Lucien, Stirling & Gray Advisory Group, Inc.

FIRST QUARTER REPORT 2015

April 2015

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

Thomas Twombly
President

Walter L.Wilson, III
Exec. VP, Operations

Mark Ward, CFP®, ChFC®
VP & Chairman, IPC

Bleckley Dobbs, CFP®
Director of Financial Planning

Glenda Summers, CFP®
Sr. Advisor Associate

Cass Grange
Sr. Advisor Associate

Megan Poore
Sr. Advisor Associate

A MESSAGE FROM THE PRESIDENT

Thomas G. Twombly

Picture a couple, still working, and concerned that they may not yet have enough to fund a retirement that could last 25 years or more. Though still enjoying their professional lives, they are rapidly approaching that age when they will be required to take distributions from their IRAs. They are facing a fraught complex of questions – some of which are technically challenging, but many of which are highly charged emotionally. When should they stop working? How will those upcoming IRA distributions impact their income taxes? How about their social security benefits? Can they afford to retire soon and still be able to help educate their grandchildren in the manner in which they themselves were educated? What about the vacation home that has come to mean so much to the extended family? Is it possible to maintain it too, or do they need to steel themselves (and also their children and grandchildren) to face some very difficult choices in the coming few years? How much can they afford to spend? How long will it last? How does one even begin to untangle all these issues..?

Imagine another couple, both professionals in their early 50s with two kids in high school. In addition to funding retirement accounts for many years, they've done a good job of putting away money in college funds, and have managed to set aside enough so far to cover three years at in-state public universities for each of their children. But one of their kids, the senior in high school, has just been offered admission to a specialized program that presents a unique opportunity. Acceptance came as a surprise as this institution was definitely a "reach". But now their child is really excited, and bursting with pride to friends, teachers and relatives about the honor. So in the blink of an eye the dynamic has shifted dramatically. Not only do they not want to disappoint their child, but now their peers automatically assume that of course they will choose the exclusive (and equally expensive) college. After all, what parent wouldn't want the very best for their kids? Suddenly, they feel like they are facing decisions that could alter their lives entirely going forward. Do they tap the other child's college fund? Do they take out loans? Do they forego their own retirement savings? How might this impact their other obligations? Do they just say "no"..? The deadline is just weeks away, and the pressure is overwhelming. How do they get their arms around all these issues with hardly any time to think?

"Only a trusted human *advisor can offer the empathetic comfort and confidence to clients that through all the financial and life decisions they face* they will not be alone*"*

Finally, envision a woman in her 60s. Once married for many years, she has been independent for a while, and she intends to remain that way. She has a "significant other", but with children of her own and now grandchildren, she's believed it's best to keep their financial and legal lives separate. Still working, she has long expected to receive pension benefits from multiple sources when she eventually retires. But recent events have just changed everything. There's been a death in the family, and she has just received a cash inheritance. With it, however, she has also been handed the deeply-felt responsibility to take over maintenance of the multi-generational family summer cabin in her home state. Her challenge is further complicated in that one of her children – the one with two young kids – is in a precarious situation, and she's trying to figure out how she might relieve that pressure without jeopardizing the other obligations she feels. How does she begin to untangle all those questions?

Big transitions bring complex financial problems, and equally complex emotional challenges. Each of these scenarios is representative of someone we have helped recently. Each has eventually benefitted from a long-term investment policy and a thoughtfully-allocated portfolio as one small component of the overall solution. But that step was one of the last, and easiest, to complete. Far more challenging and far more important was the profoundly human process of probing, planning, questioning and exploring possibilities. Far more valuable to each of these clients were the empathy, understanding, insight and willingness to pose the tough questions that comprised that experience. Far more critical to their long term chances for success were the crucial decisions and trade-offs they were willing to confront as a result of those clarifying conversations, and the trust engendered in the process.

Much is being written nowadays about new technologies that supposedly pose a grave threat to all financial advisors. So called "robo-advisors" provide short, 12-question risk-tolerance questionnaires, dynamic algorithms, and on-line portfolio management that their most ardent proponents say will make professionals like us obsolete. I don't believe it for a minute. Technology, properly employed, will certainly improve the way we deliver advice – and it is. But technology alone can never replace the most critical benefits of a human relationship. Only a trusted human advisor can offer the empathetic comfort and confidence to clients that through all the financial and life decisions they face they will not be alone, and also provide the judgment, experience and courage to help guide them successfully through whatever challenges they meet.

Thank you again for your confidence and trust.

Thomas G. Twombly
President

INVESTMENT COMMENTARY

We're pleased to report that our clients benefited as broadly diversified investors were rewarded during the first quarter of 2015. The U.S. economy continued to demonstrate impressive strength, global equity markets rallied strongly, and heightened central bank stimulus measures in Japan and Europe offered renewed hope for increasing economic growth in those regions.

U.S. bond markets rallied during the quarter as the dollar rose sharply against the euro and other foreign currencies. The Barclays U.S. Aggregate Index provided total returns of 1.6% as investors favored attractive relative yields in this country compared to Japanese and European bonds, where interest rates hit record lows during the quarter. In a cautionary note, however, the benchmark 10-year Treasury gyrated significantly during the period, demonstrating nervousness about the future direction of inflation, interest rates, and U.S. Federal Reserve policy. Yields dropped as low as 1.67% in early February, then rose quickly to 2.24% by the first week of March before finishing the quarter at 1.93%.

U.S. large-cap equity markets also rose, though at a more muted pace than other regions of the world. Now in its seventh year, the long bull market in U.S. equities has run far without substantial corrective action. Despite hitting new record highs in March, the S&P 500 index ended up just slightly shy of 1% for the full quarter, while the Dow Jones Industrial Average eked out a mere .3% total return. Utility stocks fell by -5%, and transportation stocks also sold off by -4.4%. Small and mid-sized U.S. stocks posted better results for the period, with the Russell 2000 index rising by 4.3% and the S&P 400 mid-cap index increasing just over 5%. Select holdings in each of these areas were beneficial to our clients during the quarter. Growth stocks outpaced value stocks, another area where diversification proved valuable, and the technology-heavy NASDAQ composite index advanced by almost 4% for the quarter, finally breaching the 5000 level for the first time since the year 2000.

Going forward, improving employment in this country, continued expectations for benign inflation, and accelerating economic growth offer a reasonable backdrop for continued investment in carefully-selected U.S. businesses. But with five of the last six years providing double-digit gains in broad indices, U.S. markets are no longer cheap. We encourage clients to temper expectations, expect increased volatility, keep a long-term perspective, and invest deliberately in other parts of the global economy.

Outside the U.S., many foreign equity markets powered forward for the quarter. Spurred by falling oil prices, improving economic data, and an aggressive new stimulus program from the European Central Bank, equity markets throughout that region notched impressive gains. In local currency terms, the German DAX Index rose by more than 22% while the French market gained almost 18% for the quarter. Developed Asian markets also provided solid results for the quarter, with the overall MSCI Pacific Index rising by 9% - aided in big measure by Japanese equities. Boosted by data that showed the nation's economy has exited recession, strong corporate earnings, and optimism that companies would soon raise dividend payments, the MSCI Japan Index gained 10.2% for the quarter.

The biggest challenge overall has been the continuing strength of the U.S. Dollar. During the last nine months the Dollar index has risen by more than 20%. The result is that, when translated back into dollars, the returns posted by non-U.S. markets overall were diluted for U.S. investors. The broad MSCI EAFE Index, for instance, generated returns of 10.8% in local currency terms for the quarter, but only 4.9% when converted back to dollars. While those are still very attractive results for the period, it's a sobering reminder of the headwinds U.S. investors in foreign markets face due to a strong currency. It's also an important reminder of the challenges that U.S. businesses with major export markets overseas are facing, as their overseas sales and profits are being similarly diluted. For our clients, it's important to keep in mind that the discerning international and global money managers we entrust with assets are investing in companies, not countries. And select foreign companies with substantial consumer markets in the U.S. are benefiting substantially from the strong dollar as their goods and services present attractive value to U.S. consumers.

As always, we remain broadly diversified and mindful of a wide range of opportunities and risks. We invite you to call us if you'd like to discuss our perspective or your personal situation.

Conservative Growth Model

1st Quarter	YTD	1Year	3 Year	5 Year	10 Year
2.57%	2.57%	4.80%	7.10%	5.97%	5.16%

Inception Date 06/03/1999

Core Growth Model

1st Quarter	YTD	1Year	3 Year	5 Year	10 Year
1.94%	1.94%	4.65%	7.91%	7.06%	5.65%

Inception Date 05/31/2003

Growth Model

1st Quarter	YTD	1Year	3 Year	5 Year	10 Year
3.25%	3.25%	3.00%	7.99%	7.10%	6.61%

Inception Date 10/16/1992

Specialty Model

Diversified Growth Model

1st Quarter	YTD	1 Year	3 Year	5 Year	10 Year
2.23%	2.23%	6.42%	12.28%	10.26%	6.71%

Inception Date 10/31/00

Education Models

UT ORP

1st Quarter	YTD	1Year	3 Year	5 Year	10 Year
1.94%	1.94%	4.74%	9.02%	7.69%	5.58%

Inception 08/10/1999

Retirement Growth

1st Quarter	YTD	1 Year	3 Year	5 Year	10 Year
2.39%	2.39%	4.42%	9.69%	8.50%	6.14%

Inception Date 06/03/1999

Upcoming Events

Fireside Chat:

Protecting Your Identity

With Guest Speaker Katie Stephens – Center for Identity

The University of Texas at Austin

May 21, 2015

6:30 – 8:00 pm

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

General Market Results

	1st Qtr	YTD	One Year	Three Year	Five Year	Ten Year
CPI	-0.04%	-0.04%	-0.66%	0.77%	1.52%	1.96%
Barclays Agg Bond	1.61%	1.61%	5.72%	3.10%	4.41%	4.93%
S&P 500	0.95%	0.95%	12.73%	16.11%	14.47%	8.01%
DJI	0.33%	0.33%	10.57%	13.18%	13.23%	8.17%
S&P 400	4.93%	4.93%	10.56%	15.30%	14.50%	8.75%
Russell 2000	4.32%	4.32%	8.21%	16.27%	14.57%	8.82%
NASDAQ	3.48%	3.48%	16.72%	16.60%	15.37%	9.38%
MSCI EAFE	5.00%	5.00%	-0.48%	9.52%	6.64%	5.43%
MSCI EM	4.88%	4.88%	-0.90%	9.02%	6.16%	10.49%

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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