## Please Join Us for Our Annual Women, Wine & (net)Working Event

**Tuesday, September 26th**
**5:30 – 7:30PM**
**4005 Guadalupe Austin, TX 78751**

*Join hosts Glenda Summers, Megan Poore, Cass Grange, and Chaney Barton-Nichols along with other accomplished Austin women for an evening of wine, cheese, soda and great conversation. Promote yourself, your business, or your organization - and make a few new friends! Don't forget to bring along your business cards!*

**RSVP at 512-458-2517 or info@lsggroup.com**

### General Market Results

| | 2nd Quarter | YTD | One Year | Three Year | Five Year | Ten Year |
|---|---|---|---|---|---|---|
| CPI | 0.30 | 1.28 | 1.45 | 0.86 | 1.28 | 1.61 |
| Barclays Agg Bond | 1.45 | 2.27 | -0.31 | 2.48 | 2.21 | 4.48 |
| S&P 500 | 3.09 | 9.34 | 17.90 | 9.61 | 14.63 | 7.18 |
| DJI | 3.95 | 9.35 | 22.12 | 11.01 | 13.45 | 7.57 |
| S&P 400 | 1.97 | 5.99 | 18.57 | 8.53 | 14.92 | 8.56 |
| Russell 2000 | 2.46 | 4.99 | 24.60 | 7.36 | 13.70 | 6.92 |
| NASDAQ | 3.87 | 14.07 | 26.80 | 11.68 | 15.91 | 8.96 |
| MSCI EAFE | 6.37 | 14.23 | 20.83 | 1.61 | 9.18 | 1.50 |
| MSCI EM | 6.38 | 18.60 | 24.17 | 1.44 | 4.33 | 2.25 |



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*

SECOND QUARTER REPORT 2017

# LUCIEN, STIRLING & GRAY ADVISORY GROUP[SM]

*"Smart Decisions About Serious Money"*

## MEET OUR TEAM

**Thomas Twombly**
*President*

**Walter L.Wilson, III**
*Exec. VP, Operations*

**Mark Ward, CFP®, ChFC®**
*VP and Chairman, IPC*

**Bleckley Dobbs, CFP®, RICP®**
*Director of Financial Planning*

**Glenda Summers, CFP®**
*Sr. Advisor Associate*

**Cass Grange**
*Sr. Advisor Associate*

**Megan Poore**
*Sr. Advisor Associate*

**Chris Vasquez**
*Financial Services Professional*

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## A MESSAGE FROM THE PRESIDENT

Thomas G. Twombly

Forgive me, but I'm about to go on a rant. I've just read an article in the June / July issue of Morningstar magazine (actually, one of the better periodicals that target our profession) by Dr. Stephen Wendel, Ph.D., who is the head of behavioral science at Morningstar. Its rather lengthy title is: "***The Promise of Behavioral Finance.*** *By learning to overcome their biases, investors gain a vital tool to help them reach their goals.*" Reading it made me realize I have a bone to pick with some of the supposed new "cognoscenti" of the financial profession.

After more than three decades in this profession, I'm totally convinced that individual investor **behavior** (and not underlying investment performance) is the predominant determinant of real-life financial success or failure. I've written about it, talked about it, and spent 25 years building an entire corporate philosophy and high-trust team around addressing it. So, you can imagine the eagerness I experienced at seeing an article highlight these so-called "new efforts." You can also imagine the anticipation I felt as I read that Dr. Wendel listed "behavioral coaching" as one of "four distinct approaches at work in today's environment." Then, as he went on to define that term, came the provocation for this rant:

*"Behavioral coaching is a more hands-on approach where an advisor or other professional works with the client to address unhealthy money habits or behaviors with a deeper understanding of their idiosyncratic psychology."*

Whoa, really!? "*Unhealthy habits*"? What shame. Who has the courage to admit they'd hire an advisor for that? "*Idiosyncratic psychology*"? Who'd ever want a friend to think they suffer from such a disorder? It's no wonder folks are so nervous about sitting down and having a conversation with us, and no surprise more folks aren't recommending us to their friends. You'd think a behavioral science specialist might understand the negative impact of those words, and choose them more thoughtfully.

There are plenty of "un" words that describe the familiar kinds of challenges we coach our clients to overcome on their way to a sense of comfort and confidence about their financial situation, but "unhealthy" is not one of the ones I'd choose. Here are a few I would.

**Unorganized**. Here's a little secret nobody will tell you: almost nobody out there is as financially organized as they should be; and plenty of otherwise very successful folks have no clue what their total financial picture looks like at any given moment. *They shouldn't be ashamed.* We all lead busy lives, we have thousands of critical issues competing for our time and attention, and the subject of money causes many, many people to feel a sense of anxiety. It's not surprising that financial organization gets put on the back burner. *It's normal.* But we can help.

**Unsure**. Another secret few will

share with you: nobody has ever purposefully taught them anything about making investment and financial decisions. Personal finance isn't taught in high school, it's rarely taught in college, and most families never discuss the subject. Every day we assume huge responsibility for making critical choices, but most of us were never taught how. Moreover, we're faced with thousands of options, hundreds of technical terms we can't confidently define, and a massively complex tax and legal system that's full of traps for the unwary, and missed opportunities for the uninformed. No one should be ashamed of being uncomfortable with that responsibility. Even the brightest, most accomplished people feel unsure about making financial decisions alone. *It's normal.* But we can help.

**Unclear**. Here's something that's not a secret: if they're unorganized, and if they're unsure about their resources, their options and their abilities, most human beings cannot be clear and confident about their goals. The trouble is, every ad for a financial firm (and even the article that provoked this rant in the first place) implicitly assumes the opposite. "Of course you know what your goals are, right?" No. The fact is, a goal needs to appear *attainable* before most people will even think of setting out to reach it. So, without competent, empathetic counsel, no one should be ashamed if they're not completely clear about what their specific financial objectives are yet. *It's normal.* But we can help.

**Unserved**. Here's the biggest non-secret of all: most people will never get the kind of fiduciary-level attention and accountability they want and need to achieve their most precious objectives. So, they're either left on their own to get organized, get educated, and get clarity all by themselves, or they're over-sold and under-served by one of the thousands of conflicted salespeople and product sponsors out there. Unfortunately, *It's normal.* But we can help.

If you think about it, these are core challenges that all good coaches address. Whether it's kids' soccer, high-school football, college basketball or long-term financial success, a great coach focuses first on getting players organized; providing structure, discipline, and a process. That coach then focuses on "the basics"; teaching core competencies; developing a training regimen; and building fitness and confidence in the hearts and minds of those players. Only then does it make sense to set big hairy impressive goals, because without "the basics" in place first, the players will never believe those goals are possible anyway. But once those goals are established, that coach can then challenge those players to grow, to have faith in their abilities, and to become more than they ever thought they could be on their own.

Heck, yes, that's "a more hands-on approach." And it makes all the difference.

Thank you for your confidence and trust.

Thomas G. Twombly
President

## INVESTMENT COMMENTARY

Looking back at the investment commentary we've offered over the last number of years (you may find past issues of our Quarterly Reports at http://lsggroup.com/resources/reports/ ) we have continually emphasized three important themes:

1.) Maintain confidence in the slow steady growth of the U.S. economy despite a jarring political narrative of fear and pessimism that has kept many investors on the sidelines.

2.) Diversify beyond the borders of the United States to other parts of the developed world, and keep a long-range view even though many of these economies have struggled compared to our own.

3.) Maintain an extended-term view of the economies of the developing world as well, and capitalize on the periods of pronounced weakness their equity markets have endured to build up judicious allocations to that asset class.

The first half of 2017 has shown the value of adhering to those themes. Though it has certainly required discipline and patience, for the first time in many years we're now experiencing a synchronized global recovery that appears to be gaining strength, and broadly diversified long-term investors have been well rewarded across the board recently. We are pleased.

The S&P 500 provided total returns of +9.3% for the first half of 2017, with the technology (+17.2%) healthcare (+16.1%) and consumer discretionary



(+11%) sectors leading the way. The mid-cap S&P 400 also rose by +8% for the period, while the small-cap Russell 2000 provided overall results of +5%, as all three of those broadly-followed indices reached all-time highs approaching the midpoint of the year.

U.S. equity markets are now in the second longest bull market on record since 1926, with 99 months having passed since March of 2009, and a total return for large-cap U.S. stocks of +258%. In that same timeframe, unemployment has fallen from a high of 10% to a June 2017 reading of 4.4% (barely above the U.S. 50-year average of 4.2%.) And since February of 2010, we've added a total of 16.6 million jobs to counter-balance the 8.8 million jobs that were lost during the crisis years of late 2007 through 2009. Clearly, we have come a long way, but it's important not to get complacent.

Now we're starting to see attractive results come from both international developed markets and emerging markets as well. Aided in no small part by growing economic confidence and strengthening currencies (the Euro has risen by 8.6% versus the dollar since the beginning of this year, while the Mexican Peso has risen by 14.4%, for example) international investment holdings thus far have performed admirably for 2017. The broad-based Europe Asia Far East (EAFE) Index has provided total returns of +14.2% in U.S. dollar terms so far, providing a nice boost to globally diversified portfolios, while Europe alone (not including the UK) has risen by an impressive +18.3%.

Overall results for the MSCI Emerging Market Index came to +18.6% for U.S. investors for the first half of 2017. The major developing economies of China (+25%) and India (+20.5%) contributed significantly to those results, counter-balancing Russia (-14%) and a more tepid Brazil (+3%) in an asset class that tends to be quite volatile. Even modest long-term allocations to these areas have proven to be rewarding.

Despite recent results, when viewed over the longer range of the last eight years, international economies have not kept pace with the U.S. economy. Since the depths of the global financial crisis, austerity policies, political divisions among EU member nations, sovereign debt worries and volatile commodity prices have contributed to retard the pace of recovery in many countries. (Eurozone unemployment, for example, peaked at 12.1% in July of 2013, fully two percentage points higher and two and a half years after unemployment in the U.S. peaked.) As a result, global investment flows have very much favored U.S. markets for quite some time. The comparative results of this are reflected in the attached chart from J.P. Morgan Asset Management, which shows a substantial 152% gap between the total return of the S&P 500 and the MSCI All Country Index (minus the U.S.) since early 2009.

However, with price / earnings ratios in the U.S. now above their 20-year average (see the insert at the upper left) and dividend yields very close to their long-term average, both the P/E multiples and dividend yields of non-U.S. companies still look quite attractive by comparison. With new initiatives to increase economic stimulus, and more available workers to fill open positions than we presently have in the U.S., many foreign economies appear to have more room to expand going forward. We believe there is reason for cautious optimism. Though there will always be plenty of reasons for due care and circumspection, we remain confident that our clients are well-positioned for the future.

As always, if you have any questions, or if you'd like to discuss your personal situation, please give us a call. Thank you for your confidence and trust.