First Quarter Report 2017

LUCIEN, STIRLING & GRAY ADVISORY GROUP SM

"Smart Decisions About Serious Money"

A MESSAGE FROM THE PRESIDENT

Thomas G. Twombly

We are pleased to provide you with our report for the period ending March 31, 2017.

This June will mark Lucien, Stirling & Gray's 25th anniversary. Serving Austin for the past quarter century has been an honor, a learning experience, and certainly something to celebrate (more on that, later!). Over that time, we've endured any number of so-called "financial crises." We've also enjoyed extended periods of economic growth, and with them the ebullience they gradually breed in investors. In the process, we've learned a few valuable lessons about two very powerful forces. The first is the completely unpredictable nature of investment markets - especially in the short run. The second is the immutable nature of human beings, and the uneasy, emotional and often volatile relationship we all tend to have with our money.

When people invest, these two forces combine, often in very hard-to-control ways. Markets fluctuate, and so do people's emotions, but rarely do those fluctuations synchronize in ways that naturally lead to beneficial financial outcomes. After asset prices have declined for a time, eventually so does the confidence, conviction and "risk tolerance" of investors in those assets. Fear increases, and pessimism takes hold. Left to their own devices, without advice they trust, people lose faith. They sell out of assets that "aren't working", often very late in the cycle when they'd be better served by buying.

By the same token, after investments have risen for a time, eventually so does the confidence, excitement and so-called "risk appetite" of investors who wish now to own them. They're persuaded that extended "outperformance" equates to better value. Latent caution from previous experiences gradually disappears, and greed and envy (the fear of missing out) begin to dominate their thinking. Left to their own devices, without advice they trust, people abandon a disciplined approach. They buy, often very late in the cycle, and they get ever more concentrated in asset classes that "are working." Sooner or later, though, the cycle changes. And the pattern repeats.

Breaking that pattern is very difficult. Most people cannot do it on their own. Doing so demands clear, straightforward communication between a trusted advisor and an engaged client; communication that is completely honest and forthright about what is controllable, and what isn't. It requires a solid, well-defined plan that's anchored to meaningful financial and personal objectives. It also requires a firm grasp of history and an understanding of long-term economic cycles. It benefits immensely from disciplined

MEET OUR TEAM

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President

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VP and Chairman, IPC

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Director of Financial Planning

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asset allocation, broad diversification, and periodic rebalancing of a portfolio, as well as the patience, discipline and faith to stick to the plan on a long-term basis. Most of all, it benefits from trust, because only trust is both the antidote to fear and the moderator of greed and envy.

From the very beginning, it was clear that if we built our business on a value proposition we couldn't control and on promises we'd never be able to keep, we'd be doing ourselves and our clients no favors. To succeed, we had to build enduring trust. That meant making promises judiciously; and only those we could reliably keep. Therefore, we decided to focus our efforts on inputs we can control, such as our ability to prepare people, and to allocate their capital thoughtfully and judiciously. We don't waste valuable resources and energy (ours or our clients') professing dominion over outcomes nobody can control, such as the unpredictable fluctuations of financial markets and underlying asset classes or, God forbid, trying to "outperform" whatever narrow index is capturing people's current fleeting fancy.

So, let me instead offer the following things that together we can control: We promise to help you get organized, and to bring order to your financial life. We promise to help you be accountable, and to follow through on your financial plans and commitments. We promise to be objective, and to serve as a reliable sounding board to help you avoid making emotional mistakes about important money matters. We promise to provide education, and to bring you the specific knowledge and expertise you need to succeed in your unique circumstances. We promise to be proactive, and to help you to anticipate key life transitions so you're financially prepared when they happen. We promise to be responsive, and to be there when unforeseen events occur, giving you the confidence to adapt. And we promise, always, to put your interests first.

On June 3rd, we also promise to throw a great party to celebrate our 25th year serving wonderful people like you. We hope you'll come!

Thank you for your confidence and trust.

Thomas G. Twombly

President

INVESTMENT COMMENTARY

The first quarter of 2107 was a profitable one for our clients. Other than commodities, almost all asset classes rose for the period.

Evidence of a steady, synchronized global recovery continues to build, with particularly strong improvement coming from the eurozone and emerging market economies overall. Interest rates in the United States also eased slightly during the quarter, providing a small lift to fixed income investments here. Overseas, rates rose slightly in an increasing sign of economic confidence, especially towards the end of the period, and several sovereign bond markets finally rose above the surface of negative interest rates to generate a positive yield for the first time in many, many months. Foreign currencies overall strengthened against the dollar as a result, providing an additional boost to US owners of international stocks and bonds.

The broadly-diversified portfolios we oversee provided solid results for the quarter, with long-time allocations to international developed markets and emerging markets equities in particular playing notable roles in more growth-oriented portfolios. In US Dollar terms, the broad Europe, Asia, Far East Index (EAFE) rose by +7.4% for the first three months of the year. European markets, excluding the UK, rose by a healthy +8.6%, while Asian markets excluding Japan rose by +11.8%. Emerging markets equities overall rose by +11.5% in US dollar terms, and a particularly strong contribution to those results came from the Indian economy, whose market jumped by +17.1% in the first quarter.

Domestic equity markets also provided solid results, though almost all the gains occurred in the first two months of the quarter. The torrid momentum that small and mid-cap stocks had established immediately after last fall's election slowed considerably as questions began to arise about the speed with which new economic policies might be implemented by the Trump administration. Overall, the large-cap S&P

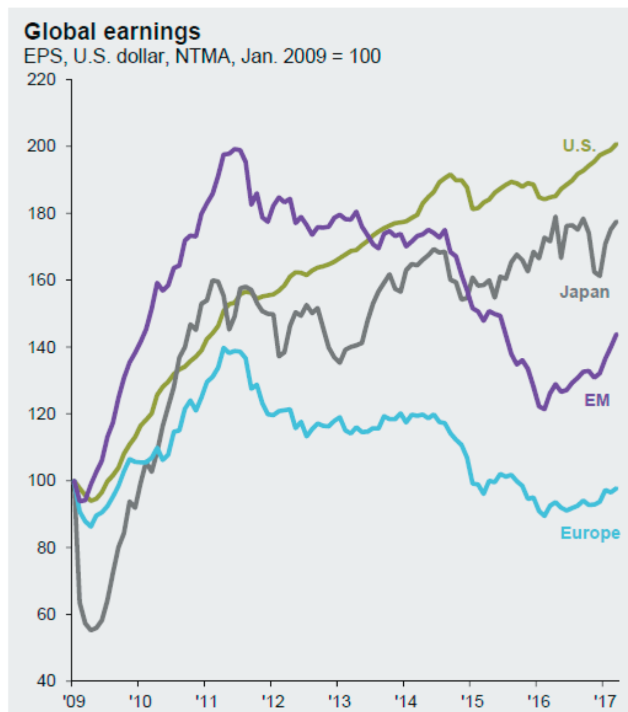
500 rose by +6.1% for the quarter, while the mid-cap S&P 400 rose by +5.1% and the small-cap Russell 2000 by a more modest +2.5%. Growth stocks achieved far better results than value stocks across the board, and the purposeful tilt we've maintained in that direction proved beneficial for many portfolios.

As you'll note from the embedded chart on this page, the earnings per share of US companies are now essentially at all-time highs. Accompanying that, perhaps predictably, there is a great deal of optimism being expressed in survey data of both consumers and investors about the prospects for continued US economic growth. Much of this seems colored by expectations that the new presidential administration will succeed in making rapid changes to tax policies, infrastructure investments, and regulatory restrictions. As a note of caution, however, this degree of optimism isn't necessarily supported by the hard data. While earnings are indeed high, earnings growth rates are not improving at this point and there is an increasing array of headwinds that are likely to make future earnings growth less easy to achieve. These headwinds include tight labor markets and steadily rising labor costs, a strong dollar that weakens overseas sales, rising borrowing costs, and a political climate that is still far more intransigent towards regulatory and tax reform than many had hoped and expected by this point in time.

By comparison, you'll note that earnings in Europe and the Emerging Markets are still way below their previous highs, and they have improved steadily in the last twelve months. While there are still plenty of reasons for a cautious approach, the headwinds we face here are in many respects tailwinds for these areas of the world, and it would not be surprising to see continued economic growth as confidence among both business lenders and borrowers expands. With higher unemployment rates, European companies can draw from a larger pool of available workers to fill newly created jobs, employment costs will likely rise more slowly as a result, and weaker currencies favor exports to robust consumer economies in the US and Asia. With what could turn out to be unwarranted pessimism among investors, we continue to believe that these areas offer attractive long-term prospects for the patient and disciplined.

With the S&P 500 having experienced gains in 16 of the last 17 quarters, and with 6 straight quarters of positive results, we think the rosy outlook for US equities may have gotten a little too optimistic. At the same time, we believe the prospects for attractive future results from non-US equities probably remain overly pessimistic. As always, however, we will never know for sure, so we will continue to maintain prudent allocations to a broad diversity of asset classes and to remain watchful.

If you have any questions about our perspective, or if you would like to discuss your personal situation, please do not hesitate to call and schedule an appointment. We'd be happy to sit down and talk.



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
*Valuations refer to NTMA P/E for Europe, U.S., Japan and Developed Markets and P/B for emerging markets. Valuation and earnings charts use MSCI indices for all regions/countries, except for the U.S., which is the S&P 500. All indices use IBES aggregate earnings estimates, which may differ from earnings estimates used elsewhere in the book.
Guide to the Markets – U.S. Data are as of March 31, 2017.

Please Join Us for Our 25 Year Anniversary Celebration!

at Jennifer's Gardens Austin | 1101 W. 31st St. Austin, TX 78705
June 3, 2017
6:00 – 10:00 PM

Lucien Stirling & Gray has been proudly serving Austin for 25 years, and we cannot wait to celebrate this important milestone with all our friends! Please join us at Austin's beautiful Jennifer's Gardens for live music, food, beer, wine and other refreshments! We cannot wait to see you there.

RSVP at info@lsggroup.com | 512-458-2517 | lsggroup.com

Jennifer's Gardens features beautiful hand-laid stone throughout the property. That being said, please be mindful when choosing your shoes for this event – heels are not advised. Please dress comfortably for summer weather – this event will be held outdoors.

General Market Results

	1st Quarter	YTD	One Year	Three Year	Five Year	Ten Year
CPI	0.90 %	0.90%	2.30%	1.02%	1.21%	1.72%
Barclays Agg Bond	0.82 %	0.82%	0.44%	2.68%	2.34%	4.27%
S&P 500	6.07%	6.07%	17.17%	10.37%	13.30%	7.51%
DJI	5.19%	5.19%	19.91%	10.61%	12.15%	8.10%
S&P 400	3.94%	3.94%	20.92%	9.36%	13.32%	8.96%
Russell 2000	2.47%	2.47%	26.22%	7.22%	12.35%	7.12%
NASDAQ	9.82%	9.82%	21.39%	12.08%	13.84%	9.34%
MSCI EAFE	7.39%	7.39%	12.25%	0.96%	6.32%	1.53%
MSCI EM	11.49%	11.49%	17.65%	1.55%	1.17%	3.05%

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Lucien, Stirling & Gray Advisory Group, Inc. is a Registered Investment Advisory firm providing fee-only asset management, fiduciary-level advice and financial planning services to individuals, corporations, trusts and foundations.