Lucien, Stirling & Gray Advisory Group, Inc.

FOURTH QUARTER REPORT 2008

January 2009

LUCIEN, STIRLING & GRAY ADVISORY GROUP

"Smart Decisions About Serious Money"

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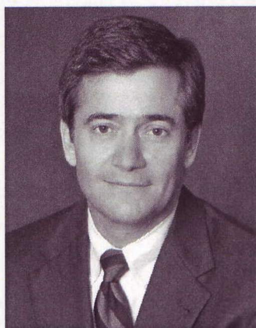
A MESSAGE FROM THE PRESIDENT

Thomas G. Twombly



We are pleased to report that as of December 31st, 2008 is behind us.

The final quarter of 2008 brought with it a particularly brutal climax to a year that now represents the worst for U.S. and international stock markets that most people alive today have ever experienced. While the price declines alone were notably painful for equity and bond markets during the quarter, the violence of the day-to-day price swings that they experienced in the process was absolutely mind-numbing.

Deepening fears of a global banking catastrophe in October, combined with massive forced liquidations ($152 Billion, according to the Wall St. Journal) on behalf of hedge funds worldwide, violent and sudden moves in global currency markets, and a highly contentious election season in the United States resulted in an indiscriminate sell-off in every stock and bond market sector except U.S. Treasuries. Broadly followed stock indices such as the Dow Jones Industrial Average, the S&P 500, and the NASDAQ fell 18.4%, 22%, and 24.3% respectively during the final quarter alone, while corporate bond markets as a whole experienced declines approaching 20%. Daily trading volume and volatility reached unprecedented levels during the period, as equity markets regularly experienced daily trading ranges that historically had been reserved for months, or even years. October, November, and December of 2008, according to Barron's Magazine, now rank as the 1st, 2nd, and 4th most volatile months on record. Without question, 2008 was a year that investors everywhere were only too happy to bid goodbye.

Against this backdrop, portfolio management "success" is certainly a relative concept. Though we are pleased to report that almost all of our managed portfolios fared considerably better than markets as a whole, both for the quarter, and for the year, and while they certainly performed far better than many highly publicized accounts of people who experienced catastrophic losses due to fraud and outright thievery, we are humbled at our results. As advisors who believe strongly in the concept of "eating our own cooking", each of us has a substantial portion of our own long-term assets invested in a similar manner as those of our valued clients, and we share similar pain.

> *"Risk management is crucial to long term success, and we are pleased to note that the vast majority of our clients have heeded this message well."*

From a longer term perspective, the experience of the last year has brought back into sharp focus both the importance of a well defined personal financial plan, and the need for discipline in maintaining that plan. It has also created some potential long term opportunities for those who have prepared well; in spite of

the fact that even the well-prepared have experienced painful losses in the past year.

A short fifteen months ago, after almost five years of steady growth, easy credit, and abnormally low volatility in equity markets, it was very common to see people committing money to long-term investment vehicles that they knew they would need to use in the short term. Whether it was flipping houses or speculating on energy stocks, people across the country had fallen into terrible habits of getting over-committed, over borrowing, and drawing down cash in emergency funds, with expectations of quick, risk-free returns. (In hindsight, it appears that many had no emergency funds at all.)

If there is one time-tested lesson to be re-drawn from the experience of the last year, it's that money with less than a two or three year time horizon has no business being invested in anything other than cash equivalents and CD's. Risk management is crucial to long term success, and we are pleased to note that the vast majority of our clients have heeded this message well. None of us has the ability to make consistently accurate predictions about what the future holds. Our job together is to gauge risk and reward potential in a wide range of areas, and to combine investments in a manner that maximizes long term return potential while minimizing personal risks. Adequate emergency funds are critical for minimizing some of those risks.

As for opportunities, in addition to some investment themes we will discuss in the second portion of this report, now may be a great time to re-examine debt management plans. Most of our clients are devout "savers" with very solid credit scores. For those with mortgages, and the intention of remaining in the same home for the foreseeable future, this may be a tremendous opportunity to refinance, and lock in a much lower rate. We suspect that inflation, and therefore interest rates, will eventually head higher, and those with the foresight and ability to take advantage of current conditions will be well rewarded in the long run. As always, please let us know when you have questions or concerns, and we will be happy to discuss them.

Thank you for your continued confidence and trust.

Thomas Twombly
President

INVESTMENT COMMENTARY

From an economic and financial market perspective, 2008 proved to be a tale of two very different environments. The first half was largely a tale of runaway inflation and unimpressive market pull-backs, while the second half was a tale of runaway fear, deflation, and massive market gyrations.

By around midyear the Consumer Price Index (CPI) was on pace to reach 6.3% for the year, as the prices of commodities soared, and crude oil hit $147 per barrel. Corn and other basic food stuffs were inflating at 10% annualized rates as gasoline climbed to well over $4 per gallon in many places, and industrial materials were in short supply as the rapidly growing economies of China, India, and others provided a seemingly insatiable demand. Though financial markets here and abroad experienced some declines based upon concerns about softening real estate markets and tightening credit, they were fairly moderate in scope, and the prevailing concerns were of a falling dollar, crushing energy costs, and imported inflation.

By late summer, however, crude oil prices had begun a sharp decline that eventually saw them plunge in price by 77% in less than six months, falling to $33 in late December. Other commodities followed suit, as sudden panic about the stability of the U.S. banking system, and the collapse of Lehman Brothers triggered a credit and liquidity crisis that spread quickly around the globe, wreaking havoc on consumer and corporate confidence everywhere. Panic buying of U.S. Treasury bills by investors worldwide sent the dollar sharply higher against other currencies, culminating in a 22% rally against the Euro in a few short months, and exacerbating for U.S. investors the effects of international stock and bond market drops.

The CPI turned negative for the last 2 quarters, fueling fears of deflation, and sending long-term corporate and municipal bonds reeling as financial markets worried about mass defaults on the part of companies and municipalities everywhere. Interest rates on the 10-year Treasury bond dropped sharply from over 4% in early October to slightly over 2% by mid-December, fueling a rally in prices in long-term treasury funds of more than 27% in less than three months. Equity markets here and abroad were hammered, falling

more than 50% from last year's peaks to their lows in November.

Though our managed portfolios couldn't help but be impacted by the events of the year and the final brutal quarter, by and large we managed to steer clear of the worst of the damage. Early in October we re-allocated assets in most of our model portfolios from short-term bonds to longer-term treasury funds. This proved to be timely, and we managed to capture much of the gains those funds experienced for the year. We also reduced remaining equity exposure slightly, and softened somewhat the effects of ghastly market declines in the final three months of the year.

Despite our continued short-term caution, we believe that much of the market sell-off we experienced in October and November was indiscriminate, and has created some big price anomalies in many asset classes and individual securities. Highly experienced managers should be able to exploit these opportunities over the long run, and we believe we have hired some of the best and most experienced. We also believe this was a necessary event, and that it has helped to purge out excesses, and begun to clear the way for new growth by weeding out marginal and over-leveraged players.

As a result, late in December we began adding slightly to areas such as natural resource holdings, and to our corporate bond holdings. These are sectors that have sold off significantly, and areas we suspect will be the first to show signs of recovery as the economy eventually improves. We continue to look for opportunities to gradually put substantial remaining cash to work, but we expect to do so slowly. We encourage our clients not to look for a market "bottom," as such things are usually not an event, but a process, and often a lengthy one. Despite a great deal of negative economic news, we believe the long term is beginning to look more promising.

One thing we will point out is that there is a tremendous amount of cash out there on the sidelines. While aggregate money market funds amounted to only 48% of stock funds when 2008 began, money market assets now exceed those of stock funds by a good margin. With short-term interest rates at less than 1%, and with corporate bond and equity markets selling at significant discounts to their values of a year ago, we suspect those assets will not remain in their current position forever.

Risk management has been, and will continue to be, an underlying theme in our thought process. Does it prevent losses? No, but it certainly has the potential to keep more assets intact during times of challenge, and we are pleased to report that the majority of our clients have benefitted from this approach.

CORE MODELS

Conservative Growth Model:

4th Quarter	YTD	One Year	Three Year	Five Year
-11.58%	-22.97%	-22.97%	-0.72%	2.57%

Inception Date 06/03/1999

Core Growth Model:

4th Quarter	YTD	One Year	Three Year	Five Year
-12.11%	-26.85%	-26.85%	-2.98%	1.90%

Inception Date 05/31/2003

Growth Model:

4th Quarter	YTD	One Year	Three Year	Five Year
-13.50%	-28.26%	-28.26%	-1.54%	3.52%

Inception Date 10/16/1992

SPECIALTY MODEL

Diversified Growth Model:

4th Quarter	YTD	One Year	Three Year	Five Year
-19.55%	-34.18%	-34.18%	-7.01%	0.66%

Inception Date 10/31/00

EDUCATION MODELS

UT ORP:

4th Quarter	YTD	One Year	Three Year	Five Year
-15.38%	-28.31%	-28.31%	-3.51%	1.15%

Inception Date 08/10/1999

Retirement Growth:

4th Quarter	YTD	One Year	Three Year	Five Year
-19.48%	-35.56%	-35.56%	-6.63%	1.27%

Inception Date 06/03/1999

Growth & Capital Preservation:

4th Quarter	YTD	One Year	Three Year	Five Year
-12.52%	-22.43%	-22.43%	-2.24%	1.68%

Inception Date 11/30/2001

Upcoming Events

Fireside Chat:

Action Items for 2009:
"What we're doing to prepare and the 5 things we suggest you do."

Speaker: **Thomas Twombly, President**

February 19, 2009
6:30 – 8:00 pm

GENERAL MARKET RESULTS

	4th Quarter	YTD	One Year	Three Year	Five Year
CPI	-2.91%	1.14%	1.14%	2.58%	2.88%
DJI	-18.39%	-31.93%	-31.93%	-4.09%	-1.12%
Nasdaq	-24.27%	-40.54%	-40.54%	-10.58%	-4.67%
S&P 500	-21.94%	-37.00%	-37.00%	-8.36%	-2.19%
Russell 2000	-26.12%	-33.79%	-33.79%	-8.29%	-0.93%
MSCI World ex US	-22.29%	-45.24%	-45.24%	-6.57%	3.00%
Barclays Captl Agg Bd	4.57%	5.24%	5.24%	5.51%	4.65%

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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