First Quarter Report 2021

LUCIEN, STIRLING & GRAY ADVISORY GROUP[SM]

"Smart Decisions About Serious Money"

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A Message From The President

"Uncharted Territory"

How many times in the last year have you encountered the term "uncharted territory" in a newspaper or magazine article, a podcast, a social media post, or a television news story? For me, it seems like thousands. I have not done anything scientific to verify this theory, but I would hazard a guess that that term has been employed more times in the last 12 or 13 months than it has been in any comparable period during my lifetime to describe: the pandemic, the sudden social, economic, financial, and political changes it has helped to catalyze, the massive amounts of government borrowing we're engaging in, the current and future government spending programs that are now being proposed, and the massive environmental and social changes we are witnessing around the globe.

But I wonder how many people who routinely write, speak, read, and hear those words think carefully about what they *truly* mean. (More than a few times I have also come across the malaprop "un*chartered* territory", which just reinforces my point.) How many folks think deeply about what that might portend? How many people are personally prepared—emotionally, physically, and financially—for the kind of journey that might entail? My suspicion is, not enough.

Lately I've been rereading **Undaunted Courage**, the 1996 book by Stephen Ambrose about the epic 8000 mile voyage of Meriwether Lewis, William Clark and The Corps of Discovery, spanning the 27 months between May of 1804 and September of 1806, traveling up the Mississippi and Missouri Rivers, across the great plains, over the Rocky Mountains and eventually down the Columbia River to the Pacific Ocean—*and then **back** again*—on foot, on horseback, by canoe and by keelboat through the rugged and unmapped wilderness of the newly acquired Louisiana Purchase.

I picked it up again because five friends and I expect to spend seven days and six nights this summer paddling our own canoes down a comparatively short 107-mile section of the route Lewis and Clark took along the upper Missouri River in Montana. We plan to stay in campsites they first used some 217 years ago, and to see a few of the natural wonders they experienced in what remains a fairly remote part of this country. It seemed like the perfect read. But it has also gotten me thinking about how blithely "uncharted territory" is tossed about nowadays. (We, for instance, will have detailed maps, a GPS, and probably a Sat-phone with us. We will also have lots of other modern outdoor equipment, and we will not have to protect against nighttime attacks from hostile people, grizzly bears, wolves, or angry bison charging through the camp, as the Lewis & Clark expedition did, so that term will <u>not</u> apply to our trip.)

Nevertheless, I don't disagree with the notion that we, as a nation and as individuals, are indeed in unexplored and unmapped territory now. Much has happened in the last 13 months that qualifies as unprecedented. We do not know for sure what lies ahead. We do not know for sure what the ramifications of decisions we are making now will be. The future is unknown and unknowable. Because of that, we can and should prepare for a wide range of possibilities.

The most impressive things about the Lewis & Clark expedition were just how prepared *they* were for the unknown, and how resilient they were in the face of setbacks and unexpected challenges. Theirs was a carefully and deliberately assembled team of experienced outdoorsmen and rugged survivors, possessing specific knowledge, critical capabilities, and unique skill sets, and chosen for their complimentary personalities. Long before the journey began, at the behest of President Thomas Jefferson, Lewis undertook extensive study with some of the leading American scientists of the day in the fields of botany, zoology, geology, and ethnography, and gained extensive medical training. And the gear, food supplies, medicines, clothing, navigational instruments, and trading goods they carried were carefully selected and painstakingly packed to survive the journey.

But they were headed into *truly* uncharted territory. As they embarked, the accepted wisdom of the day held that the Appalachian Mountains were the highest range on the continent, and that they could well discover an all-water route to the Pacific. One can only imagine the awe and trepidation they felt rising in their chests, therefore, as they came within distant sight of the Rockies in the fall of 1805 and realized that those assumptions could not possibly be true. How might you respond to such a realization now?

Several years ago, I wrote a newsletter piece about another wilderness trip I took with the same group of guys, paddling for three days through Mariscal Canyon, one of the more inaccessible parts of Big Bend National Park. In it, I said the following:

[1]"*A trip like this is a good analogy for life. And I've always believed that a good adviser is like a wilderness guide. We lead clients through all types of uncertain terrain, frequently where they have never travelled before, and where all kinds of dangers and opportunities abound. We operate in an environment where circumstances can change from bright and sunny one moment, to dark and stormy the next, and then back again at a moment's notice. (Just look back over the last twelve months as an example.) We guide people who have varying levels of experience, and they respond differently, and often emotionally, to rapidly changing circumstances. So good advisers must be expert at assessing their client's self-confidence, their tolerance for ambiguity, and their ability to maintain their poise under pressure. We must accurately gauge their preparation, and their capacity to remain disciplined in high-excitement and high-stress situations.*"

All of us have come through quite a journey in the last 13 months. We are very fortunate now to be enjoying a bright and sunny financial environment. If you have not done so recently, I would encourage you to take advantage of this current state, and to reach out to one of us soon to review your personal situation, and to discuss your overall preparedness for when the weather shifts again.

Thank you again for your confidence and trust.

Thomas G. Twombly
President

Investment Commentary

What a difference a year makes.

Twelve months ago, at the writing of our report for the first quarter of 2020, the financial world and many of us individually were reeling from the breathtaking changes we had all experienced in the preceding month and a half. Hospitals were overwhelmed. People were terrified. Morgue trucks were suddenly lining the streets of major cities. Stock markets had plunged into a deep bear market at an unprecedented pace. Interest rates on US Treasury bonds had reached lows never before seen in the history of the United States. Work environments were being disrupted in ways and at a pace most people had never before imagined. And our government had just passed an economic stimulus package that dwarfed anything previously conceived by a factor of three.

With the benefit of hindsight, it is clear now that a powerful recovery was already beginning in stock markets, but there was no way to be sure of that then. We ourselves expressed a sense of "radical uncertainty" in our report of a year ago. We did not have a strong conviction that equity markets would so quickly reach the levels they enjoy now, nor did we anticipate that multiple effective vaccines would be so widely available as they are at the writing of this report. It is safe to say that nobody else knew that for sure either, and many investors unfortunately succumbed to the uncertainty they were feeling and acted fearfully and impulsively in wholesale ways they have come to regret now.

What we counseled instead was to maintain a long-range perspective, to remain disciplined and broadly diversified among asset classes, and to continue to stalwartly own the shares of well-run businesses for the long run, because we had a deeply held belief that we would eventually overcome both the scourge and the uncertainty that was gripping all of us at the time. We wrote: [2]"*At that point, the economy will re-ignite. Companies will re-hire, re-tool and re-commit to long range plans. Pent-up demand will likely be unleashed in a very exciting way, and people will be determined to live boldly after having been cooped up and restricted for far too long. Nobody can know for sure when that will happen. However, if history is any guide, financial markets will have anticipated that re-ignition by six to eight months—and they will have shot powerfully upwards well in advance. True long-term investors want to be on board long before that—because nobody rings a bell.*"

That eventuality has now come to pass, albeit more quickly than we had dared to imagine a year ago. At the end of the first quarter of last year the S&P 500 closed at a level of 2585, down -19.6% from where it had begun 2020. At the end of the first quarter of this year it closed at a level of 3973, up +56.4% in the twelve months since then (and sporting a total return of a whopping +80.7% since the bear market bottom of 2237 set on 3/23/20.)

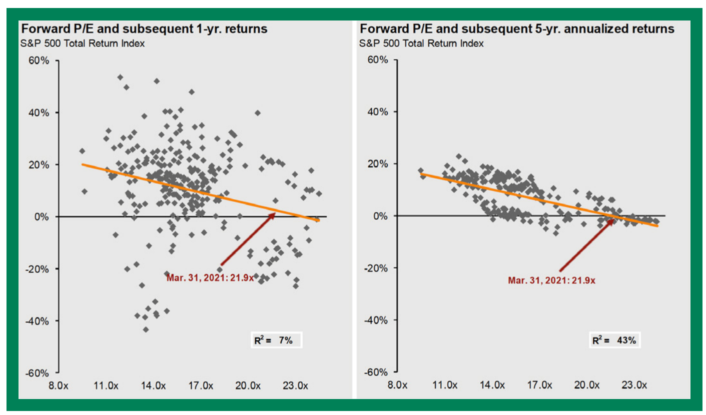
Mid cap and small cap stocks have provided even better results, rising a respective +83.5% and +94.85% since the end of the first quarter of last year. (And providing total returns of +104% and +124% respectively since 3/23/20.)

International developed market and emerging market stock indices have also recovered powerfully since this time last year, rising by +44.6% and +58.4% respectively in the last twelve months.

As you review the one-year results in your Quarterly Review that accompanies this report, you will note the benefits of having maintained broad diversification and a resilient long-range perspective during this particularly challenging period of time, as virtually all of the portfolios we oversee have varying levels of exposure to each of these equity asset classes. You will also note that your personal results do not match the very best of these indices—nor will we ever expect them to—because we also maintain exposure to fixed income assets as well as cash in most portfolios. Prudent risk management will always be an important component of our responsibility to you, and we take it very seriously.

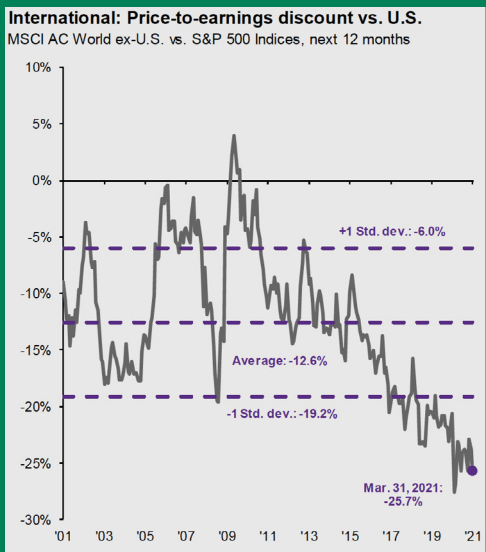
Looking forward, we think it highly likely that economic conditions will continue to improve, and possibly quite markedly as we continue to make significant progress towards mass vaccination. There is good reason to believe that employment will continue to strengthen, and the effects of on-going government stimulus on the day-to-day lives of many Americans are likely to be quite notable. There is indeed a great deal of pent-up demand in our economy, and many people find themselves with large balances in savings and checking accounts due to a significant decrease in their spending.

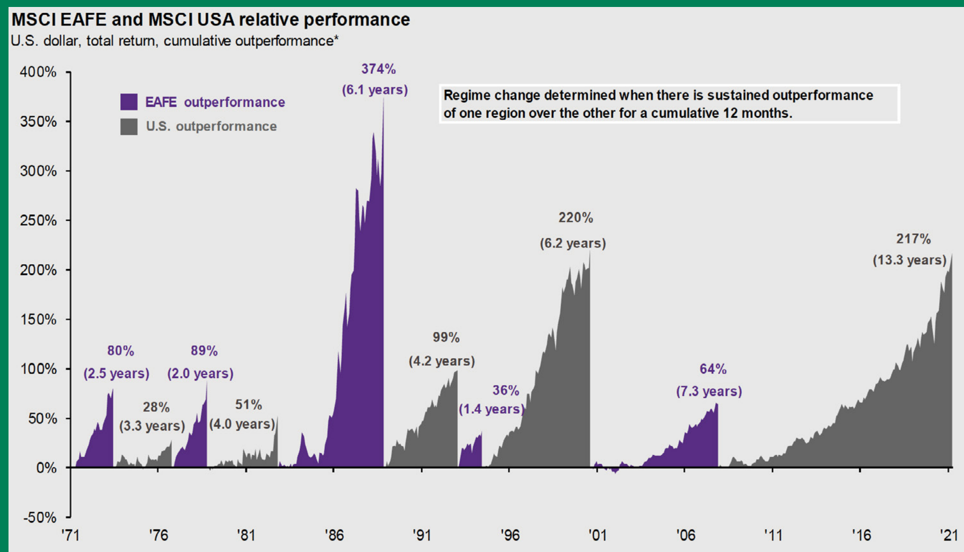
However, we would remind you here, as we did a year ago, that financial markets are forward-looking, and that much of that anticipated economic improvement may already be reflected in the current levels of major equity indices, particularly in the United States. We believe it would be a mistake to expect a continuation of the torrid pace of appreciation in domestic markets that we have experienced in the last twelve months. In fact, as the charts from [3]JP Morgan that follow below demonstrate, based on current valuations, the future annualized returns of the S&P 500 index as a whole may be quite muted in coming years.



Nevertheless, certain sectors and industry groups continue to look attractive, and individual companies will certainly outshine the overall averages. We believe a disciplined selection process and deep research capabilities are qualities that will prove their worth in this type of environment, and the management teams we have selected for US equity allocations will have an opportunity to shine.

We also continue to add gradually to allocations in non-US equity markets, as valuation levels outside the US are much lower. History also demonstrates that the relative performance of US vs non-US markets is highly cyclical. And at a current length of 13.3 years (per the chart from [4,5]JP Morgan below) the current cycle of US outperformance is now almost twice as long as any previous period since 1970.





[1]Source: LSG Newsletter Article Link: https://lsggroup.com/choosing-your-guide/
[2]Source: LSG Quarterly Rerport Q1 2020 Link: https://lsggroup.com/wp-content/uploads/2020/05/LSG_QuarterlyReportQ12020.pdf
[3]Source: FactSet, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management. Returns are 12-month and 60-month annualized total returns, measured monthly, beginning February 29, 1996. R^2 represents the percent of total variation in total returns that can be explained by forward P/E ratios. Guide to the Markets –U.S.Data are as of March 31, 2021.
[4]Source: FactSet, MSCI, J.P. Morgan Asset Management. *Cycles of outperformance include a qualitative component to determine turning points in leadership. Guide to the Markets – U.S.Data are as of March 31, 2021.
[5]Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. Guide to the Markets –U.S.Data are as of March 31, 2021.

General Market Results

	1st Quarter	YTD	One Year	Three Year	Five Year	Ten Year
Barclays Agg Bond	-1.25	-3.37	0.71	4.65	3.10	3.44
S&P 500	4.38	6.17	56.35	16.78	16.29	13.91
DJI	6.78	8.29	53.78	13.61	15.99	13.09
S&P 400	4.67	13.47	83.46	13.40	14.37	11.92
Russell 2000	1.00	12.70	94.85	14.76	16.35	11.68
NASDAQ	0.48	2.95	73.40	24.54	23.44	18.22
MSCI EAFE	2.30	3.48	44.57	6.02	8.85	5.52
MSCI EM	-1.51	2.29	58.39	6.48	12.07	3.65

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