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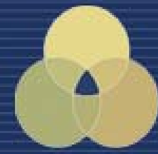

JANUARY 12, 2007

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.

FOURTH QUARTER 2006 INVESTMENT REPORT

One Bad Apple Can Indeed Spoil the Whole Bunch

Former superstar Michael Jackson has made some blunders in his career. Included on this list would be dangling his child out of an upper-story window, and having sleepovers with inappropriately aged bedmates. But for our purposes, his biggest mistake occurred much earlier in his life, when he, Tito, Jermaine and the other two brothers sang the lyrics "One bad apple don't spoil the whole bunch, girl!"

Poor grammar aside, that statement was patently wrong. A single negative occurrence can wreak havoc on the long term reputation or outcome of anyone or anything. Take Bill Buckner. Most baseball fans will remember Bill Buckner not for his years of great hitting, base-stealing or fielding, but for single-handedly losing the 1986 World Series ala a routine Mookie Wilson grounder between his legs. The same thing happens in the political arena. Bill Clinton's liaisons with you-know-who tarnished forever the many positive accomplishments of his Presidency.

This same phenomenon occurs in the investment world with some frequency. Bill Miller, a name we have noted in this report on more than one occasion, had a sparkling reputation of managing the Legg Mason Value Trust mutual fund, which had out performed the S&P 500 Index for 15 straight years through 2005. Unfortunately, in his 16th year (2006), his record came to a screeching halt. During the third quarter of 2006, Miller's fund was in the bottom 1% of its year-to-date category performers. At first blush, that may not appear too big a deal. 15 out of 16 years is still pretty good, right? Wrong. Much more occurred than just a single year of poor performance. Using that third quarter date, and measuring backwards, we find that holders of the fund underperformed the S&P 500 in the most recent one, three and five year periods….all because of the single year of really poor performance.

But it gets even worse. Even though he has been managing the mutual fund since 1982, more than half of the assets of the fund have occurred in the last five years, through new purchases and internal growth. This means that over half of the dollars invested in the fund during Miller's 22 years have underperformed the S&P 500. That's pretty amazing. One meaningfully bad performance year has placed Mr. Miller and his fund into the ranks of Bill Buckner and Bill Clinton.

Finally, there are other considerations that shareholders in Miller's fund are now forced to consider. Holders of the fund have to make a strategic decision on whether to sell or continue to hold the fund. They must decide if this is the beginning of a longer period of poor performance. What if the 15 years of outperformance was just an anomaly, similar to getting lucky by flipping a coin and getting heads 15 times in a row? Also, if a decision is made to sell the shares in a taxable account, don't forget the potentially dramatic capital gains that must be paid for some of the very long term shareholders of the fund.

If one of the greatest success stories in active mutual fund management history can fall prey to a single, poor, "hiccup" year, what does that say about the multitudes of less successful actively managed funds? You may have guessed the simple answer to this dilemma. By owning passively managed asset classes, our clients have taken themselves out of the perennial guessing game of trying to pick the "next" Bill Miller or guru de jour. Modern Portfolio Theory uses a strategically built combination of asset classes that matches your long term risk and reward profiles, and allows for a calculated plan without the constant fear of having to guess when to sell the old genius and buy the new. Those investors who continue along the actively-managed path are sure to suffer a bunch of rotten apples along the way; and in so doing, their portfolio performance may experience bottom-of-the-barrel returns.

Medical Economics Chooses Us As One of the Best!

In their November 2006 issue, *Medical Economics* magazine selected Wealth Advisor Group as one of the nation's "150 Best Financial Advisors for Doctors". This leading periodical for the business side of practicing medicine chose their list based on many of the same reasons most of

our clients picked us to be their advisor.

The six month selection process pointed to our fee-only business structure as well as the high degree of experience in the industry. In addition, Modern Portfolio Theory investment methodology coupled with our awareness of tax, retirement and estate planning issues were included as reasons for selection. You can obtain a reprint of the article on our website – **www.WealthAdvisorGroup.com**, or by having us mail you a copy.

Fourth Quarter 2006 Asset Class Returns

	4th Qtr	'06 YTD		4th Qtr	'06 YTD
S & P 500	6.67%	15.64%	***Int'l Large Cap***	9.74%	24.86%
Large Cap Value	8.05%	20.18%	***Int'l Large Cap Value***	12.03%	34.15%
Medium Cap	7.38%	13.60%	***Int'l Small Cap***	12.62%	24.88%
Small Cap	8.47%	15.64%	***Int'l Small Cap Value***	13.53%	28.39%
Small Cap Value	10.14%	21.55%	***Int'l Emerging Mkts***	17.22%	29.39%
Micro Cap	9.55%	16.16%	***Int'l Emerging Mkts Value***	18.78%	37.93%
Real Estate	9.07%	35.07%	***Int'l Emerg. Mkts Small Cap***	20.98%	37.31%
Intermediate Income	1.24%	3.88%	***Pacific***	7.80%	11.99%
Long Term Income	1.23%	2.64%	***European***	11.21%	33.46%

Vanguard Group and DFA, Inc.

It was a grand ending to the year. All equity asset classes had generous returns, from a low of nearly 7% for Large Cap Domestic to a high of almost 21% for Emerging Markets Small Cap. Full year results were equally impressive. As has been the case for the last few years, Value classes have out performed Growth, and International Classes have out performed Domestic. Real Estate (REIT Index) marked the seventh year of its bull market with whopping 35% returns, and many International classes came close or exceeded that level. Overall, it was the strongest year of equity returns since the initial year of the current bull market (2003). Bonds, in contrast, were unable to earn their coupon yields, and returned sub 4% and 3% annual returns, respectively, for Intermediate and Long Term classes. Clearly, investors were paid handsomely this past year for taking the added risk of equity ownership.

All this good news and high stock prices, which some bears may term "froth", have occurred due to the almost "perfect storm" environment that has occurred with global economic and market trends. Economic growth has been good, but not too strong to have caused major interest rate increases. The Federal Reserve stopped raising rates in the second quarter, and many gurus believe that there will be stable to lowering rates, at least for the intermediate term.

Please, watch out for any over-inflated market expectations you may have. Year by year investing is akin to playing chutes and ladders. 2006 was a pretty good ladder. But it was the fourth year of the current bull market, and a chute could crop up at any time. We would prefer that our clients put their real focus on the long term performance of a full market cycle, which will include both up and down years. Wealth Advisor Group's focus will remain on those items that we can control: properly building portfolios with what, in our judgment, is the greatest combination of best performing and lowest cost vehicles that match your risk/reward levels. We then make sure your portfolio is rebalanced to take advantage of both winning and losing asset classes during that particular time period. This formula has been proven in academia and the real world for decades, and it works. So sit back, enjoy your past success, and allow your portfolio's long term journey to continue without paying too much attention to the seductive, short term market gyrations.

As always, a copy of your quarterly Performance Report accompanies this letter. If you are a new client and we have not managed your portfolio for a full calendar quarter, then you will have an abbreviated Report this time, and a complete one next quarter.

As we transition into a new year, and try to remember to write a "7" as the last digit of the date, we want to thank you for allowing us to manage your wealth. It is a responsibility that we take very seriously, and we will continue to be diligent…in both good and not-so-good times. We welcome any input you may desire to give us, and appreciate the referrals that you have sent us throughout the years.

Have a great start to 2007, and enjoy the brisk weather.

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.

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