Upcoming Events

Fireside Chat:

Social Security – Benefits, Considerations and Common Myths

Speaker: **Diane Owens, Founder of Step Up Your Social Security**

May 12, 2011

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	0.97%	0.97%	1.69%	1.20%	2.07%
DJI	7.07%	7.07%	16.51%	3.12%	4.87%
Nasdaq	4.83%	4.83%	15.98%	6.86%	3.52%
S&P 500	5.92%	5.92%	15.65%	2.36%	2.63%
Russell 2000	7.94%	7.94%	25.79%	8.57%	3.35%
MSCI World ex US	3.45%	3.45%	10.90%	-2.53%	1.78%
Barclays Captl Agg Bd	0.42%	0.42%	5.12%	5.30%	6.03%

Lucien, Stirling & Gray Advisory Group, Inc. is a Registered Investment Advisory firm providing fee-only asset management, fiduciary-level advice and financial 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

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First Quarter Report 2011

April 2011

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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, 2011.

Despite being a rewarding period for most investors, the first quarter of the year has been marked with all kinds of unsettling issues. Revolutions, political unrest, and outright war in the Middle east and North Africa; earthquakes, tsunamis, and nuclear catastrophe in Japan; growing angst and political discord at home over our Federal deficit, state budget crises, and burgeoning municipal crises – the list goes on and on. Add to that a sluggish economic recovery, a growing realization that we cannot sustain all the government services people have become accustomed to – and also keep taxes low, and a political climate that appears completely inhospitable to the language of compromise and shared sacrifice, and it's hard for people not to feel anxious and worried about what the future may hold.

Socially, we're also entering a huge transition period. The biggest, most influential, generation so far in the history of this country has just started to reach 65 – so-called "normal retirement age." A growing number of that generation are turning 62, and becoming eligible - for the very first time - to consider receiving social security payments. (Heck, the tail end of the generation is turning 50, and that too is a big psychological transition date for most people.) Statistics suggest that more than 40% of baby boomers are opting to take those benefits as soon as they become available – in spite of the fact that many might be far better off in the long run by waiting. Whether it's out of ignorance because they haven't educated themselves about how benefit calculations work, or out of fear that if they don't take benefits now they may lose them in the future (a concern that has been expressed to me personally on more than one occasion by people who do not have an immediate need for social security) a large number of people are making life-impacting, and irrevocable decisions seemingly on impulse, and without the apparent benefit of careful foresight and long-term vision.

"a large number of people are making life-impacting, and irrevocable decisions seemingly on impulse, and without the apparent benefit of careful foresight and long-term vision."

While frustrating, this isn't surprising – and it speaks to one of the simple truths that I've come to understand in my career. Namely, that one of the two main reasons that people fail to achieve the results they want is because they're not absolutely clear about their objectives. (The other is that they don't have clearly defined processes to keep them on-track, accountable, and confident that important things then get done.) Either they don't know how, on their own, to begin conceptualizing what a thirty or forty year strategic plan might look like, or they never invest the time to relax, think carefully, and sketch out a personal vision that spans three or four decades. The so-called "tyranny of the urgent" takes attention away from important long-term considerations, and the cacophony of the moment drowns out the slower, more measured tones of the long-term future. It's an age-old human challenge.

In his bestselling book The 7 Habits of Highly Effective People, Steven Covey spoke about the value of "starting with the end in mind" – in other words, envisioning first what your life, your plans, your goals will look like once they're complete, and then beginning with that vision. I've always preferred the analogy and imagery of "working the maze backwards." I discovered as a kid, probably reading Highlights magazine – something with a maze to solve – that it was easier to solve the puzzle by putting your pencil on the final destination, and then gradually working yourself out of the maze, as opposed to the way you were "supposed" to do it. I'd start lightly at first, exploring options and possibilities, mentally indentifying the dead ends and traps, and being willing to use my eraser. As I worked my way out, becoming ever surer of where I didn't want to go, I could press harder with my pencil – drawing a more indelible line. I found my confidence would grow as I got closer to the outer edge, whereas working a maze forwards would frequently result in greater anxiety and frustration as apparent "progress" was suddenly met with a dead end or a trap. I think many parallels can be drawn with financial and life planning, and also with growing a business.

Constructing solid portfolios and managing money, while valuable, are not the most important things we do for our clients. Far more important, in the grand scheme, is the work we do to help clients clarify their true objectives, and then to provide systematic processes to help see those objectives accomplished. Part of our expertise lies in creating the conditions that allow people to relax, think deeply, and brainstorm about where their final destination lies. Then we provide a systematic, practiced approach to working the maze backwards. If you, or someone you know, is facing a transition and would like help in taking a fresh look at your personal maze, please give us a call. We're always here for a cup of coffee and a conversation.

Thank you for your confidence and trust.

Thomas G. Twombly

President

INVESTMENT COMMENTARY

In spite of ample turmoil in the world, and plenty of anxiety and volatility to accompany it, the first quarter of 2011 proved to be quite profitable, especially for equity investors. Financial markets endured any number of challenges during the period, including rolling revolutions and civil wars in North Africa and the Middle East, a massive earthquake and tsunami in Japan that has triggered an on-going nuclear catastrophe, and chronic debt problems in Europe. The Dow rose 6.4% during the January – March quarter, providing the second-best showing for that time frame in its history. Other indices followed suit, adding substantially to the gains they've experienced in the last three quarters. The S&P 500 rose 5.9%, bringing its trailing nine-month gains to 23%, while the technology centered NASDAQ rose 4.8%, and the small-cap Russell 2000 rose 7.6% in the recent quarter.

In a sign that the trends established over the course of the last several years may be reversing, $29 billion dollars flowed into domestic equity mutual funds during the period. According to data published by J.P. Morgan Asset Management, this represents a noticeable shift in longer-term investor sentiment. While this may seem like a large inflow, comparatively speaking it's only a small percentage of what was withdrawn over the previous four years, as calendar years 2007 -2010 all saw substantial withdrawals, and a collective $335 billion was yanked from domestic stock funds.

Flows into taxable bond funds remained positive for the period, but in a potential sign of deteriorating confidence on the behalf of fixed income investors, the rate of that flow dropped dramatically from the previous eight quarters. Compared to calendar years 2009 and 2010, when a respective $307 billion and $230 billion was plowed into taxable bond funds, only $23 billion of new assets were recorded in the first two months of the quarter. Growing worries about the health of the tax-free municipal bond market, and some alarming media coverage about potential defaults, contributed to the concern as $17 billion was withdrawn from tax-exempt bond funds in the first two months of the quarter. If this trend were to continue, it would represent the first year of negative flows in tax-exempt bond funds since 2004, and could prove to be the proverbial canary in the coal mine for the beginning of a bear market in the fixed income arena.

The Bureau of Labor Statistics reported in March that 216,000 new jobs were created, bringing the unemployment rate down to 8.8%. While it's likely that unemployment will remain considerably higher than what many came to expect prior to the great recession, this data nevertheless represents a steady improvement over the last couple of years, and the biggest four month decline in the unemployment rate since 1984. Additionally, temporary job services are reporting an increase in activity – a situation that indicates continued caution on the part of major employers, but one that has often been the precursor to a substantial pick-up in employment rates after past recessions. While this is not inflationary yet, and while a number of economists will argue that the rapid increase in the price of oil and gasoline that we have experienced lately will likely put a damper on the overall economy, there are a number of early indications that perhaps economic activity in the United States is stronger than many might expect.

It is far from certain, but with corporate cash levels at generational highs, dividends and corporate share buy-backs on the rise, and interest rates still near generational lows, it's quite possible that even a modest uptick in inflation and interest rates could unleash a reallocation of assets away from bonds and into equities and commodities – asset classes that have historically performed quite favorably during periods of low and rising inflation. We believe our portfolios are well-positioned for this possibility.

While risks and uncertainty always abound, perhaps the most worrisome area at the moment is political risk. Partisan politics, as measured by the number of members of the house and senate that vote strictly along party lines is at a level not seen in this country since the early 1900s. Though the country has some massive structural issues that need to be addressed in the longer term, the vitriol and apparent brinksmanship that characterize the present moment bear careful attention. There seems to be little room for dialogue and pragmatic compromise, and that makes for a worrisome possibility of either deadlocked stagnation or winner-take-all extremism – neither of which is likely to produce the leadership this country needs.

In light of these issues and many more, we are quite pleased with the way our client's portfolios are positioned. The management teams we have hired are performing very well on both nominal and risk-adjusted returns bases, and we have seen little reason to make anything other than slight adjustments in the recent quarter.

Conservative Growth Model

1st Quarter	YTD	1 Year	3 Year	5 Year
3.08%	3.08%	10.89%	2.37%	4.25%

Inception Date 06/03/1999

Core Growth Model

1st Quarter	YTD	1 Year	3 Year	5 Year
4.18%	4.18%	15.46%	3.64%	4.25%

Inception Date 05/31/2003

Growth Model

1st Quarter	YTD	1 Year	3 Year	5 Year
4.36%	4.36%	17.84%	4.82%	5.81%

Inception Date 10/16/1992

Specialty Model
Diversified Growth Model

1st Quarter	YTD	1 Year	3 Year	5 Year
5.63%	5.63%	15.26%	3.17%	2.62%

Inception Date 10/31/00

Education Models
UT ORP

1st Quarter	YTD	1 Year	3 Year	5 Year
4.18%	4.18%	12.52%	0.80%	2.70%

Inception 08/10/1999

Retirement Growth

1st Quarter	YTD	1 Year	3 Year	5 Year
4.74%	4.74%	15.58%	1.87%	2.95%

Inception Date 06/03/1999

Growth & Capital Preservation

1st Quarter	YTD	1 Year	3 Year	5 Year
3.38%	3.38%	10.50%	3.97%	4.34%

Inception Date 11/30/2001