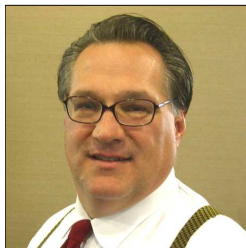




LORDS OF FINANCE OR FOLLY?



Stephen Molyneaux

Liaquat Ahamed's award winning book, *Lords of Finance* is a detailed look at the philosophy and actions of the world's four most important central bankers and how they led the post World War I global economy from the roaring '20s into the Great Depression. *Lords of Finance* is an eye-opening work exposing the colossal mess economic policymakers can inflict on humankind through their misjudgments and conceit.

Central Bankers Often Remain Wedded To Their Orthodoxy Regardless Of The Facts

Ahamed's text highlights the personalities and endeavors of the leaders of the world's four most important central banks: Benjamin Strong of the Federal Reserve, Emile Moreau head of the Banque de France, Bank of England's Montagu Norman, and Hjalmar Schacht of the German Reichbank. These early central bankers, said to be the best and brightest of their time (much like they say of today's policymakers) remained wedded to their orthodoxy regardless of the economic and political landscape. All four bankers were unyielding to move away from the gold standard even as gold supplies were unstable and dwindling, while at the same time, politicians insisted the massive German reparations remain in place – even in the face of runaway hyperinflation in a bankrupt Germany.

It is impossible while reading *Lords of Finance* to not see the parallels between the post WWI global economy and our contemporary state of affairs.

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A BRIEF LOOK AT MEDICARE AND MEDIGAP COVERAGE



Laurence Burnette, CFP

Very few people under the age of 65 understand the basics of Medicare, the federal health program for seniors and certain disabled individuals. Medicare is available to anyone over the age of 65 who is a U.S. citizen or a permanent legal resident for five continuous years. Some people under the age of 65 may qualify under certain circumstances, including: If they are permanently disabled and have received Social Security disability payments for the last two years, or if they need a kidney transplant, are under dialysis for permanent kidney failure or have Amyotrophic Lateral Sclerosis, also known as Lou Gehrig's disease.

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A good understanding of the current Federal programs will afford you a better opportunity to adjust your retirement planning to the potential changes healthcare reform might bring. A meeting with a CFP professional can give a broader view of this type of healthcare coverage and its potential impact on your retirement plans.

Like all government programs, Medicare is complicated, laden with rules and regulations, and often described in confounding legalese language. The following is a simple outline of the program.

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PURCHASING LIFE INSURANCE



For Most People - “Buy Term and Invest the Rest”



Frank Johnson, CFP

When it comes to buying life insurance, the best advice an investor should keep in mind is – keep it simple! First, and possibly most important, is determining whether you are looking for insurance or are you looking for an investment vehicle. Seldom, if ever, does any single insurance product fit the bill of being both an excellent investment vehicle plus a good value in affordable insurance. In fact, a recent survey of financial estate planners reported the wrong kind of life insurance can do more harm to your financial plans than just about any other financial product.

There are two main forms of life insurance – Permanent and Term life insurance. Term life insurance only covers you while you paying premiums on the policy. Theoretically, you could pay a monthly premium every month for 50 years, quit paying your premium for a month, drop dead, and your beneficiaries wouldn’t receive a nickel – benefits are only paid during the life of the policy. There are three major forms of term life insurance:

- **Guaranteed Level Premium Term** you get a level death benefit and you pay a fixed level premium for a fixed length of time (usually 10, 20 or 30 years). The best feature with level term is the fixed cost. The premium will not be affected by inflation and even if your health takes a turn for the worst as you age, your premiums will remain the same.
- **Renewable Annual Term** offers the flexibility of renewing your policy each year. The downside is that the renewed price increases annually.
- **Decreasing Term** features a steadily declining death benefit, but level premiums. This is generally marketed as “mortgage insurance” to cover a home mortgage in case the family breadwinner dies. The aforementioned “Level term insurance” is a better choice.

Whole life, universal life and variable life are examples of “permanent” life insurance policies. They are constructed to cover you for your entire life and are designed with two basic components: death benefits and a “savings account” or “cash value.” They are structured so the policy holder will see funds accumulate in the savings account and earn interest which in turn will help lower or even fully pay the premium at a future date. Potentially, at some point in time, the policy holder will no longer be paying a premium, but will still be covered for the rest of their life.

While the concept of permanent life insurance may seem appealing, there are some issues you discover when you examine the details of most of these policies. First, dollar for dollar, permanent life policies are much more expensive than term policies. If you are interested solely in getting the most death benefit you can for the least cost, avoid Permanent life policies – they do not offer as much bang for the buck. The second problem with whole life and universal that the savings account or cash value component of the policy as an investment vehicle leaves a lot to be desired – insurance companies tend to pay low interest rates to policyholders while they themselves earn much greater returns by investing the policyholder’s funds in stocks and bonds.

As with any investment question, there is no blanket universal answer to the question, which life insurance policy is best, but the vast majority of people seeking to buy life insurance should keep in mind a little adage used in the financial planning world, “*buy term, invest the rest.*”

Hanover Advisors does not sell, provide, or endorse any particular insurance policy. The article is strictly educational in nature and should not be construed as a solicitation of an offer.



Medicare coverage is divided into primary parts: **(Part A) (Part B) (Part D) (Part C)**

Part A is the segment of the program most associated with hospital care. It covers hospital inpatient care, a limited amount of care at some skilled nursing facilities, some specific home health care alternatives and hospice care. Most people are enrolled automatically in Part A when they reach 65 and receive this coverage for free. *What is important to note is that Medicare does not cover long-term nursing home expenses - individuals must make provisions for their own long-term care.*

Part B concerns outpatient services. This is the part of the plan that covers doctors' visits, outpatient care and some other medical services which Part A doesn't cover, such as services for physical and occupational therapists, and other aspects of home health care. *Recipients must pay a monthly premium for Part B coverage - plus a deductible.* For 2009, the basic premium is \$96.40 per month, though it might be higher for some people based on income. As a point of interest, you will sometimes hear people refer to Part A and Part B coverage as "Original Medicare."

Part D is Medicare's prescription drug coverage. Part D is administered by a number of private insurance companies that operate in various regions of the country. To ensure you are receiving the best deal requires some investigating on your part. You will have to shop around to make sure you are getting the right drugs at the right price. Financial assistance might be available if you qualify.

Part C is actually entitled - Medicare Advantage Plan. It is an optional plan individuals may choose so they receive their Medicare benefits through private health plans. You will also hear this plan referred to as Medicare Choice. These private plans include conventional HMOs and PPOs and are required by law to offer benefits that cover everything that Medicare covers, but they do not have to cover everything exactly as Medicare Part A and B do. There might be some customized options that allow for lower copayments or lower total out-of-pocket expenses. In simplest language, Medicare Advantage plans blend the benefits of Original Medicare and Medigap plans (more on this below). By law, you cannot buy Medigap supplemental insurance if you have chosen Medicare Advantage. However, it is very important to get some expertise on the choice between Original Medicare and Medicare Advantage plans based on your anticipated health needs to make sure the coverage you buy covers what you really may need.

When do I enroll for Medicare? You have a six-month window to enroll for Medicare that starts three months before your 65th birthday and ends three months after. As mentioned above, if you're already receiving Social Security at age 65, you will automatically be enrolled in Part A, but if not and you enroll more than three months after your 65th, you may be subject to a late enrollment penalty.

What about Medigap? So-called "Medigap" coverage is supplemental coverage that is available for people who opt to be covered under Original Medicare – Part A and B coverage. *Medigap insurance is purchased from a private insurer.* The primary goal of Medigap insurance is to offer supplemental coverage for some of the costs Medicare does not cover. *If you choose Medicare Advantage (Part C) coverage, you will not need Medigap coverage.*

To compare Medicare and Medigap coverage, visit the [Medicare Personal Plan Finder](#) on the Medicare.gov website.

This column is provided by Laurence C. Burnette, CFP, and a member of the Financial Planning Association.

Blog Now Available On Hanover Advisors' Website

Hanover Advisors is pleased to announce a blog is now available on our website. The blog will be updated on a regular basis with pertinent, up-to-date investment commentary regarding portfolio adjustments and unfolding events in the financial markets. Please visit our website at www.hanoveradvisorsinc.com to view our newest feature.



Both eras were marked by a series of bubbles followed by painful busts. Nations were carrying massive amounts of debt while operating under a cloud of economic fragility. What makes reading the book eerie is knowing, in hindsight, the eventual calamity which would result from the missteps these four financial gurus were taking. The global economy was spiraling into a depression, yet the brightest economic minds of their time stuck to their policies which would eventually turn a banking crisis into a full-blown depression and help create an environment which would give rise to a madman like Hitler. There is little doubt the horrific economic conditions of post WWI Germany helped fueled the rise of Hitler and helped solidify his hold over a bankrupt German populace.

Many historians and economists hypothesize that what happened in the 1930s could not be repeated today because we are smarter, having learned from history, and we have a better grasp on the controls of the economy – but do we? Mr. Ahamed doesn't think so. In a recent interview with CNN, Ahamed compared the Great Depression with today's woes and sees both based on a stock market bubble and a banking crisis. He said that while we can look back at the policies the bankers of the 1930s enacted and know they were entirely wrong, we can not say with certainty the actions we are taking today will not have terrible consequences. We just do not know.

It is unsettling to see the same kind of single-mindedness, which plagued central bankers nearly a century ago in practice today. While the post WWI central bankers held fast to their gold standard, today's central bankers have for nearly two decades worked feverishly to keep interest rates low even in the face of enormous bubbles developing in the housing and stock market. Perhaps single-mindedness is endemic to central bankers.

They say the road to hell is paved with good intentions, and nowhere does that seem more evident than in the history of economic policymakers. A close examination of most of these top bankers demonstrates they were, and are, dedicated men that work tirelessly attempting to build a better, more prosperous world. The vast majority of the harm these financial tinkerers have inflicted on various economies throughout history would eventually surface in the unintended consequences of their actions - the policymakers always meant well, but their meddling and blunders would often transform a sizeable problem into a gargantuan debacle.

Historians claim there have been 47 recessions in U.S. history since 1790 as measured by the National Bureau of Economic Research. Every generation appoints the best and the brightest bankers to steer their economy and attempt to fine tune it and smooth out the volatility, yet the recessions and mini-depressions continue. If we think of the economy as a delicate living organism, it is as if the creature occasionally needs a pause to correct itself and mend its own ills when something gets out of balance. The organism is often best left alone and not to be tinkered with – especially by the best and the brightest.

Lords of Finance leaves its audience wondering if we know any more about this fantastically complex organism today than previous generations did. Or, in our own conceit, do we only think we do.

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