



JANUARY 10, 2006

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.

Fourth Quarter 2005 Investment Letter

Who's Minding the Store?

Investors searching for investment advice often run into a lot of impressive titles. Investment advisors, financial consultants, registered representatives, retirement specialists, certified financial planners and vice-presidents of investments are a few popular ones. Interestingly, all of those names can legally be used by brokers, aka licensed securities salespersons.

There are two types of advice available to investors in today's complex financial world: 1.) Brokerage accounts and 2.) Advisory accounts. Most people don't know the difference between the two, or that a difference even exists. And with the proliferation of fancy-schmancy titles, just who to choose is anything but obvious. Let's compare the two, and review the legal standard of care owed to the clients of both.

- Stockbrokers, which can include brokerage firms, banks, independent broker dealers and insurance companies, are held to the standard of SUITABILITY by the National Association of Securities Dealers (NASD). An investment sold by those entities must be deemed suitable, but it doesn't have to be in the best interest of the client. In fact, a broker is under no duty to get the best pricing or cost, but on the contrary, can look for the most lucrative investment for his/her own pocketbook.
- Registered Investment Advisors (RIA's) must be registered with the Securities Exchange Commission (SEC) and owe their clients a much higher standard, known as a FIDUCIARY DUTY. This is considered to be the highest legal duty one party can have over another; similar to what a trustee owes the beneficiary of a trust. It is much higher than mere suitability. RIA's must act with the highest degree of good faith and their actions must be in their client's best interest. Compared to our example above, an RIA must look for the lowest cost option when selecting an investment for his/her client.

But what about those non-discretionary, fee-based accounts that certain brokers use for their clients? Funny you should ask. According to the SEC's "Merrill Lynch Rule", the advice that accompanies those situations is deemed to be "solely incidental" to their brokerage/trading business, and they are only held to the lower suitability standard rather than the higher fiduciary duty. If this seems a bit confusing, you are not alone. Your custodian, TD Waterhouse, commissioned a blind study* in late 2004 which asked thousands of investors about this issue. The results showed that:

- 58% of investors believed both stockbrokers and independent RIA's had the same duty to act in their best interest. WRONG!
- 63% believed that stockbrokers and independent RIA's were both required to disclose all conflicts of interest before providing financial advice. WRONG!
- 89% said they would rather work with RIA's when they learned the difference in legal standard of conduct between the two. RIGHT!

The last issue we want to touch upon is compensation. RIA's can be either fee-only or fee/commission based. At Wealth Advisor Group, we specifically chose to be a fee-only RIA. We believe it is the only combination that can assure our clients the best in both a trustful advisor relationship and investment result. If you know of friends or family shopping for a financial advisor, make sure you remind them of some of the issues discussed here; because "who's minding the store" really does make a difference in the investment world.

*2004 U.S. Investor Perception Study. Commissioned by TD Waterhouse.

Best Financial Traders? Psychopaths.

We know what a large part emotion plays in our life. Emotion and investing go hand-in-hand; it is where that phrase “Fear vs. Greed” comes from. Scientific evidence now exists that shows the validity of this truism. In a study published in the June '05 issue of the journal Psychological Science, a team of researchers from Stanford, Carnegie Mellon and the University of Iowa compared “normal” investors with those that had suffered lesions on the areas of the brain that affect emotions. The scientists found that many in the “normal” group avoided risks even when the potential benefits far outweighed the losses, a phenomenon known as myopic loss aversion. (We might call them CD owners.) Those investors with impaired brain-emotion centers (who one of the researchers called “functional psychopaths”) made better risk/reward decisions.

At Wealth Advisor Group, we give our clients this same ability, without the brain damage. Seriously, we believe that Modern Portfolio Theory allows our clients to be fully rewarded for whatever level of risk fits their risk/reward parameters. The logical, scientific way in which we remove much of the diversifiable risk by using distinct and risk dampening asset classes gives our clients the ability to temper their emotions and earn attractive long term returns – all without the use of scalpels or brain scans.

Reuters 9/19/2005

Fourth Quarter 2005 Asset Class Performance

	4th Qtr	'05 YTD		4th Qtr	'05 YTD
S & P 500	2.05%	4.77%	<i>Int'l Large Cap</i>	4.50%	13.47%
<i>Large Cap Value</i>	1.33%	10.24%	<i>Int'l Large Cap Value</i>	5.10%	15.27%
<i>Medium Cap</i>	3.06%	13.93%	<i>Int'l Small Cap</i>	6.59%	21.96%
<i>Small Cap</i>	1.17%	7.36%	<i>Int'l Small Cap Value</i>	5.90%	23.23%
<i>Small Cap Value</i>	1.50%	7.79%	<i>Int'l Emerging Mkts</i>	7.10%	32.05%
<i>Micro Cap</i>	1.78%	5.69%	<i>Int'l Emerging Mkts Value</i>	6.98%	30.81%
<i>Real Estate</i>	1.70%	11.89%	<i>Int'l Emerg. Mkts Small Cap</i>	8.58%	25.75%
<i>Intermediate Income</i>	0.33%	1.75%	<i>Pacific</i>	8.18%	22.59%
<i>Long Term Income</i>	1.03%	5.32%	<i>European</i>	1.78%	9.26%

Source: The Vanguard Group and DFA Funds

The last two weeks of the fourth quarter were tough ones, and cut into what had been a very pleasant quarter. Quarterly domestic equity asset class returns, though all positive, were tightly bunched in the low single digit range. Domestic full year totals experienced a wider range, from a high over 13% for Mid Cap to a low of less than 5% for Large Cap Blend (S&P 500). Large Cap Value beat Blend meaningfully for the fifth year in a row, but Small Cap returns of all styles were similar. Real Estate experienced its fifth positive year in a row, and has more than doubled since 1/1/2000.

International asset classes had a more exciting story. They averaged mid to high single digit returns for the quarter, and almost all had healthy double-digit returns for the year. All International Small Cap and Emerging Market classes were the big winners, returning low 20% to low 30% ranges. Large Cap International classes experienced less robust but still healthy mid-teen returns.

The fact that the year was a positive one was intriguing, because it occurred during a backdrop of often-negative headlines. These included continuing bad news in Iraq and the corresponding downward Presidential polls, historically devastating hurricanes, and record high deficits in both foreign trade and domestic budget. Add to these a retiring Greenspan-led Federal Reserve that raised the federal funds rate eight separate times, and multi-decade highs in both energy and gold, and you have a formula that most gurus would have termed bearish. However, it was the strength of the economy and corporate earnings that kept everything afloat.

As we enter 2006, we are experiencing the unusual occurrence of an inverted yield curve, which simply means that the shorter term 2-year Treasury note is yielding more than some longer term bonds. In fact, while short term rates were spiking upward, the long term Treasury bond actually ended the year yielding almost .25% less than at the start of the year. Thus, the total return in bonds was less than 2% for the year with intermediate term maturities, but over 5% for longer term bonds.

2005, as in other recent years, showed the greatest performance from asset classes typically underweighted or not owned by most investors. Modern Portfolio Theory forces our clients to own their fair share of each asset class. In this way, regardless of how aggressive or conservative your portfolio may be, you are assured of adequate ownership of each asset class and optimal long-term performance consistent with your desired risk level.

Taking Care of Business

Each year at this time, Wealth Advisor Group LLC fulfills its legal obligations in two ways. The first is by enclosing a copy of our Privacy Statement. This must be sent by all financially-oriented companies each year, and it explains our policy regarding sharing our clients' information. In short, we only share what is legally mandated in order to open and maintain your account(s)

with T.D. Waterhouse Institutional Services. The second is offering you a copy of our updated Form ADV - Part II, which is our annual SEC registration form that you received when you became a client. If you would like a copy or desire to discuss either of these items, please feel free to contact us.

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. And, stay warm.

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

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.