Lucien, Stirling & Gray Advisory Group, Inc.

FIRST QUARTER REPORT 2016

April 2016

LUCIEN, STIRLING & GRAY ADVISORY GROUP

"Smart Decisions About Serious Money"

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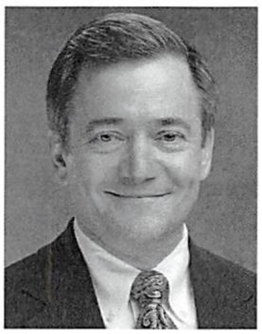
A MESSAGE FROM THE PRESIDENT

Thomas G. Twombly



One of the themes I keep returning to in these quarterly missives has to do the overwhelming impact that individual investor behavior has on long-term, real life results – contrasted against the stubbornly popular belief that it's the "performance" of the investments themselves that really matters.

In truth, it's both – because over the long run particular asset classes have consistently shown a far greater propensity to generate investor wealth than others. The critical problem is that most individuals, left to their own devices and without the steadfast counsel of trustworthy advisors, don't possess the patience, discipline and faith to own these asset classes in sufficient measure and for sufficiently long periods of time to experience the lasting benefits. Due to any number of insidious provocations, they behave their way into and out of them at precisely, and repeatedly, the wrong times.

Take a look at the chart on page three courtesy of Thompson Reuters. It might give you a completely different perspective than you've ever before seen regarding stock market (and by extension, human) behavior over the last 88 years. It shows the effects of $100,000 invested in the S&P 500 during every single rolling 15-year period from the end of 1927 through the end of 2015. Do you notice a pattern?

The bar on the far right represents the 15-year period that ended on December 31, 2015 – which therefore began on December 31, 2000. A $100,000 investment made on that date and left to compound with all dividends reinvested would have grown to $207,894 by the end of last year. That equates to an average annual return of 5%. That bar, by the way, is the 8th shortest on the entire chart.

"Reversion to the mean" – the tendency for systems to move back towards the long-term average after periods of dispersion - is one of the most powerful forces in nature.

The bar second from the right is the period that ended on December 31, 2014 - having begun on December 31, 1999. It reached a value of $186,376 after 15 years, and averaged 4.24% per year. Please note that it is the 4th shortest bar on the entire chart, and the 6th& 7th shortest closely adjoin it.

Only three 15-year periods out of a total of 74 were worse than the one we completed only 15 months ago. All of those took place in a similar grouping, and are represented on the far left - beginning in 1927, 1928 and 1929, respectively, right before the Great Depression, and ending in 1942, 1943 and 1944 in some of the darkest days of World War II.

The only other 15-year period resulting in average annual returns <5% per year was the one that began December 31, 1959 and ended on December 31, 1974 – it's depicted near the middle of the chart, and is the 5th shortest bar. That period too encompassed a deep social and financial malaise that followed a long economic expansion similar to the one we experienced between 1982 and 1999, and included the assassinations of JFK, RFK, and Martin Luther King Jr., Vietnam; the Arab Oil Embargo, Watergate and the fall of Saigon – and was capped by a deep bear market in its waning months.

I point these things out in order to highlight just how challenging a period we have lived through during the last sixteen years: the implosion of the dot com bubble; the NASDAQ falling almost 80%; the horror of 9-11; Enron; Lehman Brothers; Bernie Madoff; a housing and credit collapse; massive unemployment; and the slowest, most disbelieved economic recovery since WW II. Is it any wonder people are skeptical? Is it a surprise that many have foresworn equity ownership forever, in spite of the recovery we've seen in the last six years?

I also point them out to highlight the long-term cyclicality of financial markets, and to offer a broader historical perspective on what the coming years could offer if history is any guide. Unfortunately, most human beings tend to extrapolate their most recent experiences forward. They therefore tend to set investment expectations based on a continuation of those circumstances. But that's not the lesson that history teaches, as you can observe. "Reversion to the mean" – the tendency for systems to move back towards the long-term average after periods of dispersion - is one of the most powerful forces in nature. The mean on this chart is represented by the 15-year period ending on December 31, 1986. $100,000 invested during that time would have grown to more than $464,000 – an average return of almost 10.8% per year.

In spite of the profound pessimism we are still experiencing now, there is tremendous innovation taking place around the world. Technology, healthcare, energy and many other sectors of the global economy are undergoing rapid transformation. Human ingenuity is still very much alive, and it's accelerating. That ingenuity has always been the most valuable asset we possess – as individuals and as a broader society, and equity – the ownership of dynamic, innovative, well-funded businesses - is the only asset class that capitalizes on that ingenuity.

Thank you for your confidence and trust.

Thomas G. Twombly

President

INVESTMENT COMMENTARY

The first quarter of 2016 tested the mettle of many an investor, providing another depressive-manic episode that was highly reminiscent of the late August–September convulsion experienced late in 2015, and highlighting again the critical importance of discipline, a solid long-term plan and especially a stalwart psychological defense against the hyperbolic news cycle.

Equity markets around the world began the New Year with a sharp sell-off. Here in this country, the large-cap S&P 500 fell by -10.5% in the first six weeks of the quarter, dropping from a December 31, 2015 close of 2044 to a closing low of 1829 on February 11th. In similar fashion, the small-cap Russell 2000 index dropped by -16% during the same time frame, prompting many a headline to repeatedly declare the worst start to a New Year in U.S. markets since about 1776. Foreign equity markets also contracted sharply - all worried that a slowing economy in China, negative interest rates throughout Europe, and rapidly declining oil prices were a certain harbinger of global recession. This sent many spooked souls rushing for the exits and towards the theoretical safety of bonds and cash.

Then, in what can only be described as the cruelest of turns for those who reacted fearfully near the nadir, equity markets world-wide promptly reversed course and rose as sharply as they had fallen. The S&P 500 closed the quarter at 2060, up 13% from its February lows and sporting a positive return of +1.3% for the year thus far. The Russell 2000 rocketed up by 17%, recovering all but 1.5% of its mid-quarter losses. Foreign equity markets also rebounded strongly off their lows, with emerging markets in particular providing patient diversified investors with long-awaited rewards as the MSCI EME Index tied with the NAREIT Equity REIT Index as the top-performing asset class for the quarter at +5.8%. International developed markets, as measured by the EAFE Index, struggled back from steep mid-quarter declines to finish the period down -2.9%.

Importantly, currency fluctuations provided a tailwind for U.S. holders of foreign assets during the quarter, as the U.S. Dollar Index finally broke a long and vertiginous rise since 2011 and began to soften against major foreign currencies. The net effect was that the positive returns U.S. investors enjoyed in broad emerging market indices were fully double those measured in local currencies, while the modest declines we experienced in international developed market indices were less than half those experienced by foreign investors at home.

A steadily rising dollar has imposed a significant headwind on the results U.S. investors have experienced with overseas allocations during the last 4-5 years. If the dollar were merely to stop rising going forward, that headwind would disappear. If the dollar were actually to decline from here (as the currencies of countries with trade deficits such as ours tend to do over the long haul...) we could see a continued wind-aided run from overseas allocations. Given the fact that P/E multiples remain more attractive than in the U.S., and that increased global oil supply is particularly beneficial to major European and Asian economies who import all they consume, we remain constructive on the long-term prospects of this asset class despite well-publicized cautionary notes.

As equity markets whipsawed, substantial assets flowed into all corners of the fixed income markets, driving interest rates back lower across the board between January 1st and March 31st. The yield of the Barclay's Aggregate Bond Index stood at 2.16% by March 31, down from 2.59% at the end of last year and providing a total return of 3% for the year so far. High yield bonds also provided good results for the period, as did 10-year Treasury bonds, which saw rates fall from 2.27% to 1.78% during the quarter and generated total returns of 4.79%.

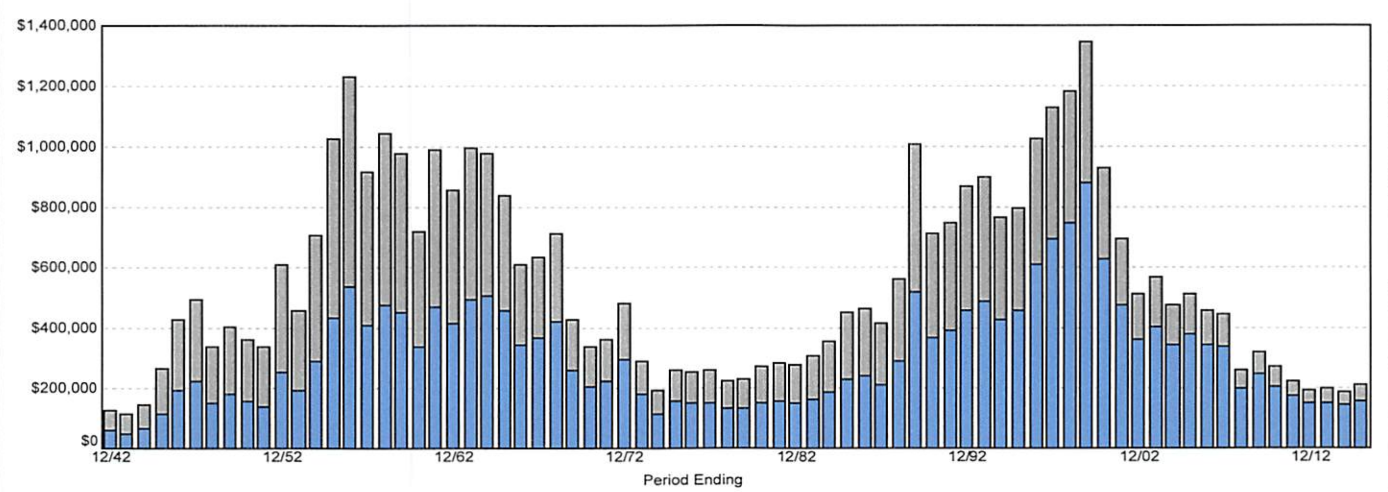
While our clients benefitted from allocations to fixed income securities for the quarter, we continue to believe that great care must be taken with allocations to bonds going forward. As we closed out the first quarter of 2016, there are a number of signs that inflation may finally be picking up. Oil prices have stopped falling, and in fact have risen sharply in the last few months, the costs of services are showing steady increases, and wage growth is starting to tick up. As a result, the year-over-year change in the Core Consumer Price Index now stands at +2.3%, according to JP Morgan estimates. Even at that relatively modest level of inflation, the yields mentioned above virtually guarantee a loss for long-term holders of fixed income securities. And if inflation were to unexpectedly accelerate, conditions could get quite unpleasant for investors with outsized allocations to low-yielding debt instruments.

As always, please give us a call if you'd like to discuss our perspective or your particular situation.

Rolling Periods Report — Lucien, Stirling & Gray

S&P 500 with Monthly Dividends — **15 Year Rolling Periods (12/31/1927 - 12/31/2015)**

S&P 500 with Monthly Dividends: $100,000.00 initial investment (12/31/1927 - 12/31/2015). Dividends and capital gains are reinvested. The initial investment is not subject to a sales charge. The effects of income and capital gains taxes are not demonstrated.



Capital Gains
Income
Principal

This historical information represents past performance and should not be considered indicative of future results. Principal value and investment return will fluctuate, so that an investor's shares/units when redeemed may be worth less or more than the original amount.

The bar graph shows a bar depicting the ending value of the portfolio on the y-axis the period ending date represented on the x-axis.

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Join hosts Glenda Summers, Megan Poore and Cass Grange along with other accomplished Austin women for an evening of wine, cheese, soda and great conversation. Promote yourself, your business, or your organization – and make a few new friends! Don't forget to bring your business cards!

Tuesday, June 14, 2016 5:30 – 7:30 PM
4005 Guadalupe Street
Feel free to bring a Fabulous Friend!
RSVP: (512) 458-2517 or info@lsggroup.com

General Market Results

	1st Quarter	YTD	One Year	Three Year	Five Year	Ten Year
CPI	0.25%	0.25%	0.42%	0.62%	1.19%	1.73%
Barclays Agg Bond	3.03%	3.03%	1.96%	2.50%	3.78%	4.90%
S&P 500	1.35%	1.35%	1.78%	11.82%	11.58%	7.01%
DJI	2.20%	2.20%	2.08%	9.29%	10.27%	7.54%
S&P 400	3.78%	3.78%	-3.60%	9.46%	9.52%	7.78%
Russell 2000	-1.52%	-1.52%	-9.76%	6.84%	7.20%	5.26%
NASDAQ	-2.75%	-2.75%	-0.63%	14.23%	11.86%	7.61%
MSCI EAFE	-2.88%	-2.88%	-7.87%	2.68%	2.76%	2.27%
MSCI EM	5.75%	5.75%	-11.70%	-4.15%	-3.80%	3.34%

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For more information about our firm, please visit our website at www.lsggroup.com • Model holdings may change due to ongoing management • Sector and style breakdown is constructed with the best available information and therefore is only as accurate as the available information • Past performance is no guarantee of future results • It is impossible to invest directly in indices • Percentages may not equal 100 due to rounding

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