

Upcoming Events

Lucien, Stirling & Gray invites you to attend our
19th Annual Holiday Party
and Open House
December 9th, 2010
3:30 – 7:00 PM

General Market Results

	3 rd Quarter	YTD	One Year	Three Year	Five Year
CPI	0.16%	1.09%	1.08%	1.55%	1.89%
DJI	11.13%	5.57%	14.12%	-5.38%	3.13%
Nasdaq	12.30%	4.38%	11.60%	-4.29%	1.94%
S&P 500	11.30%	3.89%	10.17%	-7.16%	0.64%
Russell 2000	11.29%	9.12%	13.35%	-4.29%	1.60%
MSCI World ex US	16.58%	3.69%	7.56%	-7.42%	4.26%
Barclays Captl Agg Bd	2.48%	7.95%	8.16%	7.42%	6.20%

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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Lucien, Stirling & Gray Advisory Group, Inc.

THIRD QUARTER REPORT 2010

October 2010

LUCIEN, STIRLING & GRAY
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A MESSAGE FROM THE PRESIDENT

Thomas G. Twombly



Thomas Twombly
President

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We are pleased to provide you with our report for the period ending September 30, 2010.

As the leader and Chief Philosophical Officer (an unofficial title I've given myself – because presidents get to do that sort of thing) of this august organization, I spend a lot of time thinking about where we need to be two, three, and five years down the road, and about getting there in a way that's completely consistent with our values and beliefs about how to be good stewards of the trust, relationships, and investment dollars that have been placed in our care.

We began this year with two important goals in mind. One was to invest the time, energy and money into successfully defining and telling our company "story", so that by the end of the year we, as a team, would be more competent at clearly defining, especially for people who don't yet know us, just what our unique value to clients really is. We realized that we had built an impressive array of clearly defined and consistently-followed systems that provide us with a sense of comfort that we're doing a great job as fiduciaries, and that also help to instill a sense of confidence in our clients. However, we had not yet mastered the process of communicating that story effectively, and we were missing opportunities to purposefully transfer that sense of comfort and confidence to

others. This needed to change.

The other goal was to overcome the pervasive sense of anxiety and fear that a lot of companies are feeling in the current economic environment, and to confidently invest money and effort into intelligently growing our capacity to serve our clients better and more effectively – using all of the unique abilities provided by the great team of professionals here. Like many other companies, it would have been easy to simply wait, sit on and build our cash reserves, and not make commitments to future improvements until the overall economy began to heal. This mindset, too, needed to change.

"It has been a rewarding year so far, and each of our accomplishments makes us more determined to keep building on that success."

We are pleased to be able to report that both of these goals are well on their way to success. Internally, we have come together as a team and improved our communications processes, so we are far better and more consistent at communicating our unique value proposition. The response from clients and professional contacts has been very positive. Externally, we hired a public relations firm in April. They have helped us to define our message, reach out to the public through various avenues, and begin to approach the sometimes intimidating (for me, at least) new world of social media like Facebook and Linked In with more confidence. In this area, too, we have received positive response.

In the last quarter we invested considerable money into upgrading our technology, including the installation of a new exchange server. We are now able

to share information, schedules, and work flow more easily with all the important members of our team, and our professional advisors are able to securely access important information even when they are away from the office. We are now in the process of installing a new Client Relationship Management (CRM) system. This too will enable all members of our team to more readily access and update client information, and to support each other more efficiently, so we can serve you more effectively with the unique skills and abilities that each of us brings to the table.

It has been a rewarding year so far, and each of our accomplishments makes us more determined to keep building on that success. In June, based on an extensive survey of our team members, we were named as one of Austin's "Best Places to Work" by the Austin Business Journal. In September, based upon an independent survey of investors in central Texas, every single one of our advisors was honored as among the top 4% of wealth managers in the region according to results published by Texas Monthly. We take these as valuable (and welcome) third-party indications that we are doing a good job of stewardship in the relationships we share with each other, and with the relationships we share with our clients, but they must not be an excuse for us to get complacent and overly impressed with ourselves. There is much more that we can do to get better still, and to serve new individual clients and families as we continue to grow.

We would appreciate your help and support in this effort. If there are particular issues or concerns that you would like to see addressed, please let us know. Some of our most valuable insights have come from engaged clients who are not shy about speaking up. Additionally, if there is someone you know – a colleague, a friend, or a family member – who might be interested in finding out more about us and our professional services, we would love an introduction. Ours is a business that thrives upon close personal relationships, and we are very interested in expanding our sphere of influence to serve others with similar values. Nothing speaks more highly of our professional capabilities than when a satisfied client introduces us to a friend, and we welcome every opportunity to meet and make new ones.

Thank you for your continued confidence and trust.

Thomas G. Twombly

President

INVESTMENT COMMENTARY

With your indulgence, we thought we'd depart from our usual habit of commenting on recent developments in the economy, investment markets, and current asset allocation strategies. Instead, for the moment, we'd like to focus some attention on what we believe to be far more important for our clients to be comfortable with – namely the long-term investment *process*, and some of the systematic procedures we follow in the implementation of that process. Hopefully, irrespective of whatever current conditions prevail now or in the future, it should leave you with a sense of confidence that your investment dollars are being carefully shepherded.

Our Investment Policy Committee, which oversees our asset management process, is made up of five of our most senior people – professionals with 85 years of collective experience in the management of investment decisions, and an average of 12 years with Lucien, Stirling & Gray. Each brings a different perspective and a unique skill set to a monitoring system that is well-designed, consistently applied, and carefully supervised, and each has faithfully served on the committee for more than five years.

Everything the committee does is guided by our core beliefs about our responsibilities to our clients. The most important of these is that we act as a fiduciary. We are legally, ethically, and morally bound to act in the best interest of every client we serve. We are entrusted with the core components of our clients' wealth. These are assets that have to last a lifetime, and for many of our clients, assets they hope will last for generations. Obviously, we must invest to achieve a reasonable and competitive rate of return. We must also manage with a focus on prudence and careful attention to risk. Because of this, it's critical that we employ disciplined processes; that we monitor those processes carefully; and that we subject ourselves to on-going critical review.

The committee meets monthly, at minimum, to formally analyze and review each of our portfolios, to monitor the investment firms we entrust with assets, and to document investment results. We are

also responsible for developing our capital markets outlook, setting asset allocation policies for each of our model portfolios, and for supervising our due diligence process for the hiring and/or replacement of professional money managers.

Procedural prudence demands diversification, and each of the portfolios we manage is always broadly diversified among multiple asset classes. Depending on the needs of an individual investor, the time that investor has to ride through the inevitable fluctuations of various markets, and the comfort level an investor has with varying levels of volatility, an optimal portfolio will purposefully combine investments in various assets classes, and in varying percentages, in an attempt to achieve a consistent pattern of providing return while reducing risk. Asset classes also trade leadership over time. Combining complementary asset classes can enhance the risk/return profile of a diversified portfolio, and the right mix can help investors to weather difficult market environments and do a better job of building wealth over time.

Using sophisticated analytical software, our own carefully designed screening process, and third-party research that we purchase or that is made available through various professional relationships, the committee regularly reviews criteria for the evaluation of money managers. These include: raw performance numbers, performance relative to assumed risk, performance among peers, adherence to stated investment style, performance in rising and falling markets, and overall organizational performance. We monitor fees and expense ratios, manager tenure, and significant changes in asset flows – all in an effort to provide us, and our clients, with the confidence that our portfolios are being stewarded with skill and due care.

It's important to remember that no process can ever assure positive results. Exercised carefully, however, clearly defined systems help to relieve the anxiety that so many feel when they don't have the benefit of working with people and procedures that they trust. It's our sincere hope that your sense of the diligence and preparation we invest in caring for your capital should leave you with a lasting feeling of confidence that you're in good hands.

Conservative Growth Model

3rd Qtr	YTD	1 Year	3 Year	5 Year
8.43	5.70	9.12	-1.79	3.84

Inception Date 06/03/1999

Core Growth Model

3rd Qtr	YTD	1 Year	3 Year	5 Year
9.70	5.58	9.30	-2.30	3.67

Inception Date 05/31/2003

Growth Model

3rd Qtr	YTD	1 Year	3 Year	5 Year
10.77	6.07	10.34	-2.02	5.21

Inception Date 10/16/1992

Specialty Model

Diversified Growth Model

3rd Qtr	YTD	1 Year	3 Year	5 Year
10.71	5.53	10.74	-5.09	1.81

Inception Date 10/31/00

Education Models

UT ORP

3rd Qtr	YTD	1 Year	3 Year	5 Year
8.53	2.05	5.57	-4.75	2.20

Inception 08/10/1999

Retirement Growth

3rd Qtr	YTD	1 Year	3 Year	5 Year
9.84	4.42	8.36	-5.43	2.14

Inception Date 06/03/1999

Growth & Capital Preservation

3rd Qtr	YTD	1 Year	3 Year	5 Year
6.10	3.94	6.89	-0.90	3.65

Inception Date 11/30/2001