MOSAIC FINANCIAL PARTNERS, INC.

Effective Financial Strategies

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Portfolio Protection Strategies

By Geoffrey Zimmerman, Senior Advisor & CCO

Since the start of the year, the stock market has been swinging wildly, and some investors may be willing to try just about anything to protect their portfolios, including strategies that don't often work.

Two common portfolio protection strategies—stop-loss and put options—aren't as good at protecting your capital and maximizing your earnings as the simple methods of diversification and rebalancing.

Stop Using Stop-Loss

A stop-loss order is a standing order to sell a particular security (such as individual stocks and exchange-traded products, not open-end mutual funds) when it drops in price by a certain percentage. It may temporarily stop the bleeding when the market is swinging down, but can do more harm than good to long-term portfolio performance.

For instance, say you own 100 shares of Company X, trading at $100 per share. Worried about a market decline, you put in a standing stop-loss order to sell if the price drops by 10% (to $90 per share). A month later, the stock drops to $90 during trading hours; your broker dutifully sells your shares. With the leftover funds, you purchase Company Y stocks at $90 a share and place a stop-loss order to sell at $81 (10% below your purchase price).

During the night when the markets are closed, a dictator in a country halfway around the world sneezes, and the market reacts. The next morning, Company Y's opening trading price is $70 because of the large volume of sell orders that flooded in overnight. Because of the way stop-loss orders work, you sell at $70, the next available market price once your order is triggered, instead of getting out at $81 as you thought you would. Your losses have surpassed 10%, and you've incurred additional trading costs.

You are sitting on a diminishing, but still tidy, sum of cash to invest. However, concerned by your losses, you now want to wait until the market looks like it's going up before you buy back in. But it's virtually impossible to consistently predict which direction the market will go, and by waiting until after the market is

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Money Crossing Borders Requires Special Planning

By Steve Branton, Senior Financial Planner

For those who want to retire abroad or move back to the U.S. after years working overseas, making the move is one thing—but figuring out how it will affect your finances is a much bigger challenge. Financial planning would require taking into account varying tax rules, currency fluctuations and even political instability.

The good news is that a new kind of financial planning is emerging to help people navigate the potential pitfalls: Cross-border planning can help you keep as much money as possible securely in your pocket as you move from country to country.

Americans who have financial interests outside of the U.S., live abroad or have dual citizenship; foreign citizens moving to the U.S.; or the foreign children or spouses of American citizens may all benefit from cross-border planning. If you are in one of these situations, seek out professional help to make sure you protect your financial interests.

Cross-Border Planning Topic Areas

The global financial and legal landscape is complex and ever-changing. Immigration, tax, labor and real estate laws, securities regulations and a host of other factors come into play when your money is active internationally. The potential pitfalls associated with cross-border financial transactions can range from severe penalties for failing to pay taxes properly to banks simply refusing to move money between

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What's Inside

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going up, you'll have missed out on potential gains.

Ultimately, a stop-loss strategy defeats sound investment principles by creating additional trading costs when the stops are triggered and by relying on market-timing decisions, which are notoriously unreliable.

Put Aside Put Options

Another common portfolio protection tool that tends to disappoint in the long run is a put option. In exchange for an upfront fee, the writer of the option agrees to purchase your stock at a predetermined price during the life of the contract.

With a put option, you are purchasing a contract that gives you the right (not the obligation) to sell your stock at a specific price, no matter what happens to the actual price of the stock. Note that this is different from the stop-loss strategy in which you have a standing order to sell the stock once it falls below a predetermined price that is lower than the market price.

For example, let's suppose it's May 1 and you own 100 shares of XYZ Co., which is trading at $100 per share, and you are worried about a potential price drop. For a fee of $300, you can purchase a contract that will allow you to sell your 100 shares of XYZ Co. to a purchaser for $100 per share on or before May 31, no matter what the price of XYZ stock does between now and May 31. If the stock price goes up, you keep your shares, but lose the $300 for the contract. If the price goes down (even if it goes to zero), you sell your shares and pocket the $100 per share (minus the $300).

The primary issue with this strategy is the cost of buying the put options. When market volatility increases, the premiums for the put options also increase. Over time, in order to not lose capital, the portfolio will need to grow by enough to offset the cost of the options. Although this hedging strategy may offer some short-term comfort, ultimately the costs erode long-term returns.

Diversification and Rebalancing

Investors use stop-loss orders and put options to help protect themselves from short-term market risk and potential loss of capital. But the strategies themselves involve problematic and potentially costly issues. So if stop-loss and put options are off the table, how can you protect your portfolio in a volatile market? Investors should use the same tactics that work in any market, calm or volatile: Build a diversified portfolio and periodically rebalance it.

Building a diversified portfolio involves selecting a mix of investments by type (such as stocks, bonds, cash or commodities) from a variety of industries and from across the globe. The proportion of investments (for instance, 60% stocks and 40% bonds) is determined based on the investor's desired level of risk and return. Historically, stocks tend to be more risky but yield greater returns than bonds, so a portfolio with a greater stock allocation would be suitable for a more aggressive investor. The overall performance of the portfolio in any given year will depend on the proportionate contribution from each of its components.

Rebalancing refers to periodically buying or selling investments when market movement causes the portfolio to drift away from the initial target allocation. Investors purchase investments when the price relative to their starting point is lower (buy "low"), and they sell investments after an increase in price (sell "high"). By using this type of disciplined approach, investors can maximize their earnings and make the most of market conditions.

A caveat, however: The very act of rebalancing involves trimming "winners" and adding "losers," which can sometimes be difficult to do for self-guided investors who are emotionally (and not just financially) invested in their portfolios. If this is the case for you, consider working with an independent advisor who can help you set aside emotion and make the necessary adjustments to continue protecting your portfolio.

Balance and Endurance

By using a disciplined approach of rebalancing, you are adding to investments when prices are lower, as opposed to the stop-loss approach, which involves selling an investment when the stock price falls. Periodic rebalancing does not require market timing or attempting to guess which way the markets might move in the near future. It does involve the placing of trades and thus the associated costs (trading fees and possibly taxes), though less frequently than with stop-losses.

History and investor experience have consistently shown that success in investing is ultimately about balance and endurance. To that end, diversification and periodic rebalancing are the best portfolio protection tools for long-term investors.

Why We Need to Talk About Money, and How to Get Started

By Sheila Schroeder, Director of Client Development

A few years ago, I was out on a hike with my friend when she asked me a question. "Are you on track to have $1mm in your 401(k) by the time you are in your mid-fifties?"

I asked her why she was asking. She said she wanted to know, if I was on track, how did I get there? If I wasn't, what choices had I made that had prevented me from reaching that number?

Her questions weren't about my "number," the amount I had saved so far—they were about my strategy. We went on to hike and talk for the next two hours. We shared stories and ideas about how we saved, invested, and spent our money. We talked about our parents and their money patterns and how we each came to work in finance. I came away with some good ideas about what I could do differently, and I know she did too. My friend told me she felt better comparing notes with me; she realized she was getting some things right and got some insight into what she could do better. She felt less alone.

That initial question started me on the path that brought me here today. I have gone on to speak to countless men and women about their finances: how they feel about them, what they know about them, and how they manage them. Some of the stories shared with me were from financially savvy, informed, and empowered people. Others were not. Some stories were incredibly self-critical. There was shame, embarrassment, and guilt, often driven by a lack of knowledge. So much judgement! Yet, all of these conversations have centered on strategies, not amount. **Tools, not guilt, will lead us to empowerment.**

I've spent my entire career working for financial institutions—understanding how money works has always been my passion. Yet, in my early years, I made my fair share of personal financial missteps. In the late 1980's when the financial markets crashed, I lost my job, along with thousands of other people. I made a good salary, but was living hand to mouth. I saved in my 401(k) but did not have an emergency fund. I ended up having to cash out my 401(k) to meet my expenses. That was a huge mistake.

In fact, not having an emergency fund, and cashing out your 401(k) ranks very high among the worst financial mistakes a person could make. I had to pay a penalty and I was taxed on the amount I received. The net amount was not meaningful compared to what it would be worth today if I'd kept the money invested.

Once I landed a new job, I decided to educate myself. Keep in mind, I worked in finance. I was surrounded by money talk all day. However, my area of focus was the Asian stock markets and I worked with large institutional clients. My market knowledge had very little overlap with personal financial knowledge. I wanted to achieve financial independence, which I define as being in a position financially to live

The Why

As students, we aren't learning it:

- **Only 20 states require high school students to take a course in economics.** This is two fewer than in 2014, and still less than half the country.
- **Only 5 states require a standalone semester course in personal finance.**
  Source: Council for Economic Education

As adults, we aren't doing it:

- The Federal Reserve's 2014 Survey of Household Economics and Decision making found that **31% of non-retirees surveyed have no retirement savings or pension**.
- Among individuals who are saving, **fewer than half of adults polled are confident in their ability to manage investment decisions**.
  Source: The Federal Reserve Bank

In retirement, it matters:

- Life expectancy for American females is 81.2 years; for males, it's 76.4 years.
- Many women will have 15 years of retirement, and men will have an average of 11.
  Source: CDC

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domestic and foreign accounts without draconian levels of verification.

Some of the most essential elements of cross-border planning that you'll need to consider include:

Cash management: Failure to take into consideration disclosure requirements and regulations governing the movement of funds in and out of a country could tie up your money. If U.S. citizens fail to disclose accounts overseas on the annual Report of Foreign Bank and Financial Accounts form, they may be liable for penalties of up to $10,000 per violation or higher. Additionally, currency exchange rates can affect the value of your money.

Income taxes: American citizens living abroad must pay U.S. income tax, in addition to any taxes levied on their income in the country where they live and work. Tax codes in your country of origin and country of residence may both apply to your income.

Retirement planning: Different countries have varying rules regarding taxation of retirement savings. Ignoring such rules may result in your overpaying taxes on retirement funds, underpaying and facing penalties, or missing out on government benefits you're eligible for. Without proper planning, a worker looking to roll over a U.S.-based retirement plan such as a 401(k) to Canada, for example, could find those accounts becoming immediately taxable. But with careful coordination and understanding of the tax laws of both countries, it should be possible to handle such a transfer mostly tax-free.

Estate planning: Foreign jurisdictions may not recognize and honor an estate plan formulated in the United States. Inheritance tax regulations and tax treaties vary among countries, and money heirs who might inherit tax-free in one jurisdiction may be heavily taxed in another. For example, because of U.S. estate-tax laws, a Mexican citizen residing temporarily in the U.S. could face a major estate tax liability by buying a U.S. property, such as a home, outright. Seeking expert legal counsel before making such a purchase could save the decedent's survivors huge estate tax bills.

Investing: Again, tax liabilities and regulatory requirements come into play when dealing with investment income generated or moved internationally.

Insurance: Some forms of insurance benefits may not be wholly transferable from country to country. For instance, your U.S.-based health insurance policy may not pay your benefits in a foreign country, and a foreign country may not allow your heirs to receive a U.S.-based life insurance payout free of taxes. Proper advance planning could help you uncover and prepare for such issues.

Proceed with Caution

It's incredibly difficult to become an expert in all the many international regulations that affect money when it crosses borders. In fact, most professionals specialize in just a handful of countries. To find a financial, legal or tax planner well versed in the cross-border issues in the country you are relocating to or from, consider resources such as the Cross-Border Financial Planning Alliance, the National Association of Personal Financial Advisors and the Financial Planning Association.

The world is truly evolving into a global society, but it's one with complicated rules about how people make, save, invest and transfer their money. If you or your money needs to move into or outside of the U.S., proceed with caution and make sure you do some cross-border planning before you make the move.

MOSAIC
WOMEN'S CIRCLES

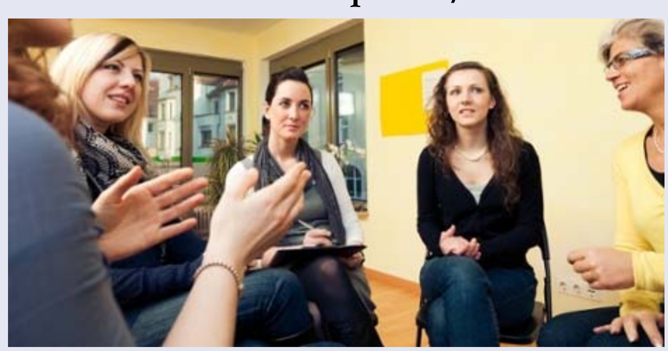
What transforms a meeting into a Circle is the willingness of participants to shift from informal socializing into a receptive attitude of thoughtful speaking and deep listening, in order to discuss their financial wellbeing and their decision processes around money.

We learn from each other, we witness each other, we allow everyone to be seen and heard. We realize that we are not alone in our thinking and feelings. Discussions range from the pragmatic to the behavioral, and often include writing prompts and talking points. Friends are encouraged to attend.

Circles are a great way to invest in yourself. Set aside a little time to do just that, and it can impact how you feel about your finances for good.

Sign up for our mailing list to stay in the loop:

www.mosaicfp.com/circles



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the life you want to live, whatever that looks like for you and for the people who rely on you. It does not mean being independently wealthy.

We Need to Talk About Money

Many of us are raised to believe that money is not an acceptable topic of polite conversation. We often learn from our parents that it is a taboo subject. Maybe when you were young, you asked your dad how much money he made or how much the house cost, and you were shot down for asking. Perhaps your parents were uncomfortable about their money because they had a lot (or not enough), and didn't want to talk about it, let alone teach you how to manage it.

From spending most of my career on one, I can say that men on a trading floor talk about four things. They talk about what to have for lunch, relationships (sex), sports, and money. It's a fluid conversation. If they don't know the answer to a money question, they'll ask their buddy or their financial advisor. Not knowing or not understanding is not a slam on their manhood. As a result, they regularly ask the questions they need to ask and they are comfortable with taking a stab at trying to manage their money.

Most women are very comfortable talking about their children or marriage at some level. We commiserate—we share stories and solutions. We hold each other up through tough times. We know it takes a village.

However, we rarely share how we manage our financial lives. We are often entirely in the dark on how our parents are planning to fund their retirement. Some of us don't really know how much we have for retirement because we've let our spouses manage it. We wonder how our friends are funding their kids' college plans. How do they manage their family finances – do they have a joint account, or separate accounts? We need to ask these questions and hear the answers because if we don't, we can be blindsided by events.

Keep in mind: none of these questions are about how much money anyone has. You are not asking for numbers. You are sharing strategies.

How to Get Started

Start with a trusted friend, somewhere comfortable or familiar. Go for a hike like I did. Open up the conversation by saying that you don't want to know actual numbers, but are asking about strategy, because you wonder how you could do it better.

A few starter questions:

- Can I ask you a personal question about how you manage your family finances?
- How are you and your partner thinking about retirement?
- Do you have individual IRAs and 401(k) plans? How do you talk about it? Have you shared your numbers with each other? Do you have a coordinated plan?
- How are you managing saving for retirement and college? Are you expecting your kids to contribute to their college education or will others in your family help out?

Consider Practicing With a Coach

Last fall, a woman came to me because she had no idea how much she and her husband have for retirement. She was anxious because her husband kept putting her off whenever she asked about it. We worked together to come up with a list of questions and practiced some responses so she could get comfortable.

Her initial questions to him were met with a bit of hostility. His first response had been, "Why the sudden interest?" Then, "Why are you asking?" Other responses from other women I've coached include things like, "You wouldn't know what I was talking about anyway," or "Why do you want to know now after all these years?" and "Don't you trust me?"

We practiced responses together. After some practice she was able to respond with, "I'm asking because I'd like to understand our finances better. You've done all the work for a long time and I'd like to help share the responsibility of managing our finances."

This is about opening up the money conversation so you can begin to fully engage in your financial life. You have the ability to take control of your financial life and seek what wealth means to you. It begins with this conversation.

The How

Start by asking yourself questions like these:

- How would it feel to ask a good friend how they manage some of their finances?
- How would it feel to have a straightforward conversation with your sibling about what their plan is once you and they inherit the family summer house?
- How would it feel to ask your parents if they have prepared for the cost of long term care?

Ask a Financial Planner

My son is a new graduate who has just landed his first "real" job. He's never had to deal with benefits before, and says the terms and options make him want to "close my eyes and just check boxes." Can you help clarify things for him with an overview of benefits he will probably encounter?

1. Retirement: Most employers offer an individual retirement plan, such as a 401(k). There's typically a brief waiting period after you're hired and before you can begin contributing, but once the option is available, you can divert some of your paycheck toward retirement savings pretax.

Many companies even match a portion of your contributions. The match can either be capped at a percentage of your salary—usually between 2% to 5%—or a dollar amount. That's free money—and a pretty sweet deal! In most cases, your company's contributions vest—or become yours—after you've worked there for a certain number of years. The money you contribute is always yours, even if you leave before the vesting period ends.

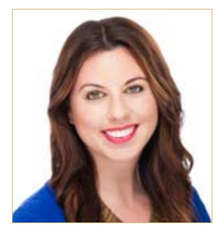
2. Health/medical: If your company employs more than 50 people, it's required by law to offer health insurance. Carefully review your employer's plan options and understand the costs. Look especially for each plan's co-premium, which is the amount that would be taken out of your check each month to pay for coverage, and your copays, the amount you'd pay out of pocket for health services.

3. Flexible spending accounts: You can divert some of your paycheck into a tax-advantaged account called a flexible spending account. Health FSAs help pay for expenses that aren't covered by health insurance, and dependent care FSAs help pay the costs of child care for kids under the age of 13. FSA contributions are capped at $2,550 per person for 2016. You lose unspent contributions when the plan year is over unless your employer offers a retention option.

4. Health savings accounts: If your employer-sponsored health plan has a high deductible, you're eligible for a health savings account. HSAs are like FSAs in that they allow users to save money tax-free against medical expenses, but the 2016 HSA contribution limit is $3,350 for an individual. And unlike FSA funds, money in an HSA doesn't expire when the plan year ends.

For more on benefits, head over to our blog for my full overview. Let me know if I can be of further help. And congratulations to your son!

Megan Terzian,
Associate Financial Planner



Ask an advisor! Send questions to:
mfp@mosaicfp.com

We want your feedback!

A critical priority for us is ensuring that we provide the highest level of service to you and all clients. One way to help do that is to ask for feedback from you about whether or not we are serving you in the best way possible. That's why our front desk coordinator, Destiny, emails you a short survey after you've met with your advisory team. Please do share your thoughts with us–we are here to listen.

Save the Date
Mosaic's Holiday Party

We want to thank you for another great year by toasting the season together. Join us:

Thursday, December 8th, 2016
5:30 to 7:30 PM
at Mosaic's San Francisco office

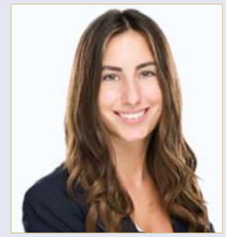
Spotlight on Client Services Associate Shelby Stahr

What brings you to Mosaic?

After working at a few jobs in this industry, I found I most enjoy client services work and how it dovetails with financial planning. I joined Mosaic in June, and am very glad I did. Mosaic is filled with people that support you and really encourage professional and personal growth. I enjoy working with people that are always trying to do and be better, continuing to learn as much as they can.

What do you most love about the work you do?

Interacting with and helping clients, and learning their stories. My role is primarily to help clients whenever they contact us with a request or are in need of account maintenance. It's very rewarding to be able to put someone's mind at ease, or to provide clarification if needed.



Around the Office...

At the Podium

Norm Boone spoke at the Financial Planning Association's Miami Symposium, discussing best practices regarding withdrawing money from investments during retirement, and highlighting Mosaic's processes.

Sabrina Lowell spoke at Dow Jones' MarketWatch event, *Retirement Matters for Women.* The conversation highlighted financial and lifestyle objectives including how to negotiate a raise, the changing financial dynamic for women in their personal relationships, and why long term care is so important for women.

Sheila Schroeder spoke to the Chautauqua Women's Club on "How to Talk About Money and How To Get Started."

Education: A Continuing Affair

At the end of May, Mosaic's planning and advisory team attended the Financial Planning Association's NorCal conference. A national conference, "NorCal" provides two days of education delivered by leading experts in the areas of planning, investments, tax and insurance.

In August, **Kevin Gahagan** attended FPA's Far West Round-Up conference hosted at UC Santa Cruz, featuring interactive sessions that take a deeper dive into relevant topics for planning professionals.

Sabrina, **Holly Gillian Kindel**, **Liz Revenko**, **Mary Ballin** and **Megan Terzian** attended a workshop with Luna Jaffe in how to help clients explore their relationship with money through a lens of creativity and curiosity.

Melissa Cheong and **Shelby Stahr** attended the client-focused conference Schwab Solutions, which this year discussed fraud prevention, verification techniques, cybersecurity and electronic approvals.

Elka Weber earned a certification in Inbound Marketing through HubSpot Academy.

Giving Back to the Community

Sheila taught two classes targeted at young professionals and teens, "How to Navigate From Your College Career Office to Your First Job" and "Financial Fitness for Savvy Teens".

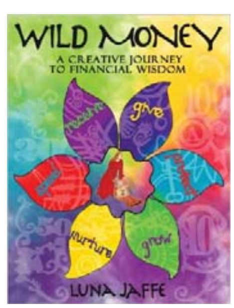
Furthering the Profession

Megan finished another great year serving on the FPA NorCal conference committee and is looking forward to continuing her involvement with the conference and committee.

Other Fun Stuff

For its 10 year anniversary, **Sabrina** hosted her Study Group Xcelsior for three days in the Bay Area. In the world of financial advisors, the purpose of study groups is not necessarily about "academic" study, but more commonly focuses on practice management, business succession, and career development issues. Xcelsior is comprised of 11 individuals from across the country including other wealth managers, industry speakers, writers, and technology consultants who get together formally once a year to share industry best practices.

What We Are Reading: Wild Money



Author Luna Jaffe is a Certified Financial Planner™ and artist interested in helping people leverage their creativity to transform their relationship with money. The book and accompanying field journal offer activities and insight with each interactive chapter.

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Effective Financial Strategies

The Mosaic Newsletter

Thoughts to Live By

"The mediocre teacher tells. The good teacher explains. The superior teacher demonstrates. The great teacher inspires."
– William Arthur Ward

"Example is not the main thing in influencing others. It is the only thing."
– Albert Schweitzer

"The mark of a great man is one who knows when to set aside the important things in order to accomplish the vital ones."
– Brandon Sanderson

"The only people with whom you should try to get even are those who have helped you."
– John E. Southard

"The only way to do great work is to love what you do."
– Steve Jobs

Even more is available on our blog:
mosaicfp.com/blog

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