Upcoming Events

Fireside Chat:

SUBJECT: *Peace of Mind Through Careful Planning*

GUEST SPEAKER: *Carolyn Ostrom, Estate Planning Attorney*

February 21, 2013 • 6:30 – 8:00 pm

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

General Market Results

	4th Quarter	YTD	One Year	Three Year	Five Year
CPI	-0.51%	2.02%	2.02%	2.16%	1.85%
Barclays Agg Bond	0.21%	4.22%	4.22%	6.19%	5.95%
S&P 500	-0.38%	15.98%	15.98%	10.87%	1.66%
DJI	-1.74%	10.24%	10.24%	10.87%	2.62%
S&P 400	3.61%	17.88%	17.88%	13.62%	5.14%
Russell 2000	1.85%	16.35%	16.35%	12.25%	3.56%
NASDAQ	-3.10%	15.91%	15.91%	9.99%	2.63%
MSCI EAFE	6.60%	17.90%	17.90%	4.04%	-3.21%
MSCI EM	5.61%	18.63%	18.63%	4.98%	-0.61%

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

LUCIEN, STIRLING & GRAY
ADVISORY GROUP
"Smart Decisions About Serious Money"
4005 Guadalupe Austin, Texas 78751
Phone: 512-458-2517 Fax: 512-458-3120
www.lsggroup.com

Lucien, Stirling & Gray Advisory Group, Inc.

FOURTH QUARTER REPORT 2012

January 2013

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ADVISORY GROUP
"Smart Decisions About Serious Money"
4005 Guadalupe Austin, Texas 78751
Phone: 512-458-2517 Fax: 512-458-3120
www.lsggroup.com

Thomas Twombly
President

Walter L.Wilson, III
Exec. VP, Operations

Mark Ward, CFP®, ChFC®
Vice President

Bleckley Dobbs, CFP®
Director of Financial Planning

Glenda Summers, CFP®
Sr. Advisor Associate

Cass Grange
Sr. Advisor Associate

Megan Poore
Sr. Advisor Associate

A MESSAGE FROM THE PRESIDENT

Thomas G. Twombly

We are pleased to provide you with our report for the period ending December 31, 2012.

A number of articles published recently refer to 2012 lamentably as "The Year of Uncertainty." Looking back, it's clear that the year was marked by a rolling sense of crisis (real or imagined) that left many would-be investors struggling to keep perspective, and challenged to take any principled action.

The early part of the year was consumed by anxiety over the debt situation in Greece, as well as in Ireland, Italy, Portugal, and Spain. These concerns then morphed into fear that the entire Euro zone would eventually splinter apart, leading to catastrophic volatility in global currency and equity markets, and perhaps even into civil or regional wars.

As the year wore on, we were transfixed by a vicious presidential primary season, where arguments over highly-charged social issues, rapidly growing Federal debt, and the specter of "European-style socialism" monopolized the 24-hour news cycle as every candidate vied intensely for the opportunity to oppose the existing administration. The Presidential election that followed was equally contentious, with vast amounts of money expended by PACs and both parties to fill the airwaves and printed media with stark images of doom if the wrong candidate were elected.

After the election, the entire economy seemed to hang in the balance as legislators in Washington fought bitterly over potential cuts to Federal spending and the repeal of Bush-era tax cuts. The timer ticked down steadily towards the draconian "sequestration" (I refuse to use the two dreaded words popularized in the media) that was designed, theoretically, to force a compromise. But as the year came to a close it looked increasingly as if it might go horrifically wrong, like a sophomoric game of "chicken."

"Successful planning and investing demands foreswearing emotion, and adhering instead to principles like patience, discipline, and faith in the future"

And all of this took place against the backdrop of the supposed end of the world, as foretold by the Mayans thousands of years ago…

So there is no doubt that to a great many people, 2012 felt incredibly uncertain. But frankly, what year doesn't? They're **all** uncertain. Candidly, every day is uncertain if you're honest about it, and the illusion that one day, or one year, is any more or less certain than any other is heavily influenced by the fickle emotions that can dominate our lives if they're allowed to hold sway.

Successful planning and investing demands foreswearing emotion, and adhering instead to **principles** like patience, discipline, and faith in the future; and **practices** like asset allocation, diversification, and rebalancing. As you'll see from the Investment Commentary that follows, and from the Firm Comments that accompany your personal portfolio reviews, following these principles and practices in 2012 resulted in a successful year for our clients.

2012 brought other successes at Lucien, Stirling & Gray as well. We celebrated our 20th anniversary, and also the third year in a row that we've been voted among the "Best Places to Work" in central Texas by our great team. The confidence we all share in our longevity together is notable, and so is the trust we have in each other. There is no question that both play a meaningful and purposeful role in the quality of the relationships we enjoy with our clients, and in the evolving excellence of our work as a strengths-based advisory team.

Bleckley Dobbs, CFP®, assumed the role of Director of Financial Planning in the latter part of 2012. With an MBA and a successful 20-year career as an engineer prior to becoming a Certified Financial Planner™, Bleckley's natural attention to detail, and the confidence he inspires with the thoroughness of his work have built a deep trust among all of us in the eight years he's been part of this team. We're thrilled that these excellent qualities are now being optimized for the benefit of all of our advisors and clients, and excited about the opportunities for further improvement this presents. Bleckley was also named the President-elect of the Austin Chapter of the Financial Planning Association in 2012, so it's clear others feel similarly. Please join us in congratulating Bleckley on these milestones – we're all better as a result.

Uncertainty is a part of life. There is no way to avoid it. For the ill-prepared, uncertainty leads to anxiety and fear. But for those who have planned carefully, and who have clearly designed processes in place to make sure that important things get done in a prudent, consistent manner, uncertainty in others often presents valuable opportunities. Our goal is to help you plan well, and to provide you with the comfort and confidence to capitalize on those opportunities, because when you succeed, we succeed.

Thank you for your confidence and trust.

Thomas G. Twombly
President

INVESTMENT COMMENTARY

Despite stubborn evidence to the contrary, the crisis-oriented media cycle led many to believe that the financial world continued to fall apart throughout 2012. It didn't.

As you'll note from the charts below, most of our model portfolios generated solid double-digit returns for our clients this year, and even those that are managed most conservatively generated returns in the high single-digits. Judging from some of the conversations we've had with folks early in 2013, this comes as a welcome surprise.

Equity markets in particular had a good showing. The Dow Jones Industrial Average rose by 10.24% in 2012, while the S&P 500 and the NASDAQ gained a respective 15.98% and 15.91% in a year characterized by uncertainty. Foreign equity markets also notched impressive gains, with Europe-ex-U.K. and the Pacific ex-Japan rising by 22.5% and 24.7% respectively in U.S. dollar terms.

Particularly noteworthy, especially given the dire outlook which characterized major European economies early in the year, Germany and France provided U.S. investors with total returns of 32.1% and 22.8% for the year, proving again that uncertainty is often a long-term investor's best friend. Much of these gains took place in a strong final quarter, so patient, disciplined investors who maintained reasonable allocations to these areas in spite of the prevailing negativity benefitted handsomely as the year came to a close. We were among them.

Real estate holdings also provided very attractive returns for the year, with REITs as an asset class outrunning all others with total returns of 19.7% for the year. Each of the various real estate holdings we have in our portfolios played an important role in bolstering overall results for the year, and we continue to believe investments in this area offer attractive long-term possibilities.

Negatives included our various holdings in the commodities and natural resource sector, which relinquished the gains experienced earlier in the year, falling fairly sharply during the final three months to

finish the year with small overall losses. Bond holdings as well, while providing positive results for the year, also tempered overall results relative to most equity indexes as the pace of total returns in the fixed income sector slowed compared to those of the last six years.

In a telling indication of investor psychology, and one that counter-intuitively gives us confidence that we're well-positioned for the future, equity mutual funds again experienced net outflows for 2012, marking a record sixth year in a row of this phenomenon. Bond funds, in contrast, continued to attract large inflows, in spite of historically low interest rates and a growing concern that many investors in these sectors are unaware of the damage they may incur when rates start to rise.

Looking forward, we continue to be constructive on the prospects for the global economy on a long-term basis. We also believe the U.S. could surprise the naysayers, as a number of factors are combining that offer companies, their employees, and their investors, some attractive prospects.

Worldwide, capitalism is flourishing and millions of people are now beginning to enjoy a lifestyle that seemed fairly unattainable in recent memory. Emerging markets, which accounted for some $12 trillion in spending in 2010, are expected to account for $30 trillion by 2025, according to the McKinsey Global Institute. Not only is this beneficial for those countries themselves, but major corporations in the U.S. and Europe have developed substantial supply chains that allow them to tap into this long-term trend. In fact, despite tepid local economies in the U.S. and Europe, many such corporations have enjoyed solid revenue streams and high profitability precisely because of their reach into the expanding economies of South America, Asia and the Pacific region.

The U.S. is also undergoing a quiet resurgence in manufacturing activity. Partly due to inexpensive and newly abundant natural gas supplies, and also due to new technologies and well-established legal systems, many corporations are choosing to move their manufacturing operations back to U.S. soil. Others are creating brand new operations. As this trend continues, it offers the promise of growing employment and increased confidence. Combined with a housing sector that is showing signs of an upswing, and auto sales that are steadily rebounding from a deep trough, it portends an economy that could suddenly spring to life on many fronts.

It's been said that industriousness and the drive to create are part of the cultural DNA of this country. We were born as a commercial republic, and we're ingrained with a tradition of relentless commercial enterprise. It cannot be erased. Though we have had periodic pauses in the past, the country inevitably reverts to its elemental nature. So it will be again. The tide will turn, and the raw energy of determination and success will come rushing back much more quickly than most expect.

As always, please call us if you would like to discuss.

Conservative Growth Model

4th Quarter	YTD	1 Year	3 Year	5 Year
1.37%	6.17%	6.17%	4.22%	0.10%

Inception Date 06/03/1999

Core Growth Model

4th Quarter	YTD	1 Year	3 Year	5 Year
1.86%	10.80%	10.80%	5.34%	0.77%

Inception Date 05/31/2003

Growth Model

4th Quarter	YTD	1 Year	3 Year	5 Year
0.86%	11.82%	11.82%	4.71%	0.54%

Inception Date 10/16/1992

Specialty Model
Diversified Growth Model

4th Quarter	YTD	1 Year	3 Year	5 Year
2.12%	12.60%	12.60%	7.38%	0.54%

Inception Date 10/31/00

Education Models
UT ORP

4th Quarter	YTD	1 Year	3 Year	5 Year
2.16%	13.77%	13.77%	5.12%	-0.17%

Inception 08/10/1999

Retirement Growth

4th Quarter	YTD	1 Year	3 Year	5 Year
1.99%	13.94%	13.94%	6.88%	-0.01%

Inception Date 06/03/1999

Growth & Capital Preservation

4th Quarter	YTD	1 Year	3 Year	5 Year
0.40%	9.00%	9.00%	4.68%	1.72%

Inception Date 11/30/2001