Lucien, Stirling & Gray Advisory Group, Inc.

THIRD QUARTER REPORT 2009

October 2009

LUCIEN, STIRLING & GRAY ADVISORY GROUP
"Smart Decisions About Serious Money"
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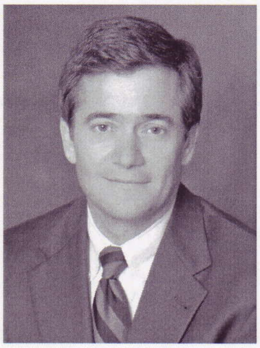
A MESSAGE FROM THE PRESIDENT

Thomas G. Twombly



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

During the last month, we hosted a client appreciation event here, in thanks for so many of you recognizing so many of our team as Five-Star Wealth Managers – Best in Client Satisfaction. It was a great gathering, and we sincerely appreciate the warmth and good wishes you brought with you. Thank you. With hard work and a little luck, perhaps we can duplicate those results again next year. We are proud that so many of our clients feel such a sense of trust in us, and happy that that has translated into some very positive results, especially in the recent six months.

On a more personal note, September 10th also marked my 25th year in this profession and, the way I have conceptualized it from the beginning, the half-way point in my career. (Who knows what the future holds, but I've long aimed for a 50-year run.) As someone who has always been a second-half player, this milestone leaves me with a strong sense of anticipation and excitement, and makes us ever more determined to keep building something unique and valued with this firm.

Over the seventeen years that Lucien, Stirling & Gray has been in existence we have focused on two major priorities: to purposefully create a functional family environment in this firm, so we can help our clients truly understand and discover what their money is for, and to build a process-oriented company comprised of professionals with a deep desire to serve clients. With varied professional expertise, and a commitment to teamwork, we make sure that important things get done.

We have purposefully limited our clientele to a manageable number of people whom we respect and enjoy, so our clients can be comfortable sharing deeply personal information in a relationship of trust, and confident that we will always be available to help them monitor, adjust, and overcome whatever financial challenges they face – now, and in the future.

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We have worked hard to help our clients engage in a systematic process of on-going planning and preparation, so as to relieve anxiety about the future and mitigate fear of the unknown – and we constantly engage in the same process ourselves, because the example we set by our own behavior is the most profound statement we can make about how we view the value of our advice.

We now find our firm about halfway to

our goal, in terms of the number of people we can serve effectively. And our momentum seems to be accelerating.

At this rate, we can begin to see the day approaching where we will need and want to stop accepting new clients. However, between now and that point, we would much prefer to establish new relationships with the friends and colleagues of our existing clients. We enjoy working with you, and we are sure we'd enjoy working with people you like and admire.

To that end, we will soon be asking you – in our conversations, and at special client appreciation events – to introduce us to such people…provided, of course, that you are perfectly comfortable doing so.

We don't expect – and frankly don't think we deserve – introductions to be made unless you are satisfied and happy with the services we provide you. That's why, as we begin these conversations, we will urge you to tell us, freely and candidly, anything you feel you need, or even want, from us that we're not already providing. Your satisfaction remains our primary goal.

But if we're serving you in the ways you hoped and expected we would, then – and only then – we will ask you to introduce us to someone you believe should be similarly served. We treasure our relationship with our clients, and seek only to serve a few more people like you. These have been challenging times for people's sense of comfort and trust, and many are considering seeking a second opinion about their financial situation, their investment portfolios, or their long-term plans. We stand ready to serve those who you believe might benefit from our approach.

We welcome any suggestions which this letter sparks, and we look forward to following up with you in person.

Thank you for your continued confidence and trust. And thank you for giving us the opportunity to serve you.

Thomas G. Twombly

President

INVESTMENT COMMENTARY

The third quarter of 2009 proved to be a rewarding one for financial markets as a whole, and a profitable one for our clients, as virtually all assets classes to which we have allocated assets rose powerfully.

During the period, U.S. stock markets showed impressive results, with the S&P 500 and the NASDAQ rising in excess of 15.6%. Small-cap equities, as represented by the Russell 2000, rose by more than 19%. Corporate bond markets also continued their recovery, with the broad-based Barclays Capital Aggregate Bond Index rising by 3.74%, providing even the more conservative portions of portfolios with notable risk-adjusted returns.

International financial markets performed even better, especially when measured in dollar terms, as signs of economic recovery increased, and as foreign currency markets rose strongly against a falling dollar. The MSCI Europe, Asia & Far East index (EAFE) climbed by more than 19.5% during the quarter, bringing its returns to slightly shy of 30% for the year thus far, and emerging market economies provided aggregate returns that were even more impressive.

From the market lows of March 9, 2009 through the end of the quarter, the S&P 500 has risen by 58%, small-cap equities by 76%, international equities by 76%, and emerging markets by over 90%, demonstrating once again that patience, perseverance, and broad diversification are crucial components of success in the investing world.

In spite of this impressive short-term performance, many concerns remain stubbornly evident, especially as it relates to the underlying strength of the U.S. economy. Unemployment rates continue to edge up, and are now approaching 10%, indicating that an important part of our economic engine is not firing on all cylinders. While housing markets show some signs of stabilization, mortgage delinquency rates are still rising in many areas, and a significant portion of homeowners nation-wide owe more on their homes than they are presently worth.

Commercial real estate markets also show considerable signs of duress, and given the extent of the exposure that major U.S. banks have to those areas of the market, there remains a good deal of concern that continued weakness could have significant negative effects on the financial sector moving forward. Not a small number of economists worry that this issue alone could drag the overall economy back into recession, and could even result in the need for even larger bailouts from already over-extended government programs.

During the quarter, we gradually increased allocations to international and emerging markets equities in many client portfolios, following on our beliefs that many economies outside the United States are likely to maintain a competitive advantage because of the relative strength of their banking systems, and that continued weakness in the dollar is likely to provide non-U.S. holdings with an extra level of attractiveness.

Bond holdings, for the most part, remained unchanged as many of the corporate bond managers we utilize have managed to deliver equity-like returns during the period with considerably less risk. While we recognize that much of this was due to a severe level of dislocation in the debt markets that has now largely been corrected, and that continued returns of this magnitude are unlikely, many of the underlying deflationary pressures in the broader economy remain, and we believe it prudent to maintain healthy exposure to fixed income holdings.

Late in the period, we added small positions to gold and gold stocks in those of our model portfolios where it was possible. In those where it was not possible because of lack of availability, we added slightly to existing natural resource holdings in response to concerns about the possibility of a sudden decline in the dollar, or of rising global inflation.

Underlying cash levels remain in the 20-25% range in most of our model portfolios as of the end of the quarter. While this has certainly resulted in some drag on overall results during a period of explosive returns in many other areas, we are nonetheless quite pleased with aggregate risk-adjusted returns in all of our portfolios, and still mindful that with such a period of rapid growth that has included little if any significant pull-back, we would like to have some powder dry in the event that it does occur.

Conservative Growth Model

3rd Quarter	YTD	1 Year	3 Year	5 Year
8.06%	11.62%	-1.31%	0.51%	4.19%

Inception Date 06/03/1999

Core Growth Model

3rd Quarter	YTD	1 Year	3 Year	5 Year
11.11%	17.36%	3.15%	-0.09%	4.42%

Inception Date 05/31/2003

Growth Model

3rd Quarter	YTD	1 Year	3 Year	5 Year
11.11%	19.89%	3.71%	1.73%	6.95%

Inception Date 10/16/1992

Specialty Model
Diversified Growth Model

3rd Quarter	YTD	1 Year	3 Year	5 Year
12.75%	20.12%	-3.37%	-3.09%	3.51%

Inception Date 10/31/00

Education Models

UT ORP

3rd Quarter	YTD	1 Year	3 Year	5 Year
10.62%	15.07%	-2.63%	-1.05%	3.93%

Inception 08/10/1999

Retirement Growth

3rd Quarter	YTD	1 Year	3 Year	5 Year
14.19%	22.42%	-1.43%	-1.79%	4.43%

Inception Date 06/03/1999

Growth & Capital Preservation

3rd Quarter	YTD	1 Year	3 Year	5 Year
11.55%	19.04%	4.14%	1.85%	4.78%

Inception Date 11/30/2001

Upcoming Events

Lucien, Stirling & Gray invites you to attend our

18th Annual Holiday Party

and Open House

December 10th 2009

3:30 – 7:00 pm

4005 Guadalupe Street

General Market Results

	3rd Quarter	YTD	One Year	Three Year	Five Year
CPI	0.07%	2.67%	-1.35%	2.08%	2.59%
DJI	15.82%	13.49%	-7.38%	-3.33%	1.85%
Nasdaq	15.66%	34.58%	1.93%	-2.05%	2.27%
S&P 500	15.61%	19.26%	-6.91%	-5.43%	1.01%
Russell 2000	19.28%	22.43%	-9.55%	-4.57%	2.41%
MSCI World ex US	19.69%	36.35%	5.89%	-1.24%	8.10%
Barclays Captl Agg Bd	3.74%	5.72%	10.56%	6.41%	5.13%

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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