Fourth 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

Happy New Year! All of us here hope 2023 brings you health, happiness, prosperity, and enough personal challenge and growth to make life interesting and fulfilling.

And thank you. I feel truly fortunate to serve such great clients and friends. You are, to a person, people I like, trust, and respect. I feel equally blessed to be surrounded by such a loyal group of colleagues who do everything possible to demonstrate how honest, hard-working, fun-loving, self-effacing, and professional they are to you and to each other in caring for your needs. This team is unique and special.

The beginning of a new year, especially after a period as disruptive to the apparent order of things as this one has been, seems like a big moment. It's almost compulsive for people in my profession to feel they have to make bold macroeconomic predictions about what's coming next, and you'll find no shortage of reports, articles and opinion pieces being published right now that attempt to do just that. Very few of those forecasts provide any lasting value in my experience.

Rather than add to that prodigious pile, I'd prefer to offer a more personal perspective, and share with you some of the changes and opportunities we hope to address here at Lucien, Stirling & Gray in 2023. Then I'd like to ask you for your help. I'd like your thoughts, insights, and your candid advice about ways we can serve your needs best. Truthful feedback from folks who care is valuable, so please help us.

The fact is, we're a vastly different firm in many ways than we were five years ago. The pandemic certainly wrought some big changes, as it has with everyone. But we were already well into a number of tectonic shifts in this firm that had commenced two years prior to that, so it has felt to me like one long continuum of change, upheaval, and constant adaptation. Now feels like the time to assess and assay.

What hasn't changed about us is that, fundamentally, ours is a business about working closely, even intimately, with people. It's often about managing emotions, expectations, behaviors, and relationships – not just money, financial decisions, investment portfolios and long-term plans. There is no automated process, software product, investment algorithm, or artificial intelligence - no matter how helpful and efficient it might be - that can ever replace the uniquely human need for empathy, trust, confidence, and personal connection in successfully helping people achieve their most treasured objectives.

We're always aware that to be trusted, we must be trustworthy. If we're to succeed in helping our clients move forward with intention into an uncertain world; to make measured decisions in the face of multiple risks and challenges; to overcome painful, frustrating, and guaranteed setbacks; and to reap the eventual rewards of patient, disciplined long-term investing, we must inspire confidence.

To do that, we must have trust and confidence in ourselves. Not the false confidence that we know the future, for nobody does - but the authentic confidence that comes from being experienced, capable of withstanding adversity and challenge ourselves, prepared to adapt to whatever conditions come our way, and assured that our value is all that it should be. It's here that we'd like your input.

How are we doing? What are we doing well? What are we not doing so well? What, if anything, should we change? I'd ask that you please share your candid feedback with us.

If you could offer us just one piece of advice about how to serve your needs, and the needs of other people like you better in the coming years, what would it be? Please feel free to email me directly, give me a call, send me an anonymous note, or share your candid thoughts with someone on our team. We're all eager to listen and benefit from your advice.

One encouragement we've already received from many is to reinstitute the tradition we had for many years of great Holiday parties and open-house events, so old friends and contacts can meet and mingle in our beautiful new office space that many have never seen.

We have heard you! And we couldn't agree more. Please be on the lookout for such an event this spring after tax season is over, and others later in the year. Like many of you, we're ready to turn outwards again.

Another we have taken on ourselves is to launch a new website that's more polished, functional, and up to date. There has been a lot of work going on behind the scenes in the last few months, so be expecting an announcement soon. Naturally, we'll be interested in getting your thoughts and feedback on it.

I'm certain there are other great ideas yet to come. In the coming months, as we meet with you and talk over the telephone, we hope to get your considered perspective on some of the issues and questions I've raised above, as well as other insights I'm sure will arise out of thoughtful conversations.

We're fiercely protective of the fiduciary culture we've built here, and proud of the fact that our team has worked together for years. At the same time, we're intent on growing, changing, adapting, bringing new talents and capabilities aboard, and making sure we're constantly cross-pollinating between the wisdom of the old guard and the talents of the new. We look forward to your help.

Thank you again for your confidence and trust.

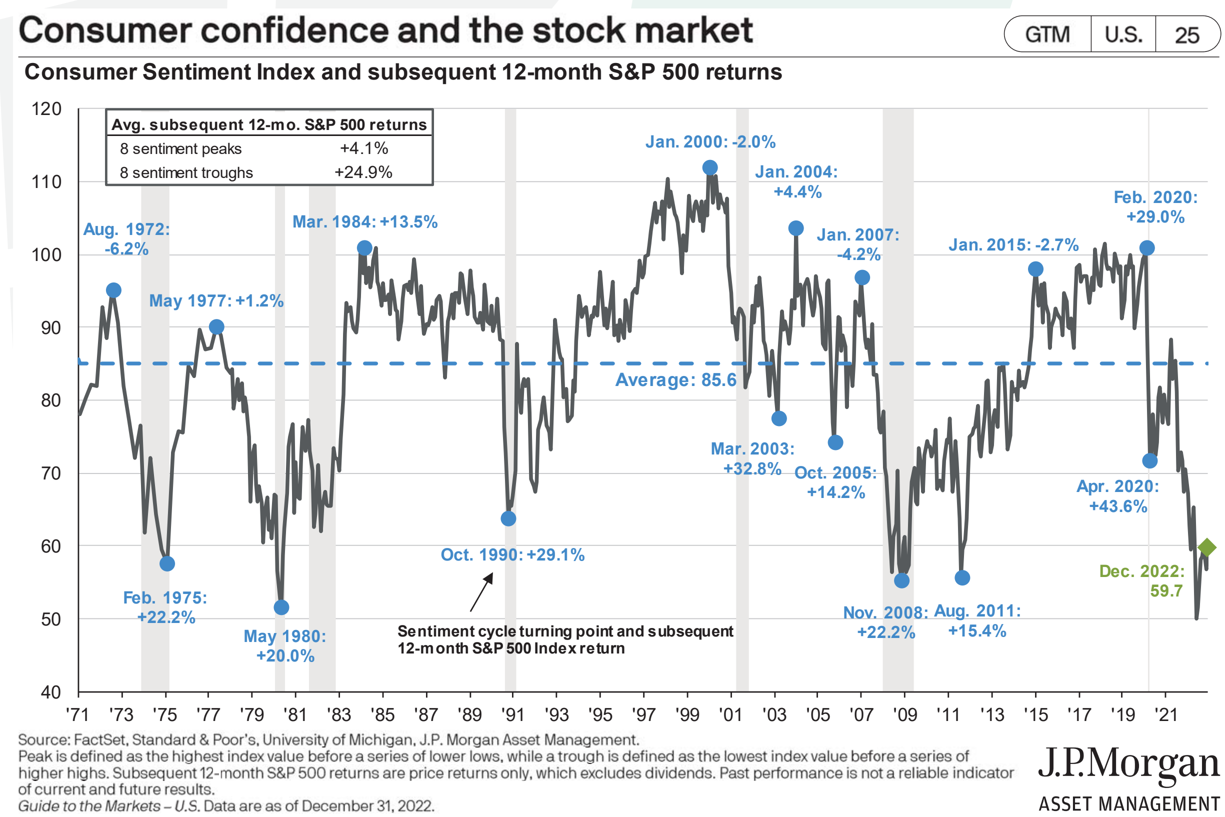
Thomas G. Twombly
President

Investment & Economic Views

It's obvious to anyone paying attention that there are a whole host of worrisome things in the current economic landscape. Inflation, the Fed determined to strangle it, a possible recession, falling corporate earnings, an escalating war in Ukraine, mass layoffs in the tech sector, and now the specter of another ridiculous and potentially deadly game of political chicken over the U.S. debt ceiling are just a few of the anxiety-creating topics currently dominating the headlines.

They're all taking a toll. The general mood among the American populace is ever so slightly better than it was just a few months ago, but the sense of pessimism out there still ranks among the worst readings ever recorded since data on the subject started being collected in the early 1970s.

Importantly, as the slide below from JP Morgan illustrates, periods of deep consumer pessimism in the past have historically proven



to be very good contrarian harbingers of better things to come for investors in U.S. equities.

But hindsight is always 20/20. The future is unknown and unknowable. We don't yet know how this particular chapter plays out, so after a period that's been as tumultuous and challenging as the last few years has been, it's understandable that people feel extra cautious and reserved about deploying precious capital in anything but the "safest" investments.

But 2022 completely upended most people's accepted ideas of what "safe" is.

The fact is, equity investments have always been volatile, and very few investors are (or should be) unaware of this fact. The downside volatility experienced in mainstream equities during 2022, though unpleasant, was not at all unusual in the grand scheme. There have been numerous occasions in the last 50 years when stock markets have behaved at least as badly as they did this past year, so equity investors with an understanding of historical norms shouldn't be surprised.

Bond investors, on the other hand, have seen nothing comparable to 2022 in their lifetimes. It's been said that "surprise is the mother of panic" and many people were taken completely unawares by the behavior of their fixed income investments this year. The supposedly "risk-free" yield on 10-year Treasury bonds jumped from 1.52% on 12/31/21 to 3.88% at year's end, handing investors in those securities a total return of -16.33% for all of 2022. 30-year Treasuries declined by -33.3%. Even the broadly followed Bloomberg Aggregate Bond Index, which has comprised the "conservative" 40% of many standard investment portfolios for years, fell by as much as -17% during the year, almost double the worst previous showing since 1976. This brought the average annual return for that asset class down to -2.7% for the last 3 years, and down to a .02% average annual return for the last 5. After accounting for the corrosive effects of inflation, there's nothing about these results that qualifies as "safe."

One bright spot we can point to in an otherwise challenging year is that our clients' bond holdings, which were heavily weighted to very short-term, high quality debt instruments due to our longstanding concerns about exactly this kind of sudden turn in fixed income markets, largely avoided this nasty surprise and fared far better than most in 2022. Nonetheless, it was a tough year for all of us.

All this said, it's important not to get mired in long-term pessimism. There are bright spots emerging for disciplined investors in diversified portfolios, and there are an increasing number of early indicators that some of the worrisome negatives are starting to abate.

First and foremost are inflationary pressures, which are now showing signs of cooling off in many sectors. Supply lines have opened back up. Shipping costs have dropped dramatically. And oil and gas prices have dropped considerably from their peaks a few short months ago. Take a look at the slide below and compare all the yellow and red blocks depicted in the column for June with the many greens and pale yellows in the column for November. Other than housing, which tends to adjust more slowly, virtually all other components of the consumer price index have shown a notable cooling lately.

Unemployment remains quite low at this point, in spite of well-publicized layoffs in the technology sector. Wage growth has slowed

Inflation heatmap

GTM | U.S. | 29

Consumer Price Index, components

m/m % change, seasonally adjusted

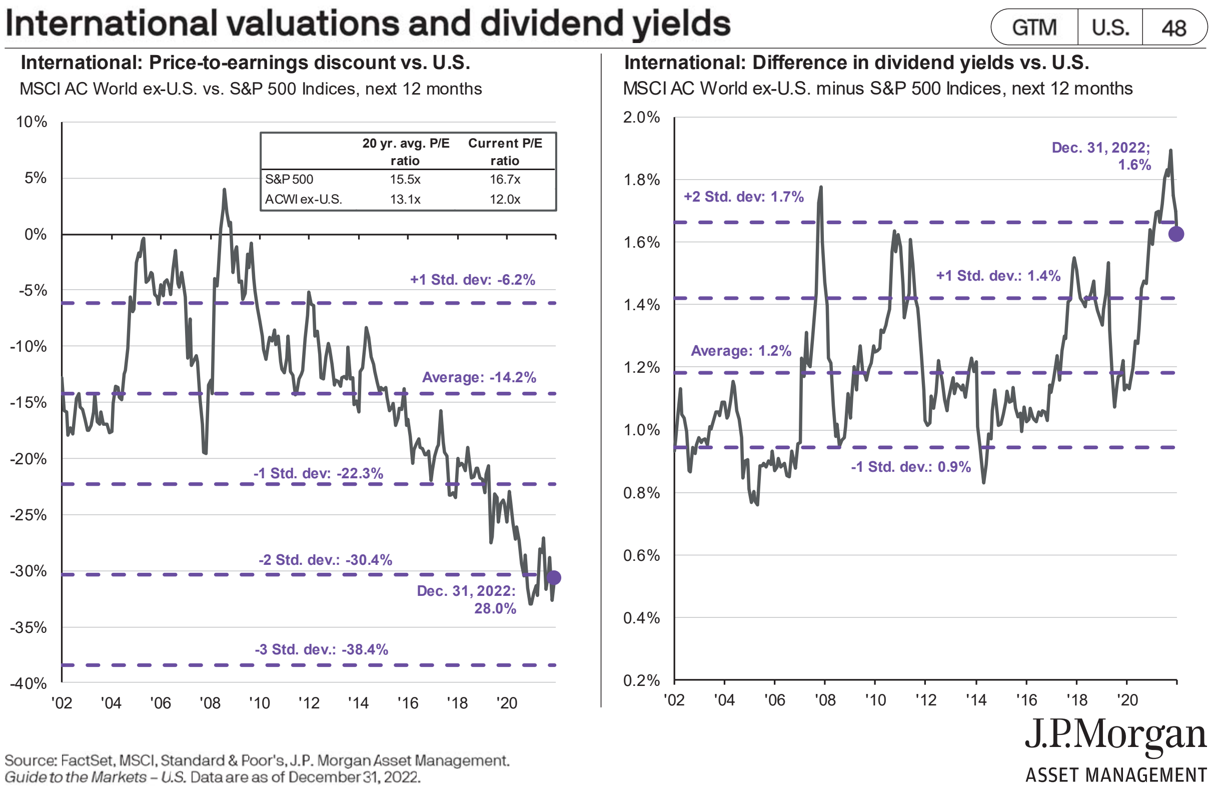
			2021												2022										
	Weight	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Headline CPI, y/y	100.0	1.3%	1.4%	1.7%	2.7%	4.2%	4.9%	5.3%	5.3%	5.2%	5.4%	6.2%	6.8%	7.1%	7.5%	7.9%	8.6%	8.2%	8.5%	9.0%	8.5%	8.2%	8.2%	7.8%	7.1%
Core CPI, y/y	78.3	1.6%	1.4%	1.3%	1.7%	3.0%	3.8%	4.4%	4.2%	4.0%	4.0%	4.6%	5.0%	5.5%	6.0%	6.4%	6.4%	6.1%	6.0%	5.9%	5.9%	6.3%	6.7%	6.3%	6.0%
Headline CPI, m/m	100.0	0.3%	0.2%	0.4%	0.6%	0.6%	0.7%	0.9%	0.5%	0.3%	0.4%	0.9%	0.7%	0.6%	0.6%	0.8%	1.2%	0.3%	1.0%	1.3%	0.0%	0.1%	0.4%	0.4%	0.1%
Core CPI, m/m	78.3	0.1%	0.0%	0.2%	0.3%	0.9%	0.7%	0.8%	0.3%	0.2%	0.3%	0.6%	0.5%	0.6%	0.6%	0.5%	0.3%	0.6%	0.6%	0.7%	0.3%	0.6%	0.6%	0.3%	0.2%
Energy	8.0	3.7%	2.8%	4.6%	5.6%	-1.2%	0.7%	2.1%	1.6%	1.9%	1.2%	3.7%	2.4%	0.9%	0.9%	3.5%	11.0%	-2.7%	3.9%	7.5%	-4.6%	-5.0%	-2.1%	1.8%	-1.6%
Gasoline	4.0	7.0%	5.8%	8.2%	10.3%	-3.3%	0.6%	3.3%	2.5%	2.5%	1.1%	4.6%	4.5%	1.3%	-0.8%	6.6%	18.3%	-6.1%	4.1%	11.2%	-7.7%	-10.6%	-4.9%	4.0%	-2.0%
Electricity	2.7	0.6%	0.0%	0.5%	0.2%	0.7%	0.5%	0.2%	0.2%	1.0%	0.6%	1.4%	0.2%	0.5%	4.2%	-1.1%	2.2%	0.7%	1.3%	1.7%	1.6%	1.5%	0.4%	0.1%	-0.2%
Utility Gas	1.0	0.5%	-0.4%	1.7%	2.4%	2.2%	1.8%	1.8%	2.2%	1.6%	2.9%	5.9%	0.3%	-0.3%	-0.5%	1.5%	0.6%	3.1%	8.0%	8.2%	-3.6%	3.5%	2.9%	-4.6%	-3.5%
Food	13.7	0.3%	0.2%	0.1%	0.2%	0.4%	0.5%	0.7%	0.7%	0.4%	0.9%	0.9%	0.8%	0.5%	0.9%	1.0%	1.0%	0.9%	1.2%	1.0%	1.1%	0.8%	0.8%	0.6%	0.5%
Food at home	8.5	0.3%	0.1%	0.2%	0.2%	0.4%	0.4%	0.7%	0.6%	0.4%	1.2%	0.9%	0.9%	0.4%	1.0%	1.4%	1.5%	1.0%	1.4%	1.0%	1.3%	0.7%	0.7%	0.4%	0.5%
Food away from home	5.2	0.4%	0.3%	0.1%	0.1%	0.3%	0.6%	0.7%	0.8%	0.4%	0.5%	0.8%	0.6%	0.6%	0.7%	0.4%	0.3%	0.6%	0.7%	0.9%	0.7%	0.9%	0.9%	0.9%	0.5%
Core goods	21.2	0.0%	0.1%	-0.1%	0.2%	2.0%	1.8%	2.1%	0.4%	0.4%	0.3%	1.1%	0.9%	1.2%	1.0%	0.4%	-0.4%	0.2%	0.7%	0.8%	0.2%	0.5%	0.0%	-0.4%	-0.5%
Apparel	2.5	0.5%	1.4%	-0.5%	0.4%	0.6%	1.1%	0.5%	0.1%	0.3%	-0.7%	0.6%	0.7%	1.1%	1.1%	0.7%	0.6%	-0.8%	0.7%	0.8%	-0.1%	0.2%	-0.3%	-0.7%	0.2%
New vehicles	4.1	0.6%	-0.4%	0.1%	0.0%	0.5%	1.5%	1.7%	1.5%	1.2%	1.3%	1.3%	1.2%	1.2%	0.0%	0.3%	0.2%	1.1%	1.0%	0.7%	0.6%	0.8%	0.7%	0.4%	0.0%
Used cars	3.8	-1.1%	-0.9%	-0.7%	0.3%	9.8%	7.7%	10.1%	0.0%	-1.2%	-0.5%	2.5%	2.4%	3.3%	1.5%	-0.2%	-3.8%	-0.4%	1.8%	1.6%	-0.4%	-0.1%	-1.1%	-2.4%	-2.9%
Medical care commod	1.5	-0.2%	-0.1%	-0.7%	0.1%	0.6%	0.0%	-0.4%	0.2%	-0.2%	0.3%	0.6%	0.1%	0.0%	0.9%	0.3%	0.2%	0.1%	0.3%	0.4%	0.6%	0.2%	-0.1%	0.0%	0.2%
Core services	57.1	0.1%	0.1%	0.2%	0.3%	0.5%	0.4%	0.4%	0.3%	0.1%	0.2%	0.4%	0.4%	0.3%	0.4%	0.5%	0.6%	0.7%	0.6%	0.7%	0.4%	0.6%	0.8%	0.5%	0.4%
Shelter	32.6	0.1%	0.1%	0.2%	0.3%	0.4%	0.3%	0.4%	0.4%	0.2%	0.4%	0.5%	0.5%	0.4%	0.3%	0.5%	0.5%	0.5%	0.6%	0.6%	0.5%	0.7%	0.7%	0.8%	0.6%
Rent of primary res.	7.4	0.1%	0.1%	0.2%	0.2%	0.2%	0.3%	0.2%	0.2%	0.3%	0.4%	0.4%	0.4%	0.4%	0.5%	0.6%	0.4%	0.6%	0.6%	0.8%	0.7%	0.7%	0.8%	0.7%	0.8%
OER	24.0	0.2%	0.1%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.5%	0.6%	0.7%	0.6%	0.7%	0.8%	0.6%	0.7%
Medical care services	6.9	-0.1%	0.5%	0.4%	0.1%	0.0%	-0.1%	0.0%	0.2%	0.2%	0.2%	0.4%	0.3%	0.3%	0.6%	0.1%	0.6%	0.5%	0.4%	0.7%	0.4%	0.8%	1.0%	-0.6%	-0.7%
Transportation services	5.9	-0.2%	-0.3%	0.4%	1.0%	2.2%	1.7%	1.1%	-0.9%	-1.2%	-1.0%	0.2%	0.7%	0.0%	1.0%	1.4%	2.0%	3.1%	1.3%	2.1%	-0.5%	0.5%	1.9%	0.8%	-0.1%

Source: BLS, FactSet, J.P. Morgan Asset Management. Heatmap shading is relative to the two-year period shown. Component weights may not add to 100. OER refers to owner's equivalent rent.
Guide to the Markets – U.S. Data are as of December 31, 2022.

J.P.Morgan
ASSET MANAGEMENT

somewhat recently, but wages overall have improved markedly over the last year. They are likely to remain closely anchored to their present levels if history is any guide. So, if wages remain relatively high, and the costs of goods and services continue to decline as we move forward, consumers are likely to have more disposable income than many economists were anticipating just a few months ago, and any recession we do have might prove to be quite mild. Time will tell.

Finally, look again here at the chart we highlighted several quarters ago of the differences in valuations and dividend yields between US companies and non-US companies. Remember that the vast majority of mainstream economic commentary published in this country is remarkably egocentric. The media tends to think only of US markets when they rail about risks and overvaluations. We encourage a much broader view of the investment universe, and we continue to believe that patient investors who maintain solid allocations to holdings outside the United States will find themselves rewarded in the fullness of time.



General Market Results

	4th Quarter	3 Month	One Year	Three Year	Five Year	Ten Year
Bloomberg US Agg Bond TR USD	1.87	1.87	-13.01	-2.71	0.02	1.06
S&P 500 TR USD	7.56	7.56	-18.11	7.66	9.42	12.56
DJ Industrial Average TR USD	16.01	16.01	-6.68	7.32	8.38	12.30
S&P MidCap 400 TR	10.78	10.78	-13.06	7.23	6.71	10.78
Russell 2000 TR USD	6.23	6.23	-20.44	3.10	4.13	9.01
NASDAQ Composite TR USD	-0.79	-0.79	-32.54	6.10	9.67	14.43
MSCI EAFE NR USD	17.34	17.34	-14.45	0.87	1.54	4.67
MSCI EM NR USD	9.74	9.74	-20.09	-2.69	-1.40	1.44

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