

FOURTH QUARTER REPORT 2004

January 2005

A MESSAGE FROM THE PRESIDENT

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Advisor Associate

Bleckley Dobbs
Advisor Associate



We are pleased to provide you with our annual report for 2004, Lucien, Stirling & Gray's Twelfth anniversary year.

As you will note from reading the economic commentary that follows, 2004 proved to be a profitable year for the majority of our asset management clients, as each of the model portfolios we manage outperformed their respective benchmarks. Additionally, many of the individually customized supervisory accounts we manage also provided returns that outstripped the expectations we set at the beginning of the year. We are pleased to be able to report this, and we promise to continue our efforts to provide you with the best asset management services we are capable of. We believe that we are just beginning to enjoy the benefits of the improvements to the research and asset management process that we have made in the last few years, and we are looking forward to the future with a sense of confidence and anticipation.

2004 also proved to be a year in which the overall scope and quality of services we provide to clients continued to expand and improve. Throughout the course of the year we invested consider-

able time and effort into improving the efficiency and effectiveness of our communications with clients, and with professional service providers. Investments in technology, and a commitment of notable human resources within the administrative areas of the firm allowed us to move closer still to our eventual goal of becoming a "paperless" operation, while always providing our clients with deeply personalized advice and attention. Though frequently hidden from daily view, our capacity to create, handle, store, and transmit information electronically has improved substantially within the last 12 months, and this has led to efficiencies in our business that would have been impossible only a short time ago.

Throughout 2004 we also hosted quarterly "chats" for clients and friends. These have proven to be valuable opportunities to share information and ideas, and to reconnect and interact on a somewhat less formal basis.

"We invite you to join us on March 3 for an insightful and thought-provoking discussion on "Leaving a Lasting Legacy" led by Cass Grange."

The feedback we have received from these has been very supportive, and we look forward to continuing the tradition into the future. We invite you to join us on March 3 for an insightful and thought-provoking discussion on "Leaving a Lasting Legacy", led by Cass Grange. Cass has been a valuable member of our team for nine years, and has extensive

prior professional experience counseling major donors to various institutions of higher education, including St. Edwards University.

Perhaps most importantly, the quality and consistency of the team of professionals here at Lucien, Stirling & Gray continues to improve steadily. The September promotion of J.P. O'Sullivan to Vice President and Chairman of our Investment Policy Committee marked a major step in an ongoing reorganization process that began several years ago, and has helped to strengthen our management team markedly. The addition of Bleckley Dobbs in August also brought us new diversity and expertise, and we are already benefiting from the precision and attention to detail that he brings from 20 years of previous experience as a professional engineer. As an additional side note, Bleckley celebrated the final week of the year with the news that he passed the comprehensive certification examination administered by the Certified Financial Planner Board of Standards. Please join us in congratulating him on achieving that significant professional milestone.

In closing, I would like to extend my personal thanks to each and every one of you for the support you have given us, and for the trust and confidence you have shown in us. This profession as a whole has been faced with significant challenges over the past several years, and many firms continue to suffer setbacks that have threatened their existence. While we also have experienced our share of challenges, we find ourselves at the close of 2004 with more great clients, more assets under our care, and more resources than we have ever enjoyed before. I am extremely proud of the team of professionals we have assembled here, and I am even more proud of the on-going positive feedback we have received from you. We look forward to the further strengthening of our team as we move forward, and to continuously improving upon what you have helped us to build. Thank you for that opportunity.

All the best to you and yours for a great 2005!

Thomas G. Twombly
President

CORE MODEL COMMENTS

Conservative Growth Model: In a model where preservation of capital is important, and where we keep very strict limits on the volatility of portfolio components, we are very pleased to be able to report a total return of 9.76% for the year. This was well above our expectations, and compares well with many all-equity portfolios. Early in the year, in anticipation of rising interest rates, we positioned the model's fixed income holdings in shorter-term debt instruments. Though in retrospect this may have proved to be an overly cautious approach, the model enjoyed substantial gains from its equity positions, especially from the 12% allocated to international holdings. As we move forward, we expect to remain somewhat overweight international holdings, while maintaining broad diversification here at home with some of the most consistent managers in the fund universe

<u>4th Quarter</u>	<u>YTD</u>	<u>One Year</u>	<u>Lifetime</u>
6.34%	9.76%	9.76%	41.70%
Inception Date 06/03/1999			

Core Growth Model: In this asset-class diverse model we are quite pleased to report a total return of 12.90% for the year. The model outstripped the S&P 500 by more than 200 basis points, despite finishing the year with 20% allocated to fixed income positions and 17% in cash and equivalents. Much of this can be attributed to our decision to emphasize small-cap equities, both here in the U.S. and overseas. We continue to believe that this area offers promise. We are seeing a gradual shift to larger-capitalization names within some of the funds that currently comprise the model, and this makes great sense to us. We are quite pleased with the current allocation, and do not anticipate significant changes in the foreseeable future.

<u>4th Quarter</u>	<u>YTD</u>	<u>One Year</u>	<u>Lifetime</u>
8.70%	12.90%	12.90%	26.75%
Inception Date 05/31/2003			

Growth Model: In this, the most growth-oriented of our core models, we are pleased to report a total return of 11.20% for the quarter, and 13.24% for the year. Much of this model's return, like that of domestic

equity markets in general, occurred in the final quarter of the year. An election decision, lower energy prices, and evidence of continued economic growth contributed to this end-of-year rally. Our allocations to small-cap equities, and particularly our substantial allocation to international holdings (currently just over 30%) allowed us to outrun the S&P 500 by a good margin, despite finishing the year with 13% of assets in fixed income and almost 14% in cash and equivalents. We anticipate maintaining a substantial international component to the model, and fixed income allocations that are near our minimum prescribed levels, while gradually increasing our holdings in domestic large-cap equities.

<u>4th Quarter</u>	<u>YTD</u>	<u>One Year</u>	<u>Lifetime</u>
11.20%	13.24%	13.24%	602.69%

Inception Date 10/16/1992

SPECIALIT MODEL COMMENTS

Diversified Growth Model: For the year 2004 this model posted the highest returns of any of the firm's models, with a total return of over 17%. We are pleased to report that this total market, equity-only portfolio outstripped the S&P 500 by over 6% for the year. Like many of our other models, we were particularly rewarded by above-average allocations to small-cap equities and to international holdings, and we saw significant gains in the last quarter of the year. Recently we took steps to replace the managers of the small-cap value and mid-cap value components of the model, as they had both suffered from deteriorating performance relative to their peer group over the last 6 months. We are now confident that we are well positioned for the long-term, but caution that the experience of 2004 is likely not to be repeated in the coming year.

<u>4th Quarter</u>	<u>YTD</u>	<u>One Year</u>	<u>Lifetime</u>
12.25%	17.25%	17.25%	25.22%

Inception Date 10/31/01

Aggressive Growth Model: This model's results are those that we have been least satisfied with for the year. A substantial change in management oversight in

early September, and a strong 4th quarter, helped to rescue what would otherwise have been a poor showing for much of the earlier part of the year. In a model that permits concentration of assets and much more aggressive strategies, we currently hold over 45% of the portfolio in international equities. Additionally, a well-timed decision to invest in a concentrated health care position early in November provided noteworthy results as we closed out 2004. We are confident that the changes we have made will be beneficial in the long run, but remain cognizant of the fact that the more aggressive sectors of the overall markets are likely to grow more volatile as the current bull market continues to age.

<u>4th Quarter</u>	<u>YTD</u>	<u>One Year</u>	<u>Lifetime</u>
14.64%	7.05%	7.05%	59.83%

Inception Date 09/08/1998

EDUCATION MODEL COMMENTS

UT ORP: In this model, designed specifically for a narrow universe of funds available with the University of Texas Optional Retirement Plan, we are pleased to report a total return for the year of 9.86%. Throughout the year the model remained broadly diversified, finishing 2004 with 55% of assets in domestic equities, 19% in international equities, 16% in fixed income, and the remainder in cash. While availability of small company equity funds is very limited in the ORP universe, the model enjoyed substantial benefit from its international holdings. These we have increased somewhat, recently, along with allocations to large-cap stocks.

<u>4th Quarter</u>	<u>YTD</u>	<u>One Year</u>	<u>Lifetime</u>
9.34%	9.86%	9.86%	22.24%

Inception Date 08/10/1999

Retirement Growth: We are very pleased to report that this model, designed primarily for our clients who are participants in the St. Edwards University Retirement Plan, provided a total return of over 16.5% for 2004, beating the most widely followed equity indexes by a wide margin. Finishing the year with 21% in fixed income, 8% in cash, and the remainder almost evenly

split between U.S. and international equities, this model also derived notable benefit from its small-cap and international holdings.

4th Quarter YTD One Year Lifetime
11.08% 16.58% 16.58% 45.07%

Inception Date 06/03/1999

Growth and Capital Preservation: This model, designed primarily for more conservative participants in the St. Edwards University Retirement Plan, also provided results that were above our expectations. With 16% in cash at the end of the year, 27% in fixed income, 12% in international equity, and the remaining 45% in U.S. equities, the model provided broad asset-class diversification, a fairly smooth ride throughout the year, and a total return of 11.20%. Better than expected returns in the bond markets contributed to this, as did modest allocations to small company stocks and international holdings. While pleased with the 2004 results, we caution that more conservatively managed portfolios are unlikely to see double-digit returns repeated in the coming year.

4th Quarter YTD One Year Lifetime
8.50% 11.20% 11.20% 26.05%

Inception Date 11/30/2001

Lucien, Stirling and Gray
 Investment Policy Committee

Upcoming Events

Fireside Chats:

“Leaving a Lasting Legacy”

Speaker: Cass Grange

March 3rd, 2005

6:30 pm - 8:00 pm

General Market Results

	Quarter	YTD	One Year
CPI	.58%	3.63%	3.63%
DJI	7.59%	5.31%	5.31%
NASDAQ	14.69%	8.59%	8.59%
S&P 500	9.23%	10.87%	10.87%
Russell 2000	14.09%	18.32%	18.32%
MSCI World ex US	15.20%	20.84	20.84%
LB AGG Bond	.95%	4.34%	4.34%

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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 in no guarantee of future results ● It is impossible to invest directly in indices ● Percentages may not equal 100 due to rounding