Third Quarter Report 2021

LUCIEN, STIRLING & GRAY ADVISORY GROUP℠

"Smart Decisions About Serious Money"

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A Message From The President

Thomas G. Twombly

This President's Message marks a significant milestone for me. It's number eighty in a string of quarterly missives that now reaches back twenty years. They mark one heck of a journey, to say the least.

The first one I composed was for the third quarter of 2001, barely a month after 9/11, when we were all reeling at the tectonic shift we were witnessing in our whole world, and I was acutely aware that I couldn't possibly be grasping its full magnitude with the suddenly obsolete mental maps and perspective I had gained up to that point. Thinking back on that time, and contemplating the magnitude of more recent events, I wonder if one ever can.

The huge conundrum, and indeed the greatest temperamental challenge that all long-term investors must wrestle with is that the future we invest *in* and *for* is inherently unknowable. It always has been, and it always will be. And yet, we must move forward and make definitive choices anyway.

On one hand, as I've mentioned in previous writings, the great goals of life like funding a solid education for our children or grandchildren; ensuring our own financial security, independence, and dignity throughout a three-decade retirement; or building and leaving a lasting personal, spiritual, social, and financial legacy for those we love, take decades of dedication and discipline to accomplish. On the other hand, the only guarantee we can ever count on during that time is that *everything will change*. All those intervening years, and indeed every day that comprises them, will be subject to uncertainty and ambiguity. We will never have all the information we want before having to make important choices. We'll always be unsure of something, and often the things we think we are sure of will suddenly change without notice.

I have learned, therefore, to be guided by a meaningful long-range plan. But I don't over-plan. I plan to adapt. I plan to overcome the unexpected. I plan to improvise. I've developed a clear view of what's important to me, what my philosophy is, and what my unique challenges and opportunities are likely to be. I've thought proactively about how I intend to respond to shifting circumstances. I've practiced becoming temperamentally resilient, prepared to handle tough setbacks, and determined to make any number of personal changes and course corrections when circumstances suddenly change.

Personally, and also professionally, I have learned to pursue disciplined, long-term investment strategies that have some broad historical likelihood of carrying me, and those we serve, towards our most treasured financial objectives. I have learned to build and patiently hold portfolios with that view in mind. I have learned to embrace the strong probability that our investment outcomes will, at times, run below our desired rate of return, because that is the nature of short-term market fluctuations, and indeed of our lives. I have learned to create structured processes because I recognize my own worst human tendencies, and I understand that the only things any of us can really control in the long run are the inputs – how we *choose* to act.

So, every portfolio we oversee focuses on long-term asset allocation, broad diversification, and measured rebalancing. Those portfolios exist solely to serve the long-range plans of people we care deeply about, and the plans exist solely to serve a limited number of individual clients whom we have come to know well. In other words, the investment portfolio is *never* ever the most important factor. People come first.

I believe our highest value services are financial *life* planning and behavioral coaching. And our greatest benefit often comes in very short, intense bursts when big events or stressful personal transitions raise the level of anxiety, confusion, and fear — and the potential for making a big mistake is highest. Our foremost objective, therefore, is to establish and maintain deep trust and confidence that whatever changes and challenges our clients may face, they will not be left alone at crucial moments. We will face those challenges *together*. And we're committed to working with people who treasure that kind of attention.

I believe we've succeeded as a firm because we've deliberately created a fiduciary *culture* here. Everyone on this team embraces the position that we will always act in the best interests of our clients, each other, and the long-term success of this venture together — in *that* order. We're committed never to place our individual interests ahead of those we serve. Though we can never promise superior results, we do promise to provide objective, impartial advice, and to act always with skill, care, diligence, and good judgment — treating every client the way we would wish to be treated ourselves.

Competent, caring, trustworthy professionals who are willing to place other people's interests first are valuable. I believe that true fiduciaries are rare.

Thank you for your continued confidence and trust. I look forward to coaching great clients, and great teammates, for many more years to come.

Thomas G. Twombly
President

Investment Commentary

After a powerful surge during the first two quarters of the year, financial markets took a noted breather in the third quarter as growth rates in the overall economy softened and concerns took the upper hand. Anxieties ranging from another surge in pandemic-related hospitalizations and deaths, to fears of a Chinese property market collapse, to stubborn congressional intransigence in the face of yet another debt-ceiling deadline in the United States (there have now been 74 such opportunities for silly games of political "chicken" since the debt ceiling was first established in 1917) seized the headlines. The final month of the quarter in particular brought on what might otherwise be considered a fairly routine correction in global equity markets.

Bonds as a whole, as measured by the Barclay's US Aggregate Bond Index, managed to eke out a small nominal gain of .05% during the quarter, but investors who are heavily weighted to this asset class can take little comfort from the results on a year-to-date basis of — 1.55% and -.9% since this time last year — not including, importantly, the corrosive effects of an inflation rate that is now moving rapidly upwards due to worldwide supply shortages and sharply increased housing costs. This is a very tricky time indeed for fixed income investments.

Large cap US stocks also managed to eke out a gain of +.6% for the quarter, despite a decline of -4.65% in the month of September. This was led by gains in Financials (+2.7%) Utilities (+1.8%) and Communication Services (+1.6%) sectors, whereas the Industrial (-4.2%) Materials (-3.5%) and Energy (-1.7%) sectors were the laggards for the period, reflecting their exposure to commodity prices that have been on a fairly sharp recent upswing. Nonetheless, gains for the S&P 500 fall just shy of +16% for 2021 so far, and are right at +30% since this time last year.

Small and mid-sized US company indices declined for the quarter, while still holding on to solid gains for the year thus far. The S&P Mid Cap 400 index and the Russel 2000 small cap index declined by -1.76% and -4.36% respectively, bringing year-to-date gains to a solid +15.5% and 12.4%, and trailing one-year results to a still impressive +43.7% and +47.7%.

Other areas of the world's equity markets also fell during the quarter, with the most notable drop happening in China, which has declined by -16.6% in US dollar terms since the beginning of the year. This was due in large part to very purposeful and deliberate steps taken recently by President Xi Jinping and the Chinese communist party to rein in the burgeoning influence of Chinese technology companies (and their leaders) in the areas of social media, gaming, and on-line education and tutoring. They took further efforts to curb the speculative excess that has taken hold of real estate development throughout the country. Wealth disparity is becoming an increasingly contentious issue there, too, and President Xi seems intent on re-exerting party control over social and entrepreneurial influences he inevitably views as destabilizing to the dominant power structure.

Emerging markets indices overall were impacted by the developments in China, with the MSCI EM Index declining by -8.1% for the quarter and -1.25% for the year thus far, while large company international stocks as measure by the EAFE Index experienced a more muted decline of -.45% for the quarter and now sport a gain of +8.35% for the year so far. Nonetheless, both sport solid results of +18.2% and +25.7% since this time last year.

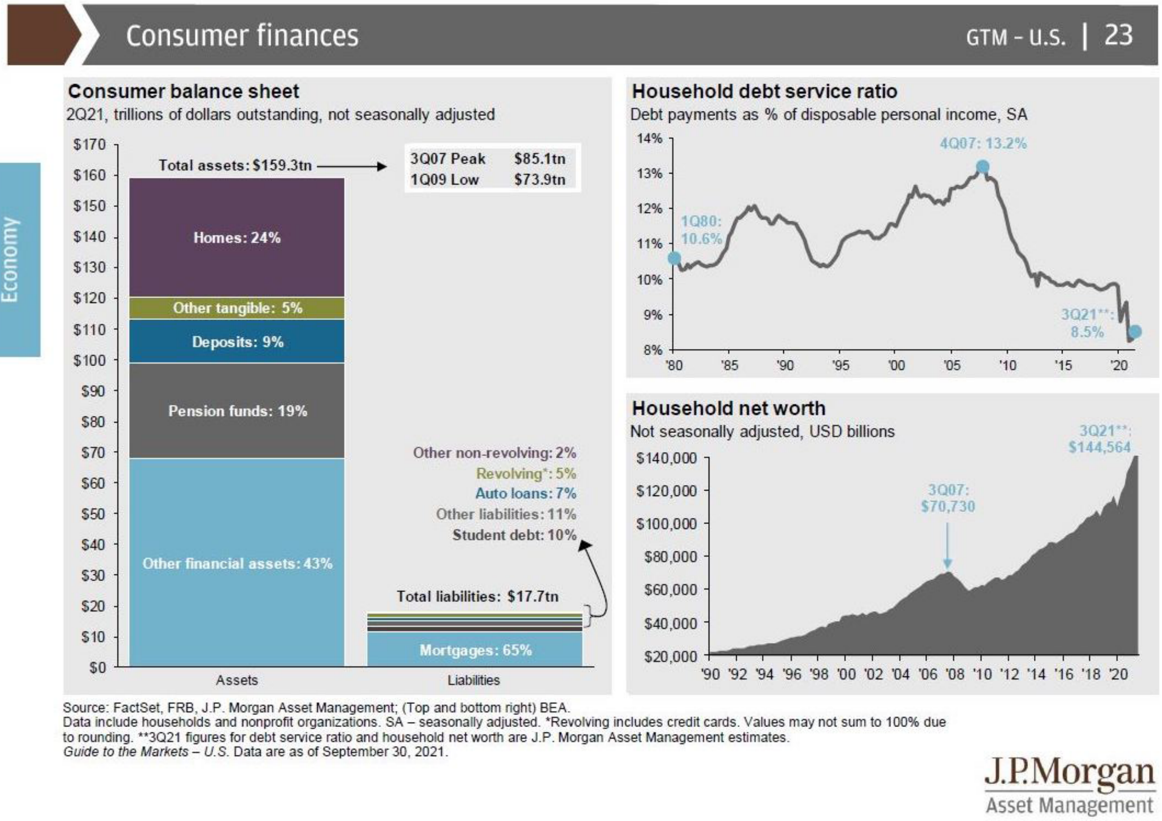
Looking forward, as is forever the case, there are reasons for optimism in the short and intermediate terms, as well as for guarded circumspection, and the outlook for investors is mixed.

On the positive side, as one can see from the charts in the slide from J.P. Morgan Asset Management on page 4, rarely has the primary driver of the global economy, which is the financial strength of U.S. consumers, looked stronger. Household debt service has plunged to levels nobody would have imagined for most of the last 40 years, and overall net worth has skyrocketed. A combination of pandemic induced savings, stimulus, and the massive rise in both equity market values, and home values, has led to an increase of some $32 trillion in U.S. household net worth *in just two years*. Additionally, the economic impact of COVID is fading. As depicted in the chart from last quarter's report, as more and more people get vaccinated, or get the disease and recover, we're simply running out of people for COVID to infect. And human beings have adapted. *Society* has mutated. More and more are simply moving on. Job gains are strong, wages are rising, and the global economy is recovering.

On the other hand, equity market valuations, particularly here in the U.S., are already elevated. Inflationary pressures are rising and are being exacerbated by fragile and disrupted global supply chains that result in a shortage of goods while people are wanting to spend more money. Prices are rising as that money competes for fewer available goods. We can't know how "transitory" this inflation might be, but some of it is bound to be sticky. So fiscal policy is going to be less investor friendly. The Federal Reserve has already announced it will begin tapering its purchasing of bonds, and there are worries that it may have to increase short term interest rates sooner than expected. Companies are having to increase wages, while hoping they can also increase prices. Otherwise, their profit margins will decline, and so too will their stock prices. Much is yet to be seen.

It goes without saying that we are keeping a close eye on all of these forces. But it's also worth repeating that we cannot know for certain what will unfold, and how exactly it will do so. As a result, we continue to focus our attention on the far horizon, and to remain as intelligently diversified and disciplined in our investment approach as we know how to do. We would be glad to discuss our perspective with you, and to delve deep into your personal planning needs, so please reach out and let's talk.

Economy



General Market Results

	3rd Quarter	YTD	One Year	Three Year	Five Year	Ten Year
Barclays Agg Bond	0.05	-1.55	-0.90	5.36	2.94	3.01
S&P 500	0.58	15.92	30.00	15.99	16.90	16.63
DJI	-1.46	12.12	24.15	11.00	15.68	14.72
S&P 400	-1.76	15.52	43.68	11.08	12.97	14.72
Russell 2000	-4.36	12.41	47.68	10.54	13.45	14.63
NASDAQ	-0.23	12.66	30.26	22.67	23.37	20.93
MSCI EAFE	-0.45	8.35	25.73	7.62	8.81	8.10
MSCI EM	-8.09	-1.25	18.20	8.58	9.23	6.09

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