

FOCUS

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***The problem
with politics
today***

A recent article in *The Economist* really hit home for us in terms of explaining why politics in this country has become so ugly and so prone to producing results that no one is happy with (except the incumbents). And no, we're not talking about media conspiracies, either on the right or on the left. Rather, we're talking about gerrymandering.

It seems to us that when a Presidential race is decided by a few swing states, and in fact just a few key counties in those states, something is terribly wrong with the system. Some argue that the Electoral College system is at fault and needs to be modified (as in Colorado, which may vote to allocate its electoral votes in proportion to the popular vote) or scrapped altogether. We tend to think that the founding fathers' work should not be undone without long and careful deliberation and debate. Moreover, we don't think that proposal gets to the core of the problem, which is the way in which state legislatures have divvied up voting districts to lock in control of those districts, and their votes, by one party or another. And both parties are to blame.

The article cites a number of disturbing statistics. For example:

- *Congressional Quarterly* lists only 29 of the 435 House seats as competitive. In the 2000-02 time frame, that number was 50, and for the 1992-96 period, it was over 100. One respected political analyst posits that there are really only 13 close House races this year.
 - In 2002, four out of five races were won by more than a 20 percentage point margin. The average vote split between the incumbent party candidate and the challenger was 2:1. Two hundred races had margins of
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40 points or more, and 80 were completely uncontested. This year, the figure is 68.

- In 2002, only four incumbents lost to challengers (although four more lost in the primaries).
- Michael McDonald of the Brookings Institution estimates that the Democrats would need 57% of the presidential vote in order to recapture Congress via the “coattail” effect.

Another part of the equation is geographic. Much of the Democratic support is concentrated in large cities, where the party wins by huge majorities. Republican support is more spread out and tends to lie in the suburbs and rural areas. Prof. Gary Jacobson of U.C. San Diego analyzed the 2000 presidential election and determined that every district in which the candidate won 80% or more of the vote was Democratic. By contrast, Republicans won twice as many districts as Democrats in districts where the margin was 60% or less.

It seems to us that the only way we are going to get truly representative government, with contested races, is to fix the redistricting system. The politicians certainly can't be expected to do it. Thus, it can probably only be fixed by a bi-partisan or non-partisan commission of some sort at the national level that supervises and reviews the work of similar commissions at the state level. We're not going to hold our breath waiting for this commission to be formed!

Protect yourself

[This article was adapted from Brian Livingston's *Windows Tips and Secrets* electronic newsletter. Mac users can skip to the next article!]

Windows used to just crash. Now we have to defend ourselves against invisible programs that silently take over our PCs, record our keystrokes to capture our banking passwords, use our bandwidth to send out junk e-mails that

can't be traced back to the senders, and then bury us in the spam we receive in turn from all the other PC users whose machines have been similarly hacked.

Recently, Symantec released its sixth semiannual Internet Security Threat Report. It says the firm found a vast increase in the number of “bot networks” that are under the control of hackers. During the first six months of 2004, the number of such networks grew from fewer than 2,000 to 30,000. Each network averages about 2,000 PCs. Multiply the number of networks by the average population of controlled machines and it works out to 60 million “zombie” PCs—*that we know about*.

The following is a quick and dirty overview of the maddening crisis that has engulfed us. It focuses on four areas—viruses, spam, phishing, and adware—although an entire book could be written on all the problems that “making computers easier and more fun” has brought down on our heads.

Viruses

- Four and a half times more viruses and worms targeted Windows systems in the first half of 2004 than the same period of 2003. That's 4,496 new viruses and worms this year so far.
- In the first six months of 2004, about 1 in 12 e-mails carried viruses that are capable of penetrating firewalls meant to keep them out.
- There are now 1,740 known, unpatched security flaws in Windows and other operating systems. That's more than a 300% increase over the 417 vulnerabilities that were known to researchers as recently as 1999.

Spam

- Spam exceeded 70% of all e-mail in July 2004, the highest rate ever detected. It's over 80% of the e-mail received by Internet service providers AOL and MSN.

About 60% of all spam is now sent via zombie-infected machines.

Phishing

- More than 1,974 unique phishing attacks were reported in July 2004. Phishing occurs when spammers send official-looking e-mails asking customers to “confirm” their accounts by entering their passwords, pin codes or other personal information. Phishers then use this information to usurp the victim’s identity.
- Phishing attacks are growing at a rate of 50% **per month**.
- Thirty percent of American consumers have experienced online identity theft. Ninety percent of those cases occurred in the past year alone.

Adware

- Adware is exploding on users’ PCs, with security firm McAfee alone finding more than 14 million instances in March 2004, up from fewer than 2 million just last August. Adware consists of programs that are installed on a user’s PC for the financial benefit of a sponsor without the user’s full knowledge and consent.
- More than 20% of PCs tested by PCPitstop have active in memory one or more programs the company defines as “spyware.”
- In surveys, 74% of users whose PCs are running adware from Claria (formerly Gator) said they had no knowledge of it being installed. The figure is 87% for adware from WhenU.
- In the worst cases, adware installs via “drive-by downloads,” exploiting weaknesses in Internet Explorer that allow Web sites to run programs on users’ PCs without them even clicking “OK.” Programs downloaded in this way can operate like the worst traditional viruses. The downloaded programs may

install keylogging software to capture user passwords, send personal information back to a central server, and more. (The recent Service Pack 2 for Windows XP closes some but not all of the security flaws in Internet Explorer.)

You CAN and MUST protect yourself from the above threats by maintaining a “security baseline.” Every PC and computer network should be running at least the following five protective measures:

- A hardware firewall to keep hackers from accessing your PC from the Internet.
- A software (or “personal”) firewall to prevent any undetected Trojan horses from sending out your personal data or anything else.
- An anti-virus program that’s set to constantly update its virus signatures to detect threats in e-mail messages and shared files.
- An anti-spam program to reduce junk e-mail, which is a common method of delivering viruses into PCs.
- An anti-adware (or “spyware”) program to remove adware and guard against its re-introduction into your PC in the future.

Pay now, or pay later?

Does it make sense to realize large capital gains now instead of deferring them? Unless you anticipate holding the appreciated asset(s) until your death, perhaps.

We don’t think that Congress is likely to lower the current 15% (federal) maximum capital gains rate. Rather, the rate is much more likely to go up in light of the current deficit and especially if Senator Kerry is elected. In any case, it is due to expire in 2010.

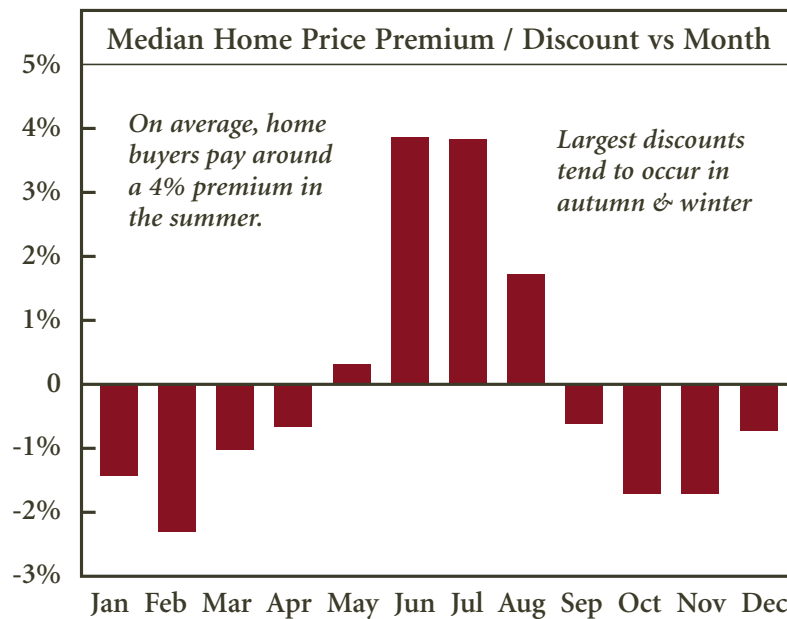
Here’s an example to demonstrate why selling today may be advantageous. Consider two investors, each with a

holding that has zero basis and is worth \$1 million. Investor A sells today, pays his tax, and reinvests his \$850,000 (we're ignoring state taxes). Investor B waits. Both earn 6% annually. In 2010, the tax rate goes to 28%, and both sell at year end. Investor A ends up paying a total of about \$250,000 in tax (including the initial \$150,000 paid in 2004) and ends up with just over \$1.1 million. Investor B pays \$400,000 in tax and is left with barely \$1 million. The difference is less if the tax rate in 2010 is less than 28% but greater if the holding period is longer.

The bottom line: if you have substantial gains, consider taking them now and diversifying. You will certainly lower your risk, and you may end up with more in your pocket at the end of the day.

Timing can be everything

The accompanying chart may be of great interest to anyone who sells a home. The bottom line: if you are a seller, do so in the summer. If you are a buyer, fall or winter may net you a better deal.



(Chart courtesy chartoftheday.com)

Who writes this stuff?

Actual newspaper headlines (the best of 2003; we'll try to locate 2004's when they're amassed and distributed).

Something Went Wrong in Jet Crash, Expert Says

Police Begin Campaign to Run Down Jaywalkers

Iraqi Head Seeks Arms

Prostitutes Appeal to Pope

Panda Mating Fails; Veterinarian Takes Over

Teacher Strikes, Idle Kids

Miners Refuse to Work after Death

Juvenile Court to Try Shooting Defendant

War Dims Hope for Peace

If Strike Isn't Settled Quickly, It May Last Awhile

Enfield (London) Couple Slain; Police Suspect Homicide

Red Tape Holds Up New Bridges

Typhoon Rips Through Cemetery; Hundreds Dead

Man Struck By Lightning Faces Battery Charge

New Study of Obesity Looks for Larger Test Group

Astronaut Takes Blame for Gas in Spacecraft

Local High School Dropouts Cut in Half


Hospitals are Sued by 7 Foot Doctors

Inside Woodside

We are saddened to report that Leslie Beck, our colleague of almost four years, will be leaving us this month to pursue other opportunities. Leslie has made significant contributions to the firm and has been a highly trusted and respected advisor to her clients. We wish her all the best.

As a reminder, our offices will be closed on November 25 and 26 in observance of Thanksgiving, on December 26, and on December 31. ❏

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