



OCTOBER 12 , 2005

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.

Third Quarter 2005 Investment Letter

The Market Absurd

Rumor has it that human beings are the most intelligent of all mammals, although fans of the dolphin and porpoise might disagree. Because of his superior ability to reason, prehistoric man survived and ultimately ruled creatures that were bigger, stronger, and had sharper teeth. High net worth individuals are very intelligent humans, as evidenced by their ability to accumulate meaningful wealth. Other than marrying well, most of them accumulated wealth due to their ability to use their intelligence within their chosen livelihood, and were financially rewarded by society for their abilities.

Unfortunately, there appears to be no direct relationship between being extremely successful at a job or profession, and successful at making money in the stock market. The rationality and deductive reasoning that often leads to success in one's career appear to have little effect on that same person's ability to pick a great stock or guess the next major direction of the market. In fact, at times there appears to be a total disconnection between the two. This often occurs because of an apparent absurd relationship between a news event and reaction of a stock's or market's price movement.

For example, earlier this year, Kodak announced that due to poor industry conditions, they would have to fire over 12,000 employees. This sobering news resulted in a 4 percent stock gain by the end of the day. Another great example: the week that Hurricane Katrina hit Louisiana and Mississippi, the stock market ended higher, and the next week, despite the misery, despair and massive destruction of the most devastating natural disaster in our country's history, the markets closed even higher. These are not isolated examples of apparently absurd behavior of the markets. How many times has a great growth stock announced earning gains of 50% or 100% or more, and the stock price drops significantly? Or how about when seemingly negative economic news (such as higher unemployment numbers) are announced, and the market goes up! These are all examples of recent actual events, which force otherwise intelligent and sophisticated people to scratch their heads over the apparent absurdity of the market's movements.

If you dig deep enough, you may actually find valid reasons for all the above mentioned market absurdities. Kodak's massive reduction in labor costs may ultimately result in lower expenses and higher earnings. Hurricane Katrina's devastation did not dramatically effect any particular industry, and it may ultimately lead to a short term moderating of the economy which may allow the Federal Reserve to stop raising rates. High growth stocks often miss quarterly earnings projections by a penny or two, which turn even huge earnings gains of 50% or 100% into disappointing news. News of economic slowdown often leads to lowering interest rates and higher stock market valuations.

Playing this good news/bad news game can drive most intelligent people bonkers, and leads many to feel that the markets are unstable, irrational and absurd. Modern Portfolio Theory transcends these issues. It frankly doesn't concern itself with day-to-day news items and their varied analyses. MPT allows an investor to own those wacky, volatile stocks in a way that removes the need to interpret the multi-layered, multi-cycled paths of individual securities. By harnessing the power of numerous asset classes (that each own hundreds or thousands of securities), MPT renders all the intricate market fluctuations moot, and allows investors to focus on their long term plan of wealth building rather than the informational circus upon which many investors absurdly base their financial future.

You Can't Make This Stuff Up

Several financial periodicals reported earlier this summer that a Fidelity Investments trader received a special bachelor party from his friends at Jefferies Group Inc., SG Cowen & Co. LLC and Lazard Capital Markets LLC. These three firms just happen to be brokers that said trader used for business. The party was anything but ordinary. It entailed flying the broker to South Beach in Miami, hiring a private yacht, and allowing him and his guests the unlimited use of strippers, prostitutes and drugs. There were even reports of "dwarf tossing" to round out the perverseness of this celebration. The S.E.C. is investigating the incident, not necessarily for the unseemly activities, but to determine if the above brokers, who spent well over \$150,000 for the party, did so in expectation for getting more business from Fidelity.

We report on this event for more than just its titillation value. Aren't Fidelity traders supposed to act in the best interests of the fund's shareholders? How in the world could the trader be doing his best to keep his commission costs down, when the brokers he uses are willing to pay more than \$150,000 for this "perk party"? In this age of one-half penny per share commissions on internet stock trades, could the trader really have been attempting to do what was best for his shareholders, when the brokers he used were making so much money from his trades that they would host this special "event"? This is just an extreme example of why it is so important to deal with professionals who have a fiduciary responsibility to you. Wealth Advisor Group acts in a fiduciary capacity for all its clients. That means at all times we are obligated to do what is in the best interests of our client; in portfolio design, investment vehicles, costs of investing, etc. It also means that we probably won't be hosting big yacht parties any time soon.

InvestmentNews 7/25/05

Some Blue Chips Feeling Pretty Blue

It always amazes us when we review prospective clients' portfolios and get a chance to give them our opinion. We consistently find that clients that own individual stocks seem to be dramatically over-weighted in U.S. large stocks. What's worse is that most of them feel they are probably doing as well as the S&P 500 Index. Recently, USA Today ran an article that compared the performance of the S&P 500 Index of large companies and the Russell 2000 Index of small companies to that of some of the "biggest and best" blue chip stocks. They measured performance from the bottom of the last bear market, October 9, 2002, through August 24, 2005. The results are not surprising to us, but probably are to many investors.

10/9/02 to 8/24/05 Performance -- S&P 500 Index 56% Russell 2000 Index 100%

AT&T	-63%	Merck	-39%
Anheuser-Busch	-14%	New York Times	-24%
Coca-Cola	-15%	Pfizer	-14%
Marsh & McLennan	-39%	Wal-Mart	-10%

Clearly, many large blue chip stocks have dramatically under performed the S&P 500 Index. And, as we have expressed many times, the Large Cap asset class has the lowest long term performance of all major equity asset classes. If you know of friends, family or colleagues who are invested in a similar fashion or may need investment guidance, feel free to refer them to us for a no-obligation meeting. We would appreciate the opportunity to analyze their investments and see if their portfolio is in an optimal position to reach their financial goals and objectives.

Matt Krantz, "Some Big Names Go Nowhere Fast" USA Today, 8/24/0

Third Quarter 2005 Asset-Class Performance

	3rd Qtr	'05 YTD		3rd Qtr	'05 YTD
S & P 500	3.58%	2.67%	Int'l Large Cap	10.38%	8.58%
Large Cap Value	5.69%	8.80%	Int'l Large Cap Value	10.90%	9.68%
Medium Cap	6.33%	10.55%	Int'l Small Cap	10.76%	14.42%
Small Cap	5.21%	6.12%	Int'l Small Cap Value	10.37%	16.36%
Small Cap Value	6.12%	6.19%	Int'l Emerging Mkts	17.23%	23.30%
Micro Cap	6.78%	3.84%	Int'l Emerging Mkts Value	17.72%	22.28%
Real Estate	3.56%	10.03%	Int'l Emerg. Mkts Small Cap	13.13%	15.81%
Intermediate Income	-1.29%	1.42%	Pacific	17.33%	13.33%
Long Term Income	-2.85%	4.25%	European	8.14%	7.35%

Source: The Vanguard Group and DFA Funds

All equity asset classes had positive returns in the third quarter of the year, with domestic classes ranging from 3.5% for Large Cap to over 6% for Small Cap Value and Micro Cap. This is despite the Federal Reserve's continued raising of short term rates, hurricanes Katrina and Rita, increasing energy prices, bankruptcy filings of Delta and Northeast Airlines and other walls of worry that the markets had to climb. Real Estate tempered its rapid pace of the second quarter, but still managed to gain over 3%. Year-to-date figures for domestic asset classes range from 10.5% for Mid Cap to under 3% for Large Cap as seen in the S&P 500 Index.

Internationally, equity asset classes have been a more exciting story. International and Emerging Markets classes had mostly double digits returns, ranging from 8% for Europe to 17% for Emerging Markets and Pacific. Year to date, Emerging Markets led the way with returns in the 20%+, while Large Cap and Large Cap Value came in with high single digits.

Clearly, asset classes which are often overlooked by most investors – Int'l. Small Caps and Emerging Markets, have really helped to pump up returns. Intermediate and Long Term interest rates rose modestly and consequently their respective asset classes had small losses for the quarter. Many of the Hybrid investment vehicles that we have been using in the Income/Hybrid asset class category have experienced superior performance because their returns have not been tied to interest rate movements.

As always, your portfolio's Performance Report is included with this letter. If we have had the opportunity to manage your portfolio for less than a full quarter, you will only receive a partial Report, with the full Report commencing next quarter.

Please call us with any questions you may have. In the meantime, enjoy the change of seasons.



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.

Sincerely,

Frank W. Hoyle, Jr.
President

Frederick F. Kramer IV, J.D.
VP/Chief Investment Officer

Suzanne R. Holbert CPA/PFS
Personal Financial Specialist

Catherine S. Anderson
Chief Compliance Officer

Paul J. Harteg, CFP, AIFA
Financial Advisor

Abe D. Early III, CFP
Financial Advisor