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In order to better acquaint you with Wealth Advisor Group LLC, we are sending you our quarterly client newsletter which accompanies our clients' quarterly performance reports. We hope this gives you some insight into our firm. If you have any questions about our services, please call.

SECOND QUARTER 2006 INVESTMENT REPORT

A Coin Toss

Many investors, both amateur and professional, believe that they can beat common stock market benchmarks, such as the Dow Jones Industrial Average, the S&P 500 Index, etc. All of our country's top universities offer business degrees in finance, and the top brokers, bankers and mutual fund companies pay their managers top dollar to determine what to buy and sell and when to do it. So naturally, being able to outperform an industry benchmark shouldn't be too difficult—wouldn't you agree?

Think about how many **really** good money managers you have heard about in your lifetime. They might be defined as those who have been able to consistently outperform a benchmark for, let's say, ten years in a row. Well, we all know how great Warren Buffett is supposed to be. Peter Lynch (Fidelity Magellan Fund) was also a well-known money manager for the limited time he was in business (he retired at 43). What about other names? Some less famous but no less impressive ones might include Bill Miller of Legg Mason Funds, Chairman of Sears Holdings—Eddie ("the next Warren Buffet") Lambert, and perhaps John Montgomery of the Bridgeway Funds.

You may have a name or two that we have missed, but the point of this exercise is to show just how few very successful Wall Street gurus there really are. Statistically, that shouldn't really be the case. Technically, if we used a bunch of monkeys with darts, or flipped a bunch of coins, shouldn't we be able to get better results?

There are over 13,500 mutual funds available for purchase in the US. Assume we start out by flipping 13,500 coins, and, on average, half of them land on heads, half on tails. If we throw away all those tails, and start anew with only the heads, and flipped again, we would again end up again with approximately half heads, half tails. Throw those tails away and do the same thing with the heads. If you did this ten times in a row, the numbers would look something like this:

13,500 heads
6,250 heads
3,125 heads
1,562 heads
781 heads
390 heads
195 heads
97 heads
48 heads
24 heads

The figures above show that according to chance, one might expect at least 24 mutual funds would have outperformed their benchmark each and every year over a ten-year period. Education, skill, big Wall Street paychecks and other reasons why managers may be able to outperform the above calculations should actually make that number (24) much larger. But guess what? Most of us can count on one hand the number of funds/gurus that have been accomplishing that same feat in the real world.

The moral of this story is that trying to find that investment guru needle in the Wall Street haystack is usually quite futile. And even if you are lucky, by the time you do find them, they may manage too much money to continue their excellence (Buffet), or

they may close their fund (Montgomery) or they may just plain old retire (Lynch). You have a much better chance of flipping a coin correctly ten times in a row (or picking a monkey with good dart throwing technique) than you do by having your money actively managed and consistently outperforming the broad market. When you add the higher fees of active management and transaction costs into the equation, it becomes next to impossible to outperform.

For all these reasons, Wealth Advisor Group uses the Nobel Prize-winning investment methodology of Modern Portfolio Theory asset class investing in their clients' portfolios. Anything less is like tossing your coins away.

Back To The Future

You may remember that earlier this year a change of guard at the Federal Reserve took place. Long-time Chairman Alan Greenspan retired and Ben Bernanke took his place. At the time, most inside observers predicted an orderly transition, noting that both men believed in the same basic philosophy and job description. It was predicted that the only real difference might be in the way the two men would communicate their views on the markets. Greenspan had long been known as a somewhat cryptic speaker who would make Wall Street read between the lines as to what he was thinking. Bernanke, on the other hand, was known to be a straightforward communicator. It was predicted that he would literally tell his listeners exactly what he was thinking, what his actual economic targets were, and in general take away much of the guesswork that was needed with Greenspan.

Well...it didn't happen. Unfortunately, there is as much "guessing" going on after Bernanke's statements as with Greenspan's. In fact, after one of Bernanke's second quarter speeches, he even had to announce that he had erred in his language and really didn't mean what he said! On Thursday June 29th, the Fed **omitted** this phrase (which had been used in its May statement): "... Some further policy firming may yet be needed to address inflation risks." The **lack** of these twelve words led to one of the largest one-day gains this year; many feel it signaled a "top" in this cycle's interest rates.

Why are we talking about this boring topic? Two reasons. First, expectations that things will be meaningfully different at any bureaucratic organization should always be taken with a grain of salt. By its very nature, so much hangs on the Fed's every printed or spoken word that any communication must be handled extremely delicately as to not freak-out the global marketplace. Skipping just twelve words from last month's statement can have the extraordinary impact mentioned above. Secondly, and more importantly, these situations loudly point out that it is nearly impossible to attempt to properly time the entrance or exit into a particular market or asset class.

As long-term investors, WAG clients should frankly pay little notice to the daily helter-skelter of the financial markets. Your performance is based on the long-term rates of capital returns on the various blocks of non-correlating asset classes you own. Corporate or governmental news items *du jour* act as fuel for the choppy "noise" that speculators attempt (and usually fail) to profitably trade. Regardless of who is the next President, Fed Chairman, or love interest of Tom Cruise, the ageless fundamentals of risk analysis, diversification and patience will ensure that your investment experience rewards you well into the future.

Second Quarter 2006 Asset Class Performance

	2nd Qtr	'06 YTD		2nd Qtr	'06 YTD
S & P 500	-1.48%	2.64%	Int'l Large Cap	0.67%	9.74%
Large Cap Value	1.79%	8.10%	Int'l Large Cap Value	0.10%	12.46%
Medium Cap	-2.90%	4.42%	Int'l Small Cap	-2.46%	8.40%
Small Cap	-4.72%	6.89%	Int'l Small Cap Value	-2.70%	9.65%
Small Cap Value	-3.40%	11.14%	Int'l Emerging Mkts	-4.57%	6.14%
Micro Cap	-7.11%	6.26%	Int'l Emerging Mkts Value	-3.95%	9.20%
Real Estate	-1.37%	13.21%	Int'l Emerg. Mkts Small Cap	-7.53%	4.33%
Intermediate Income	-0.56%	-1.90%	Pacific	-2.81%	3.53%
Long Term Income	-1.68%	-5.04%	European	2.68%	13.54%

Source: The Vanguard Group and DFA, Inc.

Equity markets had a volatile quarter. For the first six weeks, they continued the upwards trend of the very generous returns seen in the first quarter. But by mid-May, a meaningful pullback started. The asset classes that had experienced the most attractive recent gains had the biggest corrections. These include Small Cap and Emerging Markets. As an example, from 4/1/05 to 4/1/06, the Indian stock market had more than doubled. So it wasn't unusual to see that during the second quarter India's market had a one-day drop of 10%. The last two weeks of June offered some repair to most equity asset classes, and the end result for the full quarter was a relatively modest loss for most asset classes.

For the first time in a while, Large Cap, both domestic and international, outperformed Small. Could this be the start of a longer term shift to more attractive Large Cap returns? We don't try to guess these answers, but Large Caps have been out of favor for several years and it might be their time to catch up.

For the second quarter in a row, Fixed Income asset classes have had negative returns, primarily due to slightly increasing interest rates for intermediate and long term bonds. As mentioned above, interest rate increases may be slowing, as the Fed and various economic numbers seem to be showing. Our overweighting into shorter-term Fixed Income and Hybrid asset classes have helped to lessen this negative result.

Overall, year-to-date returns are still very healthy, with most of the asset classes posting high single- or even double-digit six-month returns. If interest rates are in fact peaking, this may make for a favorable second half of 2006.

As always, your portfolio's Performance Report is included with this letter. If we have managed your portfolio for less than a full three months, you will receive only a partial report, with the full report following next quarter.

Third-quarter market returns, like the hurricane season, can be volatile. Keep stable footing in both, and enjoy the rest of your summer.

Sincerely,



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Our client centered portfolio management – something we call **The PROsperty Model (sm)**, is designed by combining:

- Our investment **Philosophy**, based in Modern Portfolio Theory,
- Our **Resources**, seen in human terms by our highly experienced, professional advisors; our affiliation with Dixon Hughes; and finally our unique ability to offer our clients institutional investment vehicles unavailable to most brokers, bankers or individual investors,
- Our **Objectivity**, which is anchored in our fee-only compensation structure, assuring no potential conflicts of interest of any kind.
- Our clients stand at the center of these principles, benefiting by the **Integration** of all three. We believe that a superior investment experience and performance can only be found when not one or two, but all three values occur simultaneously.