Lucien, Stirling & Gray Advisory Group, Inc.

THIRD QUARTER REPORT 2015

October 2015

LUCIEN, STIRLING & GRAY
ADVISORY GROUP
"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 September 30, 2015.

Until this past quarter, it had been four years since we experienced a correction of 10% or more in large-company U.S. stocks. That streak has been broken now, and while the decline of -12.25% we experienced between July 20th and August 25th didn't even reach the average intra-year decline of the S&P 500 for the last 35 years (-14.2%), it's important to note that many popular investment products behaved in ways that were anything but average during that timeframe.

Many people were hurt - badly - this quarter when certain Exchange Traded Funds (ETFs) they owned suddenly behaved in outlandish ways that they, and their advisers, had never anticipated. During the worst days of the August decline, a number of such funds reported precipitous drops in their prices that were four or five times the magnitude of the underlying basket of stocks they supposedly tracked. The resulting surprise led to outright panic selling - and huge losses. Now many market participants are on edge, ETF sponsors are suddenly wary, and financial regulators are concerned.

Assets in these products have exploded in the last 5 years. Focused on the "Fund" part of their name, and believing that they're like traditional mutual funds (only better); ETFs have been employed by thousands of individuals and advisers attracted by promises of low expenses and supposedly instant liquidity. In addition to long-term investment assets, they've been flooded with assets from short-term traders, market timers, and tactical trading programs. Sadly for many and to the growing concern regulators, the "Exchange" and "Trade" parts of their name proved that under stress these vehicles can turn into vastly different beasts than traditional funds. Candidly, this should not have come as a surprise.

"How we choose to invest, and who we choose to invest alongside are important decisions..."

The last time we experienced a sharp correction in U.S. markets was in the third quarter of 2011 when the S&P 500 fell 19.2%. Below are some excerpts from our Quarterly Report for that period, which you can find on our website at www.lsggroup.com. They are every bit as germane today as they were then.

"Short-term thinking and behavior abound. Billions of dollars rocket back and forth, controlled not by measured, methodical long-term investors in great businesses, but by high-speed computer programs designed to squeeze fractions of a point from stock and bond transactions in a quest for a quick edge. Exchange traded funds (ETFs) - huge baskets of stocks, bonds, and commodities – are now bought and sold on a minute-to-minute basis, adding to the volatility, and drawing consumers and some advisors alike

into the mistaken belief that in order to be successful one must become ever more frenetic, plugged-in, and hair-triggered in response to the daily news flow.

Refuse to play this game – because it's not investing, it's speculating. Step back, reassess what it means to actually invest, and then utilize tools that make the most sense in that context. Find experienced professionals whose philosophy and approach you understand, who use methodical processes to identify good long-term values, and who have historically exercised the patience and discipline to allow those processes to work – in spite of short term volatility.

Train yourself to slow down, and to recognize that that very same volatility is ultimately your friend - if you treat it that way. The massive swings that result from the frenetic, knee-jerk behavior of others can often present the calm-minded and patient with significant opportunities. It's not easy, but it is simple."

We do not believe that the volatility we have seen recently is likely to go away. In fact, it could get worse at times, because the underlying structure of financial markets has clearly changed and more people are using products that *encourage* frenetic behavior. How we choose to invest, and who we choose to invest alongside are important decisions, because (just like our mothers told us in high school) the behavior of those we associate with can have a big impact on our own lives. These are some of the reasons why we have been careful and deliberate about adopting new products, why we have chosen to remain with time-tested investment vehicles for ourselves and for our clients, and why we still firmly believe that select money management teams with proven research processes designed for the long term make the most sense for the investment of serious money. As we said in our report in October of 2011:

"In the long run, enduring investment values have always been a reflection of the careful deployment of capital by great companies – on new products, entrepreneurship, services, and innovation. We are confident that this is still as true today as it ever was, and that the indomitable human spirit to be, to do, and to create is still very much alive."

Thank you for your confidence and trust.

Thomas G. Twombly

President

INVESTMENT COMMENTARY

Without a doubt, the third quarter of 2015 was a tough one. After a long period of relative calm that stretched back over 1400 trading days, stock markets in the U.S. suddenly jolted market participants out of their late-summer reverie with a sudden bout of turbulence. Pundits claimed it was brought on by slowing global growth, anxiety about sharp contractions in Chinese markets, and lingering uncertainty about Federal Reserve interest rate policy. Perhaps it was just time.

The S&P500 ended September with a decline of -6.4% for the quarter and -5.3% for the year thus far. However, these end point results hide much of the interim story, as this widely-followed index of large cap U.S. stocks experienced a bout of volatility that saw it plunge by approximately 11% in seven trading days between August 17th and August 25th. During that brief period the VIX, the most broadly-followed measure of volatility, spiked to 40 (a level not seen since late 2011, when Standard & Poor's downgraded U.S. Government credit quality due to threats of default) and net redemptions from equity funds reached -$29.5 Billion, the highest weekly number ever recorded. In a sign of how much fear had suddenly captivated many an investor's psyche, the final day of that selling climax, August 25th, saw net equity fund redemptions exceed any day going back to September of 2008.

Energy, industrial materials and healthcare stocks were responsible for much of the overall decline in the U.S., falling by -17.4%, -16.9% and -10.7% respectively by the end of the quarter. Comparatively speaking, consumer discretionary and consumer staples stocks fared much better, providing overall results of -2.6% and -.2% for the same period. Utilities were the only sector that provided positive results for the quarter, ending September +5.4% for the most recent three month timeframe, but still notching declines of -5.9% for the year thus far.

Other equity indices followed a similar path. Small-cap stocks in the U.S. fell sharply, settling at -11.9% for the quarter and -7.7% for the year so far. Foreign markets also declined, with the MSCI EAFE index notching a -10.9% retraction for the quarter. The MSCI Emerging Market Index declined by -17.8%, as burgeoning worries about a sharp slowdown in the Chinese economy hit many emerging market, natural resource-based economies particularly hard. The Bloomberg Commodity Index fell by -14.5% for the quarter, also reflecting these concerns, and the Alerian MLP Index suffered an additional -22.1% drop for the quarter, bringing its year-to-date results to -30.7% as continued weakness in the price of oil increased worries that the earnings of pipeline operators could be negatively impacted.

Fixed income markets offered a mixed bag during the third quarter. U.S. Treasury securities rallied during the period as capital flowed away from volatility in equity markets and sought the comparative stability of high-grade debt securities. The yield on the 10-year Treasury fell from 2.35% to 2.04% by quarter's end, helping the Barclay's Aggregate Bond Index to a 1.2% gain for the quarter. On the other hand, lower quality, higher-yielding corporate debt securities fell fairly sharply for the quarter. BB-rated debt securities fell by -3.1% for the period, while B-rated issues declined by -5.6% and CCC-rated credits lost -7.3%.

Investment returns for our clients were negative for the quarter and also now for the year thus far. While we can't say we are happy with the results, against the overall backdrop we take comfort that our portfolios behaved as we would expect under the circumstances. More conservatively oriented accounts experienced declines of -5% or less during the quarter, while the more aggressively oriented experienced declines of approximately -10%. Though never pleasant, we're reminded that periodic corrections are a normal function of financial markets and we expect them. Looking forward, we believe that valuations have become more attractive as a result of recent declines, and we remain confident about both long-term capital allocations and the money management teams we have in place.

Most importantly, we're encouraged by the behavior of our clientele during this challenging period. Not a single one of you succumbed to the broad knee-jerk panic that caught so many others during the third week of August. You kept your wits, and with them the confidence that superior long-term returns have been earned only with patience, discipline and a stalwart tolerance for periodic bumps along the way. For that we congratulate you, and we thank you. We believe it will pay off in the long run. As always, please call if you would like to discuss our perspective or your personal situation.

Conservative Growth Model

3rd Quarter	YTD	1Year	3 Year	5 Year	10 Year
-4.74%	-3.13%	-0.85%	5.29%	4.28%	4.06%

Inception Date 06/03/1999

Core Growth Model

3rd Quarter	YTD	1Year	3 Year	5 Year	10 Year
-8.72%	-7.27%	-5.33%	4.75%	4.55%	4.11%

Inception Date 05/31/2003

Growth Model

3rd Quarter	YTD	1Year	3 Year	5 Year	10 Year
-10.23%	-7.22%	-5.39%	4.45%	4.10%	4.66%

Inception Date 10/16/1992

Specialty Model

Diversified Growth Model

3rd Quarter	YTD	1 Year	3 Year	5 Year	10 Year
-9.09%	-6.51%	-2.35%	8.92%	8.22%	4.97%

Inception Date 10/31/2000

Education Models

UT ORP

3rd Quarter	YTD	1Year	3 Year	5 Year	10 Year
-6.50%	-5.30%	-2.59%	6.21%	5.95%	4.05%

Inception 08/10/1999

Retirement Growth

3rd Quarter	YTD	1 Year	3 Year	5 Year	10 Year
-8.72%	-7.29%	-5.53%	5.72%	6.26%	4.18%

Inception Date 06/03/1999

Upcoming Events

Join Us for Our Annual Holiday Party

Thursday, December 10, 2015
3:30 - 7:00 PM

RSVP: 512-458-2517 or info@lsggroup.com

Check out our new, updated website at www.lsggroup.com

General Market Results

	3rd Quarter	YTD	One Year	Three Year	Five Year	Ten Year
CPI	-0.13%	1.49%	0.12%	0.99%	1.76%	1.83%
Barclays Agg Bond	1.23%	1.13%	2.94%	1.71%	3.10%	4.64%
S&P 500	-6.44%	-5.29%	-0.61%	12.40%	13.34%	6.80%
DJI	-6.98%	-6.95%	-2.11%	9.26%	11.38%	7.17%
S&P 400	-8.50%	-4.66%	1.40%	13.12%	12.93%	8.25%
Russell 2000	-11.92%	-7.73%	1.25%	11.02%	11.73%	6.55%
NASDAQ	-7.35%	-2.45%	2.82%	14.03%	14.30%	7.94%
MSCI EAFE	-10.19%	-4.91%	-8.27%	6.08%	4.45%	3.44%
MSCI EM	-17.78%	-15.22%	-18.98%	-4.93%	-3.25%	4.60%

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.

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 perfor-

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