# Celebrating Glenda

Lucien, Stirling & Gray would like to thank advisor Glenda Summers for her years of care and dedication to her clients and coworkers. Glenda will be retiring on May 31, 2019 and we wish her all the best.

## General Market Results

| | 1st Quarter | YTD | One Year | Three Year | Five Year | Ten Year |
|---|---|---|---|---|---|---|
| Barclays Agg Bond | 2.94 | 2.94 | 4.48 | 2.03 | 2.74 | 3.77 |
| S&P 500 | 13.65 | 13.65 | 9.50 | 13.51 | 10.91 | 15.92 |
| DJI | 11.81 | 11.81 | 10.09 | 16.37 | 12.21 | 15.97 |
| S&P 400 | 14.49 | 14.49 | 2.59 | 11.24 | 8.29 | 16.28 |
| Russell 2000 | 14.58 | 14.58 | 2.05 | 12.92 | 7.05 | 15.36 |
| NASDAQ | 16.81 | 16.81 | 10.63 | 17.97 | 14.29 | 18.93 |
| MSCI EAFE | 9.98 | 9.98 | -3.71 | 7.27 | 2.33 | 8.96 |
| MSCI EM | 9.91 | 9.91 | -7.41 | 10.68 | 3.68 | 8.94 |

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FIRST QUARTER REPORT 2019

# LUCIEN, STIRLING & GRAY ADVISORY GROUP[SM]

"Smart Decisions About Serious Money"

## MEET OUR TEAM

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## A MESSAGE FROM THE PRESIDENT

***Thomas G. Twombly***

### Lessons of the Fall

This past month marked the 10-year anniversary of the final dying gasp of the epic bear market of our lifetimes. I invite you to pause and think about that for a moment before it passes into history.

Just over ten years ago, after a gut-wrenching plunge of -57% in the preceding seventeen months, on March 9th, 2009 the S&P 500 bottomed out at 676. The relentless beat-down we'd endured was finally over. But we couldn't know that then. It would take many months, even years, to make that clear.

Much has been written during the intervening decade about the horrific damage that was done to millions of Americans financial lives, investment portfolios and psyches by the events of 2008 and 2009. Many may never fully recover – despite the S&P 500 closing the day on March 31, 2019 at 2834.

It's worth making a few observations about the prevailing narratives that abound now, because as of March 9th, 2019, the performance histories of many investment funds, which are typically considered "long term" at 10 years, won't include so much as a scintilla of that faith-shaking timespan. Sadly, the long-term lessons people like us might have gained from that experience now risk being lost to history as new data, new investment products and new narratives take hold.

The dominant message from the *investment industry* is, sadly, what it's largely always been. It's all about "new and improved" products, "faster" technology and "better" trading. Now a proliferation of high-speed trading algorithms, "alternative investments", "smart-beta" strategies and so-called "robo-advisors" promise automated, low-cost solutions to every possible challenge.

Perhaps not surprisingly, the dominant narrative from many *individuals* and social pundits includes a profound **antipathy** towards Wall Street and the entire investment industry. This feeds skepticism, deep cynicism, and sometimes outright derision directed towards *any* type of professional counsel or expertise. This outlook champions only the cheapest possible products and advocates supposedly simple solutions for every conceivable situation.

The common flaw of these narratives in each case is that both the "problems" and the "solutions" are defined as product issues. They're never acknowledged as behavioral or temperamental challenges. In other words, they're purported to lie solely inside investor's product choices and portfolios, and never inside their hearts, minds, belief systems and behaviors. They're informational. They're mechanical. Not human. That perspective, sadly, defies reality, and for us misses the biggest lesson of all.

Human beings are non-linear and messy. We don't lend ourselves to purely technical or mechanical solutions. We're all chock-full of emotions and feelings, painful past experiences, unexamined biases, shameful inadequacies and poorly-defined hopes and fears. That reality hasn't changed. I don't believe it ever will. Human nature craves empathy. We want credible *human* guides. We seek courageous coaches - who will also offer patience, discipline and confidence as we wrestle with our challenges. Yes, we want technical expertise. But above all, we need warmth and trust.

Predictably, it was the abrupt loss of that trust that proved most destructive to so many during that painful period. Here is what we wrote in our report in early October of 2008, which you can find, along with all our other reports, at https://lsggroup.com/resources/reports/ :

*"In the third quarter of 2008 trust evaporated from our financial system. Faith and confidence in big Wall Street institutions disappeared, and quickly turned to disgust, and then to anger, and finally to fear. The resulting loss of confidence has catalyzed a sudden tectonic shift in our collective sense of stability and safety, and many have been left breathless at the pace of change."*

As advisors, we certainly could not know then that things would turn out as they have now, ten and a half years later. Nobody could. We could not promise happy results. The situation felt dire. Every single one of us, and our clients, had suffered painful investment declines. We were all shaken, and it wasn't yet over. What we could offer, however, were reasons not to despair, and deeply personal encouragement to maintain a sense of long-term confidence – despite the pain. And so, we continued:

*"During this time, however, we have noted a profound phenomenon – our clients and friends keep calling to ask how we are, and to reach out in special ways to show us their appreciation. They are deeply concerned about the state of the economy, as they should be, but they have repeatedly put concern for themselves behind a genuine desire to connect. Kind words of support, an unexpected hug, a rose clipped from the garden – these are all small, but profoundly significant indications of the deep-seated human need to trust, to value, and to be trusted and valued in return. We thank you for it. So, while the ties of the world beyond our control sometimes appear to be unraveling at warp speed, we observe that those of trusted individual relationships are knitting much closer together, and at a similar pace… In spite of the current turmoil, this is a reason to be positive in the long run. Trust will re-emerge, between individuals, organizations, and companies that are trustworthy, and we believe our society and financial markets will eventually be better for it."*

In late 2012, looking back over the five-year period that began at the previous peak in June of 2007 and ended in June of 2012, we observed that more than 97% of our clients had stayed the course during that excruciating experience. You stuck to your well-crafted plans. You kept the faith. In doing so, you avoided the permanent losses so many others locked in, and all of us eventually prospered because of it.

The dominant lesson for us, therefore, continues to resonate through every economic gyration we have experienced before and since then, including the most recent bout of anxiety and volatility. It's reinforced by the quote from Nick Murray that we highlighted in that 2008 report: "The antidote to fear is not information. It's trust."

Thank you, again, for your confidence and trust. We treasure it.

Thomas G. Twombly

President

## INVESTMENT COMMENTARY

It's been an intriguing experience to ponder the gyrations of the financial markets over the last six months. It's also been fascinating to watch the gyrations of the media sources that cover them - almost as if they purposefully conspired with each other to create the maximum amount of anxiety possible. Unfortunately, lots of people got caught up in it, and it has provoked plenty of corrosive behavior.



From a market history perspective, it's beyond unusual to see such a sharp equity market decline neatly confined to a single calendar quarter, as we experienced in the final months of 2018, followed by a near-perfect "V-shaped" recovery in the following calendar quarter, as we've seen so far in 2019.

As just a few examples, the S&P 500 fell by -13.52% in the final quarter of 2018 and rebounded by +13.65% in the first quarter of 2019. The Dow fell by -11.31% and bounced back by +11.81% in the same timeframe. The NADSAQ declined by -17.29% and then shot back up by +16.81%. Emerging markets equities fell by -7.47% in the final three months of last year and then rose by +9.95% in the first three months of this year.

This stands out as a strange anomaly – especially as nothing surprising changed in the interim. We find ourselves skeptical of the broadly-publicized narrative that it was only the Federal Reserve Board, and their announcement at the beginning of this year to take a more gradual approach to raising interest rates going forward, after tightening according to their well-publicized schedule last year, that caused both the decline and the recovery. Interest rates and inflation expectations changed a little, but not enough to explain this whipsaw. We're more intrigued, and persuaded, by the very sparsely covered story that it may in fact have been the deliberate liquidation of several large hedge funds in the final quarter of 2018 that triggered the sharp sell-off, which was then exacerbated by tax-loss selling that reached a crescendo on Christmas Eve, only a couple of business days before the close of the year.

Whatever the reasons, the media response to these short-term events has been instructive. It highlights again why long-term investors are far better off in sticking to a plan, a broadly-diversified portfolio and limiting their consumption of financial "news." At the end of last year headlines were shamelessly invoking two historic traumas and trumpeting "the worst December since The Great Depression" and "the worst year since 2008." Plenty of people were affected by these thoughts and many reacted in regrettable ways. Then, without batting an eye, these very same media sources were breathlessly reporting at the beginning of March "the best start to the year since 1987!" Organizations which had screechingly warned on December 24th that we had entered a new "bear market" because the S&P 500 reached the magical -20% on an *intra-day* basis, are now shamelessly back to calling this expansion "the longest bull market in history" because on a *closing basis* the S&P 500 actually declined only -19.78%.

Amidst this, we made no broad-based changes to client portfolios in the final quarter of last year, nor in the first quarter of this year. We anticipate making only minor adjustments going forward and we expect to maintain broad diversification. US economic growth, as we have expected, is slowing. But it is not contracting, and contrary to common narrative of a morbidly aging bull market, we do not believe there is some natural limit to our economic expansion. Interest rates remain low, and unemployment continues to fall without significant wage pressures. International equity investments still look attractive to us, especially if we see any progress on trade agreements, and emerging market holdings are beginning to show some impressive strength. Unless there is some significant change to your individual situation that merits a substantial reallocation, we believe our clients are well-positioned for the long run.

As always, if you would like to discuss our perspective or your personal situation, we would welcome a conversation.