Lucien, Stirling & Gray Advisory Group, Inc.

FIRST QUARTER REPORT 2009

April 2009

LUCIEN, STIRLING & GRAY ADVISORY GROUP
"Smart Decisions About Serious Money"
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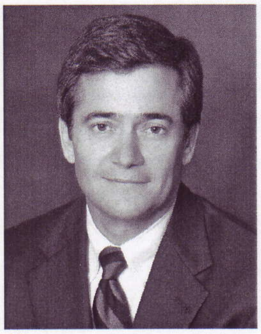
A MESSAGE FROM THE PRESIDENT

Thomas G. Twombly



We are pleased to provide you with our report for the period ending March 31, 2009.

Without a doubt, we are living in challenging times. Our economy is still under significant strain, unemployment continues to rise, credit is extremely tight, our banking system remains impaired, and investment markets are displaying behavior that hasn't been observed in 70 years or more. The first quarter of 2009 now completes the worst 10 year period in the history of the S&P 500, concludes one of the only 30-year periods when bonds have out-performed stocks, and, as is detailed later in this report, one of only three 40-year periods when U.S. stocks returned an average of less than 4% per year. Much of what people alive today have come to believe about money and investing seems to have been turned on its ear.

Against this backdrop, we have observed a noticeable percentage of people who have expressed the sense of feeling frozen. They don't know what to do, and they don't know how to begin. Financial decisions of any type seem completely overwhelming. Most often, this is expressed as the notion that *"the future is so uncertain... it's impossible to plan."* They feel stymied, unable to trust their own instincts, and unable to fully trust another. "Plans" of all types have been put on hold as a result; retirement plans, investment plans, college plans, and financial plans, because no-one knows the unknowable...

To the extent that "planning" means "predicting accurately" this frustration is completely understandable. Prognosticators have been proven wrong time and again, market pundits have called 6 out of the last 1 market "bottoms" (and the one experienced in the recent quarter may yet prove ephemeral, no-one knows for sure) and instability is still the order of the day. The fact is that nobody knows what is going to happen tomorrow, next week, or next month (and they never have). "Predicting," therefore, is ultimately a fool's errand. "Preparing," on the other hand, is a talent of the wise.

"The business of planning is all about preparing. It's about purposefully embracing the ambiguous, acknowledging the limitations of your information, and moving forward anyway, prepared to deal with, and overcome, whatever comes your way."

The more uncertain things are, the more important it is to prepare; to continually reassess your specific situation, to identify strengths, weaknesses, opportunities, and threats, and to position yourself in a way that you have the ability, and even more importantly, the mindset, to adapt. The business of planning is all about preparing. It's about purposefully embracing the ambiguous, acknowledging the limitations of your information, and moving forward anyway, prepared to deal with, and overcome, whatever comes your way. It is a crucial mental game, in addition to a carefully considered series of procedures.

Precisely because we live in an uncertain world, planning is a process that should never stop, not for business owners who must continually adapt to changing economic and market conditions, not for investment committees who are responsible for portfolio management decisions, not for leaders of countries, companies, or non-profit organizations that have to deal with the fallout of this financial crisis, and not for each of us as individuals.

The one piece of advice we can confidently offer to everyone is to take inventory. Invest the time to figure out exactly where you stand – financially, professionally, and personally. Understand what your balance sheet looks like – what your assets are, and what your liabilities are – and do this not only for your financial life, but also for your personal and professional life. To the extent you uncover weaknesses and threats, take decisive action – don't wait. As a wise man once said, "hope is not a strategy." It is important to never, ever give up hope, but it is absolutely crucial to face the most brutal facts of your present reality.

Our value as advisors lies not in our ability to foretell the future. We can't do that any better than anyone else. Our real value is in our ability to help clients examine their situation in a caring, prudent, and systematic manner, and also in our willingness to have frank, un-biased conversations about the challenges we face, and the steps we can take to overcome them. If you, or someone you know, would benefit from such a conversation, please don't hesitate to call.

Thank you for your continued confidence and trust.

Thomas G. Twombly

President

INVESTMENT COMMENTARY

The first quarter of the year saw a continuation of the volatility and uncertainty that have been the hallmarks of the financial markets for the last six such periods, as investors wrestled with a dizzying volume of information and change. Early in the quarter, optimism waned that a changing of the guard in the White House would bring quick improvement to stock markets, as the financial world greeted the new President's inauguration with an unenthusiastic response. Questions about policy initiatives, as well as delays and unexpected challenges in filling cabinet positions, gave nay-sayers ample material, while steadily rising unemployment and sharply reduced consumer spending undermined any confidence created by the late November – December 2008 rally. Equity markets dropped by as much as 25% from early January through the first week of March, bringing major indices down to levels not seen since 1997, and making the 10 year period ending February 2009 the worst such period for the S&P 500 on record.

In a dramatic reversal that eventually proved to be one of the most powerful in 70 years, equity markets changed course early in March, and rose sharply in the final three weeks of the period. Early indications that the rate of decline in the overall economy is slowing, earnings and profit outlooks from several major banks that surprised many in the deeply bearish camp, and a realization that perhaps despair had finally reached unsustainable levels combined to turn volatility towards the upside. Markets worldwide responded in quick fashion, with emerging markets and technology-related indices showing particular strength. Bond markets reflected a similar pattern for the period, with high-grade municipal bonds and longer term Treasury bonds demonstrating particular strength early in the quarter, as investors fretted over continued deflationary pressures and weakening corporate balance sheets. This was aided as the government announced its intention to buy up treasury securities in an effort to drive mortgage rates lower. Later in the period, Treasury bonds began to lose some of that footing as interest rates gradually rose, and as the Chinese government voiced concerns about the growing level of U.S. Government indebtedness. Corporate bonds, which had been punished severely in late 2008 and the early part of 2009, began to show signs of stabilizing in the latter part of the quarter, as longer-term investors sought opportunities to capitalize on depressed prices

While by no means comfortable, for our managed portfolios, and for most of our clients, the ride was considerably less bumpy than for markets as a whole.

Our decision to hold high cash positions going into the quarter, combined with allocations to high-grade bonds across almost all models helped smooth the ride considerably, as our main portfolios demonstrated volatility for the quarter that ranged between only 40% and 70% of the S&P 500. In the late January through early March time frame, after experiencing notable gains in Treasury holdings we had acquired last fall, we opted to take some profits in that area, and we added to existing positions with corporate bond managers. As we move into a period that may eventually prove to be more inflationary that many expect, we believe the higher yields available in those areas will prove more attractive, and that existing price discounts will gradually narrow. In mid-March, we also took advantage of the steep sell-off in equities, and reallocated 4-5% of existing cash holdings in all models to select equity managers, in what at this point anyway has proved to be a fortuitous decision. Though we expect economic news to continue to be less than robust, and while the recovery process will undoubtedly be an extended period of "backing and filling", with plenty of negative surprises, the outlook for investors with patience and a long range view is beginning to look quite intriguing.

In an article published on St. Patrick's Day, Jim O'Shaughnessy, President of an eponymous asset management firm in Boston, pointed out some very compelling statistics about the present investment environment, and about its rare place in the historical context. He highlighted the fact that the 40-year (480 month) period ending February 2009 was the second-worst such period for equity markets since 1900, and one of only three out of 545 such measurable periods to have provided average annual returns of 4% or less (the other periods were the ones ending December 1941 – 3.65%, and December 1942 – 3.92%). The only period to experience worse results than the one we have just completed was the period ending in December 1941; a time that included events such as the panic of 1907, when Dow fell 38%, World War I and the 1910-1919 decade that was one of the worst ever, the Great Depression, and, to cap it all off, Pearl Harbor. What is most interesting and important to investors is first that these meager results fall into a historical statistical probability of only slightly more than one half of one percent, and more importantly (because we must look forward, and not dwell in the past) what occurred in the 5, 10, and 20 year periods following the previous such examples. They are tabulated below.

Index	5 year avg. return	10 year avg. return	20 year avg. return
S&P 500	10.35%	11.14%	13.04%
Large Growth	6.89%	8.31%	11.14%
Large Value	21.86%	18.04%	16.93%
Small Growth	19.87%	12.39%	12.94%
Small Value	35.15%	22.79%	18.66%

Clearly, what has happened in history does not foretell the future, and there are a number of circumstances that are vastly different today than they were during previous periods of crisis. But we are reminded that it might be worthwhile to note Mark Twain's pithy observation that "history may not repeat itself, but it rhymes."

CORE MODELS

Conservative Growth Model:

1st Quarter	YTD	One Year	Three Year	Five Year
-4.73%	-4.73%	-22.57%	-3.86%	0.99%

Inception Date 06/03/1999

Core Growth Model:

1st Quarter	YTD	One Year	Three Year	Five Year
-5.12%	-5.12%	-26.96%	-6.86%	-0.20%

Inception Date 05/31/2003

Growth Model:

1st Quarter	YTD	One Year	Three Year	Five Year
-4.70%	-4.70%	-27.09%	-5.66%	1.19%

Inception Date 10/16/1992

SPECIALTY MODEL

Diversified Growth Model:

1st Quarter	YTD	One Year	Three Year	Five Year
-8.19%	-8.19%	-33.98%	-11.88%	-2.38%

Inception Date 10/31/00

EDUCATION MODELS

UT ORP:

1st Quarter	YTD	One Year	Three Year	Five Year
-3.98%	-3.98%	-27.48%	-6.83%	-0.14%

Inception Date 08/10/1999

Retirement Growth:

1st Quarter	YTD	One Year	Three Year	Five Year
-4.90%	-4.90%	-34.08%	-10.32%	-0.72%

Inception Date 06/03/1999

Growth & Capital Preservation:

1st Quarter	YTD	One Year	Three Year	Five Year
-3.44%	-3.44%	-21.80%	-4.89%	0.40%

Inception Date 11/30/2001

Upcoming Events

Fireside Chat:

"Markets Are Up and No One Has Noticed. Are We Too Focused On The Negative?"

Speaker: **Thomas Twombly, President**

May 14, 2009

6:30 – 8:00 pm

GENERAL MARKET RESULTS

	1st Quarter	*YTD*	*One Year*	*Three Year*	*Five Year*
CPI	0.93%	0.93%	-0.63%	2.03%	2.52%
DJI	-12.48%	-12.48%	-35.94%	-9.52%	-3.64%
Nasdaq	-3.07%	-3.07%	-32.93%	-13.23%	-5.18%
S&P 500	-11.01%	-11.01%	-38.09%	-13.06%	-4.77%
Russell 2000	-14.95%	-14.95%	-37.50%	-16.80%	-5.24%
MSCI World ex US	-10.62%	-10.62%	-46.18%	-12.75%	-0.24%
Barclays Captl Agg Bd	0.12%	0.12%	3.13%	5.77%	4.13%

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For more information about our firm, please visit our website at www.lsggroup.com • Model holdings may change due to ongoing management • Sector and style breakdown is constructed with the best available information and therefore is only as accurate as the available information • Past performance is no guarantee of future results • It is impossible to invest directly in indices • Percentages may not equal 100 due to rounding

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