Save the Date for Our Next Fireside Chat

Crucial Conversations: Helping Your Parents Confront Eldercare Transitions
March 2, 2017
6:30 – 8:00 PM
"If you keep talking about this, I'm not buying you dinner tonight!"

How to navigate the difficult conversation with your aging parents. Cass Grange and Thomas Twombly will share thoughts on approaching fraught subjects like housing and aging with family members.

As always, wine and other refreshments will be provided.
Please RSVP at info@lsggroup.com,
512-458-2517,
or online at lsggroup.com/programs-and-events

General Market Results						
	4th Quarter	YTD	One Year	Three Year	Five Year	Ten Year
CPI	-0.03	2.04	2.04	1.17	1.35	1.81
Barclays Agg Bond	-2.98	2.65	2.65	3.03	2.23	4.34
S&P 500	3.82	11.96	11.96	8.87	14.66	6.95
DJI	8.66	16.50	16.50	8.71	12.92	7.52
S&P 400	7.42	20.74	20.74	9.04	15.33	9.16
Russell 2000	8.83	21.31	21.31	6.74	14.46	7.07
NASDAQ	1.34	7.50	7.50	8.83	15.62	8.34
MSCI EAFE	-0.68	1.51	1.51	-1.15	7.02	1.22
MSCI EM	-4.08	11.60	11.60	-2.19	1.64	2.17

LUCIEN, STIRLING & GRAY ADVISORY GROUP
"Smart Decisions About Serious Money"
4005 Guadalupe Austin, Texas 78751
Phone: 512-458-2517 Fax: 512-458-3120
www.lsggroup.com

FOURTH QUARTER REPORT 2016

LUCIEN, STIRLING & GRAY ADVISORY GROUP℠

"Smart Decisions About Serious Money"

MEET OUR TEAM

Thomas Twombly
President

Walter L.Wilson, III
Exec. VP, Operations

Mark Ward, CFP®, ChFC®
VP and Chairman, IPC

Bleckley Dobbs, CFP®, RICP®
Director of Financial Planning

Glenda Summers, CFP®
Sr. Advisor Associate

Cass Grange
Sr. Advisor Associate

Megan Poore
Sr. Advisor Associate

Chris Vasquez
Financial Services Professional

CONTACT US

4005 Guadalupe
Austin, Texas 78751

Phone: 512-458-2517
Fax: 512-458-3120

www.lsggroup.com

A MESSAGE FROM THE PRESIDENT

Thomas G. Twombly

We are pleased to provide you with our report for the period ending December 31, 2016.

It was a fascinating and challenging year, where any number of shocks and surprises seemed specifically designed to confound and confuse the so-called "experts." Prognosticators of all stripes; financial seers, media pundits, book-makers and especially political pollsters were head-faked by the unprecedented twists and turns of 2016, and the costs of their mistakes often proved enormous. The rest of us found ourselves having to work extra hard to maintain a proper sense of poise and perspective amidst the unexpected change. But we did that work and we're pleased to report that virtually all our clients came through the nasty traps of 2016 in solid shape. Well done.

Right out of the gate, the year started with a sharp sell-off in the equity markets that quickly gained media attention as "the worst start to a new year in U.S. history." Though the ultimate decline of -11% that occurred between January 1st and February 11th never reached the average intra-year decline of the last three and a half decades, the combination of deep anxieties about plunging oil prices (which ended up falling -76.5% between June 20, 2014 and February 11, 2016) the sensationalist exploitation of a trick of the calendar, and a nasty presidential campaign caused many to sell out and head for the sidelines. Oil prices subsequently shot up more than 100% between February 11th and the end of the year, exacting a particularly cruel and painful price from those who reacted.

June brought another shock, and another steep peregrination in financial markets with the unexpected outcome of the British referendum on leaving the E.U. Though the decline was only -6%, the timeframe required to reach its nadir was only two trading days, so that air pocket combined with the realization that pre-election polls could be so incredibly wrong spooked many investors again.

November's election results brought another surprise, both for political handicappers and for the "conventional wisdom" about what would happen to financial markets. Instead of falling by thousands of points, as many outspoken pundits had insisted would happen in the event of a Trump victory, U.S. equity markets instead rallied sharply into the end of the year. On the other hand, the formerly serene bond market, where many had thought they were taking quiet refuge, experienced a sudden downdraft as interest rates jumped sharply - triggered not by the Federal Reserve, as so many had come to expect, but by the market itself.

Given this year of unprecedented surprises, it's worth reiterating the nature of our philosophy on advice, because we didn't know for sure that any of these things would happen. (In fact, I've said for years: "there are two kinds of people in our business: those who don't know, and those who don't know they don't know.") It's also valuable to restate the core components of our belief system about successful investing, because plenty of new challenges await us as we transition to a new Presidential administration and a rapidly changing world, and nobody knows for sure what any of those will be either.

Overwhelmingly, our experience is that successful investors are goal-focused and guided by a thoughtful long-term plan. They've gained a clear view of what's important to them, what their philosophy is, and what their unique challenges and opportunities are likely to be. With our help, they've also thought proactively about how they intend to respond to shifting circumstances. They're prepared well in advance to make any number of personal changes and course corrections along the way.

Most failed investing we've observed, on the other hand, was heavily influenced by the fads and fears of the moment. It had little if any connection to achieving multi-decade or multi-generational results, and it often focused only on short-term "performance." Because it wasn't anchored to an over-arching plan, or to a set of principles, it was easily blown hither and yon by the fickle winds of change.

Here's the truth: the future we invest in and for is inherently unknowable. It always will be. The great goals of life, like funding a solid education for children or grandchildren; ensuring your financial security, dignity and independence in retirement; or building and leaving a legacy, take decades of dedication to accomplish. But during that time, everything will change. Every one of those intervening years (and indeed every day that comprises them) will be full of uncertainty. We will never have all the information we want before making decisions. We'll always be unsure of something, and often we'll be unsure of many things. Other times, the things we are sure of will unexpectedly change, and we'll never gain complete clarity until after the fact. But here's the kicker: we must move forward anyway.

Clear principles, and a clear understanding of what we can control – and what we must control - are critical under these circumstances. Without such guideposts, most people left to their own devices cannot avoid the big mistake. Sadly, it only takes one to permanently derail decades worth of effort, and the absence of a trusted accountability partner to firmly insist on revisiting both a concrete plan and well-defined principles in times of stress and anxiety can prove devastatingly expensive.

So, we are planners, not prognosticators. We don't time markets, we don't foretell the economy, and we don't project the future performance of a specific investment relative to any other based on past performance. Every portfolio we oversee focuses on long-term asset allocation, broad diversification, and measured rebalancing. Those portfolios are there solely to serve plans, and those plans are there solely to serve our clients. In other words, the portfolio is never ever the most important factor. Therefore, the principles of portfolio construction we follow are these: 1.) The only benchmark that counts is the one that indicates whether you are on track to achieve your most important financial objectives. 2.) Risk should be measured as the probability that you won't get there. 3.) Portfolio construction should have the exclusive objective of minimizing that risk to the greatest extent possible.

Our highest value services are planning and behavioral coaching. Our greatest benefit often comes in short, intense bursts when big life transitions or stressful events increase the potential for making the big mistake. And we're committed to working with clients who treasure that kind of attention.

Thank you for your confidence and trust.

Thomas G. Twombly

President

INVESTMENT COMMENTARY

For much of the year, but especially for the final quarter, the huge "known unknown" was the U.S. Presidential election. In a globally interconnected world that had only recently watched in stunned surprise as the result of the so-called "Brexit" vote was announced in June; the trustworthiness of U.S. political polls was suddenly thrown into question and the resulting sense of tension was palpable in financial markets. A tight and contentious race that contrasted vastly different visions about such major initiatives as corporate taxation, international trade policies, financial regulation, infrastructure investment and immigration unnerved investors around the world. In fact, the pall of uncertainty was so dense in the run up to election day that the S&P 500 managed a feat it had not accomplished since 1980, turning in nine successive trading days of lower closes. From the perspective of financial markets alone, perhaps the most important outcome of the election was simply that it was done. It was finally over, markets knew the outcome, and there was one less piece of uncertainty to feed investor's anxieties.

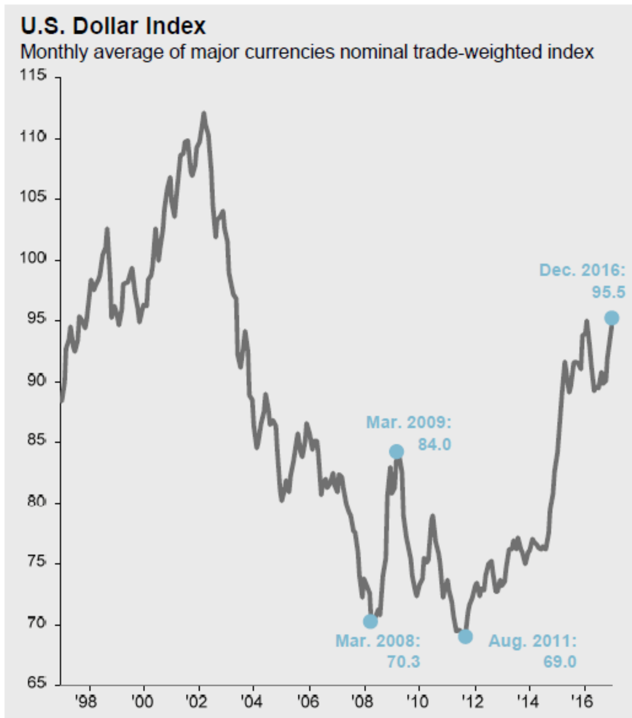
The reactions were immediate, though not what many investors were expecting. Broadly diversified portfolios proved their value, experiencing sharp dispersions in results from different asset classes that ultimately led to a smoothing out in overall volatility. More narrowly concentrated portfolios, on the other hand, resulted in more extreme outcomes. U.S. equities rallied powerfully, particularly small-cap stocks, while fixed income markets dropped sharply on rising inflation expectations and a corresponding jump in long-term lending rates. The U.S. dollar strengthened further, rising to its highest point in 13 years on the belief that the incoming presidential administration, now also enjoying solid majorities in both houses of Congress, is likely to pursue more pro-business, pro-capital & pro-growth policies than the outgoing administration. International equities, on the other hand, especially those in emerging markets, saw a sharp decline in response to a rising dollar and to increasing concerns about the imposition of tariffs and trade restrictions by the incoming administration.

Small cap US stocks, which had declined by almost -7.5% from September 30th up to the days just before the election, experienced a sharp reversal that saw the Russell 2000 index explode upwards by more than +19% between November 4th and December 9th, eventually settling back somewhat with an overall end-of-quarter gain of 8.8%. Small-cap value companies were particularly rewarded with new asset flows, rising by +14.1% for the quarter on the belief that a stronger U.S. economy combined with a stronger dollar would tend to provide the most benefit to U.S. businesses with comparatively little in the way of an overseas customer base.

Large cap US equities did well also, but results were tempered somewhat by concerns that a rising dollar might eventually be injurious to the earnings of big companies dependent on selling into overseas markets. This kept the results more muted at +3.8% for the quarter. Again, the value side of the spectrum provided the biggest boost, with overall results for the quarter of +6.7%. Financial stocks were the overwhelming winner. The sector rose by a whopping +21.1% for the quarter on a combination of rising earnings expectations due to rising interest (and therefore lending) rates, and the potential for an easing regulatory structure under the new administration. Health care stocks were one of the losers for the quarter and for the year overall, falling by -4% in the final three months and becoming the only sector to show a loss for the year at -2.7% on anticipation that the Affordable Care Act was likely facing a bleak future.

Oil closed at $53.59/barrel for the end of the year, up from a low of $26.21 on February 11th, and providing the energy sector with the best overall results for 2016 at +27.4%. Though we have purposefully limited exposure in our portfolios to the highly volatile commodity itself, we have invested judiciously in mid-stream MLPs in many client portfolios, and these too benefitted handsomely from the eventual rebound in oil prices.

Looking forward, we will continue to maintain broad diversification and to rebalance periodically out of asset classes that have performed well and into those that have struggled comparatively. This includes emerging market equities and developed international markets, where we continue to see attractive long-term opportunities. Much will be changing under a Trump administration but it is yet to be seen just what the overall effects of those changes will be, so while many clearly have been tempted to get even more concentrated in U.S. equities after such a powerful run, we choose to take a more circumspect view. Though these areas have lagged in recent years, valuations continue to get more attractive relative to the U.S., and we're convinced that disciplined long-term investors will eventually be rewarded. As always, please give us a call if you would like to discuss your personal situation or our perspective.



Source: J.P. Morgan Asset Management; (Left) BEA; (Right) Federal Reserve, FactSet.
Currencies in the Trade Weighted U.S. Dollar Major Currencies Index are: British pound, euro, Swedish kroner, Australian dollar, Canadian dollar, Japanese yen and Swiss franc.
Guide to the Markets – U.S. Data are as of December 31, 2016.