



Prudent Wealth Management LLC

Common Sense Value Investing

To Our Fellow Shareholders,

June 30, 2005

	<u>YTD</u> <u>2005</u>	<u>1YR</u>	<u>Annualized</u>	
			<u>3YR</u>	<u>5YR</u>
PWM Equity Composite	-0.7%	+7.5%	+6.7%	+11.9%
PWM Eq. Composite Net of Typical Fee	-1.2%	+6.4%	+5.6%	+10.8%
S&P 500 Total Return	-0.8%	+6.3%	+8.3%	-2.4%
Lipper MultiCap Value*	+0.9%	+10.7%	+10.1%	+6.2%

*Lipper Multicap Index is after Management Fees. For Additional Performance Data See Page 5.

Winning & Losing

"...it's not whether you are right or wrong that's important, but how much you make when you are right and how much you lose when you are wrong." – Stanley Druckenmiller

It won't do your portfolio any good to make correct investment decisions ten times in a row, making two percent gains each time, if you lose thirty percent on the eleventh investment. It won't do to invest in stocks with a high probability of a small gain, but a low probability of a large loss. The odds will catch up to you. This approach might make you feel good fairly frequently, but will likely make you feel miserable in the long run and will probably lead to poor long term performance. There seem to be plenty of these opportunities available lately. Last quarter we talked about our latest purchase, Unilever. While it was not as cheap as we would normally like, it seems to have fairly low risk and enough upside to easily beat the cash alternative. More typical however, is Johnson Controls (JCI). They mainly make automotive interiors. The excellent management team has compiled an impressive track record of consistently high returns. It seems likely that they will continue to manage the business well and the full valuation of the stock reflects this. However, if the weakness in the auto industry should prove to be more than management can handle, the stock could have significant downside as investor expectations would have a long way to fall. Therefore, JCI seems to have a good probability of delivering a small gain, but a smaller probability of a large loss. No thanks.

These are the kinds of thought processes that lead us to the large cash position. It is not that we think the market should fall and we want to get out before that happens. We would happily ignore the market and be fully invested if we could find enough attractive investments. However, an overvalued market and our conservative approach leave us with cash on hand. Anyway, cash isn't so bad. Returns on cash are actually rising and the modest 3% yield is better than the negative return we have achieved with stocks so far this year! We have noticed an emerging trend of hedge funds closing down completely. Some are saying that the niche in which they operate has received so much capital inflow that future returns are likely to be disappointing. This appears to support our view that there has been so much money and credit created in recent years that it has driven up prices in nearly every asset class. This is the most likely reason we can find so few attractive investments today.

All this points to our efforts at avoiding mistakes. However, we have occasionally made poor investments anyway. We think it is extremely valuable to constantly review and learn from these mistakes. From our money losing investments in the mobile home industry, we have learned that it is OK to be too early, in anticipation of the cycle turning, but not if the company is heavily in debt. Debt can magnify your gains if it is being paid down, but it can quickly push you into serious distress, or even bankruptcy, with the slightest bump in the road. We knew there was financial leverage in the stocks we bought, but we now have a new respect for the dangers of financial leverage.

We have learned to buy cheap stocks when they are cheap and not try to be macro investors. We have no mystical insight into what the economy, dollar, or stock market will do in the future. We don't make investment choices based on our guess of how much the economy will grow next quarter or where the stock market is headed. We tend to have opinions on these things by virtue of being participants in the investment markets, but we have learned that we are better investors if we can ignore our macro opinions (which are often wrong) when making investment decisions. We captured a nice gain in Hubbell, a maker of lighting and electrical products, because we ignored our bearish economic view and focused instead on the fact that this is a healthy, well run company whose stock was selling too cheaply in the market.

In investing, the winners take care of themselves. It is the losers that destroy you. We try to avoid the losers by being conservative and risk averse. Alternatively, we at least try to learn from our mistakes so we can hopefully avoid a repeat performance.

The Portfolio

Within the portfolio, our exposure to insurance and oil service boosted returns. Oil prices have remained high and are encouraging exploration and drilling activities which benefit our holdings. Our exposure to cyclical industrials like Norfolk Southern (Railroad) and Hubbell (Lighting) have depressed returns this year as investors are beginning to anticipate a global economic slowdown. Our gold exposure has also penalized returns. While spot gold prices are up slightly this year, our gold stock, Newmont Mining, is down slightly. Investors have been disappointed that industry-wide mining expenses have been high, thus eroding some of the expected benefit from high gold prices. We think these issues are less significant than the outlook for the price of gold. We think gold could trade much higher in the years to come and profits will follow. Our defensive stocks like food and drugs mainly went sideways, offering us stability and a little income from their yields.

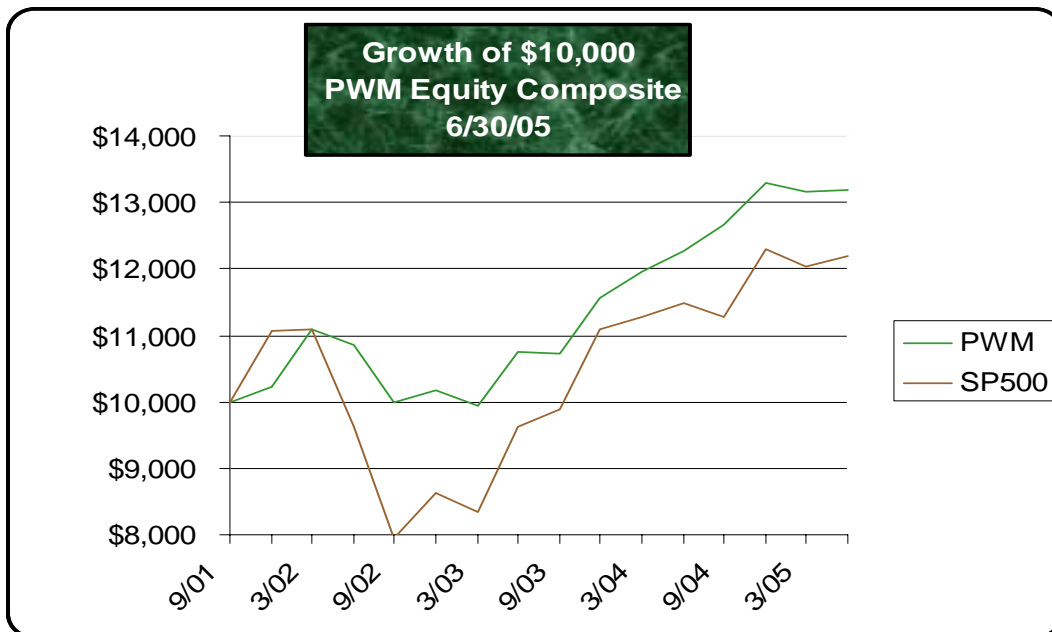
We made only two changes to the portfolios during the quarter. We trimmed our position in Safeco (Insurance). The stock continues to benefit from the ongoing restructuring. As earnings have improved, so has the stock price, which is now up about 100% from our original purchase price in 2001. The stock now trades for 1.7x book value and is approximating our estimate of fair value and so we have reduced our holdings. The proceeds were invested in another insurance company. St. Paul Travelers is much cheaper than Safeco. A merger, reserve additions and asbestos exposure have all weighed on the stock price and it was purchased at 1.1x book value.

Bonds

Seldom have so many (including us) over the past year been so convinced that interest rates would rise been so wrong. Short term rates have indeed risen but medium and long rates term have declined. In the second quarter, 10 year U.S. Government Bond yields fell fairly dramatically in April and May falling below the 45 year low point they established last fall, then rebounded slightly in June, this while short term interest rates continued their rise. Even Alan Greenspan, the Chairman of the Federal Reserve, has been surprised by the bond market's action. Mr. Greenspan in testimony June 9, 2005 before the Joint Economic Committee of Congress made the following statements. "Among the biggest surprises of the past year has been the pronounced decline in long-term interest rates on U.S. Treasury securities despite a 2-percentage-point increase in the federal funds rate (*a short term interest rate*). This is clearly without recent precedent. The yield on ten-year Treasury notes, currently at about 4 percent, is 80 basis points (eight tenths of one percent) less than its level of a year ago. Moreover, even after the recent backup in credit risk spreads, yields for both investment-grade and less-than-investment-grade corporate bonds have declined even more than Treasuries over the same period."

In previous statements Mr. Greenspan has referred to this as a 'conundrum' and has offered various explanations. Other experts have put forward a variety of additional explanations. Whatever its cause, we are fairly certain that the bond market is '*out of whack*'. This happens occasionally in various markets but history teaches us that this does not last forever and the market eventually gets '*back into whack*'. Economic fundamentals continue to suggest that for the bond market to get '*back into whack*' long rates should rise, perhaps dramatically.

With interest rates at or near a 45 year low we have kept (and will continue to keep) our bond maturities relatively short and hold cash reserves. There are three reasons for this: 1) as short rates have risen and long rates have fallen, longer bonds do not provide much extra return, 2) If we are correct about increasing long term interest rates we can take the maturing short term bonds and the cash reserves and invest them at higher rates, and 3) as interest rates increase bond prices decline, with long term bond prices declining more than short term bond prices, so holding short term bonds protects a portfolios' value better than long term bonds.



We greatly appreciate your business. Please let us know if there is any way we can better serve you.

Sincerely,

Clayton Bryan, CFA
Principal

Doug Manz, CFA
Principal

**This letter is for informational purposes only. Nothing contained herein shall be construed as an offer or recommendation to buy or sell individual securities. Data has been obtained from sources believed to be reliable but there can be no guarantees concerning errors or omissions.*

Performance

Year	PWM		Number of Portfolios	Composite Dispersion	Total	Percentage	Percentage	Total
	Total Return	S&P 500 Return			Composite Assets	of Firm Assets	of Non-Fee Paying Assets	Firm Assets
7/31/97-12/31/97	+3.5%	+2.4%	1	0	\$ 70,119	100%	100%	\$70,119
1998	+3.5%	+28.6%	1	0	\$93,063	100%	100%	\$93,063
1999	+15.8%	+21.0%	1	0	\$141,482	100%	100%	\$141,482
2000	+16.1%	-9.1%	1	0	\$199,036	100%	100%	\$199,036
2001	+23.5%	-11.9%	1	0	\$198,956	100%	100%	\$198,956
2002	-0.45%	-22.1%	21	.018	\$2,440,046	55%	13%	\$4,409,101
2003	+13.6%	+28.7%	23	2.74	\$2,809,827	47%	19%	\$6,005,821
2004	+14.8%	+10.9%	26	2.7	\$3,643,085	32%	10%	\$11,405,558
YTD 2005	-0.7%	-0.8%	30	.78	\$4,739,307	41%	10%	\$11,664,285

Prudent Wealth Management LLC has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS®), the U.S. and Canadian version of the Global Investment Performance Standards (GIPS®). AIMR has not been involved in the preparation or review of this report.

Notes

1. Past performance is no guarantee of future results. Data has been obtained from sources believed to be reliable but there are no guarantees concerning errors or omissions.
2. The Firm is defined as Prudent Wealth Management LLC, a Registered Investment Advisor established in 2001. PWM specializes in managing separate, equity based portfolios for individuals. Prior to the creation of Prudent Wealth Management LLC, the Firm is defined as Mr. Bryan's sole account covering the period 7/31/97-09/30/01.
3. Performance has been calculated using time weighted rates of return adjusted for cash flows. Returns are calculated monthly and are linked geometrically. Trade date accounting is used.
4. Capital gains in the amount of \$20,649.54 are included in the performance for the year 2001. These gains resulted from investments in a mutual fund designed to profit from a decline in the NASDAQ 100 index. Investments designed to benefit from stock or index declines are not expected to be used in the future.
5. The composite was created on 12/31/02. A complete list and description of all of the Firm's composites is available upon request.
6. The dispersion of returns is measured by the standard deviation across equal weighted portfolio returns represented within the composite for the full year.
7. Portfolios in the composite range in size from \$33,423 to \$924,143.
8. Performance is reported before management fees but after all commissions. Fees are described in Form ADV Part II. The Client's return will be reduced by the management fee. A representative example of the impact of the standard 1% management fee is as follows:

Period	Annualized Total Return	
	Gross of Fees	Net of Fees
1 YR	+7.5%	+6.4%
3YR	+6.7%	+5.6%
5YR	+11.9%	+10.8%
ITD	+10.1%	+9.1%