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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.*

## THIRD QUARTER 2006 INVESTMENT REPORT

### Conventional Market Wisdumb

The wisdom floating around the investment world is vast. If you doubt that statement, just ask almost any highly paid Wall Street guru and they will confirm just how wise they are. All this pent-up brilliance usually filters down to the average investor as a type of conventional wisdom. Remember, a wise man once said that conventional wisdom is information you overhear at a convention. That unfortunately means that your mentor might be wearing a hat with a tassel or a Star Trek costume. Regrettably, much of Wall Street's conventional wisdom is dead wrong. Here are three examples:

#### 1. Higher Growth Forecasts = Higher Stock Returns

It makes sense that countries forecasting higher economic growth rates would have better stock market performance than countries with lower forecasted growth. It makes sense, but it is wrong. Our friends at Dimensional Fund Advisors, Inc. performed a study with all investable Emerging Market countries. They ranked those countries according to their forecasted growth rates, putting the top 50% in one group (High Growth), and the bottom 50% in another (Low Growth). This data was analyzed each year, from 1990 through 2005. Here are the results:

	Average Annual Return (1990-2005)	Annual Standard Deviation % (Risk)
High Growth Emerging Countries	16.43%	37.09
Low Growth Emerging Countries	16.36%	32.01

The moral of this story: there is no basic difference in return between the two, and a tad more risk with the higher forecasted-growth countries. The researchers believe that by the time the forecasts are developed, the markets have already discounted the information into the market's price. Consequently, knowing a country's forecasted growth rate gives no advantage to an investor.

*James L Davis DFA, Inc. 9/2006*

#### 2. Great Actively Managed Mutual Funds Consistently Perform Well

In a recent study by Standard & Poor's, it was shown that 1.1% of Large Cap, zero percent of Mid Cap and 0.8% of Small Cap mutual funds performed in the top 25% ranking each year over the five year period ending 6/30/06. That's right, when measuring performance of actively managed mutual funds (regardless of their asset class's size) it was virtually impossible to consistently perform in the top 25%. How do you like those odds for picking a great fund based on high annual performance? Yet every day, brokers, bankers and individual investors attempt to do just that. Best of luck.

*Investment Advisor Mutual Fund Focus 9/2006*

#### 3. Baby Boomers Will Suck The Market Dry

As early as the mid 1970's, market gurus and authors were beginning to predict a coming disaster relating to retiring baby boomers and the corresponding crashing of the stock market. The reasoning seemed fairly straightforward. By the end of the first decade of the 2000's, baby boomers would start to retire. And then, for the better part of three decades, the "richest generation" would begin a wholesale liquidation of securities in order to fund their retirement's cash flow needs. This, at best, would lead to a stock market with no hope of going up, or at worst, the long-term bear market equivalent to a financial Armageddon.

Well, don't jump yet. With the first of the boomers set to retire in 2008, the Government Accounting Office (GAO) published a research report that shines some calming light on the subject. First, a third of the boomers do not own a single stock or bond or

mutual fund or retirement account...so there will be no problems with them mass liquidating anything. Second, the top ten percent of boomers own about two-thirds of the financial assets held by the entire boomer group. Consequently, those well-heeled boomers certainly won't be pressed to sell all of their assets for cash to live on. Lastly, the remaining "middle class" boomers will act as most retirees do—spend their assets very slowly over the remainder of their lives, while working longer than previous generations.

*InvestmentNews 8/2006*

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These are just a few examples of a vast body of conventional market wisdom that is flat-out wrong. Unfortunately, many investors think, and worse – act, on this type of information in making both their short and long-term financial decisions. As usual, we are preaching to the choir when we tell our clients about these types of issues. The wisdom our clients enjoy through Modern Portfolio and Efficient Market Theories come from strategies that have 1) earned Nobel Prizes, 2) been empirically proven at the top graduate business schools in the country, and 3) have been incorporated into U.S. trust law by both the American Institute of Law and the Uniform Law Commissioners. There is nothing conventional about that caliber of wisdom.

## Where There's A Will, There's An Even Better Way

We are delighted to announce that William T. Sneed, Jr. has joined Wealth Advisor Group as Vice President and will head our new Greenville, North Carolina office. Will has over 20 years of industry experience and graduated from East Carolina University. He holds the Chartered Retirement Planning Counselors (CRPC®) designation, serves on the board of multiple non-profit organizations and volunteers with local youth and high school baseball programs. With all his extra spare time, Will and wife Karen enjoy parenting five very athletically active children. If you have friends, family or business colleagues in the eastern part of North Carolina, please make sure you tell them about Will and Wealth Advisor Group's new Greenville office.

## Third Quarter 2006 Asset Class Returns

	3rd Qtr	'06 YTD		3rd Qtr	'06 YTD
<i>S &amp; P 500</i>	5.62%	8.42%	<i>Int'l Large Cap</i>	3.68%	13.78%
<i>Large Cap Value</i>	2.90%	11.23%	<i>Int'l Large Cap Value</i>	6.47%	19.74%
<i>Medium Cap</i>	1.30%	5.79%	<i>Int'l Small Cap</i>	2.29%	10.88%
<i>Small Cap</i>	-0.26%	6.61%	<i>Int'l Small Cap Value</i>	3.15%	13.09%
<i>Small Cap Value</i>	-0.70%	10.36%	<i>Int'l Emerging Mkts</i>	4.00%	10.38%
<i>Micro Cap</i>	-0.21%	6.03%	<i>Int'l Emerging Mkts Value</i>	6.33%	16.12%
<i>Real Estate</i>	9.39%	23.84%	<i>Int'l Emerg. Mkts Small Cap</i>	8.78%	13.50%
<i>Intermediate Income</i>	4.62%	2.63%	<i>Pacific</i>	0.34%	3.88%
<i>Long Term Income</i>	6.81%	1.42%	<i>European</i>	5.69%	20.00%

*Vanguard Group and DFA, Inc.*

The third quarter marked several important turning points. After a consistent climb over the last two years, the price of oil dropped almost 20% from its peak highs. Other energy prices followed suit. Housing prices continued their slump, thereby helping to slow down overall economic growth. The Fed has passed on its last few opportunities to increase the federal funds rate, and with the recent swoon in economic activity, some economists are jumping on the "rate-cut" bandwagon.

Throughout this all, equity asset classes, as shown in the above chart, had mostly profitable results. Most earned back their second quarter losses. Large Cap asset classes beat Small Caps on both sides of the ocean. Bonds had positive returns due to falling interest rates. The big winner, again, was the Real Estate asset class. Remember, this asset class covers income producing, institutional quality Real Estate Investment Trusts (REIT'S); single family home prices are not included in any of its sub sectors.

Year-to-date, most equity asset classes are at or above the double digit mark already. International returns are outpacing domestic through the first nine months. Some gurus are predicting additional gains in the often-strong fourth quarter, while others believe the bulk of the year's gains have already been made. We try not to play these tea leaf reading games, but rather spend our energy making sure our clients' portfolios are properly balanced according to their risk/reward parameters.

## Housekeeping

We have a reminder for you. It is important that we know of any circumstances in your life, good or bad, that might change your portfolio's objectives. Your advisor can adapt your portfolio to fit your new situation. So please keep us informed of any important happenings that may affect your portfolio's long-term goals.

Included with this letter is your personal Performance Report. As usual, if you are a new client and we have not managed your assets for a full quarter, you will receive only a partial Report, with the complete one coming after the fourth quarter. Lastly, as our firm grows larger, we have decided to dispense with the individual signatures of our advisors in an effort to save a few more trees along the way.

As the weather starts to cool, there are very good reasons why one might expect the financial markets to warm up in the fourth quarter. Regardless of market direction, enjoy the change of seasons and the upcoming holidays.

Sincerely,

*Wealth Advisor Group*

Wealth Advisor Group LLC



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.