Second Quarter Report 2022

LUCIEN, STIRLING & GRAY ADVISORY GROUP

"Smart Decisions About Serious Money"

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A Message From The President

Thomas G. Twombly

"We walk backwards into the future with our eyes fixed on the past"
– Māori proverb –

One of the benefits of having written these quarterly missives for more than 20 years is the ability to look back with the benefit of hindsight and grade my own work. Another is the opportunity to revisit thoughts I developed years ago, and to update and reinforce them in a whole new context.

The following three italicized paragraphs are lifted directly from our Fourth Quarter report of 2011, the entirety of which you can find here: https://lsggroup.com/wp-content/uploads/2015/04/Q4-2011.pdf Even if I say so myself, it's worth a read. The message still applies, and it might serve as a good booster.

In a digital society obsessed with the 24-hour news cycle, and everyone tied to "smart" phones, social media, tablet computers, and yammering heads on cable news channels, it's a challenge to step back and take a multi-year, multi-generational view of anything. This seems especially true of healthy wealth-building behavior. Like moths to a flame, we're mesmerized by the urgency of the moment. Our endurance wears thin, and our anxiety levels rise as we struggle to drink from a fire hose of information that masquerades as the key to success – or survival. Patience, perspective, and discipline suffer mightily in such an environment.

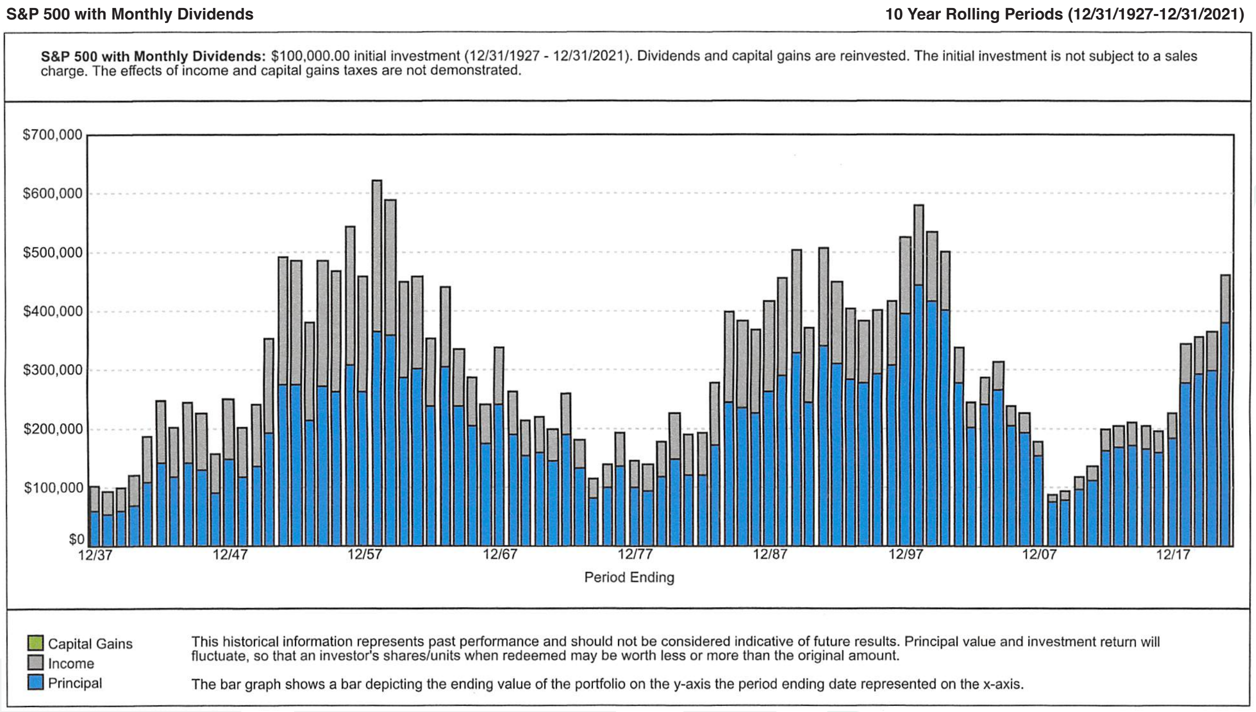
Additionally, since the dawn of the industrial revolution we have developed a cultural pre-disposition to view life in linear terms. This too detracts from our perspective, because unlike our previous agrarian economy, where the rhythms of life were dictated by a deep-seated societal understanding and acceptance of the changing natural seasons, we've now lost contact with the constant reminder that virtually everything around us is cyclical. Instead, linear thinking puts us in ruts and restricts our ability to prepare for the future. When things have gone well, we giddily believe that they will continue on uninterrupted – in linear fashion. Conversely, when we experience a period of adversity, we believe that too is a permanent linear condition. These beliefs impact our behavior – often to our detriment.

A more intimate connection to nature and history, however, belies these beliefs. In the past, because he knew that all of life ebbs and flows, following a constant cycle of birth, growth, maturity, decline, death and rebirth, the wise agrarian invested for it well in advance. He knew that winter would come, and growth would go dormant for a while. But he also knew that spring eventually followed, and patience and discipline would be rewarded. So it is with the long-term cycles of financial markets too, as you'll see below…

So on page 2 let me share an updated version of the chart I first shared in early 2012, along with some additional thoughts that it brings to mind today.

This too shows the rolling 10-year returns of the S&P 500. Each bar represents the end results of a hypothetical $100,000 invested at the beginning of each period. The bar on the far left depicts the ten-year period that began on 12/31/1927 and ended on 12/31/1937. It includes The Great Depression. The bar on the far right depicts the ten-year period that began on 12/31/2011 and ended six months ago on 12/31/2021. I would be surprised if you didn't recognize the long-range cyclical forces that appear to be at work in the financial world.

Obviously, this picture does not include the first six months of 2022. This is by design. First, I didn't want to alter the broad picture perspective by abruptly changing the illustration method.



More importantly, I didn't want to add to the already prodigious pile of shrieking commentary about all that has happened in that comparatively short period – an experience that will likely become insignificant in the memories of true long-range investors if history is any guide at all.

Let me just point out that 6 months is only 5% of a 10-year period. In other words, 95% of the ten-year period that started on January 1st of this year is still completely unknown. There is not a soul in the world that can tell you for certain what is going to happen. But that 10-year period is the timeframe we should all be investing for, and the one beyond that.

In between now and December 31, 2032, we will see each successive year's annual results added in turn to this rolling return chart, while the annual results we already know for each of the past calendar years will gradually roll off, one by one. The +16% annual return of 2012 will soon be replaced by the full year's result for 2022 when we update this chart next. (So, I would bet the next bar will be shorter than the last.) And then at the end of 2023, the +32.4% return of 2013 will drop away as yet another unknown quantity is added…and so on and so forth… Looking backwards, you can see similar fluctuations at work.

But there are no facts about the future. There are no guarantees that the long-range cycles of history will continue. I don't profess to know anything for sure.

I am a stalwart investor in equities, nonetheless, and I will be for years to come. Because if the broad, extended-term cycles of economic history do continue as they have since long before I was born, it suggests to me that the current paroxysms of fear and loathing towards the stalwart ownership of the great companies of the world will abate in due course, and those of us who have managed to curb our darker impulses in the interim will again be rewarded in the fullness of time.

Thank you again for your confidence and trust. And keep the faith.

Thomas G. Twombly
President

Investment & Economic Views
Pictures worth a thousand words

The first half of 2022 was a disheartening experience for all of us. As the personal Quarterly Review that accompanies this report attests, your investment portfolio experienced painful declines, as did the accounts of every single one of our clients. Each of us here has shared a similar experience as investors ourselves, and because the way in which we charge advisory fees means we suffer when our clients suffer, as a firm we have experienced sobering financial results as well.

As the third column in from the right in the chart below depicts, every single major asset class except commodities and cash experienced double-digit declines for the first half of 2022. Bonds experienced unprecedented volatility, and long-term bonds in particular saw declines that eclipsed anything most investors have ever witnessed. It was truly a bruising experience all around.

After enduring two years of pandemic, avoiding the hype of the new "roaring twenties" narrative that took possession of so many people last year, steering clear of the speculative idiocy of crypto mania and meme stock madness, and then just soldiering on through the ceaseless, mind-numbing political divisiveness of this day and age, this experience has come as a gut-punch to even the most sober-minded investors. Owners of broadly diversified portfolios everywhere are entitled to feel a little stunned, sick to their stomachs, and disoriented. That said, how we *now* choose to respond is crucial.

One gets the sense that many would rather not look, and that discussion feels like a depressing emotional burden they'd rather put off until later.

But forward-looking investors have to talk about it. In fact, it's the key to moving forward and to overcoming the potential paralysis of the moment. We would welcome that opportunity, so please reach out if you haven't already been in touch with one of us recently. We want to meet and talk.

The object is not to dwell on the unpleasantness that has already happened, or to be consumed with regret that you (or we) might somehow have known the unknowable and done something different. The object is to assess the situation from where we are now – with as much equanimity and poise as possible - and then to invest with an eye towards what the next 5-10 years is likely to look like.

As hard as it is instinctively for many to get their arms around, and as counter intuitive as it might feel, the truth is that periods of maximum pessimism have almost always presented attractive long-range opportunities for disciplined investors with the determination to act in spite of the pit in their stomachs.

As a poignant example, please take a look at the chart on page 4 of the historical peaks and troughs of the University of Michigan Consumer Sentiment Index.

Make special note of the fact that as of the most recent data point in June of 2022, that index is now sitting at its lowest point in the survey's 50-year history - lower than in 2008 at the depths of the Great Financial Crisis, and lower than in May of 1980 when inflation was so high that 10-year U.S. Treasury Bonds were yielding close to 15% and mortgage rates were even higher than that. The mood has never been more pessimistic.

Now please make note of all those previous low points, and the subsequent results posted by large company U.S. stocks as an asset class over the 12 months following those troughs.

While nobody can know for certain what the next twelve months may bring this time, it's certainly worth noting that the old maxim to "be greedy when others are fearful" has some significant historical heft.

Asset class returns

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																2007 - 2021	
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	Ann.	Vol.
EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 41.3%	Comdty. 18.4%	Large Cap 10.6%	REITs 23.2%
Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Cash 0.2%	Small Cap 8.7%	EM Equity 22.9%
DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	Fixed Income -10.3%	REITs 7.5%	Small Cap 22.5%
Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	Asset Alloc. -14.6%	High Yield 6.6%	Comdty. 19.1%
Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.5%	High Yield -16.9%	Asset Alloc. 6.1%	DM Equity 18.9%
Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	EM Equity -17.5%	EM Equity 4.8%	Large Cap 16.9%
Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	REITs -19.2%	DM Equity 4.1%	High Yield 12.2%
High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	DM Equity -19.3%	Fixed Income 4.1%	Asset Alloc. 11.7%
Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	Large Cap -20.0%	Cash 0.8%	Fixed Income 3.3%
REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	EM Equity -2.2%	Small Cap -23.4%	Comdty. -2.6%	Cash 0.7%

Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Fixed Income: Bloomberg US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg US Aggregate, 5% in the Bloomberg 1-3m Treasury, 5% in the Bloomberg Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/2006 to 12/31/2021. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of June 30, 2022.

J.P.Morgan
ASSET MANAGEMENT

Consumer confidence and the stock market

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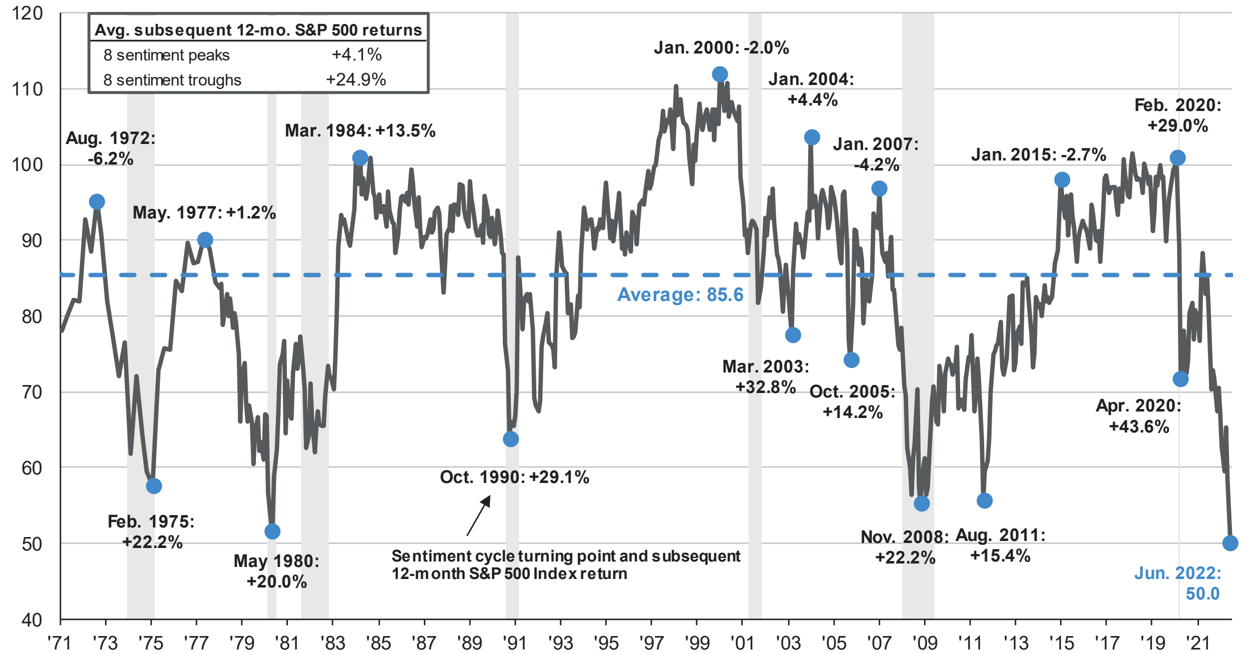
Consumer Sentiment Index and subsequent 12-month S&P 500 returns



Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management.
Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only, which excludes dividends. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – U.S. Data are as of June 30, 2022.

J.P.Morgan
ASSET MANAGEMENT

General Market Results

	2^{nd} Quarter	YTD	One Year	Three Year	Five Year	Ten Year
Bloomberg US Agg Bond TR USD	-4.69	-10.35	-10.29	-.0.93	0.88	1.54
S&P 500 TR USD	-16.10	-19.96	-10.62	10.60	11.31	12.96
DJ Industrial Average TR USD	-10.78	-14.44	-9.05	7.24	9.98	11.70
S&P MidCap 400 TR	-15.42	-19.54	-14.64	6.87	7.02	10.90
Russell 2000 TR USD	-17.20	-23.43	-25.20	4.21	5.17	9.35
NASDAQ Composite TR USD	-22.28	-29.23	-23.43	12.18	13.47	15.40
MSCI EAFE NR USD	-14.51	-19.57	-17.77	1.07	2.20	5.40
MSCI EM NR USD	-11.45	-17.63	-25.28	0.57	2.18	3.06

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