

FIRST QUARTER REPORT 2005

April 2005

LUCIEN, STIRLING & GRAY
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A MESSAGE FROM THE PRESIDENT

Thomas G. Tuombly



We are pleased to provide you with our report for the period ending March 31, 2005.

After an explosive final quarter of 2004, in which all

of the world's major indexes enjoyed the vast majority of their total gains for the year, and in which several posted double-digit returns for the period, the first quarter of 2005 proved to be understandably muted. All of the major U.S. equity indexes experienced a pull-back for the period, as concerns about interest rates, rising oil prices, and a growing U.S. trade deficit put a clear damper on the moods of investors everywhere. Bond markets also experienced declines, as rising interest rates and the possibility of increasing inflation caused long-term lenders to be somewhat less sanguine about their prospects for the future. Obviously, this was not a period in which rampant optimism was to be rewarded.

Though it is always a little unsatisfying to claim victory during a time in which one experiences declines in investment values, we are nevertheless pleased (for the most part) at the performance of our

various model portfolios for the period, especially when we measure against the broader universe of money managers. As you will note from the commentary that follows, most of our portfolios managed to hold their own in an environment that was challenging for almost all in the professional money management business. We continue to be pleased with our relative performance, and we are reminded again that in the long-run success often comes as much from limiting one's inevitable losses as it does from maximizing potential gains. We look forward to continuing our efforts on your behalf, and we welcome any questions or comments you have.

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Leading a rich life is about a great deal more than money-making opportunities, portfolio design, and investment returns. During the first quarter we continued our efforts to provoke meaningful conversations with and among our clients about the true nature of riches and wealth, and doing what is necessary to achieve and preserve them. Our March wine and cheese get-together was lead by Cass Grange, former major gifts officer for St. Edwards University, and the topic of discussion for the evening was "Leaving a Lasting Legacy".

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Many in attendance joined in on an interesting and insightful discussion that touched not only on the importance of gifting and proper estate planning to pass on a financial legacy to heirs or trusted institutions, but also on the crucial notion that one's legacy encompasses a great deal more than accumulated financial wealth. Significant life stories, important lessons learned, and crucial values developed during the course of a life well-lived are an equally important, though less-easily defined or quantified aspect of a personal legacy that require careful attention to preserve and pass-on. Friendships acquired, important relationships built, and valuable social inter-connections are forms of deep social wealth that also require careful thought and planning in order to maximize and preserve their long-term value for future generations. Thinking and acting only in terms of the fairly shallow and impersonal aspects of financial wealth is uninspiring and off-putting to many nowadays, and there seems to be a deep-seated desire to integrate less-easily defined but more important concepts into the planning conversation.

Professional advisors and their clients must do a better job of recognizing and defining these issues more clearly, and of creating more broad-reaching plans and action steps that purposefully bring together planning for the tangible aspects of wealth creation and preservation with the incredibly rich and diverse "intangibles" that are so much more meaningful to most people and their families. As a firm, we look forward to furthering these conversations with you, and to benefiting from the rich insights that so many of you have shared with us.

Thank you again for your continued confidence and trust.

Thomas G. Twombly
President

CORE MODEL COMMENTS

Conservative Growth Model: During a quarter where investors shunned risk, this model's strict volatility constraints and heavy emphasis on large, established companies offered a suitable haven in an investment market full of negative returns. The model ended the quarter with roughly 48% of its assets invested in domestic equities, 13% in foreign equity, 21% in fixed income and the remaining assets in cash equivalents. Most of the portfolio's equity was a of a large cap value nature, where declines were minimal for the quarter. Additionally, the portfolio benefited from strength in the energy sector, one of only two market sectors where gains were posted over the first quarter. Currently, the model has just over 35% of its equity assets invested in industrial material, energy and utilities. With regard to fixed income, the model remains very defensive and continues to keep its exposure limited to very short-term instruments where the risks of a rising interest environment are reduced.

<u>1st Quarter</u>	<u>YTD</u>	<u>One Year</u>	<u>Lifetime</u>
-0.57%	-0.57%	5.96%	40.88%
Inception Date 06/03/1999			

Core Growth Model: The Core Growth model, which emphasizes asset class diversification, finished the first quarter down 1.08%. This was 107 basis points ahead of the S&P 500 and 426 basis points ahead of the Russell 2000. There were two major themes that contributed to the model's strong relative performance. The first was the model's allocation to foreign equity, where strong performance continues. This area currently represents just over 20% of the model assets. The second major theme contributing to the model's performance was the cash and bond holdings, which currently represent just over 33% of the model. Neither of these themes was enough to generate overall gains but they were able to mitigate losses in a generally weak investment market.

<u>1st Quarter</u>	<u>YTD</u>	<u>One Year</u>	<u>Lifetime</u>
-1.08%	-1.08%	6.08%	25.38%
Inception Date 05/31/2003			

Growth Model: Of the three core models, the Growth model held its value to the greatest extent during the first quarter. The model's ability to resist the general downward trend of the investment markets can be attributed largely to its international exposure, which currently represents 31% of the model's assets. Additionally, the portfolio benefited from the performance of American Beacon Large Cap Value, which was added to the model during the quarter.

At the end of the first quarter the model held 44% of its assets in domestic equity, 31% in foreign equity, 14% in bonds and the remainder in cash equivalents. The Investment Policy Committee continues to believe an over-weighted position in international equity, and minimum exposure to bonds are the proper position for the model given the current investment climate.

<u>1st Quarter</u>	<u>YTD</u>	<u>One Year</u>	<u>Lifetime</u>
-0.34%	-0.34%	5.7%	600.27%
Inception Date 10/16/1992			

SPECIALTY MODEL COMMENTS

Diversified Growth Model: In our year-end commentary for the Diversified Growth model, we noted that although the model had enjoyed a 17.25% return in 2004, we were cautious, "that the experience of 2004 is likely not to be repeated in the coming year." Due in part to this cautious feeling, and in light of the substantial gains small cap stocks had achieved over the previous several years, the IPC chose to reduce the model's exposure to small cap equity. We correspondingly increased the model's large cap exposure, which had become under-weighted. This transition from small cap into larger capitalization stocks proved well timed, as small cap stocks tended to fare significantly worse than large cap over the quarter.

In addition to this transition, the model benefited from the performance of its international position, AXA Rosenberg International Small Cap, which posted a gain of almost 5% over the quarter. This strong performance came in spite of recent strength in the dollar. As of March 31st, the Diversified Growth model held 76% of its assets in domestic equity, 16%

in foreign equity and remaining 8% in cash equivalents. The committee believes that this 100% equity model is currently well positioned to continue providing the excellent risk adjusted returns it has provided since the model's inception.

<u>1st Quarter</u>	<u>YTD</u>	<u>One Year</u>	<u>Lifetime</u>
-0.6%	-0.6%	8.9%	24.47%
Inception Date 10/31/00			

Aggressive Growth Model: In the 1st quarter of 2005, a quarter where NASDAQ was down 8.10%, the Russell 2000 down 5.34% and Thomson Financial reported the average aggressive growth fund was down 4.07%, we were understandably satisfied with the -0.21% return the Aggressive Growth model posted for the quarter. Part of our success over the quarter was a result of the model's asset allocation, which at the end of the quarter had almost 50% of assets in foreign equity, 32% in domestic equity and the remainder in cash and equivalents. This allocation represented a reduction in cash and an increase in two of the model's existing positions. The first fund was AIM International Emerging Growth, a multi-cap foreign equity fund that now represents just over 18% of the model's assets. The second position was U.S. Global Resources, a natural resources position that now holds just under 11% of the model's assets. Until more concentrated and lucrative market leadership emerges, the committee feels the best approach for the model to take is a broad sector allocation.

<u>1st Quarter</u>	<u>YTD</u>	<u>One Year</u>	<u>Lifetime</u>
-0.21%	-0.21%	3.87%	59.50%
Inception Date 09/08/1998			

EDUCATION MODEL COMMENTS

UT ORP: During the first quarter of 2005, the ORP model was weighted toward large cap growth funds, where many of the University of Texas Optional Retirement Plan's most attractive fund options are located. This overweighting of large cap funds proved poor protection for the model as it declined 2.23% in the first quarter. Late in the first quarter, the committee elected to make a change in the model allocation from the model's heavy weighting in large

cap growth funds into foreign equity, where the model was underweighted. After this shift was completed, the model had 46% of its assets in domestic equity, 29% in foreign equity and the remaining 24% was split among convertible securities, bonds, and cash. The Investment Policy Committee will continue to carefully monitor this model and the investment market in general and make any adjustments necessary.

<u>1st Quarter</u>	<u>YTD</u>	<u>One Year</u>	<u>Lifetime</u>
-2.23%	-2.23%	4.91%	19.51%
Inception Date 08/10/1999			

Retirement Growth: At the end of the first quarter of 2005 the Retirement Growth model was down 0.07%, placing it 208 basis points ahead of the S&P 500, and making it the best performing model this quarter. This performance was largely the result of its fund allocation, which at the end of the quarter had 36% of its assets in foreign equity, 35% in domestic equity and the remaining 29% split amongst convertible securities, bonds and cash. The Investment Policy Committee continues to be pleased with both the allocation and performance of the model and hope the rest of 2005 brings a continuation of the model's strong performance.

<u>1st Quarter</u>	<u>YTD</u>	<u>One Year</u>	<u>Lifetime</u>
-0.07%	-0.07%	10.95%	44.97%
Inception Date 06/03/1999			

Growth & Capital Preservation: In the most conservative of the higher education models, Growth & Capital Preservation, the first quarter of the year

was a difficult period, with a decline of 1.45%. This was by no means as significant a loss as the NASDAQ's 8.10% drop, or even the 5.34% loss the Russell 2000 suffered, but was discouraging nonetheless. The model remained positive into March. However, as bonds began to decline, the model dipped into the red before the end of the quarter. As of March 31st, the model was allocated with 43% of its assets in domestic equity, 12% in foreign equity, 28% in bonds, and the remainder in cash equivalents.

<u>1st Quarter</u>	<u>YTD</u>	<u>One Year</u>	<u>Lifetime</u>
-1.45%	-1.45%	6.49%	24.22%
Inception Date 11/30/2001			

Upcoming Events

Fireside Chats:

"Are you passing the grade on college planning or are you flunking?"

Speaker: Bleckley Dobbs

June 2nd, 2005
6:30 – 8:00 pm

General Market Results

	<u>Quarter</u>	<u>YTD</u>	<u>One Year</u>
<i>CPI</i>	0.79%	0.79%	2.35%
<i>DJI</i>	-2.06%	-2.06%	3.59%
<i>Nasdaq</i>	-8.1%	-8.1%	0.25%
<i>S&P 500</i>	-2.15%	-2.15%	6.67%
<i>Russell 2000</i>	-5.34%	-5.34%	5.41%
<i>MSCI World ex US</i>	0.14%	0.14%	16.01%
<i>LB Agg Bond</i>	-0.47%	-0.47%	1.16%

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