UPCOMING EVENTS

Help Us Celebrate Awards:

"Best Places to Work in Central Texas"
and
"Five Star Wealth Managers"

September 16th, 2010 • 5:00 – 7:00 pm

General Market Results

	2nd Quarter	YTD	One Year	Three Year	Five Year
CPI	-0.03%	0.75%	0.87%	1.45%	2.27%
DJI	-9.36%	-5.00%	18.94%	-7.39%	1.66%
Nasdaq	-12.04%	-7.05%	14.94%	-6.77%	0.50%
S&P 500	-11.42%	-6.65%	14.43%	-9.81%	-0.80%
Russell 2000	-9.92%	-1.95%	21.48%	-8.60%	0.37%
MSCI World ex US	-12.45%	-11.06%	10.43%	-10.70%	3.38%
Barclays Captl Agg Bd	3.49%	5.33%	9.50%	7.55%	5.54%

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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Lucien, Stirling & Gray Advisory Group, Inc.

SECOND QUARTER REPORT 2010

July 2010

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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, 2010.

This quarter marked the eighteenth anniversary of the founding of Lucien, Stirling & Gray, so the first order of business is to say a heart-felt "Thank you" to all of the clients, friends, colleagues, and business associates who have been so loyal and supportive of our efforts over the years. More than a few of you have been with us for the entire journey (you know who you are), and many more have joined us along the way. We are honored to have been entrusted with so much confidence and trust, and we look forward to serving you with candor, humility, decency, and professionalism for a long time to come.

Happily, this quarter also brought with it some third party recognition of the value of our efforts over the years, and leaves us ever more determined to invest in meaningful relationships that bring lasting benefit to all the people around us. In June, The Austin Business Journal named Lucien, Stirling & Gray as one of the "Best Places to Work in Central Texas" for 2010. More than 180 initial nominees were ranked based upon employee response rates and answers to an extensive survey that addressed ten key areas: Team Effectiveness, Retention Risk, Alignment with Goals, Trust with Co-Workers, Individual Contribution, Manager Effectiveness, Trust in Senior Leaders, Feeling Valued, Satisfaction with Current Role, and People Practices. Our team scored 97.17 out of a possible 100 in the evaluation matrix, and ranked ninth overall in the small business category. While there's still room (and determination) for improvement, we have always operated on the principle that external confidence springs from deep internal trust, and we are honored and humbled that our advisors and professional staff feel such a strong sense of commitment to each other and to this firm.

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In May, we were notified that *every single one* of our professional advisors will be recognized in the upcoming September issue of Texas Monthly as a "Five Star Wealth Manager." Beginning in February, approximately 1 out of every 4 high net-worth investors in the Austin, San Antonio, and central Texas area were surveyed by an independent third party, and asked to evaluate wealth managers whom they knew through personal experience, and to evaluate them on nine criteria: customer service, integrity, knowledge / expertise, communication, value for fee charged, meeting of financial objectives, post-sale service, quality of recommendations, and overall satisfaction. Initial nominees were then reviewed for a minimum of five years of professional experience, and screened for regulatory actions, civil judicial actions, and customer complaints as reported by FINRA, the SEC, The State Board of Accountancy, and the State Bar of Texas. The final list is an elite group comprised of fewer than 7% of wealth management professionals in the central Texas area, and we are absolutely thrilled to have 100% representation on that list. Again, thank you for expressing such confidence and trust in us. We're honored to serve such great clients and friends.

We are living through a very challenging economic period. The balance of global economic power is shifting, uncertainty and fear are pervasive, and no longer do there appear to be simple answers to the complex questions that we all face in managing our financial lives. With governments over-stretched, public and private pension plans under duress, and major financial institutions still in a state of turmoil, individuals feel increasingly vulnerable and ill-equipped to make life-impacting financial decisions without the help of a trustworthy advisor. While we cannot claim to have all of the answers, we can say that we continue to do everything in our power to provide our clients and friends with a stable, consistent, reliable, and committed team of professionals who genuinely care about the welfare of those whom they serve. With tenure that now averages twelve years for our professional advisors, and five years for each of our support staff, it is apparent that the people, philosophy, and processes we employ are working.

If you know of someone who would like a second opinion, an un-biased evaluation of their present situation, or a hot cup of coffee and a candid conversation about their financial future, please have them give us a call. Our most reliable source of new clients is referrals from people who have come to know and trust us over the years, and we promise to treat anyone you send our way with dignity, respect, and fiduciary care. Life is full of riches. A relationship with a trusted advisor should be the same.

Thank you for your continued confidence and trust.

Thomas G. Twombly

President

INVESTMENT COMMENTARY

With concerns over European debt problems threatening to infect the global economy, a major oil spill in the Gulf of Mexico, on-going weakness in employment statistics, and double-digit drops in all major U.S. equity indexes, the recent quarter proved to be a challenging one for anyone looking for a positive outlook on the economic front. Add to those: two long-standing wars that the United Sates is fighting, massive government borrowing, deep political mistrust among all parties, and an extraordinary level of pessimism being reflected in both the media and the general populace, and it's difficult for many to believe that we have anywhere to go but down.

Nevertheless, it's important for long-term investors to remind themselves that it is often in the middle of apparent crises that opportunities arise. As bad as certain economic environments are for some companies, they are equally as good for others, and the ability of people and markets to adapt and change should never be underestimated. Despite the almost constant media and political drum-beat of "the death of capitalism" and "spreading socialism" the fact of the matter is that innovation and entrepreneurial spirit are far from dead – here or abroad, and evidence of flexibility and adaptation within individuals, companies, and the economy as a whole abounds. There is no doubt that we are all navigating a particularly challenging environment, and it is likely that headwinds will persist for some time to come. But tough times have always called for a longer term perspective, and we have little doubt that current conditions will eventually abate, and the clouds will lift.

Many of the experienced managers to whom we have entrusted assets, for instance, are beginning to see unique values created in Europe. Fear and the ensuing flight of capital have left some very well-managed companies with solid businesses and a global reach currently valued at multiples that are very attractive on a historical basis. With short-term interest rates near zero, and with rates of return on high-quality bonds near their all-time lows, they are indentifying large companies with good balance sheets and plenty of free cash flow who are paying dividends in the 5-6% range. Though no one can say for sure how long it will take, eventually – a year, two years, or five years from now – it is likely that people will look back on this time as

one in which they will wish they had put more money to work investing in those businesses.

Asia and the pacific region continue to show signs of strength. India, for instance, who experienced none of the financial crisis that the United States and Europe did, and whose banking system is in good shape, continues to see GDP growth rates of 8-9% per year. With an average age of 25, a rapidly growing middle class, and a powerful entrepreneurial engine focused on science and technology, long-term investors would do well not to become so pessimistic that opportunities offered here and elsewhere are overlooked. Similar examples exist in other economies throughout the region.

In the United States as well there are reasons not to be too pessimistic. While the banking and financial system remain impaired, and while local, state, and national governments are under severe strain, many U.S. corporations are in the best financial shape they have experienced in decades. With cash at record levels, productivity increasing, and some fairly impressive earnings and profits being reported, there are clearly some well-run businesses that are likely to prosper even in a challenging environment. Good companies, especially those in the technology space, that are in business in order to help other companies be more efficient are likely to do relatively well in the long run, and many appear to be attractively priced.

Against this overall backdrop, we continue to focus on broad diversification and careful risk management. While we have taken advantage of recent declines in equity markets world-wide to add selectively and incrementally to various equity managers, we have also maintained bond allocations that range between 15% for our more aggressive portfolios and 28% for our more conservative clients. With recent concerns about deflationary pressures in the economy, these holdings have represented some of the few bright spots in our portfolios during the recent quarter. Cash holdings are also notable, and range between 12% and 22% overall in our model portfolios. Though yields are very low, anxiety in financial markets has led to increased volatility of late. These holdings have added a valuable damper to that volatility, and provide important "dry powder" to be used as future opportunities present themselves. Modest allocations to gold and precious metals holdings in all models have provided another bright spot during the recent quarter. Though this asset class is highly volatile in nature, concerns that major governments around the world may attempt to inflate their way out of this recession by printing money have contributed to increased interest and asset flows from investors around the world. We expect to add incrementally to these positions as attractive entry points present themselves.

As always, we encourage you to maintain a long-term view, try to see through the current situation, and give us a call if you would like to discuss your personal situation.

Conservative Growth Model

2nd Qtr	YTD	1 Year	3 Year	5 Year
-5.62	-2.52	8.74	-3.57	2.74

Inception Date 06/03/1999

Core Growth Model

2nd Qtr	YTD	1 Year	3 Year	5 Year
-6.64	-3.76	10.70	-4.26	2.65

Inception Date 05/31/2003

Growth Model

2nd Qtr	YTD	1 Year	3 Year	5 Year
-6.50	-4.24	10.68	-4.55	4.26

Inception Date 10/16/1992

Specialty Model
Diversified Growth Model

2nd Qtr	YTD	1 Year	3 Year	5 Year
-9.32	-4.68	12.78	-8.07	0.93

Inception Date 10/31/00

Education Models
UT ORP

2nd Qtr	YTD	1 Year	3 Year	5 Year
-7.12	-5.97	7.61	-6.67	1.73

Inception 08/10/1999

Retirement Growth

2nd Qtr	YTD	1 Year	3 Year	5 Year
-8.48	-4.93	12.66	-7.89	1.65

Inception Date 06/03/1999

Growth & Capital Preservation

2nd Qtr	YTD	1 Year	3 Year	5 Year
-4.50	-2.03	12.38	-2.36	3.13

Inception Date 11/30/2001