General Market Results

	1st Quarter	YTD	One Year	Three Year	Five Year
CPI	1.12%	1.12%	1.21%	2.18%	1.69%
Barclays Agg Bond	-0.12%	-0.12%	3.77%	5.52%	5.47%
S&P 500	10.61%	10.61%	13.95%	12.67%	5.81%
DJI	11.93%	11.93%	13.37%	13.32%	6.50%
S&P 400	13.45%	13.45%	17.83%	15.12%	9.85%
Russell 2000	12.39%	12.39%	16.30%	13.45%	8.24%
NASDAQ	8.21%	8.21%	5.69%	10.86%	7.47%
MSCI EAFE	5.25%	5.25%	11.81%	5.50%	-0.39%
MSCI EM	-1.79%	-1.79%	2.08%	3.51%	1.35%

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 2013

April 2013

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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, 2013.

We'd like to take this opportunity to thank all of our clients and friends for your on-going confidence and trust in us, and for the loyalty you've shown us over the years. Our business has grown steadily, reaching new milestones as we welcome new clients to the fold, and as we continually work on improving our capacity to serve your best interests in the most effective and personal ways possible. It's gratifying to hear from new clients, as we have on a number of occasions in the last several months, that we come recommended above all else as people they can trust.

It's especially rewarding to realize that during the last five and a half years, a period that has now been marked by an all-time high in U.S. stock markets followed by the most gut-wrenching economic contraction in eighty years, and now a return to another all-time high, that more than 97% of the people who counted us as their advisors at the end of 2007 kept the faith, followed our advice, and maintained their disciplined financial plans. Compared to the experience of the industry as a whole, this is astounding. We thank you with all of our hearts for that trust, and also for your continued recommendations to friends and colleagues. It is a pleasure to serve such great people, and we look forward to doing so for a long time to come.

We've noticed an interesting phenomenon in the last few months, one that speaks to the mixture of hope and anxiety that people feel at regaining a previous peak in equity prices. We've received a number of calls and emails from people who were given our names a year or two ago, but who, for whatever reason, couldn't bring themselves to contact us. Many had abandoned their long-term plans or liquidated their portfolios during the downturn, and now they feel compelled to engage someone to help get them back on track.

"The nominal level of the S&P 500 is nowhere near as important as understanding the underlying data"

The anxiety they feel is shaped by the fact that after each of the previous two instances equity markets have reached these levels (March 24, 2000, when the S&P peaked at 1527, and October 9, 2007 when it peaked again at 1565) we've seen frightening (albeit temporary) declines. With the S&P 500 now reaching 1569 on March 31, 2013, they worry that pattern will repeat. Much is being been made in the press of the fact that markets have reached these levels. Some pundits say it's a sign of better things to come. Others warn of imminent danger. Most don't appear to have any idea how to form an opinion.

For us, the search for an answer does not lie in the headline number. The nominal level of the S&P 500 is nowhere near as important as understanding the underlying data, how it now compares to indices of other asset classes that constantly compete for investor dollars, particularly bonds, and how substantially all that data has changed. To wit:

At the peak in March of 2000, at 1527 the S&P 500 had a dizzying price to earnings ratio of 25.6, one of the highest in history. That resulted in a paltry dividend yield of 1.1%. Stock markets had just experienced one of the best ten-year periods in history, and people were drunk with optimism about the new millennium, dot com companies, and the transformative power of the information age. By comparison, 10-year U.S. Treasury bonds were yielding 6.2%. Competition for dollars was fierce.

At the next peak in October of 2007, at 1565 the P/E ratio of the S&P 500 stood at a less lofty 15.2. The dividend yield had climbed to 1.8%, but the giddiness then was not so much in the shares of great companies, for many speculators had since abandoned those assets in favor of leveraged real estate. However, that leverage had built to such levels that it threatened the entire global banking system, and by extension, all the world's financial markets. Importantly, the yield on the 10-year Treasury still stood at 4.7%, more than 2 ½ times the yield of equities. Again, competition for a "safe" alternative was stout.

Now, at 1569 as of March 31st, the price to earnings ratio of the S&P is a modest 13.8; close to half of where it stood in 2000 and lower by a good margin still than where it stood in October of 2007. Corporate balance sheets have been bolstered massively in the mean time, earnings yields are robust in spite of a tepid economy, and the dividend yield of the S&P 500 is now 2.0% - almost twice what it was in 2000. Most importantly, however, the yield on the 10 year Treasury has since been driven below the yield on equities, and at this writing stands around 1.7%. The world is anything but giddy. It is still quite cautious, and investors as a whole have been selling stocks and pouring into bonds for six years…

The truth is that the inherent volatility of equities can never be eliminated, and that is as it should be. Volatility is the price one pays for the opportunity to earn the superior long-term returns that the ownership of great companies has always offered to the patient investor. So despite the recent highs, given the full measure of the evidence, we believe that there is now much greater multi-year safety in owning great companies than there is in loaning to governments. And the long-term horizon is where prudent accumulators of wealth should always keep their focus.

Thank you for your confidence and trust.

Thomas G. Twombly
President

INVESTMENT COMMENTARY

In spite of on-going fiscal concerns in the United States, a continuing recession in Europe, and signs of slowing economic growth in the emerging markets, the first quarter of 2013 saw most widely-followed equity indices produce impressive gains. In a reversal of what was experienced in the final quarter of 2012, U.S. stock markets jumped out to a strong lead. Small-cap U.S. equities provided the strongest showing, rising by 12.4% during the period, with noted strength coming from the Russell 2000 small-cap growth index. This was followed closely by the Dow Jones Industrial Average, which notched gains of 11.93%, and by the S&P 500, which provided gains of 10.61% for the period. REITs also had a strong showing, rising by 8.1% for the quarter, followed by developed market international equities which turned in a very respectable 5.3% for the period.

Both domestic and international equity mutual funds experienced positive flows for the quarter, perhaps reversing a long-term trend. While many pounced on this as an early indicator that the so-called "great rotation" out of bonds and into stocks had finally begun, we remain somewhat skeptical. It was interesting to note that the strongest flows occurred very early in the quarter, perhaps pointing to the possibility that existing equity investors, who had sold appreciated assets late in 2012 to lock in low capital gains rates ahead of the end of the year and the so-called "fiscal cliff", were simply re-deploying those assets once it turned out that the increase in tax rates was nowhere near as draconian as many had feared. While we believe that the long-term imbalance in flows between equity and fixed income investments will eventually be corrected, we suspect it's going to be a much more gradual process that will demand patience, discipline, and a perspective that encompasses years as opposed to months.

Negatives for the quarter included our modest holdings in natural resources and commodities, as well as allocations to emerging market equities. Slowing growth and concerns about rising inflation in emerging economies contributed to weakness that may last for a while. Nevertheless, we believe the demographic outlook for the next couple of decades in these areas is so compelling, and the long-term debt to GDP ratios are so much healthier than those in much of the developed world that thoughtful investors should continue to maintain intelligent allocations to these sectors for a long time to come.

Bond holdings too provided notably lower returns than equity positions for the quarter, though we were pleased to note that each of our select fixed income managers were among the leaders in their peer group, and succeeded in delivering positive results in an environment where core bonds as a whole declined. High yield bonds continue to attract new asset flows as strained income investors reach further out on the risk spectrum in a search for ever-shrinking yields. As an asset class, these debts of lower-rated companies provided total returns of 2.9% for the quarter. In contrast, higher-rated corporate bonds, Treasuries, TIPS, and emerging market debt securities declined.

Looking forward, we continue to maintain broad asset class diversification. While we're concerned about the long-term prospects of many fixed income investments, and have therefore kept allocations near their prescribed minimums, we're nevertheless reminded that any number of unforeseen events could roil financial markets in the short run. We believe all but the most aggressive investors are well-served to maintain a reasonable balance. North Korea, Iran, and many parts of the Middle East still represent threats to global geo-political stability, and trouble in those regions could certainly upset equity markets in the short run.

With double-digit gains in equities last year, and with such a strong start to 2013, it would not be unexpected to see stock markets consolidate for a period. Additionally, we're entering a seasonal period where equity markets have experienced declines in each of the last several years. Nevertheless, a great deal of liquidity remains on the sidelines, and investors and CFOs seem increasingly in the mood to put it to work when opportunities present. Corporate cash as a percentage of current assets remains near historic highs, dividend payout ratios are increasing gradually from a historic low, and merger and acquisitions activity is increasing. While overall economic growth continues at a very slow pace, it is positive nonetheless, and we continue to feel optimistic about the future.

As always, please call us if you would like to discuss our perspective, or your particular situation.

Conservative Growth Model

1st Quarter	YTD	1 Year	3 Year	5 Year
5.72%	5.72%	6.53%	5.03%	2.31%

Inception Date 06/03/1999

Core Growth Model

1st Quarter	YTD	1 Year	3 Year	5 Year
5.31%	5.31%	6.68%	6.10%	2.86%

Inception Date 05/31/2003

Growth Model

1st Quarter	YTD	1 Year	3 Year	5 Year
5.44%	5.44%	5.62%	5.73%	2.93%

Inception Date 10/16/1992

Specialty Model
Diversified Growth Model

1st Quarter	YTD	1 Year	3 Year	5 Year
8.63%	8.63%	11.10%	8.56%	4.04%

Inception Date 10/31/00

Education Models
UT ORP

1st Quarter	YTD	1 Year	3 Year	5 Year
6.55%	6.55%	9.35%	6.93%	2.16%

Inception 08/10/1999

Retirement Growth

1st Quarter	YTD	1 Year	3 Year	5 Year
7.69%	7.69%	11.04%	8.17%	2.97%

Inception Date 06/03/1999

Growth & Capital Preservation

1st Quarter	YTD	1 Year	3 Year	5 Year
4.41%	4.41%	5.77%	5.30%	3.49%

Inception Date 11/30/2001