Third 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

I believe that truly *investing* in anything for the long term, just like the decision to become a parent and raise a family, or to build and manage a business through many decades of uncertainty and challenge, or to stalwartly own a portfolio comprised of the great companies of the US and the world, is an open-ended *act of faith*.

It's a mission for grim optimists. It favors people who are determined to remain disciplined, patient and convinced they can and will adapt, overcome, and succeed in the long run, in spite of guaranteed, sometimes fearsome, setbacks. It demands that one always look to the future – not just the near-term future, but the far horizon – knowing full well that that hazy horizon will forever recede in front of us.

As with parenting, one can never fully predict what the outcomes will be. One can never know what specific events will occur, in what order, and how they will ultimately impact each other. And the results, both negative and positive, will often come as a complete surprise. Success in the long run demands that we just keep doing the right things, while embracing ambiguity and acknowledging the impossibility of knowing anything for sure. That challenge is never easy.

Bear markets happen, and they are miserable. They worry you. They beat you down. They wear you out. They chip away relentlessly at your conviction. They do everything possible to undermine your discipline, and to sabotage your determination to remain patient and focused on the far horizon.

Every single one feels "different *this* time" because they are different, and because they never happen in a vacuum. Every bear market is accompanied by some new and much broader "crisis" that threatens your sense of stability and security in ways you have never experienced before.

The media (and most politicians) can't help but reinforce the pessimistic narrative that takes root so easily in anyone experiencing this sense of fatigue. The immutable truth is that negativity **sells**. Existential doom and gloom garner way many more clicks than nuanced long-range perspectives.

The vast majority of people can't help but be affected by this fearful narrative. Our tendency to follow the herd and to be moved to action by powerful emotional stories is deeply rooted in human nature. This is one of the main reasons why human nature, left to its own devices, is a failed investor. To succeed in the long run, you continuously have to overcome your basest instincts.

My first bear market experience was in 1987, three years into my career. I had recently turned 26 and hardly had any meaningful investments myself. But my parents, who had waited deliberately for that entire period to make sure I was going to make it in this profession before becoming my clients, had just transferred all their retirement accounts over to my firm and invested a substantial portion in a blue-chip stock portfolio – just three weeks prior to the October 19, 1987, crash.

What a trial that was. In a dramatic culmination to a 3-month, 34% decline in US equity markets, the Dow Jones Industrial Average famously dropped -508 points that Monday, on unprecedented volume of over 600 million shares. That single-day drop of -22.6% stands to this day as the largest one-day percentage decline in history.

The headlines across the country the following morning screamed "Panic!" and "Bedlam on Wall St." and they rejuvenated the foreboding label of "Black Monday", conjuring up terrifying memories and comparisons to the 1929 crash that set off the Great Depression. But we soldiered on.

Prior to the one we're in the midst of now, my last bear market experience was the 33-day -34% plunge we all endured in early 2020. Global contagion, morgue trucks in Manhattan, entire economies shut down. You know the story. It happened a remarkably short time ago. And we soldiered on.

And in between those experiences, I steered myself, this business, a whole lot of clients, and a great many friends through two massive bear market declines of -49% that played out over 30 months starting in March of 2000, and -57% that occurred over 17 months beginning in October of 2007. Together, those bears took place within a single ten-year period that resulted in the worst such period in US history – the so-called "lost decade." And then, too, we soldiered on.

In retrospect, every single one of those experiences presented investors with compelling opportunities to invest in the great businesses of the world at substantial discounts – or at least to hold on to their existing investments. There are very few who didn't wish later that they had acted with greater faith and courage that all would eventually be well. But hindsight is always 20/20.

The future we invest in and for is unknown, and unknowable. It always will be. Yet the desire for certainty is so intensely attractive that we feel lost without it. It's a fascinating paradox, because this yearning becomes particularly intense at major inflection points, like now, when all our previous assumptions of stability and predictability have suddenly been turned on their ear and we've been forced to recognize (again) that very little in our existence is immutable.

But there are a few things that are immutable about human beings as a whole that keep me looking towards the far horizon. They are qualities that have endured throughout all the past tumult, and I have confidence that they'll endure throughout the current environment and then well beyond. One is our capacity for adaptation, which is unmatched by any species on the planet. Another is our capacity for relentless innovation. We possess, deep in our very nature, an intense drive to be better, to do more, and to create new and unique solutions to challenges and opportunities that confront us.

It's important to keep in mind that those immutable traits are a fundamental component of what we're investing in when we own the great businesses of the US and the world: dynamic, adaptable, and driven teams of human beings, who are responding in real time to all of the challenges they face and constantly creating new opportunities and new possibilities. Because they too believe wholeheartedly that if history is any guide, this too shall pass.

Thank you for your confidence and trust.

Thomas G. Twombly
President

Investment & Economic Views

There can be no denying it. 2022 so far has been an exceedingly unpleasant and dispiriting experience for investors of every stripe. We've been hurt. You've been hurt. Investors have all been hurt.

Equity markets around the world have been under duress throughout the year. Broadly followed large, medium, and small cap stock indices in the US all fell between -24% and -25% through the close of the third quarter. Additionally, as the chart below will attest, investors in foreign equity markets have been hit equally as hard, or even harder, due to similarly sharp declines in overseas markets combined with a rapidly strengthening dollar, which exacerbated the declines experienced on a local currency basis for all foreign markets save Brazil. In short, certainly for the recent past, diversification has offered absolutely nothing in the way of good news for the equity component of investor portfolios.

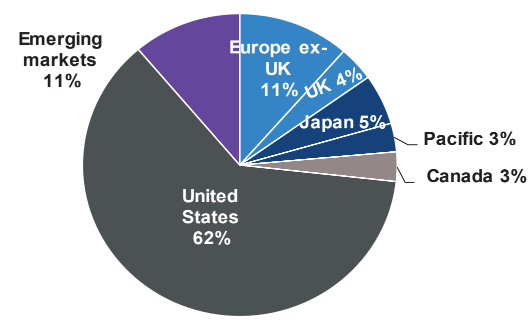
Global equity markets

GTM | U.S. | 45

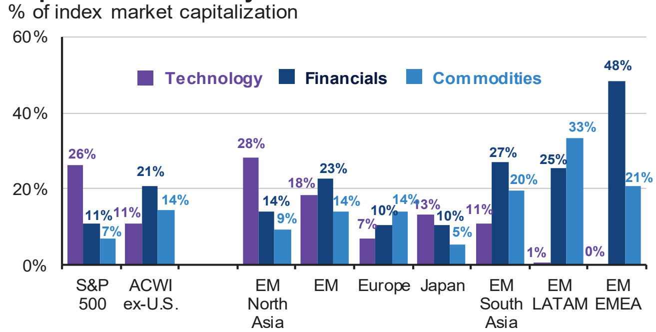
International

Returns	2022 YTD		2021		15-years	
	Local	USD	Local	USD	Ann.	Beta
Regions						
U.S. (S&P 500)	-	-23.9	-	28.7	10.7	0.90
AC World ex-U.S.	-15.8	-26.2	13.5	8.3	4.2	1.07
EAFE	-14.1	-26.8	19.2	11.8	4.1	1.04
Europe ex-UK	-21.0	-31.2	24.4	16.5	4.8	1.18
Emerging markets	-20.5	-26.9	0.1	-2.2	4.8	1.18
Selected Countries						
United Kingdom	-1.3	-18.6	19.6	18.5	2.3	1.02
France	-17.1	-28.6	29.7	20.6	4.7	1.22
Germany	-27.0	-37.1	13.9	5.9	4.7	1.31
Japan	-7.1	-26.1	13.8	2.0	3.4	0.72
China	-29.4	-31.1	-21.6	-21.6	5.8	1.10
India	-0.8	-9.4	28.9	26.7	6.7	1.26
Brazil	8.6	11.8	-11.2	-17.2	0.9	1.50
Korea	-27.8	-40.0	0.8	-7.9	5.9	1.49

Weights in MSCI All Country World Index
% global market capitalization, float adjusted

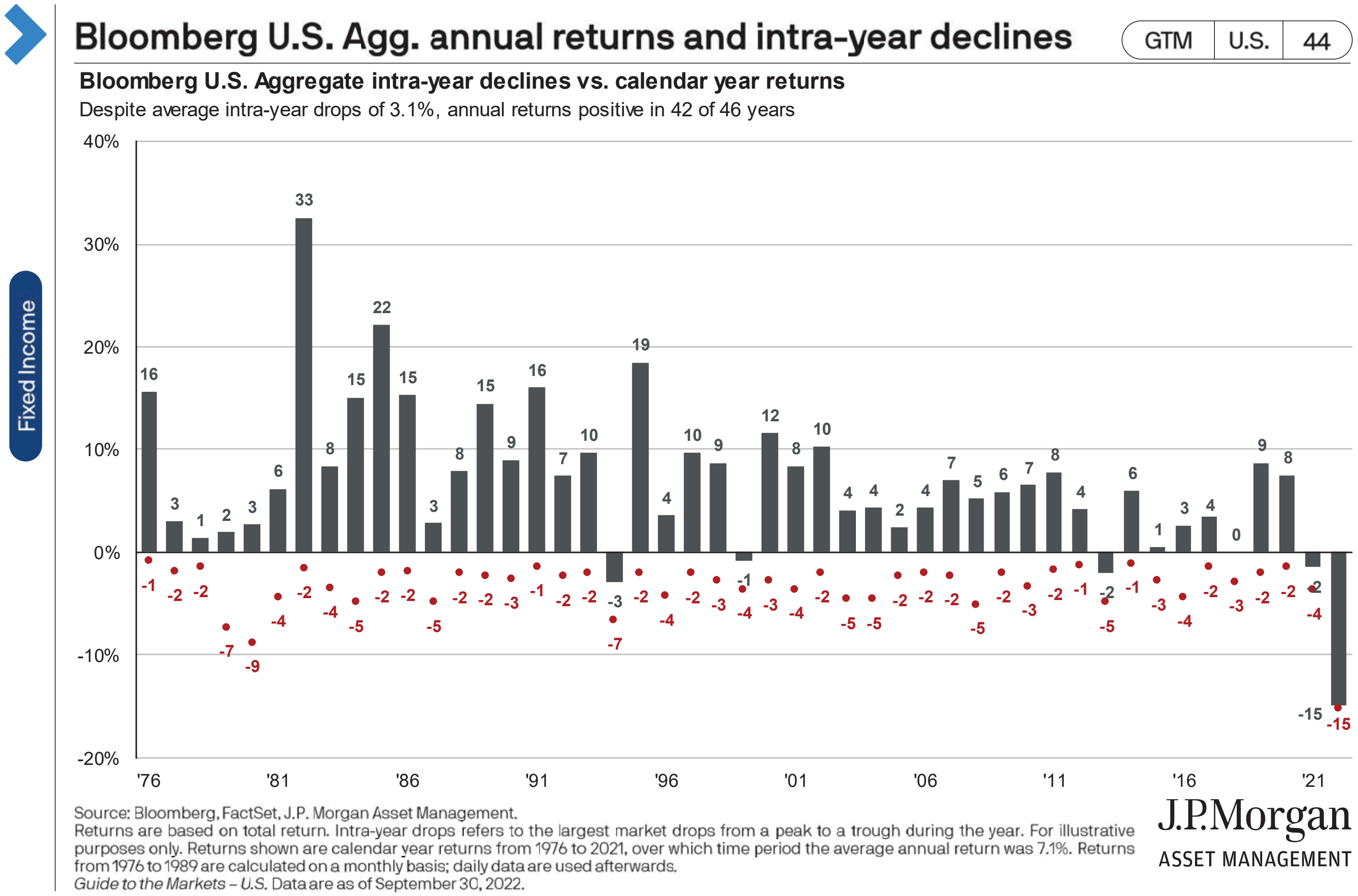


Representation of key sectors in international markets
% of index market capitalization



Source: FactSet, Federal Reserve, MSCI, Standard & Poor's, J.P. Morgan Asset Management. All return values are MSCI Gross Index data. 15-year history based on USD returns. 15-year return and beta figures are calculated for the time period 12/31/2006 to 12/31/2021. Beta is for monthly returns relative to the MSCI AC World Index. Annualized volatility is calculated as the standard deviation of quarterly returns multiplied by the square root of 4. Chart is for illustrative purposes only. Please see disclosure page for index definitions. Past performance is not a reliable indicator of current and future results. EM North Asia includes China, Taiwan and South Korea. EM South Asia includes India, Indonesia, Malaysia, Pakistan, Philippines, Taiwan and Thailand.
Guide to the Markets – U.S. Data are as of September 30, 2022.

J.P.Morgan
ASSET MANAGEMENT



To make matters more painful, bond markets, which have historically been thought of as "safe", have seen declines for the year thus far that are equally as dispiriting – or perhaps even more so due to the sudden and unprecedented nature of the experience. 30-year US Treasury Bonds have fallen -31.5% thus far in 2022. Global bond markets in the aggregate have fallen by -23% in US dollar terms. And the decline of -15% in the Bloomberg US Aggregate Bond Index this year is unmatched in the memory of even the oldest and most experienced of professional investors alive today, as is depicted in the chart above. There has truly been no place to hide in this storm, and the angst people are feeling is palpable.

The economic landscape looking forward continues to be confusing and conflicted, to say the least. There exist a wide range of outspoken and widely followed pundits pounding the table in furtherance of their competing near-term predictions of either impending Armageddon, or a surprise "pivot" on behalf of the Federal Reserve, which could send battered financial markets around the world suddenly soaring. Daily, we're also confronted with the mortal prospect of having to navigate the mythical Scylla and Charybdis of the economic world – and to face the threat of being consumed either by runaway inflation, or by a devastating recession. In the din, there seems little room for nuanced middle ground.

Our job is not to add to that din, but to protect our clients from it, because we believe it's not the least bit helpful to a long-term, goal focused investor. So, what follows below are a few thoughts and observations we think would be helpful. Obviously, limited space precludes extensive discussion of them here, but we will always welcome a personal discussion with you, so please contact us if you'd like to have a more in-depth conversation.

Don't be ruled by fear of a **recession**. Recessions are a natural part of the long-term economic cycle. They are a necessary process for periodically squeezing excess and inefficiency from the economic system. They happen regularly. But it so happens that the last two recessions we've endured were among the deepest in our lifetimes. Be careful not to fall victim to what behavioral scientists call "recency bias" and anchor to those experiences, because it's unlikely that the next recession we face will be anything like those two. Acknowledge that any recession we do face could well turn out to be *mild*, and don't give too much credence to the socio-political hyperbole that surrounds us right now.

Don't be ruled by fear of runaway **inflation** either. It is not a foregone conclusion that the high inflation rates we've seen over the last six months will persist in the long run. As we said in our June newsletter, the full version of which you can find here: https://lsggroup.com/what_my_leaf_blower/

"...remember that just over two years ago, the US economy was suddenly and artificially shut down and put into a deep coma – an unprecedented occurrence in history. That action alone

provoked all manner of drastic changes in our collective thoughts and behavior.

But not long thereafter, an equally sudden and unprecedented dose of adrenaline was injected straight into its main arteries. That event too provoked a whole host of other drastic changes in our collective thoughts and behavior.

Those combined shock waves are still playing out, and we should not be surprised at the gyrations they triggered, or that they might continue to play out for some time…

…and we shouldn't panic because we continue to experience variations that fall outside the norm in all kinds of data for a while. In fact, we should expect it.

And I think we would do well to acknowledge the possibility that recent months may yet prove to be high points in reported inflation numbers in the grand scheme, and that eventually the crest of this wave also may pass through…"

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 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.

Looking forwards, it's important to remind ourselves of the reasons – years, decades, and even generations from now – why we're all investors in the first place. And as hard as it is instinctively to get our arms around, and as counter intuitive as it might feel, remind ourselves that periods of maximum pessimism have almost always presented attractive long-range opportunities.

We believe we have entrusted assets to experienced management teams with disciplined processes and deep research capabilities, and we're confident that they are now finding many more attractive long-term investment opportunities in this environment than existed last year. So keep your eyes on the far horizon.

General Market Results

	3rd Quarter	YTD	One Year	Three Year	Five Year	Ten Year
Bloomberg US Agg Bond TR USD	-4.75	-14.61	-14.60	-.3.26	-0.27	0.89
S&P 500 TR USD	-4.88	-23.87	-15.47	8.16	9.24	11.70
DJ Industrial Average TR USD	-6.17	-19.72	-13.40	4.36	7.42	10.45
S&P MidCap 400 TR	-2.46	-21.52	-15.25	6.01	5.82	10.04
Russell 2000 TR USD	-2.19	-25.10	-23.50	4.29	3.55	8.55
NASDAQ Composite TR USD	-3.91	-32.00	-26.25	10.63	11.25	14.22
MSCI EAFE NR USD	-9.36	-27.09	-25.13	-1.83	-0.84	3.67
MSCI EM NR USD	-11.57	-27.16	-28.11	-2.07	-1.81	1.05

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