Lucien, Stirling & Gray Advisory Group, Inc.

THIRD QUARTER REPORT 2008

October 2008

LUCIEN, STIRLING & GRAY ADVISORY GROUP

"Smart Decisions About Serious Money"

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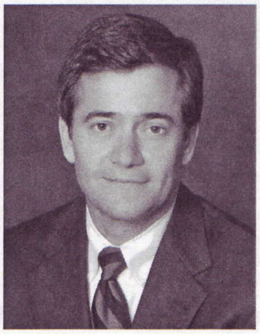
A MESSAGE FROM THE PRESIDENT

Thomas G. Twombly

"The antidote to fear is not information, it is trust."
—Nick Murray



In the third quarter of 2008 trust evaporated from our financial system. Faith and confidence in big Wall Street institutions disappeared, and quickly turned to disgust, and then to anger, and finally to fear. The resulting loss of confidence has catalyzed a sudden tectonic shift in our collective sense of stability and safety, and many have been left breathless at the pace of change. Big mortgage companies have failed or been taken over. Major brokerage houses have been acquired by banks at a fraction of their former value. Credit markets have locked up tight because institutions around the world have lost faith in the validity of their counter-parties balance sheets. Banks across the globe suffer from severe strain. Financial markets have dropped sharply.

During this time, however, we have noted a profound phenomenon – our clients and friends keep calling to ask how we are, and to reach out in special ways to show us their appreciation. They are deeply concerned about the state of the economy, as they should be, but they have repeatedly put concern for themselves behind a genuine desire to connect. Kind words of support, an unexpected hug, a rose clipped from the garden – these are all small, but profoundly significant indications of the deep-seated human need to trust, to value, and to be trusted and valued in return. We thank you for it. So while the ties of the world beyond our control sometimes appear to be unraveling at warp speed, we observe that those of trusted individual relationships are knitting much closer together, and at a similar pace. We suspect we are not alone in this experience. In spite of the current turmoil, this is a reason to be positive in the long run. Trust will re-emerge, between individuals, organizations, and companies that are trustworthy, and we believe our society and financial markets will eventually be better for it.

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From an individual perspective, it is crucial for each of us to acknowledge that our circumstances have been affected by recent events. The financial landscape has been altered, and it will undoubtedly continue to morph and change as we move forward. There is a need for each of us to reassess our situation and our assumptions in this environment. Instead of entering a state of denial, or looking backwards, we must look forward with complete candor about the present. The coming months will be a time to take personal inventory, and to identify strengths, weaknesses, opportunities, and threats, both from a financial perspective and a personal perspective. It will be a time to revisit what is elemental about planning and preparing, and to reassess everything from anticipated cash-flow, assets, and liabilities, to personal objectives, priorities, hopes and fears.

One thing that has not changed is that long-term success is about discipline, not investment performance; discipline to save and invest diligently when you would prefer to spend; discipline to maintain an intelligently diversified portfolio when you (and others) are tempted to chase "hot" ideas, or to panic during market declines; discipline to buy low, when others are urgently and anxiously selling, and to sell high, when others are euphorically buying. Success still comes from slight improvements implemented over long periods of time, not from swinging for the fences. Our job is to help you develop and maintain that discipline, and to insist that you focus on the issues you can control.

There are few guarantees we can make you. One we have always tried to emphasize is that at some point the value of your investment portfolio will decline by a meaningful margin. These events may occur over a month, a quarter, a year, or more. They may take place early in our relationship, or they may not occur until we have worked together for a while. If you work with us long enough, they will happen several times – guaranteed. Declines, corrections, bear markets, and recessions are a regular and necessary part of the economic cycle, and we should all expect to experience them.

Another commitment we have always made is that we will be here, and we will help you navigate through them. As investors ourselves, and as advisors with many years of experience, we understand that these periods are painful and scary. Part of our job is to help you look beyond short-term turmoil, remain focused on important long-term objectives, maintain an intelligently diversified portfolio, and to avoid the common mistake of being spooked out of an intelligently designed plan at the worst possible moment. Part of the fee you pay to us is to care for your investments, the majority is to care for you.

Thank you for your continued confidence and trust.

Thomas Twombly

President

INVESTMENT COMMENTARY

From an investment perspective, it is a vast understatement to say that much has changed during and since the end of the third quarter of 2008, both in terms of the overall financial landscape, and our model portfolios. Even three or four weeks ago seems like ancient history at this point. The entire banking, mortgage, and financial system has undergone massive and sudden change in that time, as the U.S. government has stepped in and taken ownership interests in what had previously been solely public companies. Investment markets globally have been gripped with unprecedented volatility, as huge volumes of capital have been repositioned around the world, and portfolio managers everywhere have taken extraordinary steps to respond to unexpected and unpredictable events. Values in almost all asset classes have fallen sharply, and even the most stoic investors everywhere are questioning their fundamental assumptions about the nature of market dynamics.

While it has been our habit in the past to use this space to report on general results and portfolio allocations for our various model portfolios as of the close of the previous quarter, we believe it may be better (and, frankly, easier and more authentic for us) to discuss our perspective on where we are at this writing, as we approach the end of October, and to discuss our rationale for adjustments we have been making throughout model portfolios. Please excuse us from this departure, and feel free to ask us to provide historical data through the end of the quarter if you would like it. Specific investment returns for various models through September 30, 2008, as well as for broad indices, are tabulated and we will certainly provide you with a snapshot of overall model portfolio holdings as of that date if you wish.

The range of possible events and outcomes for virtually all asset classes has expanded dramatically in recent weeks. Highly volatile and unpredictable capital flows have exited stock, bond, and commodity markets worldwide, and have fled into short-term U.S. Treasury securities at an unprecedented rate. The dollar has strengthened considerably against foreign currencies, exacerbating declines in foreign stock and bond markets. Though it is possible this trend could continue or increase, it is also possible that large portions of those assets could respond to rapidly changing economic and political conditions, and move suddenly back, or in an entirely different direction. For that reason, we believe more than ever that broad diversification and an adaptive, balanced, and flexible approach are extremely important.

Some of the themes we have been addressing, and some of the steps we have taken as a result are as follows: on an intermediate term basis we have reduced allocations to foreign equities, especially those of smaller companies. Though this is an area that has hurt performance results notably in the last few months, we still believe it is important to have long-term assets in international companies. At some point, dollar strength may reverse as the level of U.S. government debt increases, and foreign investors and governments may eventually repatriate assets in order to invest in their own economies.

We have recently re-allocated some holdings towards longer-term U.S. Government securities in almost all models. The prospect of a slowing economy, and even the outside possibility of a deflationary environment for a period of time have increased our interest in high-grade, longer-term debt for the intermediate term. At the same time, a shortage of credit, and decreased production around the globe could also lead to increased competition for finite resources, and a rapidly developing inflationary environment. We are, therefore, maintaining modest allocations to various natural resource holdings despite their recent declines. Though we have comparatively large cash holdings by historical standards, we continue to want to hold, and add selectively to, U.S. equities for the long term. If history is any guide, and it's the only one we have, vastly oversold markets will eventually recover, and investors with a longer-term horizon should benefit from current levels.

The path forward is extremely difficult to discern in the short and intermediate term. One more optimistic possibility is that as credit markets ease, and as interest rate cuts, a new government stimulus package, and coordinated central bank intervention around the world take effect, we may see a sudden reversal in the present equity market environment. Another less optimistic intermediate view is that with lots of shell-shocked people, we will see a substantial increase in the national savings rate, and a corresponding decline in consumer spending that will further slow the economy. Though we expect that five years from now either path will lead to significantly improved conditions in this country, we believe it is not the time to take dramatic steps in either direction for the management of portfolios, and we prefer to take a balanced approach.

CORE MODELS

Conservative Growth Model:

3rd Quarter	YTD	One Year	Three Year	Five Year
-8.93%	-12.87%	-12.04%	3.88%	6.57%

Inception Date 06/03/1999

Core Growth Model:

3rd Quarter	YTD	One Year	Three Year	Five Year
-13.37%	-16.77%	-17.28%	2.02%	6.02%

Inception Date 05/31/2003

Growth Model:

3rd Quarter	YTD	One Year	Three Year	Five Year
-12.37%	-17.06%	-17.80%	4.06%	9.12%

Inception Date 10/16/1992

SPECIALTY MODEL

Diversified Growth Model:

3rd Quarter	YTD	One Year	Three Year	Five Year
-9.65%	-18.19%	-20.11%	0.73%	7.50%

Inception Date 10/31/00

EDUCATION MODELS

UT ORP:

3rd Quarter	YTD	One Year	Three Year	Five Year
-11.16%	-15.28%	-15.94%	2.74%	6.71%

Inception Date 08/10/1999

Retirement Growth:

3rd Quarter	YTD	One Year	Three Year	Five Year
-16.25%	-19.96%	-20.81%	1.35%	8.17%

Inception Date 06/03/1999

Growth & Capital Preservation:

3rd Quarter	YTD	One Year	Three Year	Five Year
-8.81%	-11.33%	-12.56%	2.43%	6.23%

Inception Date 11/30/2001

Upcoming Events

Join us for our

16th Annual

Holiday Party and Open House

December 11th, 2008

3:30 – 7:00 pm

GENERAL MARKET RESULTS

	3rd Quarter	*YTD*	*One Year*	*Three Year*	*Five Year*
CPI	0.12%	4.31%	5.08%	3.29%	3.42%
DJI	-3.71%	-16.59%	-19.85%	3.34%	5.60%
Nasdaq	-9.19%	-21.49%	-22.92%	-1.09%	3.11%
S&P 500	-8.37%	-19.29%	-21.98%	0.21%	5.16%
Russell 2000	-1.11%	-10.38%	-14.48%	1.83%	8.15%
MSCI World ex US	-21.84%	-29.54%	-29.97%	3.09%	11.80%
LB Agg Bond	-0.48%	0.64%	3.66%	4.15%	3.79%

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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