Third Quarter Report 2023

LUCIEN, STIRLING & GRAY ADVISORY GROUP℠

"Smart Decisions About Serious Money"

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A Message From The President

Thomas G. Twombly

About a month and a half ago, I got a short email message from a long-time client and friend in response to the message I had written for our second quarter report for this year.

"Your candor embracing your humility makes this one of the best you've ever written. Well done!"

As you might imagine, I was pleased with that feedback. But at the same time, I have found myself wondering ever since if I haven't been humble *enough* in all my other efforts, such that that particular message stood out as so different. It's with that thought in mind that I undertake this effort here.

I often wonder if *"I don't know"* aren't the three most underused words in business. I'm pretty sure they're the least used words in the money management business, where bravado and outspoken confidence seem to rule. The certainty and assurance with which all kinds of analysts, portfolio managers, financial advisors, product wholesalers, and financial media pundits trumpet their specific predictions every quarter never seems to wane, even when they've repeatedly been proven wrong.

Apparently, perspectives that involve nuance, subtlety, uncertainty, and circumspection are uncool, and humility is unattractive in many spheres. So-called "strong men" seem to command the most attention these days as large numbers of people seek simple, resolute, unambiguous answers to complex, multi-faceted, ambiguous questions.

But that's not the way the world really works. And that's especially true during periods of disruption and rapid change. Taking a narrow, aggressive, unchanging stance is not the way to lead. It's not the way to adapt and eventually to prosper. And it certainly isn't the way to build a prudent investment portfolio.

At the end of August, I read an opinion piece by Brad Stullberg in the New York Times titled "Stop Resisting Change." He added a new word to my personal lexicon – allostasis – or "stability through change." He made the point that "the way to stay stable through the process of change is by changing", and that "if you want to keep your footing, you've got to keep moving."

Reading it reminded me of a perspective I have often shared in conversations regarding both the challenge and the reality of leading a so-called "balanced" life. It evoked an analogy from my adolescent years that I keep in mind for what that truly entails, at least from my experience. It doesn't come easy. And it's certainly not for the faint of heart. It demands constant change and concerted effort.

In my youth, my brothers and sister and cousins and I used to play "king of the raft" for hours on end, during the summer. We had a small home-made raft constructed of a 2 x 6 frame, 1 x 6 decking, with Styrofoam sheets underneath for floatation. It was just fine for calmly supporting two people quietly sunbathing. But when you added two, or three, or four more

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Investment & Economic Views

There continues to be an incredible amount of attention being focused on Washington D.C. right now. Massive uncertainty, deep and on-going division, increasingly extreme behavior, and the normalization and amplification of violent rhetoric are combining to create both an unrelenting fixation on, and relentless anxiety about, what the future of American democracy holds for every single one of us.

Meanwhile, a rapidly growing fiscal challenge that demands clear-eyed leadership and courageous discipline from both political parties – and the rest of us - is being left largely unattended. And a rapidly developing military challenge encompassing multiple parts of the globe that requires similar degrees of cooperation and attention is threatening to be made far worse by this bitter partisan hatred.

It is a lot to handle, to say the least, and it is impossible to truly separate the psycho-social-political-economic components from each other in some neat and believable way. But the elephant in the living room for financial markets, very narrowly speaking, is the growth of the Federal debt, and the effect that is beginning to have on long-term interest rates, such as mortgages, existing U.S. Government bonds, and the projected cost of future government borrowing – issues central to our entire global economy.

To illustrate that point, look at the lower right-hand corner of the chart below. You'll note that we haven't quite yet crossed the line, but if the estimates from the Congressional Budget Office (CBO) February 2023 Budget and Economic Outlook included in this slide from JP Morgan are correct, we're about to enter "uncharted territory" (there's that word combination again…) with our federal debt. In other words, the total debt owed by the United States government, compared to the Gross Domestic Product of the U.S. economy, will soon reach and surpass levels it hasn't seen since the end of WWII.

Federal finances

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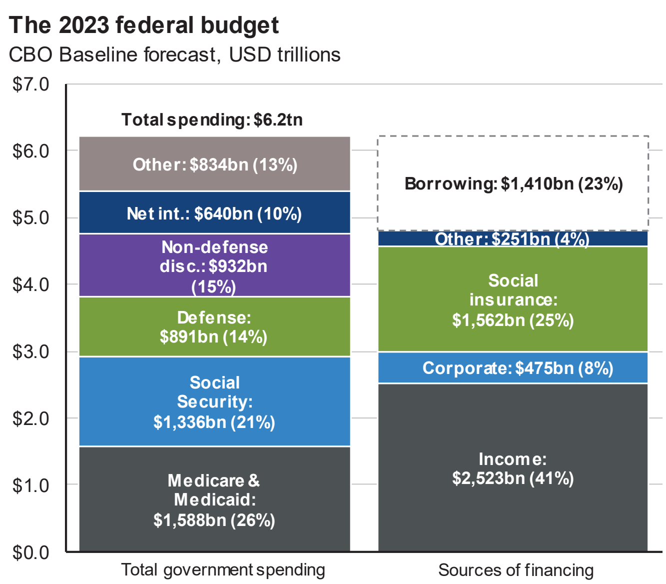

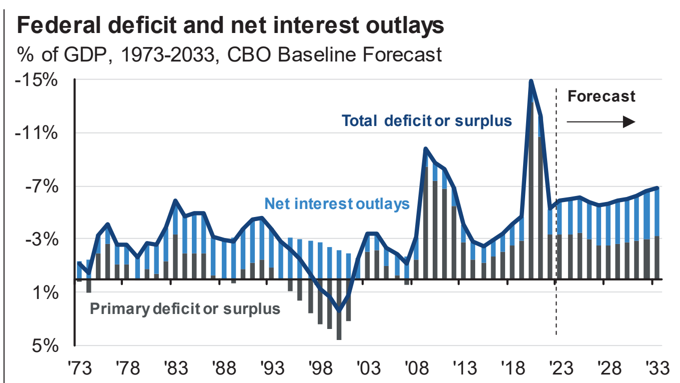

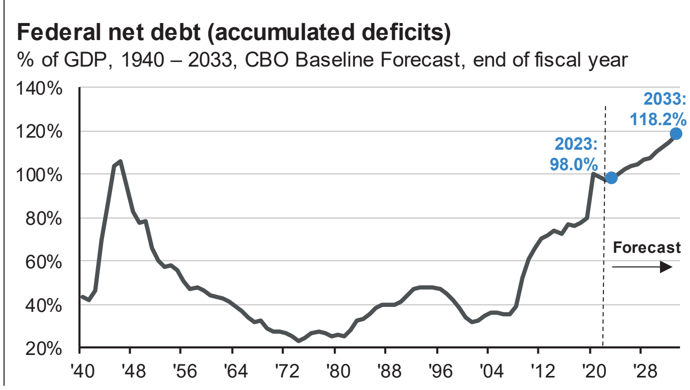

CBO's Baseline economic assumptions

	2023	'24-'25	'26-'27	'28-'33
Real GDP growth	0.9%	2.0%	2.4%	1.9%
10-year Treasury	4.0%	3.8%	3.8%	3.8%
Headline inflation (CPI)	3.3%	2.5%	2.1%	2.2%
Unemployment	4.1%	4.6%	4.5%	4.5%

Source: CBO, J.P. Morgan Asset Management; (Top and bottom right) BEA, Treasury Department.
Estimates are based on the Congressional Budget Office (CBO) February 2023 The Budget and Economic Outlook, except for baseline economic assumptions, which are based on the July 2023 CBO Update to the Economic Outlook. Other spending includes, but is not limited to, health insurance subsidies, income security and federal civilian and military retirement. Note: Years shown are fiscal years. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.

J.P.Morgan
ASSET MANAGEMENT

Now look at the upper left-hand side, in the left column, and you'll see the major components of federal spending for this year. Medicare / Medicaid, Social Security, and Defense spending make up the lion's share. (Under present circumstances, what do you think the likelihood is that each of these components will get larger as we move forward?) In the right-hand column next to it, you'll note that the government must already meet 23% of that spending by borrowing money. And we'll soon start next year... This is leading to a great deal of concern in bond markets, causing long-term bond prices to fall for an unprecedented third year in a row, and resulting in long-term interest rates moving relentlessly higher.

We are grateful to be able to report that we, and our clients, have avoided a substantial portion of the surprise, financial loss, and pain experienced in this supposedly "safe" or "risk-free" asset class in recent years that so many other investors are having to confront right now. We have deliberately held bond allocations near their prescribed minimums for quite some time due to this concern, and those allocations, by and large, we have invested in short-duration bonds, which have fared far better.

But other asset classes to which we have resolutely allocated long-term capital have been, and will continue to be, volatile too. So, while trailing one-year results look quite respectable in most cases, trailing three-year results are more humbling, as you'll see from your personal portfolio review. Without a doubt, we are traversing a period and an environment that demands great patience, discipline, and long-range faith in, and commitment to, the success of our political and economic system from all of us.

Given the substantial increase in yields now available in long-term debt instruments, to levels we have not seen in over 15 years, it's starting to look attractive to us to begin shifting fixed-income allocations towards longer-term bonds, and perhaps to increasing the overall percentages of those allocations as well. We are considering it carefully, mindful that one must always be prepared to re-set the sails when the winds change direction, but also recognizing our past propensity to be early in making these types of shifts and being alert to the fact that the current environment is just full of unusual crosscurrents and the potential for sudden storms at any moment.

There is no way, in this short space, to do justice to any sort of comprehensive perspective on all investable asset classes in this environment. Nor is there any sense in trying, as each of you reading this now has different investment objectives, different timeframes in which you aspire to see them realized, and differing reasons as to why they are so important to you, and therefore so important to us.

We each also have unique hopes, dreams, worries and concerns about how the two strands of the figurative double-helix that influences and shapes our financial lives – one comprised of the unknowable twists and turns of the world, society, and financial system that surrounds and envelopes us, and the other comprised of the equally unknowable twists and turns or our own individual lives – should inform our individual decisions moving forward.

What we can do, however, is encourage you to call, and to sit down with one (or all) of us, and talk. We are here for that, and we would welcome that opportunity. Please take us up on it.

Continued from Page 1

rambunctious teenagers around the edges, it began to submerge, and then get wet and slippery as waves washed over it. It also became highly unstable, prone to suddenly tipping, or to shooting quickly out from under our feet in one direction or another when our individual or collective weight shifted.

Maintaining your "balance" and being the last one standing on that raft required cat-like reflexes, constant movement, rapid adjustment to other people's shifting weight, toes that could grip the tight spaces between the boards, a willingness to dive headlong towards the other side of the raft when everything suddenly tipped up, and no small amount of good fortune and the sheer determination to swim back and try again when you inevitably got pitched off. I think it was great training for life – and especially for the last few years.

We live in an unpredictable world, and other than death and taxes, nothing is certain. Everything is subject to change, often at a moment's notice. The huge conundrum, and indeed the greatest temperamental challenge that all long-term investors have always had to confront is that the future we all invest *in* and *for* is <u>unknowable</u>.

On one hand, achieving the great goals of life, like funding a solid education for our children or grandchildren; ensuring our own financial security, independence, and dignity through a three-decade retirement; or building and leaving a personal, spiritual, and financial legacy for those we love, takes decades of dedication, planning and commitment to accomplish.

On the other hand, the only guarantee we can ever count on is that everything will change. All those intervening years, and every day that comprises them, will be fraught with uncertainty and ambiguity. We will never have all the information we want before having to make difficult choices. We'll always be unsure of something. And often the things we think we <u>are</u> sure of will change without notice.

So, as unsatisfying as it can frequently be (not unlike what Winston Churchill once quipped about democracy - *"it's the worst possible system, except for all the alternatives"*) broad diversification among a wide range of asset classes, periodic rebalancing, a stalwart long-term perspective, and frequent renewals of the vows to keep exercising patience, discipline, and faith in the future is still the most likely path we have to success. So, onward through the fog!

Thank you again for your confidence and trust.

Thomas G. Twombly

President

General Market Results

	3rd Quarter	YTD	One Year	Three Year	Five Year	Ten Year
Bloomberg US Agg Bond TR USD	-3.23	-1.21	0.64	-5.21	0.10	1.13
S&P 500 TR USD	-3.27	13.07	21.62	10.15	9.92	11.91
DJ Industrial Average TR USD	-2.10	2.74	19.18	8.62	7.14	10.79
S&P MidCap 400 TR	-4.20	4.27	15.51	12.05	6.06	8.94
Russell 2000 TR USD	-5.13	2.54	8.93	7.16	2.40	6.65
NASDAQ Composite TR USD	-3.94	27.11	26.11	6.60	11.41	14.52
MSCI EAFE NR USD	-4.11	7.08	25.65	5.75	3.24	3.82
MSCI EM NR USD	-2.93	1.82	11.70	-1.73	0.55	2.07

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