Upcoming Events

Fireside Chat:

College, Credit Cards and Cutting the Cord

Speaker: **Advisors Cass Grange and Megan Poore**
September 22, 2011
6:30 – 8:00 pm
RSVP: 512-458-2517 or by email to info@lsggroup.com

General Market Results

	2nd Quarter	YTD	One Year	Three Year	Five Year
CPI	1.12%	3.10%	3.67%	1.08%	2.18%
DJI	1.42%	8.59%	30.37%	6.09%	4.97%
Nasdaq	-0.27%	4.55%	31.49%	6.55%	5.01%
S&P 500	0.10%	6.03%	30.70%	3.34%	2.94%
Russell 2000	-1.61%	6.21%	37.41%	7.77%	4.08%
MSCI World ex US	1.83%	5.35%	30.93%	-1.30%	1.96%
Barclays Captl Agg Bd	2.29%	2.72%	3.90%	6.46%	6.52%

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 2011

July 2011

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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 30th 2011.

The second quarter of the year has been a period of solid growth at Lucien, Stirling & Gray. We have added two great new members to our team in recent months, we continue to expand our client service capabilities, and we've celebrated some proud accomplishments.

Diane Hunley is the smiling face you now see when you walk in the door and the cheerful voice you first hear on the telephone. Her easy manner and quick laugh have made her an instant success as our receptionist and office traffic cop, and her project-management background is invaluable to our internal operations. Please make a point to welcome her the next time you call or stop by.

Meagan Hoffman joined us recently as our Dealer Interface Manager. With a natural attention to detail, a background in internal audit work and an M.B.A. from Southeastern Louisiana University, Meagan is responsible for monitoring daily client account transactions and activity, client account reporting, and research support for the Investment Policy Committee. She also adds some youthful perspective and charm to our team.

One of the initiatives we embarked on during the last quarter is the publication of a new monthly e-newsletter for clients and friends. We recognized a need to communicate more regularly with our entire circle of influence, in addition to our clients, about a broader range of topics than those traditionally covered in our printed reports. Additionally, electronic media obviously allows for greater flexibility of content and efficiency of delivery than print media alone, and we felt it was time to expand our capabilities and reach. As with all new initiatives, this project has required that we develop new habits and systems, and there have been inevitable bugs to work out. Nevertheless, we're enthusiastic about the response we've received so far, and we hope you'll share your feedback and help us improve as we move along.

"We were deeply gratified to be informed in May that Lucien, Stirling & Gray was named by The Austin Business Journal as one of central Texas' Best Places to Work for 2011."

In recent issues, we've begun a series of essays on the subject of wealth, and how people commonly define the various dimensions that comprise it. (If you haven't seen them, and would like to, please go to our website at www.lsggroup.com and click on the e-newsletter tab at the top of the page.) July's issue touches on the subject of **social wealth** – the always difficult to quantify, but immensely valuable asset encompassed in the broad circle of friends, colleagues, acquaintances, and social connections that each of us has, the trust and influence we are able to build within those personal relationships, and the prosperity and sense of well-being that springs from purposefully investing in high-trust connections with others. Speaking personally, I think it's one of the most undervalued investments around, and a source of great personal and professional fulfillment.

Along those lines, we were deeply gratified to be informed in May that Lucien, Stirling & Gray was named by The Austin Business Journal as one of central Texas' Best Places to Work for 2011. It's the second year in a row that we've received this honor from our advisors and employees, and this year we rose from #9 to #5 in the small business category. In the face of a highly challenging environment in the last several years, the stability we have enjoyed, and the confidence and trust we have built within our team have contributed to levels of client satisfaction and retention that rival the very best firms in our profession. Most importantly, this culture of trust and collaboration lends itself to a highly flexible and adaptable team that is focused on constant improvement as we move forward.

In closing, we'd like to thank you for the referrals and introductions you've made to us. We truly appreciate all the efforts you've expended on our behalf, and the confidence you have shown in us through the years. Engaged clients who make a point of introducing us to their friends and colleagues have always been our most important source of new business relationships, and as the first half of 2011 comes to a close we are on track to have our best year ever for new clients welcomed to the fold.

As always, if there is anything we can do to make your experience with us better, please let us know and we will happily work to make it so.

Thank you for your confidence and trust.

Thomas G. Twombly

President

INVESTMENT COMMENTARY

If, like Rumple Stiltskin, one had simply fallen asleep at the beginning of the second quarter of 2011 and woken up again at the end, using the S&P 500 as a guide, one might believe that it was a boring and uneventful period. As evidence, you'd see that on March 31st, the evening before falling asleep, the S&P 500 closed at 1325. Awakening on June 30th, the final day of the quarter, you'd see that it closed at 1320 – a total change for the entire period of 5 points, or less than one half of one percent.

This could be construed as an argument for turning off the TV, shutting down the computer, and ignoring the daily barrage of cacophonous arguments about the state of various governments. Such a conclusion wouldn't necessarily be completely faulty, because being overly sensitive to the fire hose of data and "information" that characterizes our modern day existence can create huge anxiety – which often leads to paralysis or rash decision-making.

On the other hand, willful ignorance and abject denial are never wise components of a successful investment process. The key is to balance an awareness of current developments, and how they may impact the short term, with enough discernment to see beyond the frenzy of moment, and get a clear grasp of both the risks and the opportunities in a long-term investment plan. We attempt to strike that balance every day, and we'll try to address some of those issues here.

The headline news items that led to interim volatility during the last quarter, and that continue to roil investors in global stock, bond, and commodity markets now, are primarily three-fold: sovereign debt problems in Europe – specifically the governments of Greece, Portugal, Ireland, Spain and Italy – and the potential risk of a default or dislocation in the European Union; Chinese inflation, and the possibility that interest rate increases by the Chinese government may cause the global economy to fall back into recession; and the U.S. Budget Deal, and the possibility that stubborn intransigence in both political parties could lead to deadlock regarding the extension of borrowing limits, and result in a subsequent default on U.S. Government bonds.

Some combination of these things could come to pass. It's also entirely possible that none of them will come

to pass, or that something entirely different could impact the financial system – perhaps even in a positive way. The fact is that nobody can know for sure. The question is: what to do about it? Another important question is: to what extent have these headline fears taken the public's eyes off of more important long-term factors impacting the global economy?

To the second question we'd say "a lot. " Despite rhetoric to the contrary, the fact is that the economy, both domestically and globally, is growing. It may not be as robust as we'd like at this point, especially as it relates to domestic employment and housing markets, but it is not in recession. Despite all these headlines, people all over the world are earning, spending, and investing money at an increasing rate. Another fact is that corporate revenues, cash flows, earnings, dividends, cash positions, stock buybacks, and merger activity continue to surge at an historic rate. The reality is that companies are performing far better than the economy as a whole because they have made far better decisions than governments – and they continue to do so. The result is that relative to bond yields, high quality companies are cheaper than they've been since the Korean War. For investors with the appropriate time horizon, this presents some attractive opportunities.

Another issue to keep in mind is that in making long-term decisions, it's important not to get anchored to the belief that the health of the U.S. consumer necessarily dictates the strength of global economic growth. The world has changed fundamentally during our lifetimes. Where most of us grew up in the paradigm that the U.S. economy led the world, and the U.S. consumer drove the American economy, it is now the emerging middle class of developing countries in Asia and South America that are becoming the drivers of economic growth – here and abroad. According to the OECD in a paper published last year, fully 80% of the projected growth in the global economy between now and 2030 will come from Asia alone. This is not simply because those economies are low-cost producers of consumer goods, as we've traditionally come to think of them, but because the incredible enrichment they've experienced as a result means they are emerging as consumers and investors themselves. Already, a significant portion of the earnings of S&P 500 companies is attributable to this population, and its expected long-term growth is in its infancy.

As to the first question, we have made few changes to portfolios since our last report because we believe we are well-positioned. We are maintaining broad diversification among asset classes, high-quality investment holdings, prudent money managers, and ample cash reserves in case of the unexpected. Each of our model portfolios continues to provide attractive risk / return characteristics, and each has performed admirably over 1, 3, 5, and 10 year periods. This approach has stood us and our clients in good stead so far. We expect to continue in a similar vein.

Conservative Growth Model

2nd Quarter	YTD	1 Year	3 Year	5 Year
-0.30%	2.78%	17.15%	1.95%	4.09%

Inception Date 06/03/1999

Core Growth Model

2nd Quarter	YTD	1 Year	3 Year	5 Year
-2.36%	1.73%	20.75%	2.44%	4.16%

Inception Date 05/31/2003

Growth Model

2nd Quarter	YTD	1 Year	3 Year	5 Year
-2.84%	1.39%	22.44%	3.49%	5.64%

Inception Date 10/16/1992

Specialty Model
Diversified Growth Model

2nd Quarter	YTD	1 Year	3 Year	5 Year
-0.63%	4.97%	26.31%	3.32%	3.02%

Inception Date 10/31/00

Education Models
UT ORP

2nd Quarter	YTD	1 Year	3 Year	5 Year
-0.30%	3.87%	20.78%	0.54%	2.96%

Inception 08/10/1999

Retirement Growth

2nd Quarter	YTD	1 Year	3 Year	5 Year
-1.32%	3.36%	24.62%	0.50%	3.19%

Inception Date 06/03/1999

Growth & Capital Preservation

2nd Quarter	YTD	1 Year	3 Year	5 Year
-0.32%	3.05%	15.34%	3.34%	4.61%

Inception Date 11/30/2001