General Market Results

	2nd Quarter	YTD	One Year	Three Year	Five Year	Ten Year
CPI	0.07%	1.46%	1.51%	2.24%	1.26%	2.40%
Barclays Agg Bond	-2.33%	-2.44%	-0.69%	3.51%	5.19%	4.52%
S&P 500	2.92%	13.84%	20.60%	18.45%	7.01%	7.29%
DJI	2.92%	15.20%	18.87%	18.23%	8.64%	7.92%
S&P 400	1.00%	14.59%	25.18%	19.45%	8.91%	10.74%
Russell 2000	3.08%	15.86%	24.21%	18.67%	8.77%	9.53%
NASDAQ	4.15%	12.71%	15.95%	17.29%	8.22%	7.69%
MSCI EAFE	-0.73%	4.47%	19.14%	10.55%	-0.16%	8.16%
MSCI EM	-7.75%	-9.40%	3.23%	3.72%	-0.11%	14.02%

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SECOND QUARTER REPORT 2013

July 2013

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A MESSAGE FROM THE PRESIDENT

Thomas G. Twombly

"Quiet minds can't be perplexed or frightened, but go on in fortune or misfortune at their own private pace, like a clock during a thunderstorm." - Robert Louis Stevenson -

We are pleased to provide you with our report for the period ending June 30, 2013.

For almost 15 years I've had a headline tacked to the top of the bulletin board next to my desk that reads: "Dow Industrials plummet 26" (my italics). It's there as a wry reminder that the financial media is not my friend – or yours. Hyperbole is great for getting our attention, but it's misleading and dangerous to long-term goal-focused investors.

As this quarter wound to a close we got a sharp reminder of the insidious influence the media can have on the particularly delicate psyche of investors these days. With it, we got an equally sharp reminder of the importance of constantly inoculating ourselves against the threat posed by that influence, because it has probably damaged more long-term investment plans than any of the supposed crises we've ever faced. The fact is: words can, and do, hurt – particularly in the realm of investor behavior.

At the beginning of the final week of June, "meltdown" "carnage" and "bloodbath" were only three of the ridiculously hyperbolic terms used by supposedly trusted sources of financial journalism like CNBC and the Wall Street Journal to describe what for most well-diversified and appropriately allocated investors was little more than a perfectly normal period of increased volatility.

Sure, some who were foolishly concentrated were punished. For instance, if one were solely invested in long-duration Treasury bonds, the May – June period brought a nasty surprise. The value of those assets fell by around 7% at the Federal Reserve's intimation that they may soon start to taper their "quantitative easing" efforts. We have long warned that this particular asset class (and bonds in general) was very richly valued, and subject to unexpected loss when the market, not the Fed, re-set long-term rates. Still, it was hardly worthy of a word like "carnage."

"Volatility is not the same as risk. The real risk is an inappropriate response to that volatility."

Similarly, if one were a speculator heavily leveraged to Japanese stocks after a more than 70% run-up in the past year, the period from May 21st to mid-June was painful as the Nikkei 225 fell by 20% during that period. (Those piled up in gold too, either from speculative greed or in response to hyperbolic fear of monetary collapse, suffered further declines of more than 23% in this quarter.) Again though, a 20% decline after a 70% increase certainly doesn't qualify as a "bloodbath."

For those who were broadly diversified and appropriately allocated, including our clients, most of the volatility seen lately was just a slight bump in a long and winding road that has always been, and will always be, full of twists, turns, and potholes in its inexorable climb upwards.

Volatility is not the same as risk. The real risk is an inappropriate response to that volatility. In other words, the biggest risk, and therefore the greatest opportunity for success, is always and forever about getting the behavior right. Sadly, that message never sells newspapers, and it doesn't increase "eyeballs" or Nielson ratings.

In case you missed it, or if you'd value an opportunity to revisit a more appropriate perspective on the benefits of a calm, deliberate, multi-decade investment plan that successfully ignores the daily, monthly, and yearly hype that has always characterized the media machine, I'd strongly encourage you to read Bleckley Dobbs' wonderful article that appeared in our May e-newsletter. You can find it on our website at http://www.lsggroup.com/love-and-money-a-look-back-at-my-early-investments-0513.asp

As our Director of Financial Planning, and as a diligent 30-year investor himself, Bleckley's personal story illustrates the incredible power of time, coupled with patience and faith in the future, and what it can yield for the disciplined investor. Equally as important, it illustrates the value of working with a team of advisors who know whereof they speak, who "eat their own cooking" and who invest alongside their clients, embrace ambiguity, and weather the same challenges.

It's a true honor for me to lead such a team of professionals, and a pleasure to serve such a great group of clients.

Thank you for your confidence and trust.

Thomas G. Twombly

President

INVESTMENT COMMENTARY

The most significant development of the second quarter of 2013 was the sudden recognition by the investing populace of a risk that we have been highlighting for some time: namely, the potential for a sudden downdraft in the value of a broad spectrum of nominally "safe" fixed income investments when the market, not the Federal Reserve, decided it was time to re-set long-term interest rates. Coming just after the mid-point of the quarter, that recognition set in motion a series of events that raised levels of volatility across asset classes, and snapped investors out of their previously complacent stance.

Testifying before the Joint Economic Committee of Congress in late May, Fed Chairman Ben Bernanke alluded to the possibility that if economic activity were to continue to improve apace, the Fed might begin to "taper" their on-going efforts to spur growth through so-called "quantitative easing" sometime in 2014. The effects of these somewhat nebulous comments were immediate, and more pronounced than many had expected – including, apparently, the Federal Reserve itself.

The yield on 10-year Treasury Bonds, which had drifted lazily down to around 1.6% at the beginning of May (a mere 1/5 of 1% above the all-time, 220-year low of 1.39% set on July 24th of last year) suddenly shot up as spooked investors rushed to sell bonds – eventually settling around 2.6% by the end of the quarter. Longer dated bond issues were impacted even more, with the broadly-followed iShares Barclays 20+ year Treasury ETF ending the first half of the year with a sharp loss of 8.9%.

Mortgage rates in turn jumped by about 1%, with conforming 30-year fixed-rate loans rising from the mid 3% range in early May to the mid 4% range by the end of June. Refinancing activity came to an abrupt halt and Real Estate Investment Trusts (REITs) particularly those focusing on mortgages saw noted declines.

Other sectors of the fixed-income markets, which had become very crowded with yield-seekers over the last few years, were also hit. Riskier asset classes like junk bonds and emerging markets debt took it on the chin, but so too did municipal bonds, proving the point we've been making for a while that the nominal "safety" of even high quality bonds can quickly get turned on its ear in a rising interest rate environment. The net effect of all of this was that the Barclays Aggregate U.S. Bond Index experienced its worst quarterly setback in 9 years.

Though these developments impacted our portfolios somewhat, the net effects on our clients remained fairly muted as we have deliberately kept bond allocations near their prescribed minimums for some time, and have entrusted assets largely to managers who concentrate on shorter-dated maturities.

Another effect was to bring a pause to the apparent straight-line ascent of U.S. equity markets since the beginning of the year. The Dow, having reached a peak of 15,409 on May 28th and the S&P 500 having hit 1669 on May 21st, subsequently experienced declines of 5-6% in the following month before beginning a rebound in the final week of June. Nevertheless, the Dow experienced its best first half since 1999, and the S&P 500 finished June up 2.9% for the quarter and 13.8% for the year so far – illustrating the point we've made in earlier reports that owning great companies at this period in time may ultimately prove to be more conservative of investor capital than loaning money to governments.

Another negative for the period included our modest allocations to emerging market equities, which experienced further declines as slowing economic growth and a strengthening dollar caused additional capital outflows. Overall allocations to these areas by money managers have now fallen to their lowest levels since 2008, raising the opportunity for farsighted investors to purchase at significant discounts to only a few months ago. With approximately 3 billion residents, a rapidly growing middle class, and burgeoning demand for consumer goods and services, the outlook for these markets is extremely compelling over the next 10-15 years. We believe it makes sense to absorb short-term setbacks in our comparatively small allocations to this asset class in order to reap those long-term benefits.

As a final point, it should be noted that we view a reduction in central bank stimulus as a good sign. Housing markets have improved substantially, auto sales have rapidly returned to pre-crisis levels, personal debt levels are nearing 30 year lows, and corporate earnings continue to surprise on the upside. With a great deal of cash still on the sidelines, and with many individual and institutional portfolios still under-allocated to equities, we remain convinced that our clients are well-positioned for a future that looks increasingly positive. As always, please call us if you would like to discuss our perspective, or your particular situation.

Conservative Growth Model

2nd Quarter	YTD	1Year	3 Year	5 Year	10 Year
0.41%	6.15%	10.76%	7.22%	2.20%	5.54%

Inception Date 06/03/1999

Core Growth Model

2nd Quarter	YTD	1Year	3 Year	5 Year	10 Year
-0.04%	5.27%	11.81%	8.54%	2.63%	6.20%

Inception Date 05/31/2003

Growth Model

2nd Quarter	YTD	1Year	3 Year	5 Year	10 Year
0.23%	5.68%	13.28%	8.21%	2.78%	8.11%

Inception Date 10/16/1992

Specialty Model
Diversified Growth Model

2nd Quarter	YTD	1 Year	3 Year	5 Year	10 Year
2.03%	10.83%	18.66%	12.91%	4.68%	7.77%

Inception Date 10/31/00

Education Models
UT ORP

2nd Quarter	YTD	1Year	3 Year	5 Year	10 Year
-0.06%	6.48%	14.37%	9.57%	2.06%	5.95%

Inception 08/10/1999

Retirement Growth

2nd Quarter	YTD	1 Year	3 Year	5 Year	10 Year
-0.38%	7.28%	15.81%	11.27%	2.33%	7.54%

Inception Date 06/03/1999

Growth & Capital Preservation

2nd Quarter	YTD	1 Year	3 Year	5 Year	10 Year
0.18%	4.60%	9.87%	6.99%	3.22%	6.02%

Inception Date 11/30/2001