Fourth Quarter Report 2023

LUCIEN, STIRLING & GRAY ADVISORY GROUP℠

“What My Crystal Ball Tells Me”

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A Message From The President

Thomas G. Twombly

I have a crystal ball in my office. It doesn’t help me foretell the future, but it does speak to me in some very powerful ways – some humorous, some more philosophical, and some that are both.

Years ago, it very nearly burned my office down. Over time, that sobering memory has taken on a more humorous twist, but every day it also provides me with a reminder to think, to pay careful attention, and to always be mindful of second and third order effects. More on that later...

Originally it sat on my great uncle Giles’s desk. It came into my care in early 2000, shortly after his death, when I flew to Washington DC to help my father pack up his and my great aunt Helen’s belongings, and to prepare their home for sale. Aunt Helen was still living, but she had moved to an assisted living facility. Since she no longer had any close relatives in the area, my father was settling their affairs, and preparing to move her to Austin so she could be close to our family for the remainder of her life.

The moment I saw that crystal ball, I was reminded of the glint of wry, ironic, self-deprecating humor I had seen in Giles’ eyes over the years – a characteristic that stood in stark contrast, and as an intriguing complement, to the intellectual rigor and studied seriousness that defined much of his life, and certainly all his professional life. I chuckled out loud to myself at the time, and I figured it might be a good addition to my own office, and a good touchstone for me personally.

You see, Giles had been a judge. And he hadn’t been just any old judge. When he died at the age of 95, he was the oldest and longest serving active federal judge in the United States. (I wish I could claim we share DNA, because he was a brilliant man, and he remained so throughout his entire life. Sadly, for me anyway, we were related only by marriage, but I’m grateful to have known him for 38 years.)

He had started his career as a patent lawyer – what’s now more frequently referred to as an intellectual property attorney - and in May of 1956 he had been nominated by President Dwight D. Eisenhower to serve as an Associate Judge on The United States Court of Customs and Patent Appeals. He was the first patent attorney to have been

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appointed to any federal court for more than a hundred years.

He never retired, and he never chose to reduce his judicial workload. He served full-time until his death in 1999, sitting at the absolute forefront of innovation and discovery for 43 years in the most dynamic country in history. To the very end, his wit and his intellect remained razor sharp. His intense curiosity for new knowledge and expanding horizons remained insatiable. In his final days, he was angry at having received a lymphoma diagnosis, because there were so many exciting developments, especially in the burgeoning new field of biotechnology, that he wasn't going to live to see. What an example.

I was reminded of Giles when Charlie Munger - Warren Buffett's long-time business partner, friend, and close confidante - died on November 28th at the age of 99. In fact, I had been reminded of Giles many times over the years by Charlie Munger, who had also started his career as a lawyer. They both had a wry, often acerbic wit. Neither suffered fools, or foolish behavior. Both read prodigiously and spent their entire lifetimes learning and growing – eagerly studying the horizon for clues and insights about what the future might bring. And both were humble and understated in their lifestyles.

Charlie Munger lived in the same modest house for 70 years. Giles was known for keeping his cars for decades, and for always keeping them in tip-top mechanical shape himself, as he also did for every other piece of equipment he ever owned, or ever encountered. (I remember him spending several days one summer painstakingly working on an ancient Victrola that had stood in the back bedroom of my great grandmother's summer cabin, broken and unused for my entire lifetime, and perhaps for my father's and grandfather's lifetimes, too. I still remember the sparkle of victory in his eyes when he got it going.)

So, my crystal ball will never tell me what the economy is going to do in 2024, or in any other future year. It won't tell me if we're due for an impending recession, or if instead we'll see a repeat of the "roaring twenties" brought on by yet another explosion of technological innovation and productivity growth. It won't offer any comfort at all that I, or anybody else, can accurately and consistently foretell the specific events of any future period. It's useless for all of that.

But what it does say to me is to remain ever curious; to be humble, but also full of faith that the far horizon will continue to bring wonders that we cannot conceive of right now; to remain engaged, relevant, and excited about the opportunities for new growth and greater understanding as we move forward; to be a good steward of all that's been entrusted to me; and to continue to invest, in myself and in others, so we can all be productive contributors to that future.

And lastly, it tells me always to pay close attention. And never again to move it near a window and into direct sunlight, as I had done late one Friday afternoon in the fall of 2000 when I was rearranging furniture in my office. Luckily, just before I closed my office door and left for the weekend, I caught the whiff of acrid smoke rising from the smoldering dust jacket of the dictionary next to it on the bookshelf, onto which the sun's rays had been concentrated like a magnifying glass, and I averted a catastrophe.

Thank you, as always, for your confidence and trust.

Thomas G. Twombly
President

Investment & Economic Views

Looking back over the fourth quarter of 2023, and also over the full year, provides vivid support for the old adage from John Kenneth Galbraith that the "the only value of economic forecasters is to make astrologers look good."

Perhaps it's a function of the incredibly partisan and toxic political environment we're all navigating. Or perhaps it's the ubiquity of social media, and the opportunity it presents for any and every "influencer" out there to call attention to themselves by predicting dire events and horrible outcomes. Or more likely, it's both of those forces, combined with all manner of other personal and public psychological stressors, but the level of anxiety that long-term investors have been forced to endure and overcome during the past twelve months to maintain their discipline has been significant.

2023 was rife with predictions of impending recession. The collapse and takeover of several banks captured much of the financial headlines in the first quarter, leading to dire predictions that the entire US economy was teetering on the edge of an abyss. For many, this provided the perfect "evidence" that a deep recession was a foregone conclusion. Rising interest rates, an inverted yield curve, and consumer sentiment readings that, despite steady improvements from their nadir six months earlier, were still way below long-term historical averages, provided ample "proof" that economic activity must inevitably be slowing down.

In fact, it actually turned out that domestic economic activity was picking up, as data released by the US Commerce Department later in the year eventually demonstrated. But plenty of people were caught up in the fervor of that anxiety, and they fell victim to their short-term impulses, rather than hewing to a disciplined long-range plan.

The second half of the year provided a legion of similar challenges to the psyche of investors. Bitter political infighting, on-going threats of a government funding shut-down, and the rise of potentially nation-shaking legal questions transfixed our domestic attention. The horrors of the October 7th attack on Israel, the horrors of the subsequent response by Israel, and a deepening fear that all of this may lead to a much wider and deadlier military conflict transfixed our international attention - in addition to further ramping up the tensions and the stakes of the domestic sociopolitical conflict we're already living through. It's all been a lot to handle, there's no doubt.

Equity markets experienced a sharp sell-off between late July and late October, after having run up strongly in the previous seven months, though still not strongly enough to approach their late 2021 high points. This provided more negative "proof" for those inclined towards reading tea leaves and succumbing to reflexive behavior, and at least one client who felt we were ignoring "obvious" signs of an imminent collapse that demanded radical changes decided he needed to leave us and go elsewhere. It happens, unfortunately, even to good fiduciaries.

Being a good fiduciary does not mean having a crystal ball that works. It does mean having a prudent, disciplined, documented process - that we follow - that offers a demonstrable, long-term, historical probability of achieving the results we're aiming for over the fullness of time. It's about focusing disciplined attention on the inputs – the few critical things we actually have an ability to control – and not the short-term outcomes, which are, and always will be, beyond anyone's control.

Sticking to that disciplined process paid off during 2023, despite all the challenges along the way, and it paid off, in large part, in the final two months of the year. From the October 27th low to

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the end of the year, large cap US equities shot up by almost +16%. As a result, that asset class ended up notching a +26.3% total return for the year. Mid-cap equities rose by almost +20% between October 27th and year-end. And that asset class ended up +17.2% for the year. And the small-cap Russell 2000 Index shot up almost +24% between October 27th and the year's end, finishing up +16.9% for the year. We maintain allocations to each of those individual asset classes for all but the most conservative portfolios we oversee, in addition to fixed income and diverse non-US holdings as well.

The overriding lesson for 2023, therefore, and the overriding lesson for the broad arc of modern economic history are one and the same. To have any hope of achieving the long-term investment results you want and need from a broadly diversified portfolio that includes a meaningful equity component, you must stay invested – through thick and thin. Because accurately timing and trading the ups and downs of markets cannot be done consistently by anyone. And because the best parts of long-term average annual returns are frequently delivered in short, explosive bursts when people least expect it. As an illustration of that truth, consider this: from 1927 through 2023, the average annual return of the S&P 500 has been 10.3%. However, if one were to remove the 97 best months of that 1,164-month timeframe (only 8.3% of the total) the average annual return would drop to .01% per year. This is why Peter Lynch, the famous investment manager of the early years of my career once said "the secret to making money is stocks is to not get scared out of them."

General Market Results

	4th Quarter	YTD	One Year	Three Year	Five Year	Ten Year
Bloomberg US Agg Bond TR USD	6.82	5.53	5.53	-3.31	1.10	1.81
S&P 500 TR USD	11.69	26.29	26.29	10.00	15.69	12.03
DJ Industrial Average TR USD	13.09	16.18	16.18	9.38	12.47	11.08
S&P MidCap 400 TR	11.67	16.44	16.44	8.09	12.62	9.27
Russell 2000 TR USD	14.03	16.93	16.93	2.22	9.97	7.16
NASDAQ Composite TR USD	13.79	44.64	44.64	6.04	18.75	14.80
MSCI EAFE NR USD	10.42	18.24	18.24	4.02	8.16	4.28
MSCI EM NR USD	7.86	9.83	9.83	-5.08	3.69	2.66

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