



JULY 11, 2007

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 2007 INVESTMENT REPORT



This unsettling question was found on the cover of TIME magazine's 9/18/06 edition. As you may have guessed, the article interviewed both sides of the issue. Not surprisingly, many people interviewed who believed God wanted them to be rich, in fact, were rich; and those who believed otherwise, appeared to be at a lower economic level.

We are not trying to take sides on this issue, but think it is a good example of how one's belief structure about money can absolutely affect their real world experience with it. Most people's views on money probably don't come directly from their religious background, but rather from their personal or family's direct or indirect experiences. Have you ever heard any of these expressions about money?

*Money makes the world go around. Money is the root of all evil. I don't care too much for money, cause money can't buy me love. Money doesn't grow on trees. Rainy day money.
Do I look like I'm made out of money? She married for money.
A fool and his money are soon parted.*

*Dirty money. Easy money. Follow the money. Take the money and run.
Show me the money. I'm in the money. It's only money. Old money. Money talks. Money is tight.
Money to burn. Put your money where your mouth is. Right on the money. She works hard for her money.
Fun money. Time is money. Your money or your life. The cost of money.
Spending money. That's money well spent. I've got my mind on my money and my money on my mind.*

Undoubtedly, you heard some of these sayings more than others when you were growing up. In addition to the attitudes the above may imply, your past investment experiences play a huge role in determining both your conscious and subconscious thinking about money and investing. Someone with a grandparent who lost everything in the 1929 crash probably has a different attitude about the stock market than someone with a parent who bought and held shares from the initial public offering of IBM or

Microsoft. Similarly, someone who held predominantly tech stocks throughout their 80% sell off in 2000-2002 probably has a totally different view of investing than one who experienced the benefits of Modern Portfolio Theory during that same period.

WAG advisors' biggest challenge with prospective clients is dealing with these deep seated feelings when trying to quantify their risk and reward thresholds. It is often a fight between the rationality and academic validation of Modern Portfolio Theory vs. the ghosts and goblins of past financial hauntings. Fortunately, once a client experiences a relationship with a fee-only advisor, who owes a fiduciary duty and uses a scientific, Nobel Prize winning investment methodology, most of their real and imagined fears dissipate.

Birth of a New Asset Class

Occasionally a client will ask if WAG ever adds new asset classes to their portfolios. In order for that to occur, two prerequisites must be met:

1. Any new asset class must have a relatively high, long term reward expectation. It would make no sense to add an asset class with a mediocre long term return, merely for the purpose of having an additional holding in clients' portfolios.
2. That new asset class must also have meaningful neutral correlation with the other asset classes already in the portfolio, in order to assure some amount of additional risk dampening. It would not help to add a new asset class if its price movement would closely match one already in use.

The above two requirements are met with International Real Estate – a new asset class we will be adding to selected portfolios. International R.E. has literally been “born” within the last couple of years. There have always been international public companies that own or deal with real estate. However, only recently have several foreign countries adopted laws that put that real estate into an REIT (real estate investment trust) legal format. The REIT legal entity allows the waiver of corporate taxes if at least 90% of its earnings are paid to shareholders, thus skipping the dual taxation that occurs with “normal” corporate earnings.

This asset class fulfills the two requisites listed above. It has both an attractive long term return potential, and meaningful negative correlation to other domestic and international asset classes, including domestic Real Estate. Its one drawback is a negative foreign tax ramification for taxable accounts, in the form of “phantom taxes” for gains that may not be realized. Consequently, we will only own this class in tax deferred accounts and other accounts that do not pay taxes. The weighting of this class will be taken from your current domestic Real Estate weighting, and will represent 40% of your portfolio's total Real Estate weighting. The change will be made gradually, over the next several months.

Second Quarter 2007 Asset Class Returns

	2nd Qtr	'07 YTD		2nd Qtr	'07 YTD
S & P 500	6.25%	6.88%	Int'l Large Cap	6.55%	11.21%
Large Cap Value	6.76%	8.90%	Int'l Large Cap Value	7.81%	13.24%
Medium Cap	6.05%	10.85%	Int'l Small Cap	5.25%	13.82%
Small Cap	5.48%	9.19%	Int'l Small Cap Value	4.49%	13.96%
Small Cap Value	3.89%	7.08%	Int'l Emerging Mkts	15.40%	17.92%
Micro Cap	4.35%	6.09%	Int'l Emerging Mkts Value	19.47%	28.33%
Real Estate	(9.40%)	(6.33%)	Int'l Emerg. Mkts Small Cap	19.65%	28.44%
Intermediate Income	(1.02%)	0.47%	Pacific	2.54%	7.08%
Long Term Income	(1.74%)	(0.98%)	European	8.10%	12.55%

Vanguard Group and DFA, Inc.

Virtually all gains in the second quarter came from the month of April. May and June were volatile, with much thrashing about, but adding little to the period's total returns. Interestingly, domestic equity returns remained in a narrow span, with Large Caps in the 6% range and small in the 4%-5% range. Slightly rising interest rates delivered negative returns for most Income asset classes, while Real Estate got hammered, resulting in one of its worst quarterly losses in years. International equity asset classes followed those in the U.S., with Large narrowly beating Small. Emerging Markets returns continued their multi-year out performance, with Small and Value showing clear superiority in year-to-date returns.

We are in the fifth year of a bull market. Sales of new and existing homes in the U.S. are at a multi-year low, and that is meaningfully dampening the economic growth in America. This single issue could be the factor that either sets the stage for another long term market up trend, or an even weaker economy resulting in meaningfully lower corporate profits and market pullbacks. So far, as mentioned in last quarter's letter, the economy and equity markets have successfully walked the tightrope of low interest rates and a slowing economy. The cooling economy has prevented higher inflation and the dangerously higher interest rates that normally accompany them. On the other hand, there has been enough growth in the economy to generate higher corporate earnings.

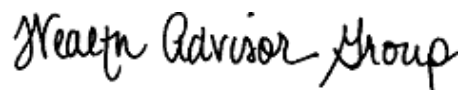
Of course, these same observations could have been made at this same time last summer, when real estate began its descent. That is precisely the reason we do not try to time investment decisions by guessing the next step in the economy's direction. Had an investor jumped out of the market and into a money market fund due to scary real estate news last summer, they would have missed the heady 15%-20% returns that most diversified portfolios have earned during that time.

At some point, we will indeed experience a bear market cycle. Your portfolio has been formulated with this in mind; market downturns, and their effect on your portfolio, are part of the long term growth of your net worth. So please calibrate your expectations so this type of event will not surprise you. The volatility you experience in the long term growth of your wealth is the cost of receiving superior long term returns.

As always, your Performance Report accompanies this letter. If you have been a client for less than a full quarter, you will receive only a partial report this time, but a full one next quarter. If you have any questions, please don't hesitate to contact us.

In the meantime (except for our Midwestern clients), please perform a rain dance to green up your surroundings. The heat of the third quarter is usually followed by some hot market moves in the last part of the year.

Sincerely,



Wealth Advisor Group LLC

Selected as one of [Medical Economics' 150 Best Financial Advisers for Doctors for 2006.](#)



Our client centered portfolio management – something we call **The PROsperity 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.