Be advised that our annual mailer was sent on April 27th. It included:

-Our firm's **Privacy Policy**. This document is required to be delivered to you annually.

-Our firm's **Form ADV 2A, client brochure's Material Changes (Item 2)**. If you would like to review our Form ADV 2A in full, you can find it on the footer of our website at lsggroup.com.

-**Electronic Communication Consent Form**. If, in the future, you wish to receive firm communications from Lucien, Stirling & Gray Advisory Group, Inc. via email, please complete the form, sign, and return using the prepaid envelope we included in your annual mailer.

General Market Results

	1st Quarter	YTD	One Year	Three Year	Five Year	Ten Year
CPI	1.00%	1.00%	2.13%	1.79%	1.36%	1.55%
Barclays Agg Bond	-1.46%	-1.46%	1.20%	1.20%	1.82%	3.63%
S&P 500	-0.76%	-0.76%	13.99%	10.78%	13.31%	9.49%
DJI	-1.96%	-1.96%	19.39%	13.48%	13.32%	9.86%
S&P 400	-0.77%	-0.77%	10.97%	8.96%	11.97%	10.90%
Russell 2000	-0.08%	-0.08%	11.79%	8.39%	11.47%	9.84%
NASDAQ	2.32%	2.32%	19.48%	12.96%	16.67%	11.98%
MSCI EAFE	-1.58%	-1.58%	15.12%	5.99%	6.94%	3.21%
MSCI EM	1.33%	1.33%	25.20%	9.16%	5.34%	3.35%

"Smart Decisions About Serious Money"

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FIRST QUARTER REPORT 2018

LUCIEN, STIRLING & GRAY ADVISORY GROUP[SM]

"Smart Decisions About Serious Money"

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A MESSAGE FROM THE PRESIDENT

Thomas G. Twombly

We are pleased to provide you with our report for the period ending March 31, 2018.

In our report for the final quarter of 2017 we pointed out just how unique last year was for the eerily calm, steady climb of the U.S. stock markets. Without a single down month, and with another year of above-average returns, it seemed as if the equity market had simply brushed aside all the political turmoil and social unrest that captivated the headlines throughout the year and decided that it just didn't matter. We also suggested that the apparent calm wasn't likely to last, and that all of us should be prepared, financially, but especially emotionally, for the return of more turbulence.

So far this year, that's proven to be a useful preparatory instruction. The mood swings we've experienced during just the first quarter of 2018 alone have far outnumbered everything we encountered last year, and indeed over the prior eighteen months. In fact, up through the end of January, it had been more than a year and a half since we'd seen so much as a single 5% draw-down. This was despite an incredibly contentious presidential election, multiple mass-shootings, an escalating nuclear threat from North Korea, and a widening investigation into foreign interference in our democratic process, to name just a few.

When one realizes that in a perfectly "normal" environment we'd expect to experience approximately five 5% draw-downs per year (so perhaps 7 ½ such events in eighteen months) one can see what an unusual time we'd been experiencing in financial markets. More to the point, one can understand how easy it might be to get lulled into a false sense of lasting calm, and then be startled to the point of panic when that changed. We were trying to inoculate you against that possibility.

So now we're experiencing the so-called

> ***"The most important quality for an investor is temperament, not intellect."***

"return of volatility" (which everyone with a solid financial plan, adequate cash reserves and an appropriately allocated long-term investment portfolio should greet as well-prepared outdoorspeople would a change in the weather) and folks of all types are suddenly getting warped up and reactive, as if they were experiencing a dire emergency. The hyperbolic headlines were telling us in February how many billions of dollars Warren Buffett or Jeff Bezos had theoretically "lost" because of a 10% correction. (No, they both still own every single one of the shares they owned a few months ago in the incredibly profitable businesses they've built over the last few decades, and they're not selling.) Articles in major financial publications this month are telling tales of investors and advisors alike conflating the concepts of volatility and "risk" (one does not equal the other) and making reactive changes to their retirement plan holdings because their "risk tolerance" had supposedly changed overnight. It's painful to read, because it signifies the perpetuation of misguided beliefs and bad behaviors, both of which are toxic to long-term investing success.

Mr. Buffett once commented that "the most important quality for an investor is temperament, not intellect." In other words, it's not how smart you are or how quickly you process information that matters. Instead, what counts is how deliberate you are in your approach and how measured you are in response to change and provocation. It's too bad the headlines won't highlight those notions instead.

Our approach (and I trust this comes as no surprise) is that unless there has been some substantial change to a specific *individual's* situation or immediate plans, we are not recommending meaningful changes to our client's investment portfolios. We expect to remain broadly diversified across many asset classes, as we have been consistently for a long time, because we never know **for sure** what will happen next. We expect to lean more towards the ownership of equities over the ownership of bonds, because over the fullness of time we expect the total return of the *owners* of the great businesses of the U.S. and the world to outstrip those of the *loaners* to those businesses, or to the deeply-indebted governments of the world – especially net of taxes and inflation. Within those equity holdings, we expect to lean more towards international and emerging markets equities than we have in the past, because the relative value of those assets looks attractive compared to U.S. stocks now, and because the global economy is growing and the economies of many countries outside the U.S. appear to have much more room to expand than ours does going forward. And we expect to rebalance periodically, shaving from the assets that have done well recently, so we are able to add to asset classes that have lagged, because the overriding object, always, is to sell high and buy low.

As to our response to volatility, we intend to focus our efforts on building resilience in the hearts and minds of our clients, helping them embrace the ambiguity and uncertainty that define our daily lives, and on continuously putting short-term events into proper long-term context. Because the lasting lesson of my entire career is that the biggest risk to our investing success lies not in volatility itself, but in the constant temptation towards inappropriate behavior *in response* to that volatility.

Thank you very much for your confidence and trust.

Thomas G. Twombly

President

INVESTMENT COMMENTARY

For all the sharp swings of the first quarter of 2018, it was impressive how little actual end-point to end-point change there was in most asset classes. Other than Real Estate Investment Trusts, which saw an overall decline of -6.7% for the period, every other major asset class ranged between +1.5% and -1.5% for the quarter – hardly a remarkable net change. In other words, if you'd simply fallen asleep like Rumple Stiltskin on December 31st and then woken up again on March 31st, you'd likely have been bewildered at what all the intra-quarter fuss was about.

After all was said and done, Emerging Market equities topped the list of winners for the quarter, adding a modest +1.5% to what had been very strong results over the previous twelve months. Cash and equivalents, with total returns of +.3% for the quarter, came in second, providing the only other positive result of the major asset classes. Other than the aforementioned REIT index, the two laggards for the period were the Barclays U.S. Aggregate Bond Index, which finished the quarter down -1.5%, and the MSCI Europe Asia Far East Index, which declined -1.4%. Small-cap stocks, high-yield bonds and commodities all ended the quarter lower by a margin of less than one half of one percent each, and large-cap U.S. stocks declined by a paltry -.8%.

In the interim, of course, there were plenty of conflicting cross currents in the minds of investors. To start the year, strong flows into equities indicated a great deal of excitement about the anticipated effects of substantial tax cuts on what was already a very strong economy. Later in the quarter that excitement began to wane and was countered by growing concerns about rising interest rates, a newly-installed Chairman of the Federal Reserve, and the knowledge that the long bull market in U.S. stocks was entering its tenth year. Perhaps, too, there was a dawning realization that it might prove difficult for the domestic economy to get a whole lot better than it is right now, and that those very same tax cuts might eventually lead to an exploding deficit.

Looking forward, we think it's going to be important that investors take an increasingly long-range view in their asset allocation plans (not an easy charge in this immediate gratification environment) and that they temper their expectations and allocate their portfolios to reflect a vastly different set of circumstances than what we've experienced in recent years.

For starters, interest rates are now on the gradual rise after a long period of steady decline and stubborn bottom-dragging. Not only is the demand for money now picking up around the globe, but much of the so-called "quantitative easing" implemented by central banks around the world is now being withdrawn. Partly to prepare for the more proximal possibility of rising inflation, but also perhaps in a pre-emptive effort to re-arm itself to be able to counter the effects of future recessions in the long run, the Federal Reserve has made it clear that they intend to raise the fed funds rate another three times this year. Other central banks are eying similar efforts.

Though those projected increases appear modest in the coming year, and though many argue that interest rates should remain low for quite some time, the long-term effects of these various trends could eventually prove to be quite injurious to overly timid allocators of capital who get lulled into a sense of complacency. This could be particularly true to the extent that equity markets continue to show an elevated degree of turbulence for a while. In so-doing, they may spook the unaware or the uncoached into a deceptive trap of apparent "safety" in the fixed income markets that may prove very difficult to escape emotionally until it's too late.

Like the proverbial bullfrog floating happily in a big pot of cool water, apparently safe from the predators that lurk outside in the lake, which then fails to jump promptly from that pot as a burner is lit beneath and it is ever-so-gradually warmed towards an eventual boiling point, the risks inherent to being overly weighted towards fixed income securities in a rising interest rate environment are not to be underestimated. Unfortunately, most investors alive today have no adult memory of such an experience from which to draw a lesson, and many are still so petrified of the equity market volatility they have been taught relentlessly to fear that it may be too late before they recognize their mistake.

In closing, we point your attention (once again) towards the chart from J.P. Morgan Asset Management that we've re-printed. It shows calendar year returns for large company U.S. stocks for every year since 1980 in the gray bars, juxtaposed against the intra-year declines for those very same companies every year in the red dots. Unmistakably, this demonstrates that the stock prices of the great companies of the United States go down all the time, sometimes by a substantial margin. In fact, the average intra-year decline over that 38-year period was -13.8%. That's the "risk" people are talking about when they focus on short-term volatility. But if history is any guide, and it's the only one we have, the long-term value of those great companies has never stayed down. Yes, that's the beauty, volatility works to the upside, too! Despite all that "risk" you can see illustrated in red, the S&P 500 rose in 29 out of 38 years (about 76% of the time) and a hypothetical $100,000 invested in 1980 and left to compound would now be worth over $5 million dollars. That, my loyal friends, is called "reward" and it has typically accrued to the patient and disciplined investor who keeps an eye on the far horizon.

Patience, discipline and faith in the future; these are the principles we follow. Asset allocation, diversification and re-balancing; these are the practices. We expect they'll continue to serve us as well going forward as they have in the past.