Interest Rate Environment."

Dave Cowles participated on a panel discussion at the Chartered Financial Analyst Society of San Francisco on the topic of liquid alternatives. He addressed the diversification benefits of liquid alternatives and why they are preferred over traditional, illiquid "hedge funds".

Norm Boone talked to the Harvard Business School Alumni Association and to a group of financial executives about financial planning basics, "Top Ten Things You Should be Doing Now."

In June, in her role as President of the ICF SFBAC, **Ricci Victorio** addressed the global ICF board on the vision and mission of the SF chapter to expand connection between coaches, enhance professional growth and outreach to the community regarding the impact coaching can have within organizations.

Education, A Continuing Affair

In mid-August, **Kevin** attended the FPA's Far West Round-Up. Held on the UC Santa Cruz campus, this two-day conference featured a series of educational sessions with a strong emphasis on new developments in financial planning.

Megan Terzian completed her certificate in financial planning from UC Berkeley in August. She is currently studying for the Certified Financial Planner™ exam.

In July, **Ricci** and her daughter **Natalie Victorio**, went to Colorado Springs for the PDP Annual Conference, bringing back new tools & learning for enhancing communication, teamwork and performance.

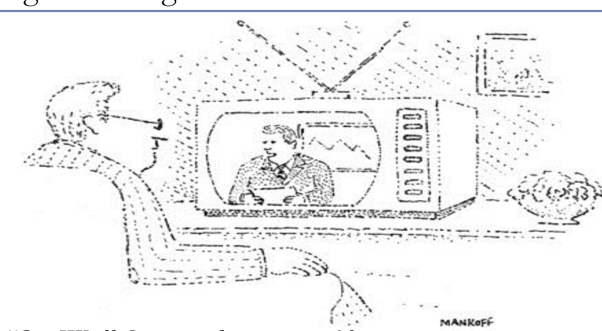
Geoff Zimmerman will be attending the Advanced Wealth Strategist Certificate Program offered by IMCA (Investment Management Consultants Association) in Bethesda this September

Exotic travel

Mary Ballin spent a week in July on a cruise to Alaska with her husband and two children. The highlight of the trip was taking a seaplane trip over the Taku glacier to a remote hunting lodge where they were able to see black bears and eagles in their element.

Leslie Van Zee spent the week leading up to the 4th of July in Des Moines, IA for a family reunion.

Susan Morse traveled to the Northeast, where she enjoyed a family reunion on the coast of Maine and visited two highly regarded art museums in Williamstown, MA. She concluded her trip with four days in NYC, where she saw the 9/11 museum (which she highly recommends) and two fabulous plays, "Hamilton" and "The Curious Incident of the Dog in the Nighttime."



"On Wall Street today, news of lower interest rates sent the stock market up, but then the expectation that these rates would be inflationary sent the market down, until the realization that lower rates might stimulate the sluggish economy pushed the market up, before it ultimately went down on fears that an overheated economy would lead to a re-imposition of higher interest rates."

Effective Financial Strategies

The Mosaic Newsletter

Thoughts to Live By

"When we try to pick out anything by itself, we find it hitched to everything else in the universe." - John Muir

"How wonderful it is that nobody need wait a single moment before starting to improve the world." - Anne Frank

"In the middle of difficulty lies opportunity." -Albert Einstein

"Goals. There's no telling what you can do when you get inspired by them. There's no telling what you can do when you believe in them. There's no telling what will happen when you act upon them." -Jim Rohn

"Ask yourself what make you come alive, and go do that, because what the world needs is people who have come alive." -Howard Thurman

Even more is available on our blog

http://blog.mosaicfp.com/blog

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