



To Our Fellow Shareholders,

September 30, 2005

	<u>YTD</u> <u>2005</u>	<u>1YR</u>	<u>Annualized</u>	
			<u>3YR</u>	<u>5YR</u>
PWM Equity Composite	+4.2%	+9.3%	+11.5%	+11.3%
PWM Eq. Composite Net of Typical Fee	+3.5%	+8.2%	+10.4%	+10.2%
S&P 500 Total Return	+2.8%	+12.3%	+16.7%	-1.5%
Lipper MultiCap Value*	+4.6%	+15.1%	+19.0%	+5.8%

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

The Portfolio

We added two new stocks to the model portfolio during the quarter. **Take-Two (TTWO)** is a videogame publisher and distributor. They are best known for their game Grand Theft Auto (GTA). The stock has been falling lately for several reasons. 1) The well publicized issue of the hidden sex scene in the GTA game hurt sales and increased expenses. 2) Earnings have been weak as we are in the slow part of the video game cycle. Consumers are waiting for the next generation game consoles that are coming over the next 6 months. 3) A couple of new games have been delayed. 4) Expenses have been high as TTWO works to broaden their product line with many new titles. These are the kinds of issues that should prove temporary. The industry is likely to continue to grow faster than most, even if growth decelerates from its historical pace. The new game consoles will likely kick start the next up-cycle, increasing demand for software. A clean version of GTA is now shipping and there are many new titles in the pipeline. Unusually high expenses related to the dirty version of GTA and the launch of many new titles will eventually fade. It seems likely that revenues will grow and expenses will fall, leading to nice earnings growth in the years ahead. We estimate a fair value of \$31. This is 40% higher than the \$22 price we paid.

Sara Lee (SLE-\$20.31) was also bought during the quarter. SLE produces bread and frozen pies (Earthgrains, Sara Lee), meat products (Jimmy Dean, Hillshire Farms, Ball Park), coffee (Hills Brothers, Chock Full O Nuts, Senseo), apparel (Champion, Hanes, Playtex) and other household products. Similar to our recent purchase Unilever, the company has underperformed its peer group for several years and tried several unsuccessful restructurings. The company now has a new CEO and a very ambitious turnaround plan. They plan to sell several businesses, spin off others, move their headquarters, install SAP accounting software, cut costs and centralize operations. The markets SLE operates in are mature but not very volatile. We think they offer relatively low risk. Expectations are pretty low so there is not much risk of disappointing investors; and yet, if the restructuring pays off, the valuation could rise significantly. We conservatively estimate fair value, before restructuring benefits, at \$24. The stock pays a 4% yield and there is significant free cash flow.

THQI split 3 for 2 on 9/2/05. This will show as a distribution of shares on your statement from Fidelity. For taxable accounts, you may want to make note of this as it will affect your cost basis.

Winners and Losers:

For the year-to-date period, the three best performing stocks in the model portfolio were: Oil well driller Enco (ESV) which is up 47% and oil well service boat operator Tidewater (TDW) which is up 37% as high energy prices have increased demand for their services. Energy prices are sure to be volatile, and may fall from their current levels as demand is curtailed, however, we think energy prices and demand for energy services are likely to remain high for some time to come. Energy has been a key driver of portfolio performance this year as we have 13% of the model invested here. The video game producer THQ (THQI) is up 40% as new products have done well and the outlook for the industry is improving. As mentioned above, the new video game consoles expected late this year and early next year are likely to drive demand for video game software.

The three worst performing stocks in the model so far this year have been: toy maker Mattel (MAT) which is down 14% due to poor sales of Barbie dolls, a very competitive retail environment and higher cost of raw materials. Management has demonstrated great ability in turning the company around over the last couple of years and we will give them some room to restore growth to the Barbie line; especially at the current, low valuation. The advertising agency Interpublic (IPG) is down 13% as the new management has struggled with cleaning up accounting problems from too many poorly integrated acquisitions over the years as well as the recent loss of some high profile accounts. We think the new management is on the right track, but this turnaround will take time. We may add to our position here as the company's financial health improves. The electrical products maker Hubbell (HUBB) is down 10%, after climbing steadily for the last four years, as investors have begun to worry about a slowing economy. Continued rate hikes by the Federal Reserve are bound to have some affect on construction activity. We reduced our position in January and may sell more if the price continues to rise.

Bonds

Interest rates rose in the third quarter causing bond prices to fall. U.S. taxable bond funds fell an average of 0.6% in the third quarter. A strong economy and higher oil prices potentially leading to higher inflation and therefore higher interest rates were two main worries in the early part of the quarter. Latter in the quarter and continuing now are the additional concerns about the effects of the hurricanes on oil refining and higher budget deficits due to rebuilding expense pointing to higher inflation and interest rates; and countering this, are possible economic disruptions which could slow economic growth and lower inflationary pressures.

The flattening of the yield curve (which is simply a term for the range of yields for different maturities) that we discussed last month continued in the third quarter. In September the 10 year government bond yield was only 0.11% higher than the yield on the 2 year bond. Compare this to the 2.5% difference that existed at the beginning of 2004. Usually an investor gets paid more for longer maturity bonds because these bonds possess more risk of their price being more volatile as interest rates change and they have more risk of defaulting.

Higher prices are certainly headed our way. Oil, gasoline and natural gas prices are significantly higher. These products impact the prices of so many other prices they can not be listed here; however one example is the impact on transportation costs which affects the price of all other goods that are shipped. This will provide inflationary pressure and upward pressure on interest rates. The Federal Reserve seems intent on continuing to increase short term interest rates which could provide upward pressure on all interest rates. We think higher interest rates are coming. This combined with the ability to receive almost the same rates with shorter term bonds as with longer term bonds will keep us focused on owning and buying shorter term bonds.

Rambling about Risk – Our favorite subject

“Also, in the Good Old Days, we thought of risk as the chances of losing money. I still do! Much of the rest of the world has come to think of risk as deviation from the benchmark....How did mediocrity become an objective for a money manager? Some clients and consultants want to put tracking-error limits in the investment guidelines....I was raised in this business with the concept that your objective was to maximize tracking error – it just had to be positive...Back to the question of risk: If you asked a race car driver about the risk in what he does for a living, I think his answer would focus on the chances of crashing and burning. I doubt that he would say much about how far he was from the median car in the race.” - David Fisher, Financial Analysts Journal July/Aug 2005.

There are all kinds of risk. Some are more important than others. We think the risk of disaster is much more important than the risk of not ‘keeping up with the Joneses’.

This idea of defining risk as deviating from the benchmark or the peer group (i.e. tracking error) is tied at the hip with the popular style boxes. Style boxes, such as Large Cap Value, Small Cap Growth, etc., are an attempt to narrowly define a manager’s investment style, and therefore gain a better understanding of whether that manager is adding any value. The problem has arisen that managers have become so tied to their particular style box that they must not deviate from it. Therefore, the style box begins to affect the investment decisions. From a pure economic standpoint, should it matter whether a cheap, attractive investment has a market capitalization of \$1 billion or \$50 billion? Not that we can see. Should it matter whether a cheap, attractive investment is labeled “growth” by some third party consultant, using a simplistic method completely unrelated to our method, while we call ourselves “value” investors? Not that we can see. We believe that a cheap valuation is a key driver of future performance. Capitalization size or arbitrary, mechanistic, third party definitions of growth and value should be irrelevant to the investment decision, in our opinion. We are trying to keep the investment decision as pure as possible, and relatively unconstrained by outside, non-investment related forces. Questions such as “Is this investment unlikely to cause us a large loss?” and “Is this investment likely to provide an attractive gain?” are more relevant to the investment decision than whether a prospective investment is a component of the Russell 1000 Value index or the S&P Small Cap 600/Barra Growth index. The measurement of a manager’s performance should not influence the investment decision, but the vast majority of the time it probably does – very likely to the detriment of the client’s net worth.

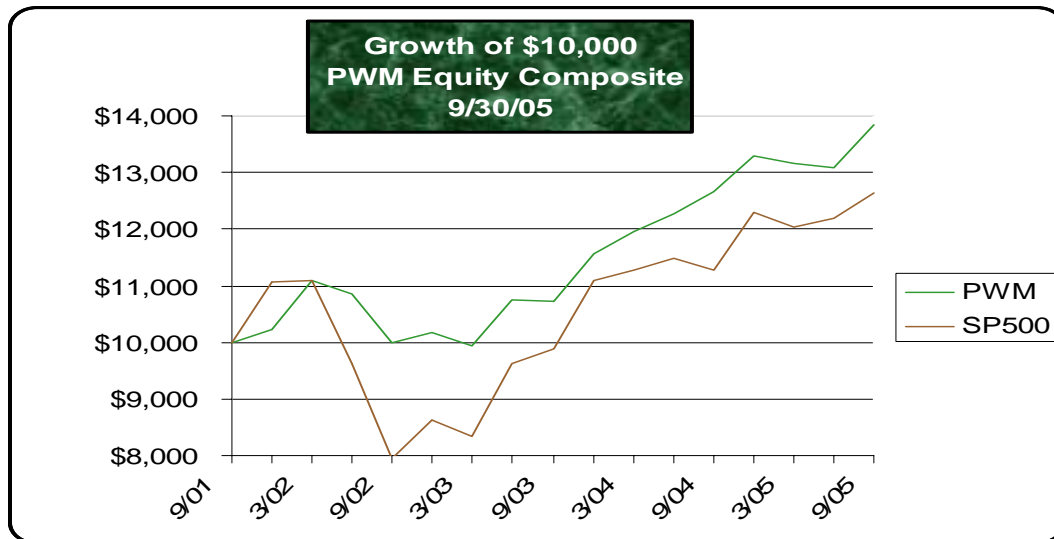
It seems that, slowly, investors are beginning to warm up to this approach. Research by Lipper, as reported in Investment News, found that Multi-Cap mutual funds performed best over 1, 2, 3, 5, 10 and 15 year periods. “I suspect it’s because the managers were not hemmed in.” said Lipper analyst Don Cassidy. The love affair with hedge funds is perhaps further evidence that removing arbitrary constraints from investment managers is increasingly acceptable and desirable.

We think clients are best advised to find a good investment manager, with a sound, time tested discipline and a solid track record, and then give the manager the flexibility to find the best investments available. *Why hire managers for their expertise and then arbitrarily restrict them?*

Measuring performance is tricky.

The dominance of style boxes has evolved from efforts at measuring a manager’s performance. Answering the question of whether a particular manager is doing well or poorly is more difficult than it sounds. The table on the last page of this newsletter shows our performance for calendar years going back to 1997 (pre-dating the formation of PWM in 2001). Our methods resulted in performance well behind the S&P 500 for 1998 and 1999, but performance was well ahead of the market for the next three years. Were we incompetent in the ‘90’s, but magically transformed

into geniuses after Y2K? No. It is a question of measurement. We stayed on course while the S&P 500 became wildly distorted, first making our performance look poor, then grand. Many value managers were fired by clients during the late '90's precisely because a distorted benchmark made their performance look poor, just as their performance was about to look a lot better. The point we would like to make is that no matter what benchmark you use to measure your manager's performance, they all have flaws. No benchmark is a perfect tool to assess the performance of given manager. Under normal conditions, the S&P 500 is likely to be a reasonable benchmark for us, but during the '97-'03 period, it clearly was not representative of our methods. We recognize the problems associated with judging manager performance, but we think that the dominance of style boxes has affected managers' investment decisions to the detriment of performance. At PWM, we want to outperform the market and peer group over the long term but we cannot expect such an outcome if we own the same stocks as everybody else. Therefore, we should expect that deviation from our benchmark is likely to be a common occurrence. Hopefully, over the longer time periods, it will be a positive deviation.



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	+4.2%	+2.8%	30	1.16	\$4,993,677	38%	6%	\$13,048,056

Prudent Wealth Management LLC has prepared and presented this report in compliance with the Performance Presentation Standards of the CFA Institute®, the U.S. and Canadian version of the Global Investment Performance Standards (GIPS®). The CFA Institute 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 \$35,162 to \$975,335.
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	+9.3%	+8.2%
3YR	+11.5%	+10.4%
5YR	+11.3%	+10.2%
ITD	+10.5%	+9.4%