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Well, it sure doesn't seem to get any easier. But we got through another busy season here at LJCPA and now it's time to catch our breath, smell the roses, get reacquainted with our families and . . . start working on extensions. But before we do, here are a couple of tax items you might want to contemplate.

THE NEWS IN BRIEF

♦ **Busy, busy IRS.** We had a number of IRS contacts during tax season. . . one was an IRS audit of a client's rental activities. . . several complex issues were raised including treatment of various passive activities. . . ultimately, the IRS accepted the return as filed. . . another client called one day to report that an IRS representative had arrived unannounced at his office and started asking questions. . . we immediately advised him to say nothing other than to refer all questions to us. . . the IRS issues were quickly resolved but all our clients are advised to contact us immediately in the event of a similar situation arising. . . incidentally, the latest data from IRS indicates just under 1% of individual tax returns were audited for the fiscal year ended 9/30/2006

♦ **Tax and accounting for the rich and famous.** The Associated Press reports that President Bush and the first lady reported income of \$765,801 for 2006 and paid \$186,378 in federal tax. . . the Bushes are slackers next to the Cheneys, who paid federal tax of \$413,326 on income of \$1.6 million. . . another wire service report asserts that Philadelphia Eagles running back Brian Westbrook has to return a \$3 million bonus to the team. . . due to an "accounting error" Westbrook received the bonus twice.

♦ **AMT relief in sight?** We've reported several times on the alternative minimum tax. . . AMT was designed to insure that very wealthy taxpayers would at least pay some tax. . . but more and more taxpayers are being snared by AMT; the joint committee on taxation in March estimated that almost 20% of taxpayers will face AMT issues by 2010 if changes are not made. . . the problem: repealing AMT would cost an estimated \$872 billion. . . Congress will continue to struggle with how to revamp the system without generating significant tax increases in other areas.

The entire staff of LJCPA, with spouses and partners, gathered at a local eatery recently to celebrate the end of another tax season. It was startling to see 17 people at the dinner table. I can remember when the post-tax season celebration comprised four of us. I'm enormously proud of our staff and we all look forward to serving you, our loyal clients, for many tax seasons to come.

AVOIDING INVESTMENT PITFALLS

One of the greatest challenges investors face is controlling their emotion-driven decision making and investment behavior. Neither uncertainties regarding geopolitics nor the global economy are as likely to defeat investors over time as their own fickle emotions. Attitudes of fear and greed can lead to excessive trading and market timing at exactly the wrong times. It is always helpful to step back and examine these flaws in investor behavior to learn to avoid them. Here are some attitudes to steer clear of:

Overconfidence. Investors are often overconfident about their ability to forecast the future. Investing is really a bet on an uncertain future, so portfolios should be structured accordingly. The purpose of a multi-asset class portfolio is to protect against what we do not know about the future.

Loss Aversion. Investors are averse to realizing losses on positions in their portfolio. This reluctance may lead investors to hold losing positions while they wait for the holding to climb back to its purchase price. Instead of being loss-averse, investors should be risk-averse. A risk-averse investor would sell any concentrated position (even at a loss) and use the proceeds to diversify.

This diversification makes the overall portfolio less volatile. Rebalancing is another strategy to spread risk. A risk-averse investor rebalances on a regular basis by shifting assets from the top performing asset classes to the underperforming classes. This forces an investor to sell high and buy low with a portion of his assets.

Asset Segregation. Investors tend to focus on the performance of individual holdings instead of portfolio behavior as a whole. It is likely that in a given year one or more asset classes of a properly constructed portfolio will generate negative performance returns. The performance of the portfolio as a whole and not its individual components is the proper focus for reaching long-term financial goals. If every asset class in a portfolio is showing positive returns, then chances are the portfolio is not properly diversified.

Home Bias. Investors all over the world are inclined to favor familiar domestic stocks in their respective countries. However, by including a mix of foreign stocks with domestic stocks, portfolio returns may be enhanced and portfolio risk may be reduced as compared to a portfolio invested solely in domestic equities.

Employing an asset allocation strategy in a well-diversified portfolio may help you stay the course over the long term, regardless of short-term market behavior and economic and political swings. Investment discipline and portfolio structure are key tools to help protect your current and future lifestyle. Be sure to regularly review your investments to determine if your asset allocation is aligned with your risk tolerance and time horizon, and also to determine if your portfolio is fully benefiting from a diversified multi-asset class philosophy.

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