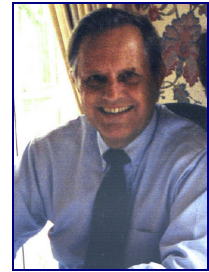


from *Chuck's Desk*

Affordable Business Services Inc.

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Chuck Donovan

New Tax Deduction

In 2004 and 2005, people who itemize deductions can deduct their state and local sales taxes instead of their state income taxes. The provision was included in the recently passed American Jobs Creation Act of 2004.

The language was placed into the Act by members of Congress from states without income taxes (Florida, for example) as a way of getting the people from those states an added deduction. Sales taxes were a deduction a number of years, but were eliminated with the passage of the Tax Reform Act of 1986.

Like all deductions substantiation of the amount being deducted is necessary. This was an unexpected inclusion in the legislation and few among us keep every piece of paper having a sales tax amount on it. ***Most taxpayers will, therefore, be taking a flat amount based on their income and size of household for year 2004.***

The IRS expects to publish tables by early next year to assist us to determine what the flat amount should be. These tables, however, are expected to be based on the sales tax rate imposed by the state. ***The amount of the sales taxes imposed by local governments (i.e.; Broward and Palm Beach Counties) will need to be added to the numbers in the IRS tables.***

The total of these taxes will also need to be adjusted for any sales taxes paid on large purchased items such as automobiles or boats.

The Stock Market and the Presidency

For a Bostonian it has been a good year. The New England Patriots won the Super Bowl and the Boston Red Sox after 86 years won the World Series. However, it was not a three-peat, as George W. Bush won reelection beating Bostonian John F. Kerry.

Amid all the hoopla and misinformation rampant during the election was considerable speculation on how the stock market (Dow Jones Industrial Average) may act in the coming four years. Based on which candidate wins the election, forecasts for its performance depended on whether a Bush or Kerry supporter was making the forecast. The general feeling was Bush would be better because of the uncertainty and lack of clarity of Kerry's positions.

How Has the Market Reacted

I wondered just how the market has done during the presidential terms in the last century and found that all in all it has performed fairly well. It did not matter much whether a Republican or Democrat is in the White House.

The Dow Jones Industrial Average has had positive returns in twenty (20) of the twenty-five



(25) presidential terms from 1901 through 2001.

It was negative only five times being down 1% in the years leading up to the First World War (Taft), down 21% in the years ending the First World War (Wilson), down 83% during the Great Depression (Hoover), down 30% in the years leading up to the Second World War (Roosevelt), and down 5% during Gerald Ford's term of office.

Affordable Business

Services offers

accounting, income tax, and consulting services to individuals and businesses.

The full service accounting firm offers

also innovative business solutions to small to medium size companies through specializing in the training, and consulting in the use of QuickBooks business management software.

The firm's principal **Chuck Donovan MBA** brings over 25 years of financial expertise to the business having worked as a senior financial executive with firms ranging in size from \$20 million to \$3 billion in sales.

His broad, hands-on accounting and finance experience has taught him that financial information must be more than just a series of numbers.

A *QuickBooks Professional Advisor* and experienced problem solver, **Chuck is a graduate of Dartmouth College and received his MBA from American International College.**

Investors Like Incumbent Winners

The numerous studies conducted over the years relating the presidency and the stock market show investors are bullish when an incumbent wins reelection.

This is attributed to their preference for certainty and lack of worry about considerable changes in policy.

In fact, since 1901 the largest gains in election years have come when an incumbent Republican wins a second term in the oval office. A research firm has calculated the median gain to be 14.6% compared to 8% for all elections.

It does matter, though, when you look at each of the years during a president's term of office. ***Stock market returns in the first and second years are generally weak and sometimes negative.*** First year returns average a 5.2% gain and the second year ones a 1.7% gain.

Returns in the last two years are strong. There is a solid rebound in the third year when returns are up over 20% and another increase over 9% in the fourth year.

Performance of the Market during Presidential Terms

The market's performance during each president's term of office since 1901 has been:

From	To	President	Party	Open	Close	Gain %
1901	1905	Roosevelt	R	68.57	75.92	11.00%
1905	1909	Roosevelt	R	76.33	81.79	7.00%
1909	1913	Taft	R	81.79	80.71	(1.00%)
1913	1917	Wilson	D	80.71	92.82	15.00%
1917	1921	Wilson	D	95.04	75.23	(21.00%)
1921	1925	Harding	R	75.11	125.25	67.00%
1925	1929	Coolidge	R	123.26	321.18	161.00%
1929	1933	Hoover	R	313.86	53.84	(83.00%)
1933	1937	Roosevelt	D	62.10	184.02	196.00%
1937	1941	Roosevelt	D	185.96	129.54	(30.00%)
1941	1945	Roosevelt	D	129.24	153.84	19.00%
1945	1949	Roosevelt	D	152.03	181.12	19.00%
1949	1953	Truman	D	181.43	286.97	58.00%
1953	1957	Eisenhower	R	288.00	477.46	66.00%
1957	1961	Eisenhower	R	475.90	632.39	33.00%
1961	1965	Kennedy	D	634.37	896.27	41.00%
1965	1969	Johnson	D	895.31	935.54	4.00%
1969	1973	Nixon	R	931.25	1026.19	10.00%
1973	1977	Ford	R	1018.81	968.67	(5.00%)
1977	1981	Carter	D	959.03	970.99	1.00%
1981	1985	Reagan	R	950.68	1227.36	29.00%
1985	1989	Reagan	R	1261.37	2239.11	78.00%
1989	1993	Bush	R	2235.36	3241.95	45.00%
1993	1997	Clinton	D	3253.02	6833.09	110.00%
1997	2001	Clinton	D	6843.87	10587.59	55.00%

We are accustomed to hearing the Dow Jones Industrial Average being in the

10000 range. ***It was not too long ago, the start of the Clinton presidency, when it as in the 3000s, and under 1000 until the end of Nixon's.***

Conclusions

Well, what conclusions for the market's performance during Bush's second term can I draw from this information. Past performances are, of course, no indications of what will happen in the future.

Nevertheless, I can draw a couple. First, investors are more comfortable with incumbent presidents and are bullish during their second terms. Second, the first and second years will be satisfactory, but the real upturn in performance will be in the last two years.

New Check Clearing Rules

Congress enacted very quietly the "Check Clearing for the 21st Century Act" in October of 2003. ***Nicknamed "Check 21", it became effective on October 28, 2004 and was created as a method of increasing the efficiency of the country's check clearing system.***

The goal of the Act is to get away from the physical transporting of paper checks throughout the country and replaces it with the electronic transfer of an image or other information about a check. Banks can, therefore, do away with the original paper checks. The Federal Reserve and the banking industry have felt for a long time that a system relying on the transportation of paper checks is slow, costly, and inefficient.

The legislation requires everyone – banks, government agencies, retail and business customers – to accept substitute checks in place of the original ones. They are created by scanning the front and back of the original check and will have on them the notation "This is a legal copy of your check. You can use it in the same way you would use the original check."

The legislation accelerates the clearing of your checks. However, ***it does not cover deposits.*** Banks will continue to place holds of several days on checks being deposited. There will be an imbalance between the time a deposit is available for your use and the time a check drawn against will clear. As a result, ***many of us will get non-sufficient funds fees because there will not be good funds in a checking account to cover the checks written.***

Banks have been reminding their customers that some of their checks will clear much faster now than in the past. They have been pointing out that the customers should write checks only against available funds.

For most of us "available funds" is a new term. Previously, without giving it much thought we considered that once having made a deposit we could write a check immediately against it. Usually there was not a problem. Delays in clearing the deposited checks created a float within the system which offset the check. This is no longer the case.

Check 21 has two major disadvantages for bank consumers. First, it will be more difficult to spot and prove forgeries and check alterations because we may not have the original check. Second, we lose the benefit of check float.

A word to the wise is to only write checks for amounts that can be paid from funds currently available in your account.