Lucien, Stirling & Gray Advisory Group, Inc.

SECOND QUARTER REPORT 2009

July 2009

LUCIEN, STIRLING & GRAY ADVISORY GROUP

"Smart Decisions About Serious Money"

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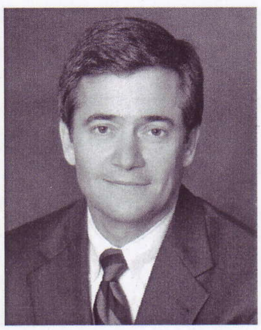
A MESSAGE FROM THE PRESIDENT

Thomas G. Twombly



We are pleased to provide you with our report for the period ending June 30, 2009.

To start, we'd like to thank all of our clients and friends for showing such faith and confidence in us during what has been an incredibly trying time in U.S. economic history, and for remaining true to long-term investment principles in a period that has caused many to question the validity of beliefs about the operation of capital markets. The last eighteen months have encapsulated a period of tremendous turmoil and volatility, and it's widely reported that many affluent investors are thoroughly dissatisfied with their advisors. Nevertheless, almost without exception, our clients have remained committed to their long-term financial plans, focused on the issues over which they have control, and receptive to the recommendations we have made to take inventory, embrace ambiguity, and actively engage in steps to adjust to "the new normal." We sincerely appreciate this degree of loyalty and trust, and we thank you for it.

During the quarter, we were notified that four out of six advisors in this firm were recently named to a short list of "Five Star Wealth Managers" in the central Texas area who have achieved the highest levels of client satisfaction. Texas Monthly, in conjunction with an independent third-party research firm, conducted a survey in January and February of this year, in which they asked over 80,000 affluent investors and 4,000 financial professionals to rate the effectiveness of wealth managers with whom they had personal experience. Only 7% of professionals in the survey region were ultimately chosen, and we consider it a huge honor that such a significant percentage of our professional advisors made the cut. (In fact, according to the strict selection criteria, which included a minimum of five years of experience, fully 80% of our team who was eligible for consideration achieved this distinction.) The results will be published in the September issue of Texas Monthly. Importantly, every member of our firm has contributed meaningfully to this success. A huge amount of effort takes place behind the scenes every day, often with little public recognition, in order to make this firm function effectively. We hope you will join us in thanking our entire staff for their invaluable contributions, and in recognizing their committed efforts.

"Faith demands trust, and that is why as advisors we will always do everything in our power to establish and maintain the highest levels of trust we can."

Patience, discipline, and faith in the future are critical components of long-term success. Especially when it comes to the crucial element of human behavior, and the terrible damage that can be done to even the most well-designed plan if it is jettisoned during times of fear and uncertainty, faith in the future is easily the most important. Without the belief that circumstances, no matter how dire, will eventually get better, one cannot be a true *investor* in anything. Whether it is nurturing a committed relationship, or raising and educating children and grandchildren, building a successful business, supporting important philanthropic efforts, being a productive citizen of what is **still** the most incredible country on earth, or pursuing your own personal financial objectives, all real investments require a fundamental belief that no matter how formidable the present challenges may be, we **will** adapt, prevail, and prosper in the end. Faith demands trust, and that is why as advisors we will always do everything in our power to establish and maintain the highest levels of trust we can.

Second only to faith in the future are patience and discipline. Warren Buffett, arguably the most successful investor of all time, once remarked that the capital markets are an incredibly efficient mechanism for the transference of wealth from the impatient to the patient. A man who has always espoused an unwavering faith in the future of democratic capitalism, despite all of its considerable faults, Buffett is renowned for his supreme patience and rigid discipline.

In his book Behavioral Investment Counseling, author and advisor Nick Murray defines patience as "a decision **not to do something wrong** in your long-term, goal focused portfolio," and discipline as "the decision to **keep doing the right things**." Despite the gut wrenching volatility we have all experienced in the last eighteen months, the temptation to panic and abandon sound investment practices, and despite the constant media drumbeat of impending financial Armageddon, we remain focused on these principles in our own lives, and in our professional pursuits. We are impressed at our client's decisions also to stay the course in their long-term plans, add to their broadly diversified investment portfolios whenever possible, and maintain a fundamental belief that, as history has always shown, it is a mistake to succumb to fear.

Thank you again for your continued confidence and trust.

Thomas G. Twombly
President

INVESTMENT COMMENTARY

The second quarter of 2009 provided welcome news to investors across the board, as worldwide equity markets, corporate bond markets, and commodities markets built on a powerful rally that began in early March. U.S. stocks posted their best quarter in more than a decade, as almost all categories rose sharply, and small and mid-cap stocks showed particular strength. Foreign equity markets registered their highest return in two decades, as a weaker dollar provided a big boost to returns for U.S. investors, and as emerging markets posted their best quarter on record. Corporate bond markets also provided impressive returns, as both high yield and investment grade corporate bonds staged a powerful rally on news of improving credit conditions, less-bad economic data, and coordinated global stimulus efforts. Commodity markets also rose substantially amid rising inflation expectations, with oil prices increasing to over $70 per barrel. One area of weakness was in U.S. Treasury securities, as yields rose and prices fell in response to an increasing appetite for risk among investors, and the aforementioned growing concerns about the possibilities of future inflation.

Though financial markets certainly provided a welcome change from the last six quarters, overall economic news is far from positive, and much of the change in sentiment appears to be due more to a slowing pace of overall decline in the U.S. than it is to actual improvement. Initial jobless claims declined from their peak levels in March, suggesting that the pace of layoffs is moderating. However, continuing jobless claims rose during the quarter, putting the national unemployment rate at 9.5% according to the Bureau of Labor statistics – the highest since 1983. Housing prices also fell sharply during the quarter, indicating that real estate markets are still very weak, though again, the rate of decline appears to be moderating as lower supply, falling construction activity, and government efforts to keep mortgage rates low combined to help stabilize national home sales.

From a longer term perspective, the United States faces some major fiscal challenges, as the projected growth of entitlement spending for Social Security and

Medicare, combined with a continuing dependence on foreign financing for our expanding debt place the domestic economy in its most difficult position in its history. These challenges will undoubtedly weigh heavily on concerns about tax rates, interest rates, and inflation expectations for years to come, and will likely lead to reduced levels of growth and profitability than we have become accustomed to in recent decades. Additionally, increased regulation, on-going deleveraging of both consumer and corporate balance sheets, and major government efforts such as health care reform promise to keep investors cautious and less willing to take on risk.

In this environment, we continue to maintain broad diversification in our portfolios, and we're more attracted to higher grade securities in all asset classes. During the quarter, we added to investment grade bond positions in almost all of our model portfolios, as yield spreads declined from over 480 basis points early in the period, to slightly over 280 basis points at the end. These moves proved profitable, and added some excellent risk / reward characteristics to overall portfolio makeup. Despite one of the most powerful corporate bond rallies in history, yield spreads between corporate bonds and treasuries remain more than twice as high as their long term averages as of this writing, suggesting that these areas of the financial markets may continue to offer attractive total return potential for patient investors going forward.

Successful investing demands discipline, and we remain mindful that any number of scenarios may play out over the foreseeable future. Each of our model portfolios maintains moderate allocations to natural resource holdings as a potential hedge against the possibility of rapid inflation, and these have proven quite valuable in recent months. However, we continue to maintain notable cash and high grade bond positions in recognition of the fact that the re-emergence of deflation remains a real possibility. Though almost all of our equity positions have experienced powerful growth in recent months as assets have moved off the sidelines, it's important to note that even though investor cash levels have fallen from their record high in March, their present value of approximately 40% of the entire U.S. equity market remains far above the 27% peak rate seen in the 2000-2002 bear market, and substantially higher than the historical average of 16%. Though it may take some time for spooked investors to consider allocating additional assets to equities, this historical discrepancy, if and when it begins to revert to its long-term mean, may provide a sharp spur to equity markets as a whole, and disciplined long-term investors may be well rewarded.

CORE MODELS

Conservative Growth Model:

2nd Quarter	YTD	One Year	Three Year	Five Year
8.42%	3.30%	-16.82%	-1.37%	2.58%

Inception Date 06/03/1999

Core Growth Model:

2nd Quarter	YTD	One Year	Three Year	Five Year
11.32%	5.63%	-19.58%	-2.84%	1.77%

Inception Date 05/31/2003

Growth Model:

2nd Quarter	YTD	One Year	Three Year	Five Year
13.22%	7.90%	-18.21%	-0.99%	4.07%

Inception Date 10/16/1992

SPECIALTY MODEL

Diversified Growth Model:

2nd Quarter	YTD	One Year	Three Year	Five Year
16.04%	6.53%	-22.57%	-6.60%	0.37%

Inception Date 10/31/00

EDUCATION MODELS

UT ORP:

2nd Quarter	YTD	One Year	Three Year	Five Year
8.33%	4.02%	-21.80%	-3.80%	1.36%

Inception Date 08/10/1999

Retirement Growth:

2nd Quarter	YTD	One Year	Three Year	Five Year
12.73%	7.21%	-27.71%	-5.90%	1.64%

Inception Date 06/03/1999

Growth & Capital Preservation:

2nd Quarter	YTD	One Year	Three Year	Five Year
10.51%	6.72%	-14.87%	-1.13%	2.41%

Inception Date 11/30/2001

Upcoming Events

"5-Star Wealth Managers Recognition Event"

Please join us to celebrate this achievement

September 17, 2009
4:00 - 7:00 pm

GENERAL MARKET RESULTS

	2nd Quarter	*YTD*	*One Year*	*Three Year*	*Five Year*
CPI	0.50%	1.69%	-2.30%	1.76%	2.42%
DJI	11.96%	-2.01%	-23.00%	-6.34%	-1.68%
Nasdaq	20.05%	16.36%	-19.97%	-5.47%	-2.17%
S&P 500	15.93%	3.16%	-26.22%	-8.22%	-2.25%
Russell 2000	20.69%	2.64%	-25.01%	-9.89%	-1.71%
MSCI World ex US	27.94%	14.35%	-30.54%	-5.35%	4.95%
Barclays Captl Agg Bd	1.79%	1.91%	6.06%	6.43%	5.02%

Lucien, Stirling & Gray Advisory Group, Inc. is a Registered Investment Advisory firm providing fee-based asset management and 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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