

# tax&investment newsletter

November 2010

MONTGOMERY TAYLOR, CPA, CFP

**Feeling gratitude and not expressing it is like wrapping a present and not giving it.**  
~William Arthur Ward

## Monty's Opening Thoughts...

With the **Thanksgiving holiday** coming soon, it's time to start thinking about what we're thankful for. It's appropriate, and healthy, for us to express our gratitude on a regular basis. But if we've been slacking in this area—the holiday is a good reminder.

In this depressed economy, you may have lost your house, your business or your job. It may take some effort to muster thoughts of gratitude. But hey, it could be worse! Right? So, what would you be thankful for, if you had to tell someone?



Right now, as I'm writing this newsletter, I can easily say that I'm thankful for **YOU**, my client. Many of you have touched my heart—with your kindness and warmth towards me and my wonderful employees. What especially comes to mind at this moment are the kind words and encouragement you've expressed to me about this newsletter.

One client told me that when this newsletter comes in the mail each month, she sits down in her comfy chair with a nice hot cup of coffee and reads it from front to back. **Wow! Thank you for that compliment.** It encourages me as I write each month.

Another client called and left a long voice mail message, telling us that she just loves our newsletter. She said that she agreed with our whole philosophy about life, money, client service, etc. etc. She went on and on, and **I just loved hearing that. Thank you for those kind words.**

I'm also very grateful for the many referrals we receive. When you refer a friend of yours to come see us, I know you value our relationship and what we do for you personally. **I appreciate you** for sending your friend to see me. And, I enjoy meeting new people and seeing how I can help them solve some financial difficulty. You can be assured that I will make every effort to help your friend – reduce their taxes, increase their investment wealth, and improve their peace of mind.

**One last thought...** I recently attended a funeral where the Pastor made a comment about gravestone dates. He said that the little **dash**, between the date we're born and the date we die, represents our life. It's such a little dash, but it is really our big life story. Our story lives on beyond our days. Right now, **we're writing our story in the way we live our life**, express love, smile and laugh, show our gratitude....and in so many other ways.



Let's write something wonderful this Thanksgiving!

-Monty

## Join our Facebook to win 2 FREE tickets to Ham for the Holidays, a hilarious holiday comedy at the 6th Street Playhouse

Become a fan on our Facebook fan page and you'll be entered into our prize drawing (**\$50 value**). It's easy - just open up Facebook in your web browser and search for "**Tax Wise Advisor**," click on "Like." Fans will have special access to information and goodies not offered elsewhere—so sign up and help us build our Facebook page. Those who are already fans will automatically be entered in the drawing. **Deadline for the drawing is November 24, 2010.**

PS. Tell your Facebook friends to check out our page—thanks!!



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# STAFF NEWS

*As we express our gratitude, we must never forget that the highest appreciation is not to utter words, but to live by them. ~ John Fitzgerald Kennedy*

Outside, the days are turning cooler. Inside, most of us are planning the annual Thanksgiving feast – turkey, stuffing, cranberries, mashed potatoes and gravy, candied sweet potatoes, green bean casserole, jello salad, pumpkin pie. Oh my. ☺



Thanksgiving is a holiday that revolves around family and tradition. **Barbara** remembers her family’s Thanksgiving dinners where aunts, uncles, and cousins gathered at her grandparent’s house for a huge meal eaten on grandma’s best china. While the women worked their magic in the kitchen, the men watched football and the cousins played card games. Just before dinner everyone would gather and say what they were thankful for.

**Monty** says he has many fond memories of the Thanksgiving holiday, when family would gather every year at their ranch in Alexander Valley. His Aunt Thelma and her three kids would come up from San Rafael (Uncle Stan would not come because the Taylor’s didn’t have a

TV to watch the football games.) Monty’s mom would decorate the house beautifully and dad would gerri-rig an extra-large table for the feast.



Meal time was 1pm sharp—every year. Monty never touched the turkey stuffing or apple pie—they just didn’t look appealing. However, when the See’s candy box was passed around after dinner—Monty happily took extra. They would all go for a walk up in the hills after dinner. Oh—and now Monty thinks he was nuts for not eating his Mom’s wonderful stuffing and apple pie!

**Sandy** has happy memories of the first time she and her husband Mark hosted Thanksgiving dinner for her family in their first home. She successfully cooked her first turkey and started a new “family food tradition” with a cornbread-pecan stuffing recipe from *Sunset* magazine, while her husband made enough mashed potatoes for an army! Their puppy, Grover, also got to participate in the feast when Mark accidentally cut through the foil turkey roasting pan while carving the bird—plenty of drippings for Grover before anyone noticed the leak!



## HAPPY THANKSGIVING!

## I Have Confidence in Him; I Can Be At Peace



As someone who’s retired, my biggest financial challenge is wondering if my money’s going to last as long as I do. Monty does my taxes and takes care of my investments. He tells me if I need to do anything differently. He’s taken what little money I have and he’s not lost it. I have confidence in him . . . I can be at peace.

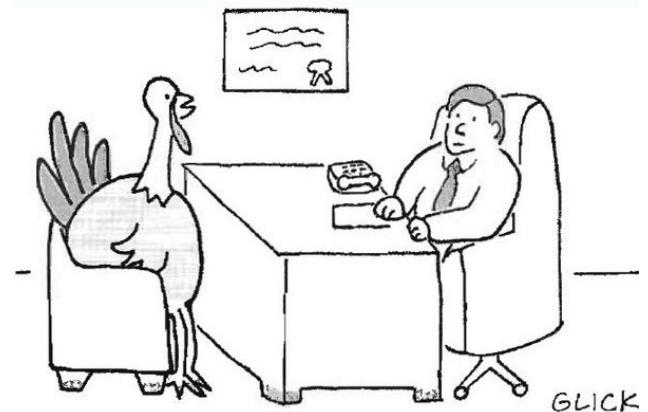
I really appreciate Monty very much because I trust him. I don’t know much about taxes and investments, and I feel that because I work with Montgomery Taylor and Company, I don’t have to know all this stuff.

My previous tax preparer did a good job, but there was no back-up. If I had a problem I would not have been able to get support from her. I felt like I needed somebody else to know what was going on – she was not enough. With Monty’s service, I can come in and ask questions.

I have recommended Monty to several friends who always tell me they’re so glad I recommended him. My daughter and her husband came to Monty and they like him, too.

The most compelling thing about doing business with Monty is the trust. He is somebody you can trust, and that is absolutely important.

*Marian King, Retired Teacher, Sebastopol*



*“With Thanksgiving around the corner, I thought this would be a good time to review my estate plan.”*



# Tax Strategy of the Month

“Here’s an idea I think will save you money!”



## Five Tax Audit Red Flags

*A guide to what the IRS looks for on returns.*

I’m sure you’re aware that there is a \$300 billion “tax gap,” which is the difference between what is owed to the IRS in taxes and what is collected. That being the case, it’s not hard to imagine that more tax audits may be on the way. Here are five red flags the IRS is likely to watch out for.

1. **Earning too much money.** It’s a problem most people would probably love to have, but high earners should be aware that they’re more likely to end up on the IRS’s radar. Once your income tops \$100,000, the chances start increasing. The emphasis on flagging high-net-worth filers makes financial sense from the IRS’s perspective. It doesn’t pay to find a \$100 error in a filer in the 10 percent bracket instead of \$1,000 from someone in the 30 percent tax bracket.
2. **Giving too much to charity.** Excessive contributions to charity could trigger an audit, too. Once contributions exceed 5 percent or 10 percent of income, that may raise questions. The reason the rules related to deductions for charitable giving have gotten stricter other the past few years is that there is a feeling there has been some abuse in this area.
3. **Knowing when the alternative minimum tax applies to you.** Taxpayers can be subject to the alternative minimum tax and not know it. Failing to submit an AMT schedule when you are in a high-risk group may grab the IRS’s attention. Some people, filing their own returns, aren’t attaching an AMT schedule when they’re subject to it. It’s an insidious tax because you never know when it’s going to hit. Generally, the threshold for a filer entering the AMT category is about \$100,000 to \$120,000.
4. **Taking too many credits.** Tax credits are another area of concern, especially for people at the lower end of the income scale. The biggest mistakes are made with earned income credits and education credits. People mistakenly take credits they’re not entitled to.
5. **Careless errors.** Things as simple as a sloppy return can derail an otherwise routine tax return. Matters as small as incorrect Social Security numbers, math errors or simple misspellings can bring a tax return to the attention of the IRS. Also, don’t forget that banks and brokerage houses send in reports of your 1099, which the IRS will compare to your tax return. If you forget a 1099, it will cause the IRS to pull it out of the pile.

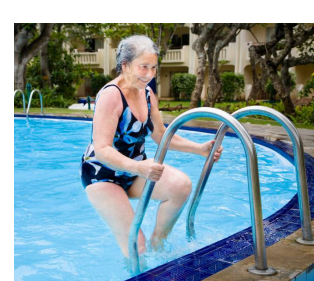


The best way to lower your odds further is to take deductions and credits that you are legitimately entitled to and that make economic sense. Oh yes, of course, you should also keep accurate books and records. If you do that, not even an audit should scare you.

## Outrageous Tax Deductions

1) **Cost of hiring an arsonist – NO** – Hard to believe, right? A man with a failing furniture business decided to hire someone to burn it down. The store-owner’s plan was not only to collect the \$500,000 insurance money, but also to deduct the \$10,000 expense of hiring the arsonist! He was denied. I’m sure it wasn’t too long before the police were also looking carefully at his return.

2) **Cat food – YES** – Junkyard owners set out bowls of pet food nightly to attract wild cats. The wild cats also took care of their snake and rat problem, making the junkyard safer for customers and providing a useful business service. Yep, you guessed it...the pet food is a business expense and was allowed.



3) **A trip to the Super Bowl – NO** – I’d like to put this one in the ‘nice try’ category. Someone decided to take clients and their spouses to the Super Bowl, but just could not prove that the shindig was in any way related to business. And even if it was, it’s an extravagant expense for a meeting and would have been disallowed anyway. Sorry bud.

4) **A beautiful swimming pool – YES** – This one’s a great example of lateral thinking. After being told by his doctor that he needed to exercise (after developing emphysema), the smart fella put in a swimming pool. The deduction was put down as a necessary MEDICAL EXPENSE and was allowed, along with the various chemicals, heating, cleaning and general upkeep of the pool. Now that’s using your head.



## Tax News You Can Use...



### **What to do if you get an IRS or state tax notice**

The IRS plans to conduct more “correspondence audits” than it has in the past because the Service is finding that these audits produce more revenue than office and face-to-face audits. Correspondence exams can be as simple as asking about a tax return data discrepancy, correcting an error on a return, or asking for a missing form. But the IRS is also using these audits to focus on other issues, including such things as employee business expenses, the earned income credit, charitable deductions, and the tax credit for buying a home.

As states struggle with budget issues, they, too, are getting more aggressive in collecting taxes. One particular state issue is “use taxes.” Like sales tax, the use tax is assessed on items you purchase out of state and use in your home state. If you purchase items on the Internet from an out-of-state company or buy from Canada or overseas, you may be contacted about use taxes.

**If you get a letter from the IRS or the state, contact us as soon as possible.** Don’t ignore the correspondence because it will not go away. Let us know about the notice when you receive it. It is much easier for us to work with agencies and resolve the problem quickly if we’re involved from the beginning.

### **Small Business Jobs Act brings fresh round of familiar tax breaks**



If you are a small business owner who thought all the best tax breaks were behind you, think again. The recently passed *Small Business Jobs Act of 2010* restores many familiar tax perks and adds a few new ones.

The new law extends the first-year 50% bonus depreciation rule that expired last year, and makes it retroactive to include qualified new equipment purchases made any time in 2010. Congress also expanded the Section 179 business expensing provision to allow a deduction of up to \$500,000 for purchases of new or used equipment in 2010 and 2011. The previous limit was \$250,000. What’s

more, under the old rule, the deduction was reduced for companies with annual equipment purchases above \$800,000. Now the threshold has been raised to \$2 million.

One very practical and welcome tax change is the removal of cell phones from the “listed property” category, which means you no longer have to meet strict recordkeeping requirements for your business use of a cell phone. You also no longer have to include the personal use of a business cell phone in an employee’s income.



The *Small Business Jobs Act* expands the business tax credit carryback limitation from one year to five for private companies with gross receipts of no more than \$50 million. And capital gains tax on sales of qualified small business stock will be reduced to zero for original issue stock purchased by the end of 2010. However, you still need to hold the stock for five years to qualify.

If you start a new business this year, you might score an added tax perk. The annual start-up cost deduction of \$5,000 was raised to \$10,000 for 2010. The deduction is reduced dollar-for-dollar for any start-up expenses exceeding \$60,000.

For 2010 only, self-employed individuals can deduct health insurance costs from their self-employment income in computing self-employment tax.

Roth IRAs are back in the news. You probably knew that a traditional IRA could be converted into a Roth in 2010 with the resulting taxable income spread equally in 2011 and 2012. Now you can do the same thing with a 401(k), 403(b), or 457(b) plan if your retirement plan will allow it.

**Waiting for the catch to all this good tax news?** Here it is. The new law calls for even more information return filing and increased penalties for failing to file such information. Beginning in 2011, rental property owners will be required to report payments of \$600 or more made to goods and service providers.

The new small business tax law gives business owners a lot to think about and not much time to act. To maximize the benefits for your business, give our office a call today.



## Reducing business overhead: How to fight the battle of the bulge

You may not realize this, but one of the best opportunities to increase your business's bottom line can be found by reviewing its overhead. These expenses, consisting of mundane but necessary essentials such as office supplies, utilities, credit card processing and insurance, each have their own unique savings opportunities. Business owners and managers often get complacent and let these recurring items grow over time, eventually bloating their company's overhead costs. So, how do you harness these potential savings opportunities to fight this overhead battle of the bulge?



Consider these practices as a way to cut your costs.

- 1) **Get new bids from vendors in such competitive industries as credit card processing and shipping.** They'll be eager for your business, thus allowing you to negotiate better rates on these items.
- 2) **Review insurance policies that may need updating.** As your business's circumstances change over time, it is important to determine if you are over-insured or if certain types of coverage are not needed anymore.
- 3) **Learn to buy strategically.** Many common items used in your business can be purchased at deep discounts through wholesale clubs or trade associations which usually have pre-negotiated discounts on many goods and services.



4) **Develop a cost reduction mindset** and discard the flawed notion that profitability only comes through a sales-oriented strategy.

5) **Involve all your employees.** Those employees performing day-to-day tasks are often better equipped to spot money-saving opportunities. Offer a cash or time off reward to motivate employees.

Learn to be prudent and resourceful in managing your overhead, and you'll see immediate results in your bottom line.

**Tax Advice Disclosure:** To ensure compliance with requirements imposed by the IRS under Circular 230, we inform you that any U.S. federal tax advice contained in this communication (including any attachments), unless specifically stated otherwise, is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties or (ii) promoting, marketing or recommending to another party any tax-related transaction(s) or matter(s) addressed herein. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us. Tax preparation and consultation services are offered through the office of Montgomery Taylor, CPA, with professional memberships in the California Society of CPAs and the American Institute of CPAs.

## College Strategist

Paying for College Without Going Broke

### Base Year Financial Planning Strategies

If your student is currently a high school senior, you only have two months left of your **base year**. The term **base year** refers to the tax year prior to a financial aid award year. For example, if the student who is applying for financial aid will enter college in September 2011, the base year is from January 1 through December 31, 2010. The financial aid need analysis process uses financial information from your **base year** to estimate your expected family contribution.

Our college services help you find **strategies** for maximizing your student's eligibility for need-based financial aid. Some of these strategies are simply methods of minimizing income during the **base year**. These strategies are based on loopholes in the needs analysis methodology and are completely legal. There are several basic principles behind the strategies for maximizing eligibility for financial aid. These principles include:



1. Reducing income during the base years.
2. Reducing "included" assets. There are two types of assets, those that are included in the need analysis formulas and those that aren't. Converting included assets into non-included assets will increase eligibility by sheltering them from the need analysis process.
3. Increasing the number of family members enrolled in college and pursuing a degree or certificate at the same time. The family contribution is split among all family members who will be enrolled in college, so the more family members in college, the greater financial need for each.
4. Taking advantage of the differences in the way the need analysis process assesses the assets and income of the student and his or her parents.
5. Changing the student's status from dependent to independent, although this is generally not very easy to do.

Many of these strategies are just good, sound financial planning. For example, using cash in the bank to pay off credit card debt will benefit your family financially, by reducing the amount of interest you are paying, in addition to improving your family's eligibility for financial aid.

If you'd like more information about financial planning strategies for your **base year**, contact our office at 576-8700 to schedule a free initial consultation.

College planning services are offered through our College Plan Advisors, LLC, company and its affiliation with College Planning Network and the National Association of College Funding Advisors.

# Financial Strategy of the Month

“Here’s an idea I think will save you money!”



## Don’t be Caught With a Wonderful Financial Plan!

*Kleenex in One Hand, Investment Statements in the Other...*

There once was a man (this isn’t a joke) who was a dedicated do-it-yourself investor and had crafted an elaborate financial plan that consisted of a diversified portfolio of mutual funds held in sixteen separate IRAs. The plan was wonderful—as long as he was available to manage it.

After he suffered a massive stroke, leaving him unable to speak or communicate, his wife came to see me. She brought a large box into my office with her and sat it on the empty chair next to where she sat. With Kleenex in hand to occasionally dry her tearful eyes, she told me the story of what had happened to her husband. Her husband had retired some years ago, and when the two of them weren’t off traveling the world or playing with their grandkids, he made managing his elaborate network of IRAs his hobby. They were financially “set” in the traditional sense of the word.

In another important respect, however, they weren’t in good shape at all. Because he had crafted such a complicated system of managing their retirement fund and she hadn’t paid much—if any—attention to their financial affairs, she was utterly bewildered about how to manage those assets on an ongoing basis, including how to reinvest the proceeds from maturing bonds, where to go for cash when she needed it, and whom to turn to for help. Her husband had done so much right—but in the end failed to “widow-proof” the portfolio or otherwise prepare his wife financially for his incapacity.

Before I say too much about widow-proofing, I’ll have to say it’s not always the female spouse who has tuned out of the family’s financial affairs. I know many women who are clearly the chief financial decision-maker in their home. Sometimes “widower-proofing” is in order.

Unfortunately, plenty of people who pass away or become debilitated do leave their spouses with overly complicated financial plans, too little information, and no clear instructions about where to turn for help.

By the way... that box she brought in with her contained a mountain of mostly unopened investment account statements, trade confirmations, proxy materials, etc. which she did not understand at all. My first job was to listen carefully. My second job was to translate this stack of investment data to her.



Here are six key ways to make sure this doesn’t happen to you:

**1. Start the Conversation.** Even if your spouse is happily hands-off, it’s important that he or she is kept in the loop on the basics of your financial plan. Alternatively, or in addition to having a money conversation with your spouse, share at least the basic information about your finances with your most financially literate (and trustworthy) child.

**2. Simplify.** Collapsing your overall number of accounts—and the holdings within them—is a good starting point on the road to portfolio simplification. (My new client had sixteen separate IRA accounts! Ugh!) Assuming a portfolio includes a well-thought-out asset allocation, less is more in terms of the number of individual security holdings. That’s particularly true if you’re concerned about your spouse’s ability to manage the portfolio on their own.



**3. Shape Up (and Share) Your Record-Keeping System.** Leave a good paper trail detailing your activity. Organizing files in broad, easy-to-understand categories (for example “Investments,” “Insurance,” and so on) is a good starting point, with subfiles for each account.

**4. Provide Guidance on Where to Go for Cash.** One of the key pieces of financial guidance for new widows and widowers is to make no financial decisions at all within the first year or so after a spouse’s death. That’s great advice, but it’s a luxury that some surviving spouses can’t afford because they don’t have adequate cash reserves to fund their near-term living expenses. So, provide your spouse with guidance on which assets are most liquid and appropriate to tap in a pinch.

**5. Put It on Autopilot.** Arrange your investments and accounts so they can run themselves for a time if need be. Switching on features such as automatic required minimum distributions is a good example of this idea.

**6. Help Identify a Suitable Advisor.** Many individuals with spouses who are disengaged financially take comfort in knowing that their spouse will be able to turn to an advisor after they’re gone. What they don’t think through is just how much you actually need to know to hire the right advisor. It would be much better to begin the search for a qualified advisor while you’re around to help with the screening. Even if you don’t plan to begin working with an advisor anytime soon, it’s not too early to begin the vetting process by surveying friends and family for recommendations and conducting informational interviews. Find a good advisor, start the relationship, it will pay off.

**Note:** Of course, I’m talking here to people who do not have me in place as their financial advisor. For those of you who already use my ongoing investment management services—you are set. Your spouse or family members can call me for assistance in that all-important hour of need. I’ll be here for you.☺

**Montgomery Taylor, CPA**

**Client Benefits:**

1. Expert tax-saving advice as a regular part of your income tax preparation
2. Professional Service Warranty that guarantees you the largest tax refund possible with the lowest tax liability
3. Your tax returns completed within eight business days of when you provide all necessary data
4. Your phone calls returned promptly (any time of year), always within 24 hours
5. Help with allocating your 401(k) investment funds
6. Monthly ClientAdvisor Newsletter
7. Professional online tax advice anytime ~ mtaylor@taxwiseadvisor.com

**Platinum Tax Maintenance Program**

**2009 Member Benefits:**

1. ALL CPA Client Benefits listed above, **AND**
2. Three phone consultations (20 minutes each or a total of 60 minutes) during the tax year scheduled through our appointment desk
3. W-4 review to be sure your withholding is correct
4. Audit assistance in the event you are subject to an audit for the 2009 year, limited to four hours of service at no additional expense
5. Answer all IRS notices and correspondence you receive for 2009 tax year
6. Answer FTB notices and correspondence including Head of Household Audit Letter for 2009
7. 1 additional copy of tax year 2009 tax return
8. \$50 discount on our fall tax planning appointments scheduled through our appointment desk

**Montgomery Taylor & Company, LLC,**

**Registered Investment Advisor**

**Client Benefits:**

1. Independent, unbiased, investment advice on a fee-only basis (no commissions)
2. Investment management for any account size (no minimums)
3. Monthly account statements directly from Fidelity Investments
4. Quarterly performance reports and consultation meetings
5. Tax-sensitive investing strategies integrated with your financial planning
6. Monthly ClientAdvisor Newsletter
7. Weekly Economic Update e-mail communication

**College Plan Advisors, LLC**

**Client Benefits:**

1. Student Counseling and Assessment
2. Calculate Expected Family Contribution
3. College Funding Strategies & Planning
4. Complete your FAFSA Forms
5. Complete your CSS Profile Forms
6. Appeal/Negotiate Better Awards
7. Monthly Cash for College Newsletter
8. Monthly ClientAdvisor Newsletter
9. Weekly "Tip of the Week" E-Mails



**Notes from Monty's private money management file...**

The growth stock portion of the Green Label Portfolio looks to the **primary trend** of the market for its entrance and exit points. Our last entrance point was July 21, 2009, and we exited from that on May 19, 2010 with a gain of 20.65%. The model for this strategy is still negative and we're waiting on certain technical indicators to turn it positive—giving us a buy signal.

Over the summer the stock market has been like the **Giant Dipper** roller coaster at the **Santa Cruz Beach Boardwalk**. Up. Down. Up. Down. Quite exciting. Unless of course your tummy gets upset easily. Well, hopefully, my stomach is stronger.



In a choppy, sideways market cycle like this one, the biggest risks are longer-term beta bets, and stock picking is the name of the game. But unless a manager is going both long and short, the only alternative to owning a stock is holding cash. Thus, the real alpha advantage comes when the strategy involves going both long and short inside the same portfolio.

Having sat out most of the summer, basically holding cash and/or ginnie maes, with our 50% growth stock allocation, I've decided to add a long/short equity strategy to the portfolio. This component follows a 14 day moving average and will provide some shorter term trading opportunities while we're awaiting the primary trend of the market to give us a buy signal.

This new component of the Green Label Portfolio invests "long" with the S&P 500 Index while the market is going up and "short" against the S&P 500 Index while the market is going down. This isn't "day-trading" by a long shot. In fact, this strategy would have only produced eight trades so far this year. It's ideal for the type of stock market cycles we've been going through.

Right now we're long in the market. Our allocations are: 63% Stock, 17% Bonds, 13% Commodities and 7% Cash.

I'm confident that this enhancement will boost our investment returns going forward. Seeking growth while managing risk is still, of course, the objective.

Wealth management services are offered through Montgomery Taylor & Company, LLC, a Registered Investment Advisor. Fidelity Investments is the custodian of our client accounts. While accounts are protected by the SIPC up to \$500,000, including cash claims limited to \$100,000, Fidelity provides supplemental protection that covers accounts over and above this SIPC coverage.



# Monty's Money Message

Monty started his career in financial services about 30 years ago as a Stockbroker. He then became a Certified Public Accountant, Certified Financial Planner, Certified IRA Distribution Specialist and Registered Investment Advisor. With all these years of experience, he has a wealth of information to share with you about money and how you can prosper. Monty recently received the "America's Top Financial Planners" award of excellence from the Consumers' Research Council of America. Monty was selected from among his peers based upon years of experience, formal education and specialized professional certifications and designations achieved. In 2010, KZST Radio named Monty "The Only CPA We Trust" and chose him to be the tax expert for KZST listeners.

## MID-TERM ELECTIONS & STOCKS

*Historically, these events tend to help equities.*

**You may have heard that stocks tend to rally in fall and winter. That has often been the case. In fact, the S&P 500 and the Dow have gained repeatedly after the elections occurring in the third year of a first-term presidency.**

**These elections seem to elate Wall Street.** While past performance is no indication of future success, consider this: Wall Street has witnessed rallies after every mid-term election since 1942.

The Leuthold Group, a Minneapolis-based investment research firm, has determined that the S&P 500 has gained an average of 18.3% in the 200 days following such elections. Widening the window of time, Goldman Sachs finds that the S&P has averaged an 18.1% advance during the 12 months following each of the 15 mid-term elections since 1950. (The gain averages 11.0% when control of Congress changes hands.)



Consider another intriguing statistic regarding mid-term election years: in the five instances since 1942 when an incumbent first-term president was a Democrat, the S&P 500 has gained an average of 21.3% for the year.

**The Dow may get a tailwind from the "third-year effect".** Since 1945, the third year of a presidential election cycle has tended to be very positive for the Dow. As MarketWatch columnist Mark Hulbert noted recently, the DJIA has averaged +24.7% in such 12-month periods (usually measured in fiscal years, i.e., 4Q-1Q-2Q-3Q) since the end of World War II. In fact, the Dow's average returns in other fiscal years of a presidential term have been puny in comparison: +4.0% in year one, +1.9% in year two and +3.3% in year four.



Last month, Standard & Poor's chief investment strategist Sam Stovall told the *Wall Street Journal* that the DJIA has risen an average of 17.1% in calendar years following mid-term elections since 1945, with less than 10% of these years seeing selloffs.

**Will 2010 follow the historical pattern?** Excellent question – after all, no one is clairvoyant. This year, stocks have not followed the longstanding trends. Stocks typically do badly in September, yet September 2010 actually turned the market around. When it comes to November, let's hope history repeats.

*With all this talk about elections....*



**...we thought we would share some of the elected offices Monty has held over the years!**

Photo #1 (at left) is Monty in his high school days when he was President of the Drama Club (here he is being suitably dramatic with his Uncle Dick at Universal Studios in 1971.) Photo #2 shows Monty (and his sweet bride-to-be, Terri) at an SRJC awards banquet in 1976, when he was President of the SRJC Campus Police Association. Photo #3 is Monty in 2002 as President of the Redwood Empire Estate Planning Council.