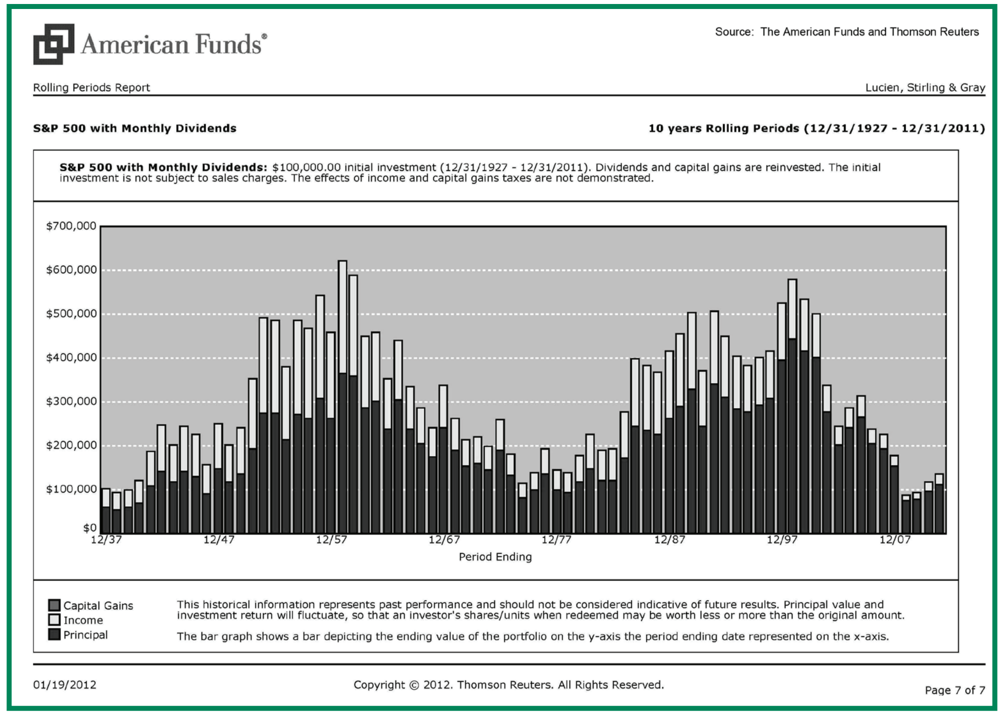

General Market Results

	4th Quarter	YTD	One Year	Three Year	Five Year
CPI	-0.29%	3.22%	3.22%	2.48%	2.31%
Barclays Aggregate Bond	1.12%	7.84%	7.84%	6.77%	6.50%
S&P 500	11.81%	2.12%	2.12%	14.11%	-0.25%
DJI	12.78%	8.38%	8.38%	14.89%	2.37%
S&P 400	12.98%	-1.73%	-1.73%	19.57%	3.32%
Russell 2000	15.47%	-4.18%	-4.18%	15.63%	0.15%
NASDAQ	7.86%	-1.80%	- 1.80%	18.21%	1.52%
MSCI EAFE	3.38%	-11.73%	-11.73%	8.16%	-4.26%
MSCI EM	4.45%	-18.17%	-18.17%	20.42%	2.70%

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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FOURTH QUARTER REPORT 2011

January 2012

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A MESSAGE FROM THE PRESIDENT

Thomas G. Twombly

"Adopt the pace of nature: her secret is patience."

Ralph Waldo Emerson

In a digital society obsessed with the 24-hour news cycle, and everyone tied to "smart" phones, social media, tablet computers, and yammering heads on cable news channels, it's a challenge to step back and take a multi-year, multi-generational view of anything. This seems especially true of healthy wealth-building behavior. Like moths to a flame, we're mesmerized by the urgency of the moment. Our endurance wears thin and our anxiety levels rise as we struggle to drink from a fire hose of information that masquerades as the key to success – or survival. "If only I didn't have to sleep…" I've heard people lament. Patience, perspective, and discipline suffer mightily in such an environment.

"So the preponderance of investors are again looking in the rear view mirror and believing that winter is here forever. It's not."

Additionally, since the dawn of the industrial revolution we have developed a cultural predisposition to view life in linear terms. This too detracts from our perspective, because unlike our previous agrarian economy, where the rhythms of life were dictated by a deep-seated societal understanding and acceptance of the changing natural seasons, we've now lost contact with the constant reminder that virtually everything around us is cyclical. Instead, linear thinking puts us in ruts and restricts our ability to prepare for the future. When things have gone well, we giddily believe that they will continue on uninterrupted – in linear fashion. Conversely, when we experience a period of adversity we believe that too is a permanent linear condition. These beliefs impact our behavior – often to our detriment.

A more intimate connection to nature and history, however, belies these beliefs. In the past, because he knew that all of life ebbs and flows, following a constant cycle of birth, growth, maturity, decline, death and rebirth, the wise agrarian invested for it well in advance. He knew that winter would come, and growth would go dormant for a while. But he also knew that spring eventually followed, and patience and discipline would be rewarded. So it is with the long-term cycles of financial markets too as you'll see in the chart on page 4.

This chart shows the rolling 10-year returns of the S&P 500 from 1927 - 2011. Each bar shows the growth of a $100,000 investment made at the beginning of that 10-year period. Note that the period ending in 1999 – twelve years ago - represented one of the best 10-year periods in history. Call it Summer. Also note that the period ending in 2008 represented the worst ever. Call it winter.

Now contemplate this: 1999 saw the biggest inflows into equity funds on record. In other words, the preponderance of investors, looking in the rear view mirror and projecting forward, piled headlong into stocks ***at precisely the wrong time***. Linear thinking dealt some painful blows in the ensuing decade, but many haven't adjusted their beliefs, or learned the important lessons. They're still stuck in a linear rut.

Now, since the crash of 2008, and after the worst 10-year period in history, money has been fleeing equity investments. In fact, more money was withdrawn from stocks in the second half of this year than was withdrawn in the six months following the collapse of Lehman Brothers in 2008. So the preponderance of investors are again looking in the rear view mirror and believing that winter is here forever. It's not. The cycle has not been repealed. As Emerson said, nature is patient.

The wisest and most long-term investors – those who seek to build wealth that lasts for generations to come – are right now putting money to work in the great companies of the U.S. and the world at very attractive levels, and exercising patience. Spring, and another summer will come.

Thank you for your confidence and trust.

Thomas G. Twombly

President

Upcoming Events

Fireside Chat:

How We're Managing Portfolios, and Why

February 23, 2012

6:30 – 8:00 PM

RSVP: 512-458-2517 or info@lsggroup.com

INVESTMENT COMMENTARY

2011 was a challenging and chastening year overall, with surprises, head fakes, and volatility galore as global financial markets moved from extremes to even bigger extremes.

Graciously, the final quarter of the year eventually provided a welcome bounce-back from the steep drops in equity markets that marked the third quarter. Nevertheless, even that was hard-fought and volatile as a focus on contentious politics here and abroad largely overshadowed evidence that the overall economy is slowly improving.

While bonds, healthcare, and defensive consumer stocks gained ground for the year, and large cap U.S. equities managed to fight back in the final quarter to end even for the year, many other asset classes that we own in portfolios suffered losses. This included mid cap and small cap equities in the U.S. and abroad, and was especially true for international equities as a whole, and emerging market equities in particular.

This resulted in declines for the year in every one of the model portfolios we manage. Those declines ranged between 4% and 11%, with the larger retreats experienced in those models most oriented towards long-term growth. We take some comfort from the fact that our asset allocation discipline provided the expected *relative* results between portfolios, but the nominal returns were disappointing nonetheless. As investors ourselves, we know this has been a frustrating year.

The year started out with surprises, and they continued throughout. A massive earthquake and tsunami in Japan interrupted global trade patterns and raised the specter of a possible nuclear catastrophe. The "Arab Spring" brought the beginnings of significant social and political change to North Africa and the Middle East – the ongoing ripples of which are still being felt throughout Egypt, Libya, Syria and Iran, and certainly in the oil markets. And destructive political brinksmanship in Washington led to the sudden downgrade of U.S. debt quality and the fears of a global liquidity squeeze.

Amidst this uncertainty, money flowed away from any asset class perceived as risky, and towards those asset classes perceived as safe. The U.S. dollar strengthened considerably,

exacerbating for U.S. investors in foreign securities the already painful declines in foreign equity markets. Money flowed into U.S. Government bonds, especially (and counter-intuitively) after Standard & Poor's downgraded U.S. debt in early August. The resulting decline in interest rates drove a market that was already considered by many to be overvalued at the beginning of the year very quickly to a point in late September that was within a hair's breadth of the all-time high set in the late 1940's. Cash holdings, too, increased significantly. According to J.P. Morgan, Corporate cash as a percentage of current assets reached almost 30% this year, versus less than 15% at the beginning of 2000, and the money supply in retail and institutional money market funds, savings deposits, small time deposits, and cash balances in IRA and Keogh accounts reached $9.8 trillion. There is clearly a lot of dry powder out there.

From a long-term perspective, especially compared to the paltry yields of all but the riskiest of bonds, we believe that equities in general are as undervalued as we've seen them. This is particularly true of high-quality large cap U.S. companies, but also extends to established foreign companies and emerging markets. Forward price to earnings multiples in the U.S. are 30% below their average for the last 15 years, and the earnings yield of the S&P 500 sits at 8.5% versus a Moody's Baa bond yield of 5.3%. Despite a tepid overall economy, corporate earnings reached an all-time high during 2011, and balance sheets reflect their healthiest overall condition in decades. Dividends paid to shareholders have been rising steadily since early 2009, and corporate buy-backs of their own shares are increasing. In fact, this year the number of shares outstanding for public purchase actually shrank for the first time in many years. With the real (net after inflation) yield of the 10-year U.S. Treasury bond finishing the year at a rate of -.26%, and with trillions of dollars sitting in cash accounts earning less than that, we believe it's only a matter of time – and no one can say for sure how much - before investors begin to reposition assets.

As always, we remain broadly diversified and focused on long-term value. We encourage you to do the same, and call us if you'd like to discuss.

CONSERVATIVE GROWTH MODEL

4th Quarter	YTD	1 Year	3 Year	5 Year
3.73%	-4.04%	-4.04%	7.10%	1.04%

Inception Date 06/03/1999

Core Growth Model

4th Quarter	YTD	1 Year	3 Year	5 Year
8.02%	-7.65%	-7.65%	8.63%	0.32%

Inception Date 05/31/2003

Growth Model

4th Quarter	YTD	1 Year	3 Year	5 Year
6.19%	-11.21%	-11.21%	8.59%	0.65%

Inception Date 10/16/1992

Specialty Model

Diversified Growth Model

4th Quarter	YTD	1 Year	3 Year	5 Year
10.55%	-4.14%	-4.14%	11.49%	-0.50%

Inception Date 10/31/00

Education Models

UT ORP

4th Quarter	YTD	1 Year	3 Year	5 Year
8.26%	-6.61%	-6.61%	6.72%	-0.79%

Inception 08/10/1999

Retirement Growth

4th Quarter	YTD	1 Year	3 Year	5 Year
8.49%	-6.53%	-6.53%	10.83%	-0.37%

Inception Date 06/03/1999

Growth & Capital Preservation

4th Quarter	YTD	1 Year	3 Year	5 Year
4.20%	-4.03%	-4.03%	8.81%	1.54%

Inception Date 11/30/2001