Upcoming Events

Fireside Chat:

Six Principles & Practices for Improving Investment Outcomes

Speaker: **Thomas Twombly, President**
May 1, 2012
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	0.88%	0.88%	1.88%	2.29%	2.08%
Barclays Agg Bond	0.30%	0.30%	7.71%	6.83%	6.25%
S&P 500	12.58%	12.58%	8.54%	23.42%	2.01%
DJI	8.84%	8.84%	10.18%	23.55%	4.18%
S&P 400	13.50%	13.50%	1.98%	28.55%	4.78%
Russell 2000	12.44%	12.44%	-0.18%	26.90%	2.13%
NASDAQ	18.67%	18.67%	11.16%	26.46%	5.01%
MSCI EAFE	10.98%	10.98%	-5.31%	17.68%	-3.04%
MSCI EM	14.14%	14.14%	-8.52%	25.42%	4.97%

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LUCIEN, STIRLING & GRAY ADVISORY GROUP
"Smart Decisions About Serious Money"
4005 Guadalupe Austin, Texas 78751
Phone: 512-458-2517 Fax: 512-458-3120
www.lsggroup.com

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FIRST QUARTER REPORT 2012

April 2012

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"Smart Decisions About Serious Money"
4005 Guadalupe Austin, Texas 78751
Phone: 512-458-2517 Fax: 512-458-3120
www.lsggroup.com

Thomas Twombly
President

Walter L.Wilson, III
Exec. VP, Operations

Mark Ward, CFP®, ChFC®
Vice President

Glenda Summers, CFP®
Sr. Advisor Associate

Cass Grange
Sr. Advisor Associate

Megan Poore
Sr. Advisor Associate

Bleckley Dobbs, CFP®
Sr. Advisor Associate

A MESSAGE FROM THE PRESIDENT

Thomas G. Twombly

"It won't be the economy that does in investors, it will be investors themselves"

-Warren Buffett-

After almost 28 years in this profession, and nearly 20 years leading this wonderful organization as we help our clients achieve their most cherished long-term objectives, I have come to one crystal-clear conclusion: the real and lasting value of a trusted personal advisor lies not so much in our daily management of assets and portfolios, or even in our technical grasp of financial planning principles, but in our attentive and loving (sometimes tough loving) management of long-term client *behavior*.

For it is appropriate investor behavior, carefully guided and bolstered with patience, discipline, and *faith* that has proven, over and over again, to be the predominant determinant of long-term, real-life results. Our real value, I believe, lies in our successful coaching skills, and our ability to inspire belief and trust – especially during uncertain times. Those of you who have been our clients for the past five years can attest to this.

In my missive from last quarter I focused attention on the long-term, multi-decade cycles of U.S. equity markets, and I shared a chart of the rolling 10-year returns of the S&P 500 from 1927 through 2011 that every serious accumulator of wealth should study. (If you haven't read it, or if you'd like to refresh your memory, I'd enthusiastically encourage you to revisit it in the "Publications" section of our website at www.lsggroup.com., or ask one of us to shoot you a copy.)

"An informed historical perspective suggests that the current period presents an especially attractive time to be a long-term accumulator of the shares of the great businesses of the U.S. and the world – not a seller."

My conclusion was that if history is any guide, and it's the only guide we have, we may now only be starting to come out of a deep trough similar to those of the late 1930s and the mid 1970s that were both followed by the most powerful two-decade up-trends in equity returns this country has ever seen.

In stark contrast to what the preponderance of individual investors currently believe, and certainly in contrast to the way they are presently behaving, an informed historical perspective suggests that the current period presents an especially attractive time to be a long-term accumulator of the shares of the great businesses of the U.S. and the world – not a seller. Precisely because the past decade or so has been so abysmally difficult for equity investors and because markets and economic growth have always been cyclical - and not linear - the coming two decades may well provide an opportunity to build significant wealth in these asset classes that investors ignore at their peril.

The trouble is that not only are most individual investors ignoring this, they are steadfastly refusing to believe that it's even remotely a possibility – and they're proving it with their behavior. Not only were individual investors massive sellers of equities in late 2008 and early 2009 – at what proved to be precisely the wrong time – they have continued to be massive sellers of equities throughout the last three years, again at the worst possible times, as markets overall have risen by 100% to near their pre-crisis levels. The result is that while Wall St. is up significantly, Main Street has been left far behind.

In a really insightful piece titled "Main Street's $100 Billion Stock-Market Blunder" published on February 28th at www.smartmoney.com , Brett Arends calculates that individual investors have withdrawn $490 Billion from domestic mutual funds during the last five years. They've done so in spades at troughs, and the few times when they have been marginal net purchasers of equity funds, has been at interim peaks. The net cost, he calculates, has been that "they have missed out on a staggering $106 Billion in investment profits over the last five years by selling stocks at the wrong time." I'd encourage you to read the article, and to pass it along to others. Such is the destructive power of unchecked behavior – and therein lays the true and lasting value of a committed, disciplined, caring advisor.

Lots of otherwise successful people out there need help. They're fearful, and they don't know what to do. The antidote to fear is not information – it is trust, period.

So here's a call to action: each of you knows somebody that you care about that may be getting no advice, bad advice, or simply incomplete advice. If they still have important financial obligations and responsibilities to fulfill, or if they still have cherished goals that they have yet to accomplish, or if you simply think they might benefit from a cup of coffee and a conversation with one of us, please make an introduction. We'd like to help.

Thank you for your confidence and trust.

Thomas G. Twombly

President

INVESTMENT COMMENTARY

The first quarter of 2012 provided a continuation of the strong upward movements in stock markets that were witnessed around the globe during the final quarter of 2011. It also offered perhaps the proverbial warning shot across the bow for bond investors, as improvements in the domestic economy, gradually improving employment numbers, rising oil prices, and continued stimulus in the Euro zone raised the possibility of increasing inflationary pressures and rising interest rates.

The S&P 500 rose by 12.6% during the period, led by particularly strong showings in the financial (+22%) technology (+21.5%) and consumer discretionary sectors (+16 %.) It was the best first quarter showing for domestic equities markets since 1998, providing the second quarter in a row of double-digit total returns and bringing that broadly-followed index at its closing value of 1408 to within 10% of its all-time high set on October 9, 2007 of 1565.

Small and mid-cap equities also showed significant strength, as did many foreign equity markets. For the quarter, domestic mid cap stocks rose by 12.9% and smaller stocks by 12.4% - with particular strength noted in the growth components of those indexes, which rose by 14.5% and 13.3% respectively.

Developed European markets provided strong returns for the quarter, especially for U.S. dollar denominated investors. The U.K. rose by 7.6% in U.S. dollar terms, France by 12.3%, and Germany by an impressive 21.1% as the Euro strengthened from its lows of last year and as exports to both developed and developing countries outside the Euro zone continued to show impressive resilience.

Emerging markets equities also showed noted strength, especially early in the quarter. India rose by 20.1% in U.S. dollar terms, providing the overall leadership, followed by Russia at 15.6%, Brazil at 13.9%, and China at 9.9%. Especially in our more growth-oriented portfolios, moderate allocations we maintained to fairly aggressive international positions throughout the downturn in the second half of last year proved their value during this quarter and last, and we are gratified to see that the patience and discipline of maintaining broad global diversification in equity holdings has paid off handsomely for our clients in recent quarters.

As noted earlier, and as we have been anticipating for some time, fixed income markets began to show some potential signs of fatigue during the period. Particularly in the more interest sensitive areas of the U.S. Treasury markets, volatility increased and investors were offered a sharp lesson that increasing interest rates can play havoc with total return expectations. In the March 26th issue of Barron's Magazine, Randall Forsyth reported that yields on the 10-year Treasury jumped from 2.06% to 2.29% in the week ending March 16th, and those on the 30-year Treasury jumped from 3.19% to 3.4%. While seemingly small nominal increases, he noted that they triggered a loss of 4.1% for the week in the widely-used I-Shares Barclays 20-year treasury ETF – the equivalent of a 500 point decline in the Dow Jones Industrial Average. Though not widely noted in the financial press, he pointed out that certain investors were surprised and chagrined to see upwards of two years worth of income returns evaporate from their fixed income holdings within the week – a testament for the uninformed to the hidden risks in nominally "safe" asset classes at present levels.

With such strong results over the last six months, and with equity markets nearing the highs that were set five years ago prior to the financial crisis, we would caution our clients not to get overly enthusiastic with their short-term expectations. There are still plenty of reasons for caution, and we suspect prices may need to consolidate for a while. We are also entering a seasonally soft period for equities on an historical basis, and the patterns of the last several years would suggest some retrenchment is in order. As always, sharp downdrafts can occur with little warning.

Nevertheless, on a long-term basis we remain very constructive on the way our portfolios are positioned. Despite impressive gains recently, and despite more than doubling in value since the market lows of March 2009, price to earnings multiples on major equity indexes remain quite low by historical measures. Iconic global businesses appear to be in great shape, with strong balance sheets, lean operations, and good earnings prospects. With a forward P/E on the S&P 500 of 13.2 versus a 20-year average of 16.7, large cap U.S. stocks are still 21.1% cheaper than their historical average, according to J.P. Morgan. By the same measure, impressively, they're also still more attractive than they were at the market lows of October 2002 after the popping of the tech bubble, 9/11, and Enron etc.

When one considers that there is still almost $10 Trillion sitting in cash and equivalents in the U.S. earning negative real yields, and when one realizes that the 10-year Treasury finished this quarter at a yield of 2.21% versus a yield a decade ago (3/31/02) at 5.42%, it's not hard to construct an argument for an extended term tail wind for patient, disciplined equity investors as asset class allocations eventually get repositioned. Keep the faith, and please call us if you'd like to discuss.

Conservative Growth Model

1st Quarter	YTD	1 Year	3 Year	5 Year
5.37%	5.37%	-1.92%	10.75%	1.66%

Inception Date 06/03/1999

Core Growth Model

1st Quarter	YTD	1 Year	3 Year	5 Year
9.38%	9.38%	-3.04%	13.89%	1.85%

Inception Date 05/31/2003

Growth Model

1st Quarter	YTD	1 Year	3 Year	5 Year
11.63%	11.63%	-5.03%	14.46%	2.21%

Inception Date 10/16/1992

Specialty Model

Diversified Growth Model

1st Quarter	YTD	1 Year	3 Year	5 Year
10.09%	10.09%	-0.09%	18.44%	0.96%

Inception Date 10/31/00

Education Models

UT ORP

1st Quarter	YTD	1 Year	3 Year	5 Year
10.86%	10.86%	-0.62%	11.95%	0.67%

Inception 08/10/1999

Retirement Growth

1st Quarter	YTD	1 Year	3 Year	5 Year
10.50%	10.50%	-1.38%	16.50%	0.83%

Inception Date 06/03/1999

Growth & Capital Preservation

1st Quarter	YTD	1 Year	3 Year	5 Year
7.59%	7.59%	-0.12%	12.79%	2.43%

Inception Date 11/30/2001