Upcoming Events

Lucien, Stirling & Gray invites you to

Celebrate Tax Freedom Day!

No handouts, no long lecture
Just plenty of cheese and wine
Please feel free to bring a friend

May 13th, 2010
6:30 – 8:00 pm

RSVP: 512-458-2517 or by email to info@lsggroup.com

General Market Results

	1st Quarter	YTD	One Year	Three Year	Five Year
CPI	0.30	0.30	1.83	1.79	2.30
DJI	4.82	4.82	46.93	-1.48	3.34
Nasdaq	5.68	5.68	56.87	-0.33	3.70
S&P 500	5.39	5.39	49.77	-4.17	1.92
Russell 2000	8.85	8.85	62.77	-3.99	3.36
MSCI World ex US	1.58	1.58	60.93	-4.17	6.11
Barclays Captl Agg Bd	1.78	1.78	7.70	6.14	5.44

Lucien, Stirling & Gray Advisory Group, Inc. is a Registered Investment Advisory firm providing fee-based asset management and planning services to individuals, corporations, trusts and foundations.

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

LUCIEN, STIRLING & GRAY ADVISORY GROUP
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Lucien, Stirling & Gray Advisory Group, Inc.

FIRST QUARTER REPORT 2010

April 2010

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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, 2010.

"Wall St. wins big as Dodd drops fiduciary provision." So declared the bold headline of the March 22 edition one of the weekly financial periodicals we receive here. The article that follows then begins with the following sentence: "Chalk it up as a win for the securities and insurance industries." With headlines like this, is it any wonder that so many individuals feel cynical towards both the financial industry and our political leadership? Is it surprising that there exists such a huge lack of trust? How is it that the brokerage and insurance industries can consider it a "win" when, as they supposedly struggle to repair their tarnished reputations with the public, they lobby against having to legally uphold the best interests of those same clients whom they purport to "serve?"

One of the underlying assumptions often made about our capitalist society is that every citizen, just by virtue of being a citizen, should somehow already "know" how to handle money well. (An extension of this is that everyone ought to enjoy it.) They should know how to protect themselves from unscrupulous and predatory salespeople, and they should know how to make wise and considered decisions regarding financing, investing, saving and spending without having to rely on the good faith of another for fair treatment. Yet, how many people have been taught such skills – either at home or throughout their formal education – and how many feel truly competent even if they have? Another common assumption is that it is in some way anti-competitive to expect a business person (who is, after all, trying to succeed in a dog-eat-dog world where her own survival is never assured) to adhere to a code that legally places her customer's interests foremost – ahead of her own. Most assuredly, these assumptions and these arguments played a role in the lobbying efforts of brokerages and insurance companies.

"Successful individuals and couples need a professional financial advisor, not primarily to put together a brilliant portfolio or to manage their money (though those are important functions) but to provide them personally with attention, accountability and expertise."

The fact, though, is that we live in a world of immense complexity, where even the well-educated and successful are confronted with constant change and mind-boggling choice. Their lives change, their needs change, rules and regulations change, and the economy changes. Choices abound, and we are hammered daily with conflicting messages about how to address them. Change and choice create anxiety and fear – which at its best can lead to paralysis and at its worst, can lead to horrible mistakes. Few have the requisite skills to go at it alone, and fewer still have the desire.

Successful individuals and couples need a professional financial advisor, not primarily to put together a brilliant portfolio or to manage their money (though those are important functions) but to provide them personally with attention, accountability and expertise. A professional advisor's role is to give clients the sense of comfort that comes with having their personal interests served in sorting through those myriad choices, and the confidence derived from dealing with those inevitable changes proactively. There is a need for competent, caring, trustworthy professionals who are willing to place their client's interests first. There is a need for people willing to act as fiduciaries. For those who are wise enough to see it, especially given the prevailing business climate, we believe there is also a significant competitive advantage in doing so.

We've said it before, but under the circumstances, it seems important to state it again – just so you know where we stand. As a Registered Investment Advisor, Lucien, Stirling & Gray Advisory Group, Inc. is a fiduciary, and we are proud of that distinct responsibility. We embrace the position that we will always act in the best interests of our clients, and we promise never to place our interests, or those of any of our employees, ahead of yours. Though we can never promise superior results, we do promise to provide impartial advice, and to act always with skill, care, diligence, and good judgment – treating you the same way as we would wish to be treated if we were in your shoes. We promise to provide full and fair disclosure of all important facts, including any and all compensation we receive for the services we offer, and we promise to fully disclose and fairly manage, in your favor, any unavoidable conflicts that might arise. It's that simple.

If you know of someone who deserves to be served in that manner, we would sincerely appreciate an introduction.

Thank you for your continued confidence and trust.

Thomas G. Twombly

President

INVESTMENT COMMENTARY

The first quarter of 2010 provided most participants in financial markets with a continuation of positive results that have marked the last twelve months. Despite a fairly swift correction beginning in mid-January that saw major equity market averages give back as much as 8% of previous gains, broadly-followed indexes in the United States ended the quarter approximately 5% higher than where they began, making it the second quarter in a row that U.S. equity markets out ran their global counterparts. Small company stocks, as represented by the Russell 2000, showed particular strength, increasing by almost 9% as more investors gained confidence in the economic recovery and began committing funds to higher volatility positions. This represented a slight reversal of a trend we had noticed in the final quarter of 2009, when smaller companies, which had performed with remarkable strength throughout the second and third quarters of 2009, gave back some ground relative to their larger peers as money began to flow towards companies with the financial strength to pay dividends. It remains to be seen if this will continue, or if we will experience the reemergence of a rotation into larger companies that often accompanies a maturing economic rebound.

As alluded to earlier, international equity markets as a whole underperformed those of the United States, with the Morgan Stanley Capital International Europe, Asia, and Far East Index (EAFE) registering a gain of slightly less than 1% for the period. Concerns about the possibility of sovereign debt defaults in places like Greece, Spain, Ireland, and Portugal weighed heavily on investor's minds in the European region, as did the possibility of rapidly rising inflation brought on by the monetary expansion required for major governments to provide financial assistance to these beleaguered economies.

Bond markets as a whole continued to display strength, with the majority of reported mutual fund inflows in the United States being directed to this sector. Despite interest rates being very near their record lows for the last 40 years, and despite the fact that commodity prices worldwide are beginning to show a marked increase, inflation has not yet begun to bleed into government reported statistics. (Not a small number of people would point out that the way the

government reports inflation has changed on multiple occasions, and these statistics are therefore subject to some skepticism.) This, combined with a huge percentage of the population that is still (perhaps permanently) scarred by the extreme volatility that equities have displayed in the last decade, has led many to believe that bonds offer a safe alternative, and they are voting with their feet. High yield bonds in particular, which sport potentially more attractive yields than other sectors, continue to attract a good deal of new investment dollars. While no one knows for sure, we are of the belief that investors would do well to be cautious of extrapolating recent experience out into the future. When inflation does eventually begin to increase, we fear that many investors who are heavily weighted towards bond holdings will be painfully surprised to find that their holdings can decline – often sharply.

With the passage of the Healthcare Reform Bill, and with the vitriol that has enveloped this country as a result, we are of the belief that political risk is becoming a primary issue on which to keep our eyes. Facing mid-term elections this year, and with a substantial portion of the country experiencing far more economic stress than most of us have experienced here in central Texas, the possibility of unexpected developments on the political front is increasing. While both of the major parties are claiming increased momentum, the eventual outcome is not yet clear.

We remain broadly diversified in almost all portfolios, with domestic equities weighted somewhat more heavily than international holdings. We have gradually reduced bond holdings overall, and the average maturity of bonds in our portfolios have been shortened somewhat. Though cash holdings have proven to be a drag on overall investment experience in recent months, we are nevertheless comfortable that the results we have posted were accomplished with substantially lower levels of volatility than one might expect given the returns. In all but a small number of cases, the managers with whom we have entrusted assets continue to distinguish themselves among their peers, and where necessary we have taken steps to make adjustments. We are confident that we're well-positioned to adapt to whatever the future may hold.

Conservative Growth Model

1st Qtr	YTD	1 Year	3 Year	5 Year
3.28	3.28	24.92	-0.06	4.37

Inception Date 06/03/1999

Core Growth Model

1st Qtr	YTD	1 Year	3 Year	5 Year
3.08	3.08	31.99	-0.71	4.26

Inception Date 05/31/2003

Growth Model

1st Qtr	YTD	1 Year	3 Year	5 Year
2.42	2.42	34.03	-0.10	6.11

Inception Date 10/16/1992

Specialty Model
Diversified Growth Model

1st Qtr	YTD	1 Year	3 Year	5 Year
5.12	5.12	44.31	-3.07	3.27

Inception Date 10/31/00

Education Models
UT ORP

1st Qtr	YTD	1 Year	3 Year	5 Year
1.24	1.24	25.51	-2.58	3.50

Inception 08/10/1999

Retirement Growth

1st Qtr	YTD	1 Year	3 Year	5 Year
3.88	3.88	38.77	-2.94	3.82

Inception Date 06/03/1999

Growth & Capital Preservation

1st Qtr	YTD	1 Year	3 Year	5 Year
2.58	2.58	30.05	0.72	4.49

Inception Date 11/30/2001