

## Upcoming Events

*Fireside Chat:*  
***How We Manage Money***  
**Speaker: Thomas Twombly, President**

**February 24<sup>th</sup>, 2011**

**6:30 – 8:00 PM**

### General Market Results

	4 <sup>th</sup> Quarter	YTD	One Year	Three Year	Five Year
CPI	0.17%	1.32%	1.32%	1.37%	2.14%
DJI	8.04%	14.06%	14.06%	-1.61%	4.31%
Nasdaq	12.00%	16.91%	16.91%	0.01%	3.76%
S&P 500	10.76%	15.07%	15.07%	-2.85%	2.29%
Russell 2000	16.25%	26.85%	26.85%	2.22%	4.47%
MSCI World ex US	6.65%	8.21%	8.21%	-6.55%	2.94%
Barclays Captl Agg Bd	-1.30%	6.54%	6.54%	5.90%	5.80%

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](http://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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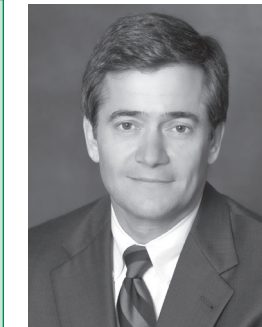
# FOURTH QUARTER REPORT 2010

January 2011

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## A MESSAGE FROM THE PRESIDENT

*Thomas G. Twombly*



**Thomas Twombly**  
*President*

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

**Mark Ward, CFP®**  
**ChFC®**  
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**Glenda Summers,**  
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**Bleckley Dobbs,**  
**CFP®**  
*Sr. Advisor Associate*

We are pleased to provide you with our report for the period ending December 31, 2010.

It's customary at this time of year to look back, take stock, and reflect on the

lessons we've learned in the past year before moving on to the next. Given the enormity of the financial convulsions we've experienced during the last few years, and the fact that life is a continuum, not a neat little chain of separate segments, it's impossible to do so with any credibility and fail to address more than the last twelve months alone. After all, the last three years have been marked by the greatest stock market collapse that any of us has ever experienced in our lives, a 57% plunge in the S&P 500 from December 2007 through March of 2009, followed by the most explosive stock market recovery in history, a 21-month rocket shot that has seen the S&P 500 rise 86% from its previously mentioned lows through the end of 2010. The experience has left people everywhere feeling dazed, bewildered, deeply mistrustful of their instincts, and so shell-shocked that many are still frozen in their tracks.

Some members of the professional investment community seem to be in the same state. Despite the recovery, formerly robust companies have been closed this year, and the ranks of independent

brokerage firms have declined noticeably in 2010. I know of 20 and 25-year veterans of the profession who have quit the business entirely – without any recognizable plan for the future – and huge numbers of the “survivors” are questioning their core philosophies and business practices as they see significant percentages of their clients depart for points unknown. Articles abound in trade journals that suggest that investment professionals have lost confidence, or should lose confidence, in portfolio management techniques that “failed” during the great convulsion. “Diversification didn't work” and “The death of long term investing” articles still

**“the most important lessons we have learned are the ones we've always known. Fundamentally, this is a business about managing relationships and expectations – not just money..”**

flood my in-box, and a whole new crop of trading theories and products are being brought forth as the supposed answer. A prominent columnist that I have followed and respected for years, who has been the most stalwart proponent of long-term equity investing, surprised me this year. He went so far as to suggest after this year's “flash crash” that variable annuities, despite their high costs and liquidity restrictions, were the most logical choice for individual investors. Why? Because individuals clearly couldn't stomach the inherent volatility of markets without some “guarantee” to keep them from bailing out. After 20 years of following his sage observations, it made me sad.

As a firm that has retained more than 97% of our clients since the beginning of 2008; that has added new clients throughout

the great convulsion; and that continues to grow confidently and steadily, the most important lessons we have learned are the ones we've always known. Fundamentally, this is a business about managing relationships and expectations – not just money. There is no fool-proof “technique”, investment theory, or product, no matter how “sophisticated” or successful over any given period, that can ever replace the profound human need for trust, confidence, and personal connection. The antidote to fear is not information (though a lack of information will certainly compound fear) or a new product. The antidote to fear is trust – period.

If we hope to be trusted by others, we must first be trustworthy – to ourselves and to each other. If we are to help our clients to move forward in an uncertain world; to make measured decisions in the face of multiple risks and challenges; and to reap the long-term rewards of successful investing, we must instill confidence. To instill confidence in others, we must first feel it in ourselves and each other – not the false confidence that we know the future, for nobody does - but the genuine confidence that comes from being experienced, battle-tested as a team, assured that our processes and procedures are sound, and prepared to adapt to whatever conditions come our way. I believe we are all of that.

As we closed 2010, major market averages climbed back above the levels they held just before the Lehman Brothers bankruptcy – the trigger point of the sheer panic that took us down almost 60% from peak to trough. Everyone who sold shares of ownership in great businesses after that point, and remained on the sidelines in cash, fearful that the end of the world was nigh, is officially under water – some by a huge margin. It's a sobering number of people, and many may never recover from the trauma. To our clients – all of you who maintained sufficient trust and confidence in us to stay the course, to overcome the instinct to flee, to add to your portfolio as planned, and to rebalance appropriately when we asked you to, we'd like to say thank you and congratulations. You are among a minority who can look back over the last few years and say you succeeded. It's an honor to serve you, and we look forward to doing so for a long time to come.

Thomas G. Twombly  
President

## INVESTMENT COMMENTARY

Looking back over 2010, especially with the benefit of double-digit gains in major equity averages behind us, one could be tempted to forget what a strange and stressful experience it was for many.

The first four months of the year saw a continuation of the most powerful market rebound any of us has ever experienced. A combination of low interest rates, economic stimulus programs, and improving sentiment drove equity prices higher, such that by the end of the first quarter the S&P 500 was up 5.4%, and by April 23<sup>rd</sup> it sported overall gains of 83% from the market lows on March 9<sup>th</sup> of the previous year.

With these type of results in hand, and with individual investors (the ultimate contra-indicator) finally beginning to show some interest in coming off the sidelines and putting some of their cash to work, equity markets were overdue for a correction – and correct they did. With a backdrop of worries like European debt problems, a potentially catastrophic oil spill in the Gulf of Mexico, and the deep mistrust that continues to characterize the domestic political climate, markets sold off hard through the end of June – ultimately logging a peak-to-trough decline of about 16%.

In the broad context of market history, a fourteen-month, 83% run-up, followed by a two-and-a-half month, 16% correction should have been a perfectly normal and expected event. Unfortunately, human nature being what it is, no correction feels normal when it's happening. This one, complete with its unique imprimatur – the May 6<sup>th</sup> “Flash Crash” that saw markets drop 600 points (about 9%) in fifteen minutes and then regain almost all of the loss in the following twenty, sent already overwrought and confused individual investors running in droves back to the perceived safety of bonds and fixed income holdings. (This, incidentally, speaks to another strange and worrisome characteristic of 2010. Namely, that despite interest rates being at generational lows, with virtually no place to go but up, and with evidence of gathering momentum in corporate earnings, cash flows, stock buy-backs, dividend increases, and corporate mergers, money continued to flow out of equity funds and into bond funds for almost the entire year.)

Throughout May and early June we took advantage of declines in stock markets to add steadily to select equity managers, reminding clients in our Second Quarter Report that “it is often in the middle of apparent crises that opportunities arise,” and that “despite the almost constant media and political drumbeat of ‘the death of capitalism’ and ‘spreading socialism’ the fact of the matter is that innovation and entrepreneurial spirit are far from dead.”

In the third quarter, equity markets posted double-digit rebounds from their July 2<sup>nd</sup> lows. Bond markets continued their upward run as yields hit their second lowest point ever (only October of 1941 has seen lower rates on 10-year treasuries) and as individual investors demonstrated that their appetite for debt investments seemingly had no end. We took advantage of these higher prices to reduce our bond holdings in various model portfolios to their prescribed minimums, and to re-position the holdings we maintained for a possible up-tick in inflationary pressures. We also added selectively to equity positions when periodic down-drafts in stock prices presented attractive opportunities.

The final quarter of the year brought the first decline in bond markets that we have seen in a long while, and finally a reversal in new flows into fixed-income funds as commodity prices world-wide began to signal possible inflation. Instability in the municipal bond sector also contributed, as worries arose about the capacity of various entities to re-pay their debts in the face of declining tax revenues. Equity markets showed strong results across the board, with double-digit gains in the S&P 500 and the technology-heavy NASDAQ, and very strong results in the small-cap Russell 2000.

We are very pleased to report that the management teams to whom we have entrusted assets continue to distinguish themselves, and that our portfolios have delivered very respectable returns for the quarter and the entire year while maintaining levels of statistical volatility that have been considerably less than one might expect. In fact, as we look back over not only the last year, but the last three, five, and ten years as well, we are grateful to see that in almost every instance our careful, methodical approach to portfolio management has resulted in a journey that has been far less rocky than many have experienced, while providing results that stand up well against all reasonable benchmarks.

### Conservative Growth Model

4th Qtr	YTD	1 Year	3 Year	5 Year
5.12%	11.11%	11.11%	-0.46%	4.62%

Inception Date 06/03/1999

### Core Growth Model

4th Qtr	YTD	1 Year	3 Year	5 Year
8.20%	14.23%	14.23%	0.51%	4.86%

Inception Date 05/31/2003

### Growth Model

4th Qtr	YTD	1 Year	3 Year	5 Year
9.02%	15.65%	15.65%	1.14%	6.60%

Inception Date 10/16/1992

### Specialty Model

#### Diversified Growth Model

4th Qtr	YTD	1 Year	3 Year	5 Year
8.69%	14.71%	14.71%	-1.64%	3.06%

Inception Date 10/31/00

### Education Models

#### UT ORP

4th Qtr	YTD	1 Year	3 Year	5 Year
7.14%	9.34%	9.34%	-2.28%	3.17%

Inception 08/10/1999

### Retirement Growth

4th Qtr	YTD	1 Year	3 Year	5 Year
9.78%	14.63%	14.63%	-2.10%	3.46%

Inception Date 06/03/1999

### Growth & Capital Preservation

4th Qtr	YTD	1 Year	3 Year	5 Year
5.49%	9.65%	9.65%	1.36%	4.63%

Inception Date 11/30/2001