Upcoming Events

Fireside Chat:

Grandparents: Teach the grandkids about money

A discussion led by Cass Grange and Megan Poore

May 15, 2014

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	Ten Year
CPI	-0.38%	-0.38%	-0.26%	1.28%	1.77%	2.17%
Barclays Agg Bond	1.84%	1.84%	-0.10%	3.75%	4.80%	4.46%
S&P 500	1.80%	1.80%	21.86%	14.65%	21.16%	7.41%
DJI	-0.15%	-0.15%	15.66%	13.05%	19.85%	7.47%
S&P 400	3.04%	3.04%	21.24%	13.37%	24.86%	10.14%
Russell 2000	1.12%	1.12%	24.90%	13.18%	24.31%	8.53%
NASDAQ	0.54%	0.54%	28.51%	14.72%	22.40%	7.73%
MSCI EAFE	0.77%	0.77%	18.04%	7.72%	16.56%	7.01%
MSCI EM	-0.37%	-0.37%	-0.85%	-2.54%	14.83%	10.45%

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.

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FIRST QUARTER REPORT 2014

April 2014

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A MESSAGE FROM THE PRESIDENT

Thomas G. Twombly

"The market is a very efficient mechanism for transferring capital from the impatient to the patient."

— Warren Buffett

We are pleased to provide you with our report for the period ending March 31, 2014.

I first drew attention to the quote above in our Third Quarter Report of 2011, which can be found under the "Publications" tab at our website: www.lsggroup.com. My commentary in early October of that year touched on the subjects of high-frequency trading; the dominance of short-term, compulsive behavior; and many investor's growing sense that the "game" is rigged against them.

It's interesting that exactly that subject matter is now suddenly huge news due to the release and promotion (including a highly publicized appearance on 60 Minutes at the beginning of April) of Michael Lewis' new book "Flashboys". I'd encourage you to re-read my commentary in that report. My advice then was no different than it is now, so I think it's worth revisiting.

Before I get to that I'd like to say this. I'm glad the story has caught broader attention, but I worry that the hype surrounding it could lead people to reach some damaging conclusions. Sunlight is a good disinfectant, and there are certainly issues regarding high-frequency trading that need to be more clearly understood by a larger number of people. There are also some practices that need to be better regulated, and perhaps some that should be banned altogether. Nevertheless, some of the media hysteria (imagine that…) that has accompanied the book tour has reached an extreme in my opinion. Taken too far it threatens to encourage poor long-term decision-making among some of us, and we would all do well to avoid its reactionary traps.

"Adopt a long-term goal-focused plan that's designed to meet your carefully considered objectives – and not somebody else's nefarious effort to get you to "compete" against some ever-changing external benchmark."

For instance, we cannot *afford* to simply quit investing because some other participants appear to have an unfair advantage. The stakes are too high to simply opt out, because traditional pensions, social security, and other support mechanisms are under increasing strain - and more and more responsibility for our own survival rests on our own shoulders. So neither can we *afford* to feel so victimized by the apparent "unfairness" of the financial system that quitting could become a temptation. After all, this is not a "game of tag" in the park, where we can simply bail out and go home just because some of the big kids don't play fair. No matter how frustrating, if we quit, we lose – it's as simple as that.

But having said that, neither do we have to play by the new rules the big kids keep making up in order to tilt the game in their favor. We can adopt a strategy that doesn't easily play into their hands.

How? Don't trade. Don't speculate. Instead - invest.

Refuse to pay attention to the urgent admonitions to do something, make a change, or react to every piece of "news." Refuse to open a so-called "investment account" where the promotional pitch offers "your first 30 trades – free!" Refuse to listen to the Siren's song of short-term "performance" that is piped at you from every corner, encouraging you towards more and more frenetic behavior. Instead, lash yourself to the mast of your ship and maintain your disciplined headings. Adopt a long-term goal-focused plan that's designed to meet *your* carefully considered objectives – and not somebody else's nefarious effort to get you to "compete" against some ever-changing external benchmark. Allocate your capital prudently among diverse and complementary asset classes, hire experienced professionals whose philosophy and approach you understand, and then exercise the patience and discipline to allow their processes to work.

It begins by developing a healthy idea of what it means to "invest" and the discipline to stick to that belief. As I said a couple of years ago, in the long run enduring investment values have always been a reflection of the careful deployment of capital by great companies – on new products, entrepreneurship, services and innovation – not frenetic trading.

Think of your investment plan the way you'd think of an oak seedling you're planting in your yard this spring. Eventually, if you hope to reap the benefits of its shade and enduring sense of strength and calm, you must resist the temptation to pull it up every week or so to see if its roots have spread, or to move it to a sunnier spot because your neighbor's tree is growing faster. Instead, water and fertilize it occasionally, prune it judiciously, give it time, and have faith that nature will take its course.

If you'll do that, you'll minimize the opportunity that high-speed traders have to exercise their "unfair" advantage, and you'll probably be a whole lot happier and less stressed in the process. You'll also have more time for the people and things that really matter. Wealth is more than money. Live richly.

Thank you again for your confidence and trust.

Thomas G. Twombly
President

INVESTMENT COMMENTARY

The first quarter of 2014 was reflective of continuing indecision and anxiety on the part of investment markets.

After a particularly strong year for equities in 2013, and in fact a powerful run since late 2011, many with a pessimistic view were looking for an excuse to sell. Domestically, severe winter weather throughout the United States had a marked impact on economic activity in many parts of the country, negatively affecting sales and earnings reports for many retailers and offering sufficient justification for the more bearish out there to start proclaiming the demise of the bull market that has now run for a little over five years.

Additionally, the succession of the Chairmanship of the Federal Reserve Board from Ben Bernanke to Janet Yellen, and the ever-accompanying politically motivated sniping that seems to mark such transitions in this day and age, added fuel to the fire of anxiety that still smolders among the American populace since the great bear market of 2008-2009. Internationally, slowing growth in China and an agonizingly slow recovery from a double-dip recession in much of Europe offered little to cheer up those inclined towards pessimism.

Equity markets sold off early in the quarter, with the S&P 500 falling by approximately 6% by early February. At the same time, bond markets rallied as higher interest rates on longer-term debt instruments at the beginning of the year proved attractive to those seeking fixed income. However, as has been the case for some time now, early pessimism was forced to give way to the stubborn realism that economic activity continues to defy the naysayers. Equity markets rallied in the latter two-thirds of the quarter to provide positive returns, and investors with the patience and discipline to keep their eyes on the far horizon, and who didn't get caught up in the early media negativity, reaped reasonable - if not stellar –rewards for the period.

Looking forward, we see a growing number of signs that corporate executives are becoming increasingly positive, and capital expenditures in the U.S. may finally be showing signs of a steady increase. Though the American expansion has been very slow and very long – 58 months so far, and the 5th longest since the Civil War according to J.P. Morgan – it could last a good deal longer if corporations gradually loosen the purse strings and start to invest in future production capacity. Profit margins are high, valuations overall are near their long-term average, stocks are still relatively cheap in comparison to most alternative asset classes, and there is still a prodigious amount of cash parked on the sidelines earning virtually nothing.

Additionally, the labor market is beginning to tighten somewhat as unemployment rates come down, and the rental vacancy rate is at the lowest point it has been in five years – signifying good underlying economic activity. As a result, we continue to believe that U.S. equities offer value to long-term investors, though we would hasten to add that future expected returns in this asset class are likely to remain in the mid single-digits (5-7%) as we move forward, rather than the double-digits that have characterized the last few years.

Comparatively speaking, Europe offers somewhat more attractive opportunities, so we continue to hold significant allocations to that part of the world in most portfolios. While earnings per share estimates for S&P 500 companies are currently 18% above their 2008 peaks, those of European companies are still more than 25% below theirs. Valuations, therefore, have remained considerably lower. We believe those earnings will grow, as the European economy is only just beginning to emerge from a double-dip recession and is nowhere near as far along in its expansion as is the U.S., and in turn that will attract capital flows.

Emerging markets also offer some very attractive long-term opportunities for those with the foresight and patience to look past recent weakness. We have added marginally to positions we hold in these economies in spite of (or because of) recent headline pessimism. Many such countries have a very young average age in comparison to established western economies, and are therefore less exposed to the challenges of an aging and graying populace. Additionally, their growing labor forces, increasing capital stock, and rapid rates of productivity growth offer an excellent recipe for long-term rewards for those with a healthy investment time horizon.

As always, there are certainly risks that can lead to unexpected volatility, so we remain broadly diversified among asset classes and mindful that you're counting on us to be vigilant. Please call if you'd like to discuss our perspective or your particular situation.

Conservative Growth Model

1st Quarter	YTD	1Year	3 Year	5 Year	10 Year
0.73%	0.73%	10.03%	4.76%	9.76%	5.28%

Inception Date 06/03/1999

Core Growth Model

1st Quarter	YTD	1Year	3 Year	5 Year	10 Year
0.38%	0.38%	12.55%	5.20%	12.15%	5.80%

Inception Date 05/31/2003

Growth Model

1st Quarter	YTD	1Year	3 Year	5 Year	10 Year
1.17%	1.17%	15.75%	5.11%	12.89%	6.88%

Inception Date 10/16/1992

Specialty Model

Diversified Growth Model

1st Quarter	YTD	1 Year	3 Year	5 Year	10 Year
1.27%	1.27%	19.69%	9.93%	17.18%	6.96%

Inception Date 10/31/00

Education Models

UT ORP

1st Quarter	YTD	1Year	3 Year	5 Year	10 Year
0.94%	0.94%	13.12%	7.12%	11.66%	5.60%

Inception 08/10/1999

Retirement Growth

1st Quarter	YTD	1 Year	3 Year	5 Year	10 Year
1.76%	1.76%	13.79%	7.61%	14.85%	6.78%

Inception Date 06/03/1999

Growth & Capital Preservation

1st Quarter	YTD	1 Year	3 Year	5 Year	10 Year
0.66%	0.66%	10.96%	5.44%	10.99%	5.56%

Inception Date 11/30/2001