



William A. Harris, CFA  
Portfolio Manager

## Happy Accidents and the Irrelevance of Short-Term Gains

We typically think of accidents as negative experiences, but there can be good ones too. For instance, three of last quarter's four top-performing ATC Core Equities are recent additions to the Core list: **Qualcomm (up 35.6%** for the quarter), **Anglo American (up 28.4%)**, and **Canadian Pacific Railway (up 24.1%** since we bought in July).

Why do I refer to such performance as accidental? Because our investment philosophy shuns market timing – i.e., we buy stocks not because we expect them to rise soon, but rather because we think they're undervalued relative to their long-term prospects. When the market's collective opinion shifts to agree with us right after we've bought, we regard this as a matter of cosmetic significance at best. Pretty, but not of much use in a taxable account.

Here's why. Short-term gains are taxed at the highest marginal rate (as much as 35% Federal), whereas the passage of a mere twelve months magically transforms a position to long-term status (with Federal taxes topping out at 15%). The difference of up to 20% in tax liability sets a high hurdle for justifying early sale. While short-term gains look nice, there's not much we can do with them; realizing them is usually inimical to tax efficiency.

So what about short-term losses? A sudden drop in any holding demands we revisit our assumptions. Our **Dow Chemical** purchases since last winter have **lost 11.0%** on average, as energy price spikes and hurricane damages have raised input costs and compromised feedstock flows. Reexamining the long-term outlook, however, convinces us Dow's merits are intact. What to do? In some accounts we may both sell and buy back holdings (mindful of tax wash rules) to reduce taxes on other income and even take advantage of some short-term gains elsewhere. Losses are never a good thing, but in a diversified portfolio they are inevitable, and active tax loss harvesting mitigates some of their damage. I'll say more about the third quarter next month.

*Bill Harris*



Sharon Heth, JD  
Vice President

## Charitable Services Update

In the wake of Hurricane Katrina, Congress has acted to make charitable gifting more attractive by unanimously passing the Katrina Emergency Tax Relief Act (KETRA). Perhaps most interesting is that, despite its name, the tax relief package also liberalizes rules for gifts to non-hurricane related charities, so many causes can benefit.

KETRA will generally enable donors to deduct **cash** gifts to charity in an amount up to 100% of their adjusted gross income for the year. Deductions for gifts with a value exceeding the donor's adjusted gross income for 2005 may be carried over in succeeding tax years.

The tax relief package applies to gifts to qualifying public charities made between August 28, 2005 and December 31, 2005. Gifts to private foundations, supporting organizations and donor advised funds do not qualify for the special tax treatment. Gifts need not be for hurricane-related relief, unless the donor is a corporation.

Important limitations apply, so be sure to consult your tax professional before making charitable gifts in response to KETRA.

For more information on how you can benefit your favorite charity, your loved ones and yourself, please contact Sharon Heth, V.P. Charitable Services.

*Sharon Heth*

## Firm News

We proudly announce that our very own Stuart Allen, President and Founder of Allen Trust Company, has recently been named Chair of the Trust Committee of the Oregon Bankers Association. In this role, Stuart will be able to enhance how Oregon banks and trust companies serve their clients. Moreover, it is an honor that reflects his peers' recognition of his expertise with the technical aspects of trusts and investments.

Congratulations, Stuart!