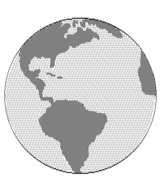
MOSAIC FINANCIAL PARTNERS, INC.

Market Watch
4th Quarter 2016

January 2017 MosaicFP.com

Summary

- US stocks were the big winners in 2016. All three major indices reached all-time highs.
- With Trump's election, markets are anticipating economic growth via lower taxes and fewer regulations.
- Markets remain anxious about his lack of political experience, threats about world trade and the absence of a detailed economic plan.
- Small stocks and value stocks out-performed large stocks and growth stocks.
- Bonds ended the year positive, despite falling at the end of the year due to rising interest rates in anticipation of a faster growing economy in 2017.
- International equities produced positive returns in 2016, led by emerging market equities.
- Alternative investments, as a group, contributed positively to portfolio growth. Returns were particularly strong in oil and gas infrastructure, timber, and business development companies.
- 2017 brings our 30th anniversary. Thank you for being a part of the Mosaic family!



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Overview

US Markets Close 2016 Near All-time Highs

In 2016, for the eighth year in a row, the US stock markets rose. In fact, all three major US indices posted all-time highs in late December. The year started darkly, with a threatening drop in the markets of 13.3%—the result of falling oil prices, continued turmoil in the Middle East, and a weakening US economy. By mid-February oil prices stabilized and for most of the remainder of the year, markets climbed, helped significantly by the run-up in prices after the November election results. Large US stocks, represented by the S&P 500 and Dow Jones Industrial Average indices, posted strong results, finishing the year up 11.9% and 16.5% respectively (in fact, the Dow closed the year just short of the 20,000 threshold). Small company stocks produced even better returns in 2017 with the Russell 2000 Index finishing the year up 21.3%. The tech-heavy Nasdaq reached a peak not seen since 2000 while posting a full year return of 8.8%.

The fourth quarter alone experienced a number of events of note. In October, global inflation fell to a 7-year low. In November, Trump was elected and the dollar reached a 14-year high. In December, Italy's Prime Minister Matteo Renzi quit after a crushing referendum defeat; the US Fed raised its benchmark rate; Japan became the top US foreign creditor (replacing China); and oil posted its biggest annual gain since the financial crisis.

Mixed International Returns

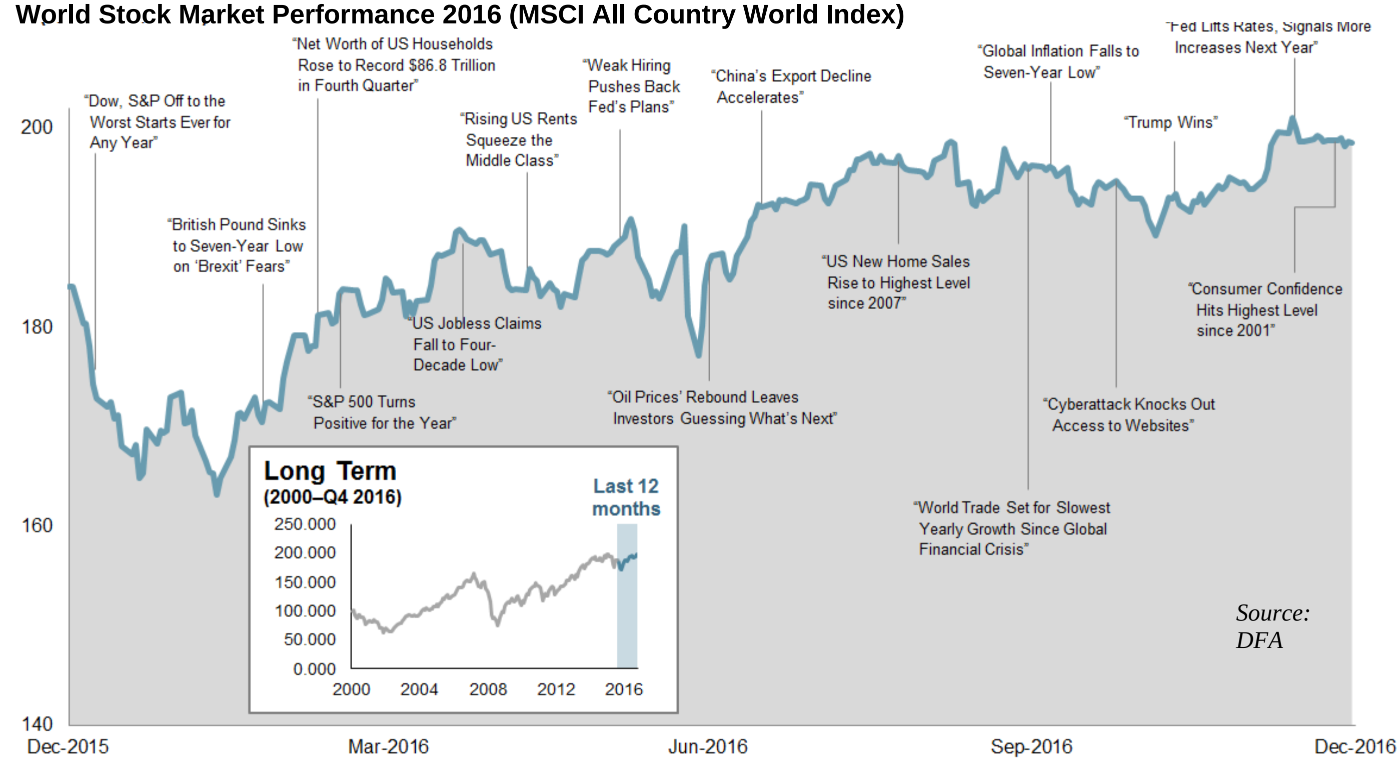
Fighting the headwinds of a strengthening dollar and generally weaker developed economies, international markets showed a less positive picture. With the exception of Latin America's 31.4% increase (primarily driven by Brazil), most results around the world were hardly better than break-even for the year. The MSCI Europe Australia Far East Index (EAFE) was down 0.6% during the quarter but finished the year up 1.5%. Japan by itself was up 2.7% for the year. France, Germany and the UK led the European continent with returns of 6.0%, 3.5%, and 2.9%, respectively.

Despite a weak start, emerging markets posted strong returns in 2016. Benefiting from stronger oil and commodity prices, the MSCI Emerging Market Index finished the year up 11.6%.

The Bond Market Turnaround

Until the 4th quarter, interest rates declined for most of the year. This contributed to higher bond prices and a strong start for bonds in 2016. Following the election, expectations for stronger economic growth suggested the possibility of higher interest rates ahead. This, combined with the Fed's December rate hike, pushed the 10-year Treasury yield to

World Stock Market Performance 2016 (MSCI All Country World Index)



2.4% (from a July low of 1.3%) while bond prices fell. The Barclay's US Aggregate Bond Index fell 2.9% for the quarter but was still up 2.6% for the year. All bond categories ended the year with positive returns, but down from where returns were earlier in the year.

Federal Reserve

In December, reacting to increasingly positive economic news, the US Federal Reserve raised its benchmark overnight interest rate 0.2% and indicated they expect more rate hikes in 2017. Fed officials suggested that they might need to raise rates more rapidly in the future if changes in government spending causes inflation to rise more than desired.

The US Economy

GDP Forecast

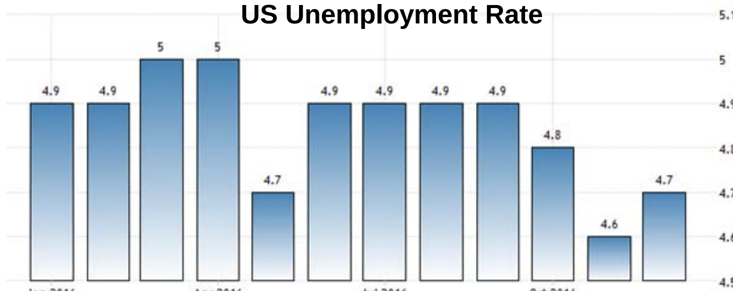
The incoming US administration and Congress have mapped out ambitious plans for steering the economy. President-elect Trump has pledged to boost the US economy by reducing regulations and corporate taxes, boosting infrastructure spending and reviving America's manufacturing sector. He will be trying to do so with an economy that is near full employment, has grown for eight consecutive years and is already one of the strongest economies in the world.

The US Gross Domestic Product (GDP) increased at an annual rate of 3.5 percent in the third quarter of 2016, according to the latest estimate released by the Bureau of Economic Analysis. Data ranging from housing to retail sales and manufacturing suggests the economy retained its momentum early in the fourth quarter even as exports appeared to falter in response to a strengthening dollar. Consumer spending, which accounts for more than two-thirds of US economic activity, increased at a 2.8% rate in the third quarter. Given continued growth in consumer spending, projected increases in government spending and rising corporate profits, most economists project continued economic growth in 2017.

Employment

December job gains were broad, across many economic sectors. More people are working and wages have begun to rise faster than inflation. According to the Department of Labor, the US economy added 156,000 new jobs in December, putting the year end

US Unemployment Rate



unemployment rate at 4.7%. The steady gains in employment have finally started to push worker pay higher. Wages rose 2.9% in December, offering some evidence that economic growth is finally translating into gains for workers.

Worker shortages may become more frequent in the coming year. This means employers might have to give out bigger wage hikes even as hiring becomes more difficult. One of the big challenges for the incoming administration will be to maintain hiring at recent levels even as labor markets tighten.

Gauges of consumer and business sentiment have jumped since the election. According to a University of Michigan survey, its monthly index measuring consumer sentiment increased to 98.2 (the highest level since January 2004). While Americans are hopeful that their economic picture will improve, economists warn that this confidence will only be sustained if the next administration is able to produce real results.

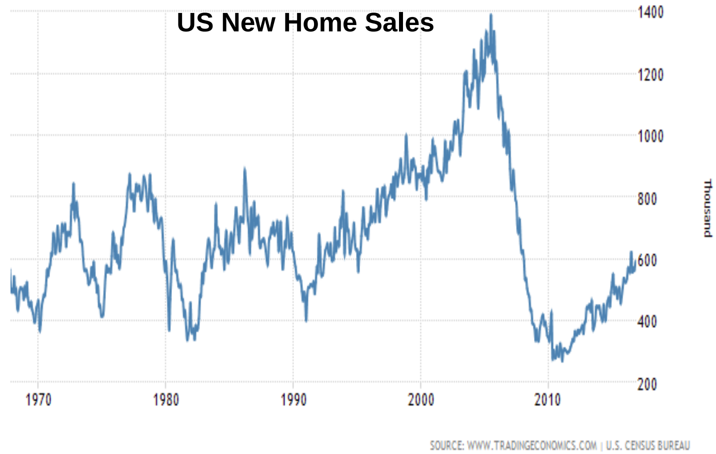
US Housing

Housing is an important part of the American economy. Each new household adds something to the economy, as does construction and remodeling, real estate sales activity, the sale of home furnishings, and moving services. A Yardeni.com study ("US Demography: Household Formation, Homeowners & Renters") posits that households have historically been created at a fairly steady growth rate, and now total about 119 million. About 36.5% are renters with the remainder owning their own home.

The average price of an existing single family home at the end of 2016 was $282,341. This is higher than it has ever been, according to JP Morgan. This year, according to the National Association of Realtors, sales of previously-owned homes increased slightly to an annual rate of 5.61 million units in November, up 6.8% from a year ago.

New US single-family home sales ended the year at 592,000 units, up 5.2% from the prior year, but as you can see in the above graph, there are still less than half the number of sales compared to when sales peaked in 2007.

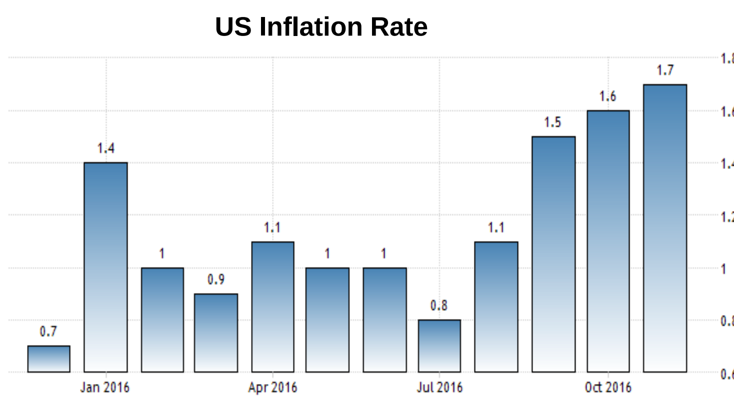
Mortgage rates have been declining for years. This has helped buyers afford to pay ever higher prices for homes. until the November election, mortgage rates remained at near historic lows. Since then, according to



data from the mortgage finance firm Freddie Mac, fixed rate, 30-year mortgages have risen to an average of 4.1% (from an average of 3.5% earlier in the fall). In 2017, higher mortgage rates could slow the volume of home sales or lead to a slowing of home price appreciation. Either could be a drag on growth.

Inflation

As the economy strengthens and as more people return to work, the markets anticipate an increase in inflation. The latest Labor Department data shows inflation running at 1.7% versus the Fed's target of 2%.



The World Economy

While the US presidential election took center stage last fall, there was a wide range of significant events that occurred globally in 2016. Some of the highlights (or lowlights) include: the Brexit vote, the fall of Italy's government, the impeachment of the Brazilian president, China's rising militancy, Japan's continuing economic struggles, Russia's increasing aggressiveness and, most heartrendingly, the tremendous turmoil and human suffering in the Middle East. With this backdrop, economic growth and optimism were certainly muted outside the US (except in the commodity producing and exporting emerging markets).

Looking ahead to 2017, preparations for Brexit negotiations and the upcoming elections in the European Union's two largest economies (France and Germany) will continue to elevate uncertainty in the euro zone. It is also uncertain whether US relations with China and Russia will improve or deteriorate under a Trump administration. In the emerging markets world, troubles in Brazil, Argentina, Venezuela and Mexico highlight both opportunity and concern. The new US administration may well challenge current international trade agreements. If so, there is a potential for trade wars and rising tariffs that would hurt both the international and domestic economies.

Euro Area

Increased political uncertainty and weaker global trade weighed on the region's growth in 2016. The euro zone's economy grew 0.3% in the third quarter of 2016 and was up just 1.6% year over year. Still, economic sentiment showed signs of improvement in November. Unemployment declined below 10% (to 9.8%) and deflationary fears were eased as the consumer price index rose 1.1%.

Central bankers have been pumping record amounts of new money into the euro zone in an effort to fuel the economy (which is still struggling to regain momentum post-financial crisis). The economic stimulus program has had mixed results with sharp divergences among individual member states. More recent, rising inflationary pressures may encourage the European Central Bank (ECB) to trim its stimulus program faster than previously expected. The ECB's record bond-buying program has pushed bond yields to record lows, and has helped economic growth.

Japan

Japan's economy continues to be weak. Third quarter growth was only 0.3% (compared to 0.5% in the second quarter). The Japanese government continues to pursue its "Abenomics" economic policy mix (a combination of ultra-loose monetary policy, aggressive fiscal spending and structural reforms) to help improve Japan's long-term economic growth. The Bank of Japan (BoJ) has also employed a variety of strategies to boost growth.

Most recently the BoJ announced it would buy ten-year Japanese government bonds so the yield could essentially remain at 0%. If this new BoJ policy framework along with the government's actions can promote growth in the economy, Japan's economic condition could well improve in the year ahead.

Japan's fundamental problem of unfavorable demographics (a declining number of working age Japanese) remains a severe limitation to stronger economic growth.

China

In the first nine months of 2016, China's economy expanded at an annualized rate of 6.7%, thus meeting the government's full-year growth target. So far so good—but in the eight years since the global financial crisis, the importance of low-cost exports—the kind the Chinese economy used to rely upon—has steadily declined. In response, China's leaders have embraced monetary and fiscal stimulus measures in an effort to prop up the country's growth and protect employment. These actions have caused the country's outstanding debt to balloon to almost 250% of gross domestic product (with Chinese companies growing evermore indebted).

China's excessive debt, lack of thorough legal procedures and desire for continued growth to support the needs of its changing population leaves a great deal of uncertainty about its future.

A nationwide debt crisis now looms amid business defaults and bankruptcies, low industrial profits, declining returns on investment and the very real prospect of yet another slowdown in the real estate sector. China has little real legal infrastructure for handling bankruptcies, and its dearth of expertise will almost certainly limit how quickly courts can process the corporate bankruptcies piling up in the months ahead. Furthermore, political and economic power has been consolidated at the top, resulting in increasing restrictions to free-market activities.

If enacted, President-elect Trump's promise to impose sweeping tariffs on the import of Chinese goods will make it even harder on China to escape its debt problem. How well Beijing manages these problems in the months ahead will, to a great extent, determine China's economic, social and political stability for years to come.

Elsewhere

In the third quarter of 2016, the commodity-producing countries received a boost from the Organization of the Petroleum Exporting Countries (OPEC) agreement, which capped oil production and pushed global commodity prices higher. Russia (still hit by international economic sanctions), and Brazil (hit by economic and political crises) showed the best performance among the BRIC (Brazil, Russia, India and China) countries. The December Purchasing Managers' Index (PMI) showed strong manufacturing expansion in Russia and India while Brazil's manufacturing sector remains in far worse shape than any other BRIC economy.

Portfolio Investments

US Equities

Major US market indices reached all-time highs during the fourth quarter of 2016. The S&P 500 rose 3.8% for the quarter and finished the year up 11.9%. The Dow Jones Industrial Average broke through the 19,000 level for the first time ever and finished the year with the solid 16.5% gain. Except for health care, all US equity sectors showed solid gains for the year. The best-performing sectors included finance and energy, with each rising more than 20% in 2016. The S&P 500 is now 74.8% above its high point immediately before the Great Recession.

Market Returns

2015	2016
REITs 2.8%	Small Cap 21.3%
Large Cap 1.4%	High Yield 14.3%
Fixed Income 0.5%	Large Cap 12.0%
Cash 0.0%	Comdty. 11.8%
DM Equity -0.4%	EM Equity 11.6%
Asset Alloc. -2.0%	REITs 8.6%
High Yield -2.7%	Asset Alloc. 8.3%
Small Cap -4.4%	Fixed Income 2.6%
EM Equity -14.6%	DM Equity 1.5%
Comdty. -24.7%	Cash 0.3%

One of the areas of strength this year was "value" stocks (versus "growth" stocks). Value stocks, those companies deemed to be more out-of-favor, performed better than their growth counterparts, both in the US and internationally (unlike the last couple of years). According to data from JP Morgan Asset Management, since the market low in March 2009, on a cumulative basis, "value" has outperformed "growth" in US Large companies (299.9% to 292.5%) and in US Small companies (346.4% to 331.8%).

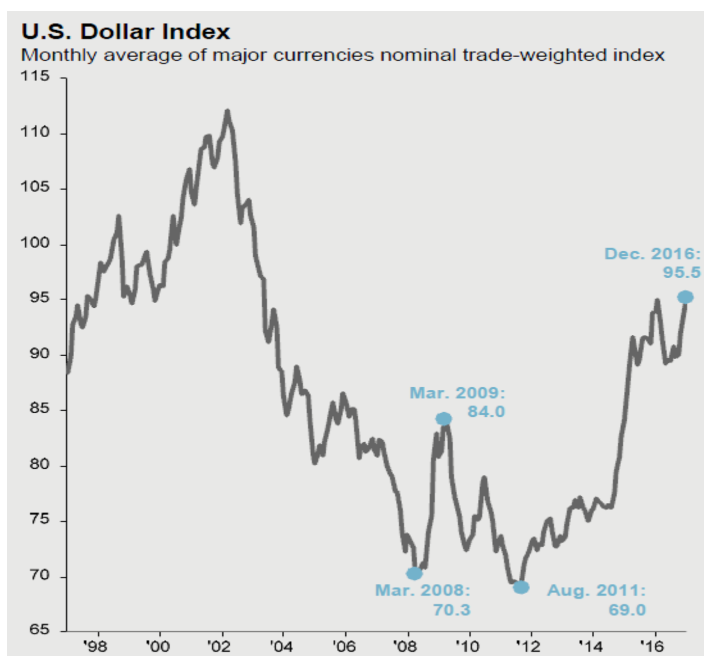
A question posed by many investors is whether it makes sense to stay invested after the markets have reached a new high, as in late 2016. Dimensional Fund Advisors (DFA) completed some research that casts an interesting light on this issue. In examining historical S&P 500 Index data since January 1926, when the market hit a new high, returns for the following 12 months were positive 80% of the time (versus 75% for any 12-month period). In other words: there is no reason to get out of stocks following new market highs.

As the great value investor Benjamin Graham wrote in 1949's *The Intelligent Investor*: "In the short run, the market is a voting machine; in the long run, it is a weighing machine." We believe—and historical evidence suggests—this is as true today as it was then.

From a market valuation perspective, the S&P 500 today looks to be "fairly" valued. Using the forward P/E (current stock price divided by estimated future earning over the next 12 months), the S&P 500 is now priced at 16.9 times its forecasted earnings. This is the same as the index's 20-year average. The current dividend yield for the S&P 500 stands at 2%. Based on these metrics, the market's valuation is in line with its historic norms and does not appear to be "overvalued."

International Equities

Despite a strengthening dollar and protectionist rhetoric from a newly-elected US president, international markets posted largely positive results in 2016. The MSCI EAFE Index, the most widely used international index, declined 0.6% for the quarter, but was up 1.5% for the year. Japan posted a loss of 0.1% of the quarter but was up 2.7% in 2016. In the last 10 years, the MSCI EAFE index has averaged 1.2%



annually (compared to the S&P 500 rise of 6.9% per year). Historically, trends alternate; having significant international exposure will continue to be important.

The stronger dollar also made it difficult for the emerging markets, although this year they were supported by rising oil and commodity prices. The MSCI Emerging Markets Index declined 4% during the fourth quarter but it was up 11.6% over the full year. The rising commodity prices boosted the growth prospects of exporters such as Brazil and Russia, whose markets were up 66.7% and 55.9% respectively in 2016. At the same time higher energy costs put a drag on the economies of China and India. China's market was up only 1.1%, while India posted a slight loss of 1.4% in 2016.

Bonds

During the 4th quarter, yields rose and prices declined in nearly all major bond sectors. This reflected the rise in interest rates and uncertainties about future inflation. The Barclays Capital Aggregate Bond Index fell 2.9% during the quarter, but finished the year up 2.6% while the yield on the 10-year treasury note rose to a high of 2.4% (from 1.6% in Q3).

US Treasury Inflation Protection Securities (TIPS) declined 2.4% in the 4th quarter, but rose 4.6% over the full year.

Real Estate and Alternatives

Alternative holdings were mixed during the fourth quarter but posted mostly positive results for the year. Alternatives helped boost returns in most portfolios, particularly for more aggressive investors.

- Global real estate, as measured by the NAREIT Global Index, lost 5.7% in Q4 but despite falling in seven of the 12 months, rose 4.6% for the full year.
- Dollar-denominated emerging market bonds had a positive year despite uncertainties surrounding emerging market economies and the rising dollar. The JP Morgan Emerging Markets Bond Index (which tracks bonds issued in dollars) was down 5.3% for the quarter but posted solid gains of 9.6% in 2016.
- Merger Arbitrage, which attempts to take advantage of pricing differences, is benchmarked to the Credit Suisse Merger Arbitrage Liquid Index. The index was down 0.8% for the year, rising modestly in the 4th quarter.
- The Alerian Master Limited Partnership Infrastructure Index, which tracks energy transportation and storage facilities, gained 2.4% for the quarter and was up 18.7% in 2016.
- The Wells Fargo Business Development Company Index, reflects venture companies lending to and investing in smaller or newer businesses. The index was up 5.4% for the quarter and 24.4% for the year.
- Timber—as measured by the FTSE NAREIT Timber REIT, was down 3.4% in Q4, but rose 8.2% for the year.
- Managed futures—as measured by SG Trend Index, which represents this category, declined 4.4% for the quarter and was down 6.1% over the full year.

In Sum

In sum, 2016 was a good year, especially for US investors. US equities were strong and our alternatives provided positive contributions. The strength of the dollar weakened many of the foreign country results, but international investments still produced positive results in each of our asset classes. Currency strength fluctuates and the dollar will experience its periods of challenge in the years ahead. When this occurs, non-US investments will benefit.

Finally, the uncertainties surrounding the new administration's policies will require a "wait and see" approach. Think optimistically and hope for the best.

Thank you for your continued trust and confidence. It is our honor and pleasure to serve you today, and for the past 30 years.

Please get in touch with any questions, and keep us in mind should you have friends with similar needs.

Your Mosaic Team

Sources: Morningstar, JP Morgan Asset Management, Reuters, NYtimes.com, WSJ.com, US Bureau of Labor Statistics, US Census Bureau, Standard & Poor's, National Association of Realtors, University of Michigan, Yardeni.com, Freddie Mac, Dimensional Fund Advisors.