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TAG XVII • Las Vegas '95

Ted Tesser

Ted Tesser — Discusses How to Create and Manage a Profitable Trading Business

This discussion will focus on the strategies necessary to become a successful futures trader. It will include techniques for the development and evaluation of a suitable trading methodology for each person's own trading style.

Ted will demonstrate how to use effective business management strategies in increasing profitability of the trading business. He will show traders how to further increase their bottom line through tax reduction. Ted will explain in some detail how taxpayers can claim "trader" status that can offer them substantial financial benefits.

Ted will also reveal a system, which he calls the Great Full Spread, for methodically grinding out a small but consistent profit using OEX option credit spreads. This strategy provides a highly accurate, limited risk vehicle for trading the futures market. Ted will also show how to use the McClellan Oscillator to time the market for mutual fund switching as well as for use with N.Y.F.E. contracts.

Ted Tesser, an independent futures trader, licensed CPA and member of the New York State Society of Certified Public Accountants, graduated Magna Cum Laude from Tufts University. He holds a Master's Degree in accounting from New York University, with a specialty in investment related taxation. Ted worked in several prominent accounting firms before establishing his own practice, Waterside Financial Services, in 1986. Ted assists traders in creating and managing profitable trading businesses. He focuses his counseling on the business aspect of trading with its many related areas, ranging from trading system development and selection to actual business and tax management strategies.

Ted's book *The Serious Investor's Tax Survival Guide*, (Trader's Library, 1993) received high praise from several major publications, including *The Wall Street Journal*. This year John Wiley & Sons published Ted's most recent book — *The Trader's Tax Survival Guide*. Many of the major financial publications have interviewed Ted or published articles about him and his work.

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Increase Your Trading Profits!

\$100,000 To Start

5 Years \$ 180,203

20 Years \$1,054,509

35 Years \$6,070,755

*Assumes a 50% tax rate and 25% per year compounded annually.

The Top 10 List

Things The I.R.S. Doesn't Want Us To Know!

- 10) General Accounting Office audit of the IRS.
- 9) No deficit reduction.
- 8) Many are already in 60% tax bracket -
80% projected rate
- 7) No Social Security
- 6) Single premium deferred annuity &
McClellan Oscillator
- 5) When you are alive, the IRS will try to take
everything you have.
When you die, they will try to take
what they missed.
- 4) The only sure thing in life is death.
Everything else is negotiable.
- 3) The Income Tax should really be called an
Ignorance Tax.
- 2) The magic word to use in dealing with the IRS.
- 1) Trader Status is the best kept secret of decade.

The 60 % Tax

Earned Income:	\$50,000
Less: Federal Income Tax (28%)	(14,000)
Less: Social Security (7.65%)	(3,825)
Less: State Tax (7%)	(3,500)
Less: Property Tax (2.4%)	(1,200)
Less: Sales/Misc. (7%)	<u>(3,500)</u>
Real After Tax Income	\$23,975
Effective Total Tax	\$26,025

Effective Tax Rate	52%
Employer's FICA - If Self Employed	7.65%
Total Effective Tax Rate (Rounded)	60%

The McClellan Oscillator

Increase Your Trading Profits By Trading In & Out of
Mutual Funds, The NYFE & Deferred Annuities.

- 1) Calculate daily Advances - Declines on the NYSE.
- 2) With daily Advance - Decline line calculate a 19 day exponential average and a 39 day exponential average.
- 3) Subtract the 39 day average from the 19 day average.
- 4) Plot the total as daily McClellan Oscillator.
- 5) When Oscillator is positive, enter the equity fund, when it is negative, transfer into money market, or cash.

Average Wealth Accumulated Over A Lifetime

1) Home	\$350,000
2) Retirement Plan(s)	\$450,000
3) Investments	\$250,000
4) Insurance	\$500,000
5) Personal possessions	<u>\$150,000</u>
	\$1,700,000
Average tax on this wealth will be:	<u>(901,000)</u>
Left to the next generation:	\$ 799,000

Average total tax on this wealth would be 53%.

Federal Estate Tax Starts at 37% and quickly goes to 55%.
And most states add on their own tax as well!

Preserve Your Wealth Forever!

- 1) Crummey Trusts (Irrevocable Life Insurance Trusts) can preserve wealth forever.
- 2) Joint survivor life policies can be purchased for a small percentage of total assets to preserve wealth for next generation.
- 3) The Credit Shelter Trust (Marital Trust) can save you \$178,000.
- 4) Charitable Remainder Trusts give you up front deductions.
- 5) This can be done as part of retirement plan, making it all deductible.

Extend The Time To File Your Tax Return

Form #:

- | | |
|--|------|
| 1) Extend until August 15th -
no reason necessary: | 4868 |
| 2) Extend until October 15th -
reasonable cause:
"Information necessary for the
preparation of an accurate and timely
tax return is not yet available" | 2688 |
| 3) Extend until October 15th -
reasonable cause: | 1127 |

Discharge Your Tax Debt In Bankruptcy

Discharging Your Taxes In Bankruptcy:

- 1) Return was due at least three years prior to filing for bankruptcy,**
- 2) Tax was assessed at least 240 days prior to filing.**

Both these must be present to discharge tax debt.

Taxpayer Bill of Rights

- 1) The right to set the time of an audit.
- 2) The right to an audit by mail.
- 3) The right not to be hassled.
- 4) The right to IRS information.
- 5) The right to penalty abatement.
- 6) The right to extend any return.
- 7) The right to an installment agreement.
- 8) The right to discharge past due taxes.
- 9) The right to challenge any IRS notice.
- 10) The right to appeal any decision made by an auditor.

Expenses:

- 1) Normal**
- 2) Ordinary**
- 3) Reasonable**
- 4) Legal**

Records:

- 1) Cash Receipts
- 2) Cancelled Checks
- 3) Year End Statements
- 4) Logs & Record Books
- 5) Reconstructions
- 6) Sworn Testimony

Equipment Useage Log:

<u>Date:</u>	<u>Bus:</u>	<u>Pers:</u>	<u>Task:</u>	<u>In:</u>	<u>Out:</u>	<u>Time:</u>
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____

Home Office Log:

<u>Date:</u>	<u>Task Performed:</u>	<u>In:</u>	<u>Out:</u>	<u>Total:</u>
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

Business Mileage Log:

<u>Date:</u>	<u>Start:</u>	<u>Finish:</u>	<u>Bus. Miles:</u>	<u>Purpose:</u>	<u>Exps:</u>
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

Sworn Testimony:

Expense Logs:

The entries made in this log were made contemporaneously during the month of _____, 19____, and reflect ordinary and necessary expenses of the kind described . Each and every entry is true, correct, and complete in all respects, and is an accurate reflection of expenses incurred by me (or by the _____ business) and paid in cash, or by check on the date and for the purpose indicated.

Home Office or Equipment Useage Logs:

The entries made in this log were made contemporaneously during the month of _____, 19____, and reflect the kind of use described . Each and every entry is true, correct, and complete in all respects, and is an accurate reflection of useage incurred by me (or by the _____ business) on the date and for the purpose indicated.

Signed: _____

Signature of Notary/Witness: _____

Seal of Notary: _____

Dated by Notary: _____

Business Expense Codes:

- 8. Advertising
- 10. Car/Truck Expense
- 11. Commission & Fees
- 15. Insurance-Non health
- 16. Interest
- 17. Legal/Accounting
- 18. Office Expense
- 20. a) Rent-Vehicles & Equipment
- 20. b) Rent-Other Property
- 21. Repairs & Maintenance
- 22. Supplies
- 23. Taxes & Licenses
- 24. a) Travel
- 24. b) Meals & Entertainment
- 25. Utilities, Telephone & Answering Service
- 26. Wages
- 27. Promotion
- 28. Bank Charges
- 29. Business Gifts
- 30. Continuing Education
- 31. Publications & Subscriptions
- 32. Laundry & Cleaning
- 33. Postage & Freight
- 34. Other _____
- 35. Other _____
- 36. Other _____

Itemized Deductions:

RX, MD, DDS, Hospitals, Medical Ins., State, Local, R.E. & Personal Property Tax, Mortgage Interest, Contributions, Employee Business, Miscellaneous

Name & Phone: _____

Monthly Totals:

Year: _____

Code #: _____

Category: _____

January: _____

February: _____

March: _____

April: _____

May: _____

June: _____

July: _____

August: _____

September: _____

October: _____

November: _____

December: _____

Expense Records For: _____

Phone: _____

Trader Status:

- 1) Expenses not subject to 2% - 3% floor**
- 2) Can alternate standard & itemized**
- 3) Trading seminars & related expenses**
- 4) Investment interest becomes trading interest**
- 5) Section 179 depreciation**
- 6) Home office expense**

Factors:

- 1) Average holding period
- 2) Expectation of short term profits
- 3) No intent to earn dividends
- 4) Intent to derive profit from frequent trading
- 5) Schedule C
- 6) Office