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Effective Financial Strategies

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Currency's Fluctuating Impact on Global Stock Performance

By Norm Boone, CFP®, Founder and President

The world's stock markets have been humming along quite nicely over the last year. Given all the turmoil in the world—terrorism, Trumpisms, Brexit, Italian banks, political upset in Latin America, and the like—it's been refreshing to see such positive performance.

As of late August, market performance around the world has been almost universally positive. In fact, according to Morningstar, all international category returns are in double digits since January 1 of this year. Japan's performance has been reported as being the lowest, at 13%. The biggest winners have been China, India, and Latin America. Europe, overall, is up nearly 17%. Funds invested in diversified emerging markets are averaging 26%.

The only blot on this picture is in the US, where small value stocks are struggling to get to zero.

Currency has played a huge role.

Remember in 2014 when foreign stocks were all turning in negative returns in contrast to the strong returns in the US? While foreign economies were not as strong as they are today, a key contributor to these differentiated results was fluctuations in the value of currency.

As the dollar became stronger, its strength made foreign currencies weaker in dollar terms. Even if local markets (e.g. the French stock market for French investors) were reasonably strong in 2014, from an American investor's perspective, these positive local results couldn't overcome the headwind of declines in the value of French currency relative to the dollar. So, reasonable returns for the French investor ended up negative for the American investor—simply due to currency fluctuations.

In 2017, the opposite has been true. Foreign economies have been stronger and the dollar has weakened relative to world currencies. So this year, when our French and American investors compare results, the French get to gloat because they not only get the positive returns from

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Help Kids Soar Financially

By Holly Gillian Kindel, CLU, FBS™, CPCC, CFP®, Advisor

Teaching children about money and what it can do helps build crucial 21st century skills. Most education curriculum falls short in teaching kids about the basics, and sadly many parents don't seem to have the time or skills.

Here's how to give kids the edge they need to successfully navigate modern money culture.

Work together and remember you're in it for lasting results. Financial empowerment is an ongoing educational process. Much like working out, it takes time, focus, and energy to yield sustainable habits that will benefit your child across all parts of their life. You'll be getting fit right alongside your little one, so remember to spot each other. Start small, and start early.

Don't put the cart before the horse and jump right into investing in stocks as your first money education move. Your child could fall for the false belief that money magically materializes.

Do cover the basics first:

1. Provide an allowance.

Money research shows that children who receive an allowance on a regular schedule are more inclined and better able to make plans for that money than those who receive cash irregularly or have to ask. They are better able to manage money because they have learned they can plan around a predictable cash flow.

2. Allocate funds.

Let your child know that money, like water, wants to flow: it's up to them to direct that flow. Start with

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What's Inside

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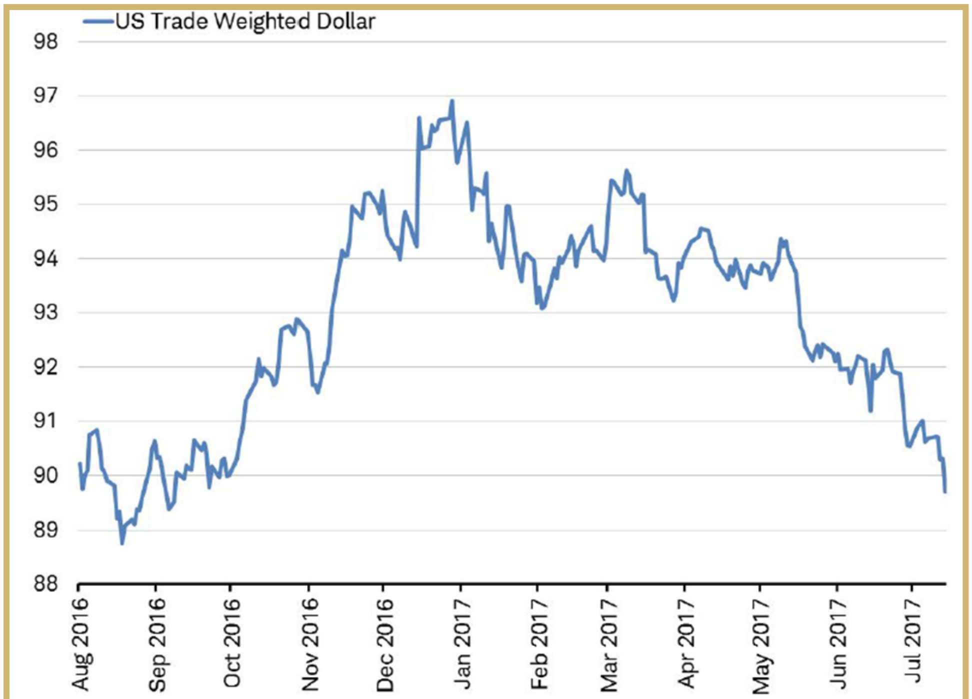
their local market, but also from the added tailwind of the French Franc's strengthening relative to the dollar—further boosting their overall return in dollar terms.

The "US Trade Weighted Dollar" chart on the right looks at the change in the dollar's value over the last twelve months relative to other world currencies (as proportioned by how much trade the US does with these currencies).

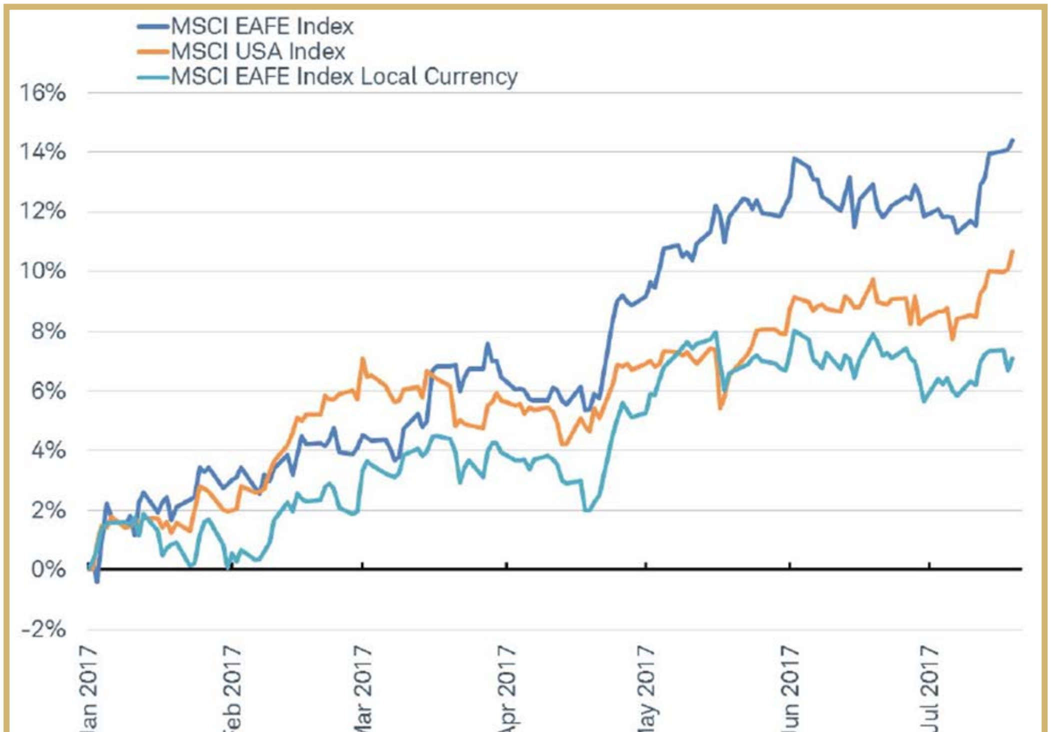


Source: Charles Schwab, Bloomberg data as of 7/20/2017.

You can note how the shift in currency valuation begins right at the beginning of 2017. This shift has affected international trade volumes, foreign earnings, and seems to have directly affected foreign stock performance (a major change in international performance, particularly given the struggles experienced in 2016).

Here's another way to view this question of currency valuation and stock market performance. In the second chart (below), the MSCI EAFE Index (the broad measurement of international stocks) appears to be easily outdistancing US results. But, that third line, the lower one, represents the returns of international stocks in local currency (i.e. the French buying French stocks).

While international returns in local currency are still nicely positive this year, the performance in local currencies has actually been slightly below that of the US market's performance.



Source: Charles Schwab, Bloomberg data as of 7/20/2017. **Past performance is no guarantee of future results.**

From Mosaic's perspective, a noteworthy takeaway is that markets come in and out of investor favor for a variety of reasons, not all of which are predictable.

Markets change by nature. Usually, market returns and performance revert to some level of "mean average performance" over time.

Whether markets are in or out of favor, it's best to remember that returns will continue to fluctuate in response to varying economic circumstances.

How a Hobby Taught an Enterprising Teenager About Money

By Cooper Phillips; Cooper is Director of Client Development Sheila Schroeder's 16 year-old son.

Mosaic asked Cooper to tell his story in our newsletter because he serves as a great example of an intellectually-curious teenager taking initiative and learning about time, resources, value, and money management.

"I've learned many things about business as well as myself through my experiences as an entrepreneur—including the values of creativity, integrity, resourcefulness and hard work—and I'm excited to keep pushing myself."

I'm currently a sophomore at the Drew School in San Francisco. Between my time spent in class and participating in sports, I have been creating my own resale and restoration business, forging my own path to financial success.

When I was 13 years old, my neighbors were clearing out their garage. I noticed that they had put a dilapidated bicycle on the curb, offering it for free. I immediately recognized the opportunity to take this run-down bicycle, clean it up, and sell it.

I brought the bicycle home, hosed it down and polished it up to see how it looked, and to determine what kind of repairs it needed. Having no previous experience with bicycles, I wasn't sure how to start, so I decided to bring it to the local bike shop and see what they thought. The bike shop put a new set of tires on it for me at cost and then it was ready to ride.

Later that night, I taught myself how to use Craigslist. One week later, I sold that first investment. I had invested one hour of my time and $80 (for the tires), and I made $150 profit by selling the bike for $230. All of the money used in my projects since then has been money I have made by myself as a self-taught entrepreneur.

Once I made that $150, I knew that I had uncovered a new talent: I was good at seeing potential when others didn't, in bringing such objects back to life and selling them for a profit. By my 15th birthday, I had sold 12 bicycles and had made over $1500 in profit, having worked only 20-24 hours in total across all the bicycles. I was also setting my own hours, learning about sales, and making considerably more than I would have made as a babysitter.

I saved most of the money I made and continued to reinvest it in other business ventures, slowly but surely building my miniature business empire.

Ready for a new challenge, I next decided to expand beyond bicycles and focus on motorcycles. I had no previous experience working with them either, but I wanted to learn. I bought my first motorcycle from a junkyard. It had been sitting under a tree since 1975, and I didn't know it at the time but it was a basket case. I unfortunately never got it running, but the process of taking it apart and putting it back together taught me valuable skills that are still with me and will hopefully stay with me for years to come.

Having learned from that first junkyard motorcycle, my subsequent projects went better, because I developed a better system of analysis. When I look at a motorcycle now, I see potential in it and, based on its condition, I know that I can make money from it.

Over the course of the last year, I sold 11 motorcycles in total, generating attractive returns for my efforts. In addition to two motorcycles that I fully restored, I flipped nine additional motorcycles: I recognized a simple way to close a gap in the market between supply, which often was far outside of the city, and demand, which typically was inside the city. I told sellers that I would buy their motorcycle if they'd deliver it to me in San Francisco, as I couldn't personally retrieve them, and then I re-listed each one with an "in-city" markup that I knew from my research that buyers were willing to pay. I have also sold two trucks and other miscellaneous items.

I've learned many things about business as well as myself through my experiences as an entrepreneur—including the values of creativity, integrity, resourcefulness and hard work—and I'm excited to keep pushing myself and tackling new personal and professional challenges in the coming years.

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three pots to catch that flow: saving, giving and spending pots. Match your children's savings in a manner that is in alignment with the behaviors you want to encourage.

Teach kids about the benefits of deferring gratification through savings: you can create savings pots that do and don't match with interest so kids can visually witness the power of compound interest. You might want to make a "college savings" pot, too, at this point.

3. Help your kids plan their spending.

The Stanford Marshmallow Experiment taught us that "high delayers" are more successful in just about every aspect of their lives. What behavioral science also tells us is that impulse control is a muscle that can fatigue and eventually fail without rest. Helping kids to create structures and routines around their money practices will not only yield money rewards, but also life rewards. Set up weekly money meetings where you and your children review the pots of money they have and their plans for those pots.

4. Have your kids record their spending.

Helping your children differentiate between needs and wants is vital. Happiness experts are in agreement that new purchases are exciting, at first, until adaptation sets in. Together you can identify calls to spend in your environment, discussing commercials, trends, and more with your child.

Take advantage of that smartphone that so beguiles your child and employ an app. Apps like Mint will record every purchase you let it; other programs like YNAB allow you to create and monitor spending plans.

Once you and your child have several months recorded, you can begin to observe and discuss patterns. When you do, try allowing your child to lead the conversation. Let them identify characteristics about their daily spending, or gently ask them about what they were thinking in the moments leading up to a purchase so that they can begin to differentiate between impulse buys and thoughtful expenditures.

4. Discuss goals, both immediate and longer-term.

For most kids, this isn't a hard conversation... Remember what you wanted to be when you grew up? And we can all recall that special something we spent weeks saving for and the pride of making that purchase. In their book Happy Money, the authors talk about how the process of saving and planning for a purchase is a big part of the pleasure of spending. To help model this desirable outcome, consider having your family commit to consuming experiences instead of collecting things.

5. Ramp up the responsibility.

As kids get older, have them take on age-appropriate financial responsibilities. Things like clothing, phones, computers, gas, car insurance and more are all fair game. What's important is that they are learning to be responsible for tasks, to follow through on their plans, and to make payments in a timely manner.

This is not a "throw them in the deep end" exercise, either: parents will need to explain why this is happening and provide their kids with the proper tools. The key is to make sure you're there to help them move through each step. Allow them to learn what's necessary to prevent slip-ups from happening again.

6. Introduce investing.

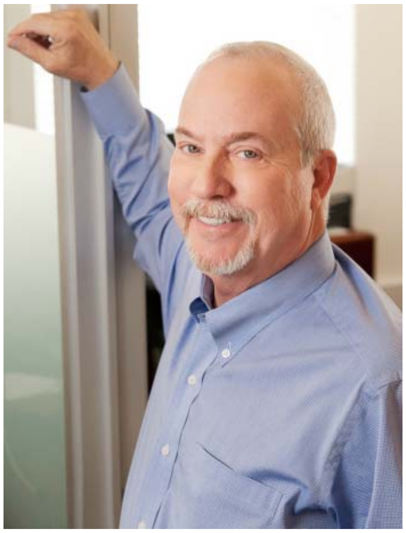
Once your child has saved enough money to make an investment (the amount could be anywhere from $250 to $1000, depending on what vehicle you use), you can help introduce them to the world of investments. While a common suggestion is to help junior invest in the stock of an individual company that they recognize (Disney, Hasbro, Nintendo), doing so will set them up for hazardous money mistakes that they will likely repeat for the rest of their life. Avoid choosing to invest in individual stocks because doing so concentrates your risk unnecessarily by investing only in one company.

Avoid creating allegiance to a company based on limited data points. Sure, that single company stock is a fun toy (remember Atari?) but don't let that emotional bump bypass common investment sense and have you placing all bets on red, assuming that company will even be around in the next 10 years, much less match market returns.

Instead, consider selecting a low-cost index fund that invests in all the world's stocks. I'd recommend focusing on evidence-based investing, on intelligent asset allocation using indices, and on disciplined rebalancing.

Do some background research with your child: you can access the most recent annual report on the web and find out about all of the companies "your fund" invests in. You can then turn investing into a treasure hunt, identifying all the companies whose products your family uses each day that your fund invests in. You could get a map and put pins in each company's country of origin, launching a discussion about world markets and the value of avoiding home country bias. Who knows; you might just learn something, too!

Ask an Advisor: Property Insurance and Rising Home Value



In the Bay Area, home values continue to rise. Kevin Gahagan, a Mosaic principal and our Chief Investment Officer, has a few words of advice for homeowners with respect to how rising home values may impact their home's insurance coverage.

Our home's value has gone up considerably, and still appears to be rising. What effect will this have on our property insurance?

You've hit on a subject that all local homeowners should be aware of. Residential property values continue to increase given the tremendous demand for and limited supply of housing in most Bay Area communities.

According to home price data by the Harvard Joint Center for Housing Studies, San Francisco is among the 15% of American housing markets where prices have actually risen above their peak of the mid-2000s housing bubble.

But because there are many variables that influence the market price of a home, a rise in market value, in and of itself, does not necessarily require an increase in one's home insurance dwelling coverage.

The real key to properly insure one's home is insuring the cost of rebuilding the home if it were destroyed in a total loss.

How do we measure rebuilding cost? What factors do we need to pay special attention to?

The critical factor is the local area construction cost per square foot. Rebuilding costs can vary widely based on the type of construction, quality of materials, finishes, and geographic region.

In most cases, your insurance broker or agent can help provide you with realistic rebuilding cost estimates for your area. Where appropriate, these estimates can be adjusted to account for specific upgrades or remodeling you've completed.

But our policy has an annual inflation adjustment. Isn't this adequate to address coverage needs?

Your policy's inflation escalators, typically a standard provision, are intended to adjust dwelling coverage over time. However, these may be inadequate for your home, as they may not reflect local construction costs in your area. (Local costs in the Bay Area are higher than the national average.) Accordingly, it is good practice to speak with your insurance agent periodically to discuss the adequacy of your coverage.

How will we know if we're underinsured?

Take a look at your insurance policy "declaration" page (these are sent to you annually at renewal). Your declaration page will outline your dwelling coverage limit, as well as the associated limits of your other basic policy provisions. Your dwelling limit is what would be available to you to rebuild you home in the event of a major loss (it excludes the value of your home's land).

Failing to maintain an appropriate a "fair market" level of coverage can result in a major claim not being covered at 100 cents on the dollar.

Are we covered if our home requires building code or safety upgrades following a major loss?

Virtually all home policies will include some level of coverage for bringing your home "up to code" if it is needed following a major loss. However, not all policies are equal and it may be necessary or desirable to purchase additional coverage for this type of protection. The older your home is, the more important this type of coverage can be.

If you remodel or improve your home, be sure to notify your agent. You may be able to reduce the cost of your premium if you install security systems, replace your roof, or add smoke detectors.

Your agent can also offer guidance based upon other upgrades or home improvements you've made. Upon request, some insurance companies will come out to conduct an onsite inspection of your home to establish an appropriate level of coverage.

How often should we review our policy?

We believe it's prudent to review all of your insurances coverages at least every other year. We routinely build this review into our clients' planning calendars to ensure their coverage remains appropriate.

Spotlight on Steve Branton, ADPA, CFP®

One of the core elements to Mosaic's success is our team. Read on about how Senior Financial Planner Steve Branton, CFP® shapes his focus based on passion and experience.

What do you most love about the work you do?

My favorite part of my job is the clarity our team brings to clients. When clients feel their worries have been addressed, they begin to allow themselves to dream about their future and actively begin to move toward creating the life they have always wanted. Whether that involves a career change, going back to school, taking time off, retirement, travel, or time with family, it gives me a sense of accomplishment to be part of such positive change. I think our clients worry about what they don't know. When we planners focus on a client's specific worries, we have a pretty good chance of moving them closer to the more creative aspects of financial life planning. That shift into momentum is definitely where the fun is!

What is your "why"?

I've always been drawn to numbers and to "helping" professions. Early on, I saw many examples of the stress that financial decisions left on members of my family. While growing up, I wanted to get involved in a profession that helps people develop personal clarity, decision-making skills, and plans to better their lives, via a financial perspective.

What's your ideal retirement?

I can't imagine really retiring—at least not yet. But I have a major travel bug. One of the things I've worked on doing is creating space and time for me and my spouse to take a 'longer' trip every six years as a sort of a mini-sabbatical. Next stop is Patagonia in 2018!

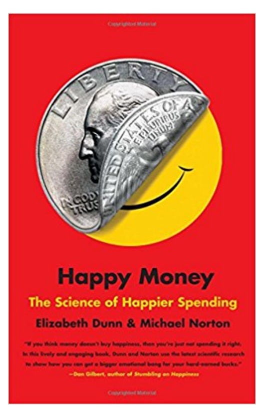
I think a lot of us in the industry are questioning the traditional view that a person retires and "that's that." Instead, we are looking it as a next stage of life with a new set of options. Planners consider when clients can obtain financial independence and be at choice with how much they work and for how long. The ability of our clients to incorporate more travel or time off into their lives now, not just later, is a favorite discussion of mine.

It's been very exciting to watch clients take the plunge and do just that!

When clients feel their worries have been addressed, they begin to allow themselves to dream about their future and actively begin to move toward creating the life they have always wanted.

"I found the problem. We earn money 5 days a week, but we spend money 7 days a week."

What We're Reading



A client recommended this book to one of our advisors, and we wanted to share the great advice. In **Happy Money**, renowned professors Elizabeth Dunn and Michael Norton offer a lively and engaging tour of research on the science of spending, explaining how you can get more happiness for your money if you avoid instinctively following your intuitions. The five core principles of smart spending Happy Money posits may require building a few new habits in order to implement, but if you stick with them, you'll be getting a bigger happiness bang for your buck.

Around the Office...

At the Podium

In July, **Sheila Schroeder** spoke to the Chautauqua Women's Club in New York about personal financial planning policies. The CWC, founded in 1882, aims to reach a large number of communities throughout the country by bringing awareness and enlightenment to individual women on civic, educational, and social issues.

In September, **Geoff Zimmerman** co-presented an estate planning seminar in Oakland hosted by the Planned Giving Committee of the Regional Parks Foundation.

Also in September, **Kevin Gahagan** presented on the objectives, types, benefits, and pitfalls of alternative investments to the San Francisco Chapter of the American Association of Individual Investors (AAII).

Education, a Continuing Affair

In July, **Alda Ng** attended a Quickbooks training in order to further her mastery of Mosaic's accounting procedures.

In August, **Sabrina Lowell** and **Channing Hussey** attended the 2017 Culture Summit in San Francisco. The conference focuses on empowering employees to build the culture they want to work in.

Also in August, **Sheila** taught a special studies course at the Chautauqua Institution, focusing on financial fitness geared toward high school students preparing to leave for college, and toward new college students already navigating the financial responsibilities of living on their own.

Giving Back to the Community

In July, the **Mosaic team** gathered at the San Francisco/Marin Food Bank to volunteer preparing nutritious sustenance for distribution to the greater Bay Area.

In August, **Channing** became a community trustee after completing the Leadership San Francisco program. Sessions towards the program explored topics related to the effect social sectors have on the economy, jobs, and quality of life of the common good.

Also in August, the Junior League of San Francisco hosted its annual Provisional Education Day, as organized in part by **Channing** in her role as Co-Chair of Provisional Education for the JLSF.

Sheila has joined the Investment Committee of the Chautauqua Foundation Board.

Furthering the Profession

Mosaic believes coaching skills are becoming increasingly important in the client-advisor relationship. Often, behavior may keep clients from progressing toward their goals. To make the impact we hope for on our clients' lives, we need to have the skills necessary to help them make the behavioral changes required to move successfully towards those goals.

As a result, in addition to **Holly Gillian Kindel** being certified as a co-active coach for over a decade, **Sabrina Lowell**, **Steve Branton** and **Liz Revenko** are all making great strides in the coaching certification program at Coaches Training Institute.

Congratulations!

In August, **Shelby Stahr** was promoted to Associate Financial Planner. She is well on her way to completing coursework to prepare for the Certified Financial Planner© exam, and has already started charming clients in her new role.

In September, **Sabrina** got married!

Thoughts to Live By

Live so that when your children think of fairness and integrity, they think of you.

H. Jackson Brown, JR

The most important thing that parents can teach their children is how to get along without them.

Frank Clark

Try not to become a person of success, but rather try to become a person of value.

Albert Einstein

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

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Dates to save—events on the horizon!

Even more advice, articles & events: mosaicfp.com/blog

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