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Stephen Molyneaux

A TSUNAMI OF GLOBAL DEBT

THE RAMIFICATIONS OF SOVEREIGN DEBT COULD BE PROFOUND FOR INVESTORS

How ironic that Greece, the cradle of western civilization and birthplace of democracy, should be the canary in the mineshaft for testing the unsustainable levels of debt which has engulfed so many western nations. What must the pantheon of gods, lounging about, high atop Mount Olympus, muse as they watch over their modern day Spartan homeland. This once great warrior nation, founded on an ethos of simplicity, frugality, and the avoidance of luxury, is now reduced to nothing more than a land of debt-ridden mortals unable to wean themselves from a bloated budget that is threatening to devour their beloved city-state.

Unsustainable Levels of Worldwide Debt Could Threaten A Global Fiscal Crisis

But Greece is not alone in their gluttony of borrowing and spending. The ever-growing level of worldwide debt threatens a fiscal crisis that could severely impact the entire global economy. The world has never seen such tremendous debt levels before – and the debt is not serviceable. The crisis is not confined to Dubai or just a few Mediterranean countries, but is now impacting budgetary decisions around the globe in capitols such as Tokyo, Berlin, Paris, and even Washington.

For the immediate future, it is highly unlikely that the EU will allow Greece to default. Some combined form of bailout, blended with a severe austerity program, will probably be engineered under the stern hand of Germany. It is a dirty little secret that Greece, Germany, and the other EU members

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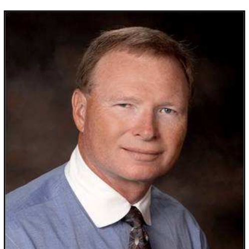

Frank Johnson, CFP

TALKING ABOUT MY GENERATION

FOR 76 MILLION BOOMERS, THE AGE OF AQUARIUS IS QUICKLY BECOMING THE AGE FOR ARTHRITIS

The strawberry alarm clock is ticking closer and closer to retirement for the boomer generation. The flower children of the 1960s are either already in their 60s or approaching 60 and it is not a pretty financial picture. Government studies heaped upon piles of private studies all point to the depressing fact that more than 50% of all baby boomers are facing a financially stressful retirement, and the most disturbing news is that most of these dire predictions and grim statistics were made prior to the recent severe downturn in the economy. More and more economic indicators point toward a bleak retirement existence for many members of the Pepsi generation unless they commit to saving and investing more toward their retirement.

The latest Congressional Budget Office data demonstrates most boomers (the population of 76 million born between 1946 and 1964) are severely unprepared for retirement. There is no doubt that the recession has taken a steep toll on many retirement plans (loss of value in your IRA, 401k, etc.) and

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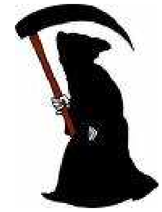
HIGHLIGHTS

Laurence Burnette, CFP

The "Death Tax" Is Alive And Kicking



For Tax Purposes, 2010 Is Looking Like A Premium Year To Die

The estate tax (a tax on the assets a deceased individual leaves behind) was designed to be abolished starting in 2010. But due to congressional procedural machinations and congress not voting on the matter, we are now being held hostage to a vacillating tax code whereby we will temporarily enjoy having no federal estate taxes in 2010 and then we will skyrocket to a top tax rate of 55% in 2011. The rate of increase is so steep and so quick some medical doctors in the field of bioethics have questioned whether the estate tax law will actually impact certain individual's end of life decision making. The bioethics experts cite a 1979 Australian study where a sudden and dramatic modification in that nation's inheritance tax law caused a statistically significant disparity in death rates in the weeks surrounding the enactment of the law. We are not sure how Americans will react to such a huge increase in estate taxes, but it seems some Australians actually embraced or snubbed the Grim Reaper depending on variations in their tax code. But we digress.

As of this moment, if congress does not tinker with the tax code, the 2011 federal estate tax table ranges from 18% to 55% depending on the value of your estate. The first one million dollars of your estate is excluded from the tax. Tax laws are unjustifiably complex and full of legalese. They are no place for amateurs to play. We would strongly advise that if your estate is valued over a million dollars you seek the assistance of a professional. Contact an estate tax attorney, CPA, or a certified financial planner who specializes in estate planning to help you through the minefield that is the U.S. tax code.

Estate Taxes Will Skyrocket in 2011 - Consult An Estate Planning Professional This Year

Adding to the misery of dealing with the federal estate tax code, depending on where you reside, is the possible addition of state tax collectors chasing after your hearse in search of additional revenue. Many state governments are discussing numerous possible changes in their specific estate and inheritance tax laws. Currently, 17 states and the District of Columbia impose some form of estate taxes. Eight states have inheritance taxes, which are levied on heirs, not estates. Maryland and New Jersey have both an estate tax and an inheritance tax.

State tax codes are being rewritten, modified, and expanded at breakneck speed. Numerous states have significant budget woes and are looking for any new source of revenue to fix them. Every state puts its own wrinkle on estate tax issues, and that is why it is particularly important for retirees to check how those laws might affect their estate assets. Once again, seek the help of a professional who knows the particular laws of your specific state and can advise you on how to avoid some of the pitfalls.

Not only can an estate tax attorney, CPA, or a financial planner help you navigate the maze of federal and state taxes, but they can also offer other possible strategies for achieving maximum benefits for your heirs. A professional adviser will be able to assist in the possible establishment and implementation of a will, trust, or if needed, life insurance.

Taxpayers concerned about their estate tax situation might also bring another key group of people into the discussion – their heirs. When talking about extensive assets, it is good to discuss the tax situations of the giving and the receiving parties to make sure the chosen solutions are best for both sides. It is best to hold a financial planning family meeting to discuss charitable giving intentions, and the protection of the total family's wealth. Clear communication on planning strategies will ensure maximum family wealth preservation.

Please consult your tax advisor or financial planner for full legal information. Hanover Advisors is a registered investment advisor that provides neither tax advice nor legal advice.

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

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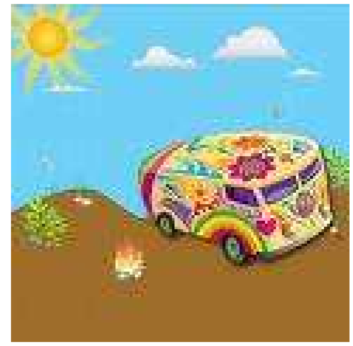

the current economy makes it tougher to be concerned about retirement planning, but what I found most disturbing in all the data is the large number of boomers surveyed who still see their home's value as a possible retirement nest egg. The sad news is the value of your home may possibly take years or even decades to return to the value it had before the recent collapse in the housing sector.

Economists are still unable to agree on exactly when home prices will bottom out. Many see the end of 2010 as the bottom, while others claim the continuing foreclosure mess will further drag down the housing sector into late 2011. Regardless of when prices do finally bottom, analysts at Moody's predict it will take 10 years in most states for home prices to rebound once they hit bottom, and nearly 20 years in those "hot-market" states that saw a fantastic run up in housing prices – California, Arizona, Nevada, Florida. Regardless of when we hit bottom, home values are not going to soar once the economy recovers and this great recession is just a memory.

More Than 50% Of Baby Boomers Are Facing A Financially Stressful Retirement

The Case-Shiller Home Price Index, one of the most respected names in tracking all things real estate, claims that when housing prices do finally bottom out, the fall from peak to bottom will be the largest drop ever recorded in American history – even larger than the fall in home prices during the Great Depression.

If it seems impossible to believe that it could take until sometime between the year 2020 and 2030 for nationwide home prices to rebound to their 2005 values, consider this fact – real estate prices in Japan are still down a whopping 50% from their peak of over 15 years ago!

The Collapse Of The Housing Sector Indicates Your Home May Not Be A Reliable Nest Egg

It is critical that those members of the baby boomer generation make every effort to invest and save as much as possible in the limited time they have before retirement. Make a budget, insist on setting some funds aside every month for retirement, and speak to a financial planner or advisor to help assist you with your retirement planning. While it is true that the earlier you start to fund a retirement plan, the better - it is also true that it is never too late to begin a retirement plan.

Boomers (Those Born - 1946 to 1964) Need To Substantially Increase Their Retirement Savings

Psychologists claim the underlying reason boomers are not properly planning for retirement is that they grew up worshipping youth and honestly believing their entire generation would never get old or gray - remember the days of never trusting anyone over the age of thirty? One psychologist said many baby boomers possess a mental image of themselves as cultural rebels living in an endless summer of sun and fun. I am not sure what the psychological reasons are for so many baby boomers not planning for their retirement, but the data would seem to indicate that unless they make some quick and drastic changes – millions of boomers will not be *feelin' groovy* in retirement.

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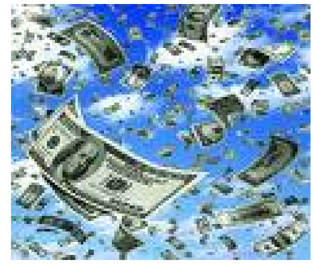

may not like each other, but they all need each other. Watching them trying to hash out an agreement is analogous to watching a good old Mexican standoff – a stalemate full of suspicion, mistrust, and skepticism with everyone waiting to see who will blink first.

Make no doubt about it, German officials will expunge a pound of flesh for bailing out Greece. The Greek government may face one of the most wrenching austerity programs seen in modern European history, and if history is any guide they will fight it every inch of the way. What the socio-political fallout will be is still uncertain. Powerful Greek unions have called for protests before a new budget has even been announced, and civil unrest in Athens has already been reported. On the revenue side, Greek officials face the daunting task of attempting to tax a population that has turned tax evasion into an art – wealthy Greeks shift their wealth abroad, and the common man operates more and more in a shadowy, underground tax-free economy that is estimated to be as large as 30% of GDP.

Around the globe we will probably be seeing a replay of what started in Greece. From Spain to California, governments of all sizes are facing a day of reckoning – previous social promises will have to be rolled back due to near bankruptcy, and policy makers will attempt to tax everything in sight to stay above water.

What will all this turmoil in foreign markets and at home mean to investors?

- **Taxes of all types are probably going to spiral higher and higher as governments at all levels attempt to raise revenue. Investors should take advantage of any tax shelters available – IRAs, 529 plans, etc.**

- **Eventually, we will face some level of inflation. We see no immediate (16-24 months) rise in inflation, but long-term inflation seems probable. For most governments, the easiest way to reduce the value of those liabilities in real terms is by devaluing the currency. Portfolios should be adjusted to encompass inflation protected vehicles.**

- **Commodities have a long history of being a safe haven in times of inflation and turmoil in the currency markets.**

- **Investors should be cautious when considering bonds issued by any political entity since many states and municipalities have increased debt to unsustainable levels. It currently costs 2.35% a year in principal to insure some California municipal bonds - the same price for insurance on a Greek government bond.**

HANOVER ADVISORS

115 PERIMETER CENTER PLACE, SUITE 825
ATLANTA, GA 30346
(800) 874-5238 OR (770) 392-3998
VISIT OUR WEBSITE AT: www.hanoveradvisorsinc.com