LARRY A. JAFFE, P.C.
CERTIFIED PUBLIC ACCOUNTANT

Green Sheet Number 21 November 1, 2006

Tuesday, November 7, is our next lesson in democracy. There's even a tax issue on the state ballot. Ballot measure 41 replaces the Oregon exemption credit of $154 per person with a deduction of at least $3,300. According to my voter's guide, that's gonna cost the state more than $150 million over the next couple of years. Tax measures are also on city and county ballots. So be sure to take the time to fill out your ballot and get it postmarked before the deadline.

THE NEWS IN BRIEF

♦ **More on State Tax Credits.** Credits are powerful tax reduction weapons. . .a dollar of tax credit reduces your tax by a dollar. . .a dollar of deduction, by contrast, saves 44 cents at most. . .Oregon allows numerous credits, including some that theoretically can reduce your federal and state taxes by MORE than you spend. . .a comprehensive list of state income tax credits is available in Oregon's Individual Income Tax Guide at http://www.oregon.gov/DOR/PERTAX/docs/2005Forms/101-431-05.pdf

♦ **Year End Tax Reminders.** Many of you will soon receive our annual reminder letter about year end tax planning. . .we'll meet with clients in November and December to discuss 2006 tax projections and tax saving strategies. . .this can be especially helpful to those with significant business, investment or rental income.

♦ **Be on the lookout for:** 2006 LAJCPA tax organizer workbooks which will be mailed soon after the first of the year. . .personal property tax return forms from Lane County (contact us if you need help preparing these returns). . annual payroll update letter from our office to clients with employees.

♦ **Safety and Security.** I was taking a vacation day when the message was relayed to me: it's not an emergency, but call your office immediately. . .Goldmine, the software we use for office and internet e mails, scheduling, client contact records and much more, had crashed. . .we lost about a day's worth of input but were saved from a much, much worse nightmare by our backups. . .I know all of you are making backups of your critical computer records, right?

♦ **Safety and Security Part II:** Many of our clients use QuickBooks for their personal or business accounting. . .at a recent seminar we were reminded of the many security tools available in the software. . .we're working with some of you now to tighten up the software controls and help prevent errors, omissions and theft.

The holidays will be here before you know it. Best wishes to all of you for a safe, happy and financially secure new year!

1600 VALLEY RIVER DRIVE • SUITE 380 • EUGENE, OREGON 97401
(541) 485-0045 • FAX (541) 485-1005 • www.lajcpa.com

ON "BEATING" THE MARKET

For the first time in history, the Dow Jones Industrial index closed above 12,000 points on October 19, 2006. As an investor, I know exactly what this means to me.

Nothing. Nada. Zippo. Null set. Goose egg. Less than zero.

My personal investment horizon is 15 to 20 years and I could care less what the Dow, or the Russell or the Wilshire or any other index or individual security does today or tomorrow. What I care about is trying to achieve investment returns as close as statistically possible to market returns, while trying to minimize market risk.

Let's suppose for a moment we can divide the universe of investors into two groups. The first group believes that intelligence, hard work, sophisticated technological tools and a little bit of luck can allow you to consistently achieve after-tax returns significantly greater than the markets. The second says, quite simply, "rubbish." That's me in the second group.

Back in 1990, three pretty smart guys shared a Nobel prize in economics for advancing what's known as Modern Portfolio Theory. The gist of this is that the markets are like City Hall: you can't beat 'em. Market timing—buying before a predicted market uptick or selling before an expected downturn—doesn't work. Similarly, buying or selling individual securities which you believe are priced too low or too high does not work.

These approaches often do not work because, absent inside information not available to the public, the securities markets defy accurate predictability.

Here's what they believe might work better: diversifying your investments across broad classes of investment assets like large company stocks, small company stocks, bonds, foreign companies, real estate and alternative investments; investing within these classes in instruments that seek a return as close as possible to their respective indexes; and periodically rebalancing so that an appropriate portion of your investment portfolio is allocated to each asset class, keeping in mind investment horizon and your tolerance for risk.

Incidentally, those three guys who shared that Nobel Prize for economics back in 1990 were Harry Markowitz, Merton Miller and William Sharpe. And while they'll never replace John Kennedy, Bart Starr and my parents as my personal heroes, I'll bet they're pretty smart dudes.

So if you're looking for someone to help you find the next Google, or to invest heavily in IPO's, or buy pork bellies on every Tuesday with a full moon, I think I'll take a pass. But if you want to discuss how you might benefit from a long-term investment strategy based on Nobel Prize winning principles, let's sit down together soon.