TAX-AUDIT RESPONSE MIGHT NOT BE WORTH IT

The federal tax code can be murky when it comes to what qualifies as medical and business deductions, and that can lead to you being audited.

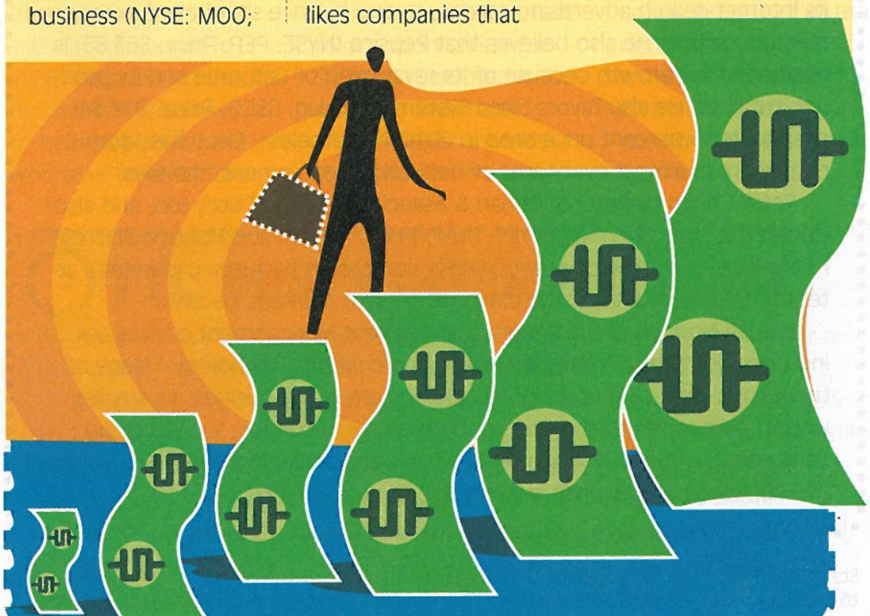
However, even tax professionals get it wrong, and you might end up owing interest and penalties on tax deductions to which you thought that you were entitled. (Some tax preparers sell audit insurance, but many of those policies cover audit representation, not the taxes and penalties.) But a *private-letter ruling*, which makes precedent-setting determinations on specific cases, is a way to handle an audit. It typically costs $1,000 to $5,000, because you need a tax lawyer to draft the letter and apply to Internal Revenue Service for the ruling. Unless your deduction reaches six figures, a private-letter ruling likely isn't a cost-effective approach.

In smaller matters where, say, hundreds or a few thousand dollars are involved, you simply can ask for the negligence penalty to be dismissed if you can show that you used a professional tax preparer.

A JUMP ON INFLATION

At press time, early indicators of inflation were beginning to appear in the food and energy sectors. So we asked experts what stocks might perform well if inflation were to set in. Elliot B. Herman of NFP Securities favors exchange-traded funds (ETFs), such as Market Vectors Agribusiness (NYSE: MOO; Price: $53.74), which holds companies in agriculture. He also likes oilfield-services provider Schlumberger (NYSE: SLB; Price: $87.14) because of its strong global presence.

Dave Dispennette of The Stock Playbook, which is a stock-research service, likes companies that focus on consumable goods, such as General Mills (NYSE: GIS; Price: $36.81) and Pepsico (NYSE: PEP; Price: $63.85). He also is keen on commodities such as silver—Silver Wheaton (NYSE: SLW; Price: $41.58)—and oil and gas, most notably Gran Tierra Energy (AMEX: GTE; Price: $7.99).



AOL: FANCY PLAY OR FAILED GAMBIT?

This year, Super Bowl Sunday ended with a Hail Mary pass as a losing America Online (NYSE: AOL; Price: $19.10) tried to save its own game. AOL announced that evening that it bought The Huffington Post, which aggregates news, blogs and columns. But that move failed to lift AOL's stock price, which is off about 20 percent since the start of the year.

Timothy G. Parker of Regency Wealth Management wonders whether AOL will turn things around. But investing in other Internet-search-engine companies also has drawbacks. Parker believes that Google's (Nasdaq: GOOG; Price: $570.22) stock is a bit expensive but is better in the long run, because Google "is solid financially with lots of cash." Based on its value, Yahoo! (Nasdaq: YHOO; Price: $16.18) also is pricey—and it's losing market share to Google, he says, but it isn't drowning at the pace of AOL.

NEW OPPORTUNITY TO REDUCE TAXES

As part of the Emergency Economic Stabilization Act of 2008, stockholders who bought and sold shares beginning Jan. 1 no longer must calculate the cost basis and gains or losses on equities, real-estate investment trusts (REITs) and American depositary receipts (ADRs), which are the stocks of foreign companies that are held in a U.S. depository bank. (*Cost basis* is the purchase price plus commission and fees that are adjusted for reinvested dividends, stock splits, corporate acquisitions and spinoffs.) Rather, brokers must figure the cost basis for clients. You can decide which one of five methods that your broker will use to calculate each of your sales or elect to go with your broker's default method. Each method has its own tax advantages.

The regulation expands to cover mutual funds and exchange-traded funds (ETFs) on Jan. 1, 2012. On Jan. 1, 2013, the rule kicks in for all other investments and *options* (contracts that allow investors to sell a specific amount of a security at a specified price within a specific time period).

TIM WEBB/LAUGHING STOCK

CHAD SHAFFER