First Quarter Report 2024

LUCIEN, STIRLING & GRAY ADVISORY GROUP℠

President's Message

Meet our Team

Thomas Twombly
President

Mark A. Ward, CFP®, ChFC®, RICP®
VP, Operations
Chairman, IPC

Chris Vasquez, ChFC®
Senior Advisor Associate

Daisy Lopez
Accounting & Operations Manager

Diane Hunley
Office Manager

Contact Us

7800 N Mopac Expy Ste 340
Austin, Texas | 78759

512-458-2517

www.lsggroup.com

A Message From The President

Thomas G. Twombly

I believe that life - for all of us - is just a long adventure trip into the unknown wilderness. I also believe that the role of a trusted advisor is like that of a guide. In fact, our entire website is modelled on that theme, and it's an idea we discuss around the office constantly. Plenty of my past musings have touched on the subject in one way or another, as many of you know.

I bring this up again because so much of what we're all dealing with now seems unprecedented. Literally every single day we seem to get deeper and deeper into "uncharted territory" where it seems that the mental maps we have created, and that have worked well in the past, may no longer be accurate. And where the knowledge and experience we've accumulated so far seem insufficient for the changes and challenges we're now confronting. It's a daunting feeling.

To name just a few current issues: we're rapidly moving towards yet another contentious Presidential election later this year, and for the first time ever, the leading candidate for one of the two major parties just started a criminal trial. Artificial intelligence and social media, two recent "advancements" of the technological age, have now combined to enable anyone, including teenage boys (the most immature, impulsive, and short-sighted creatures on the planet – I know, I once was one) to freely create deepfake videos of other people in mere minutes. Misinformation and outright lies are propagated daily, and they spread like wildfire with seemingly little or no ability, or desire, to regulate or moderate it. Mass shootings have become so commonplace that they are hardly even noticed any more. "Civil War" is one of the most popular movies right now. Therapists and psychiatrists report levels of anxiety and stress in every single socio-economic class that are off the charts. People everywhere are struggling mightily – even those with good jobs and good incomes who are on sound financial footing feel anxious.

There is no question. It's tough out there. And as human beings, it's hard not to feel reactive.

There are certain things that a guide and his or her clients will never be able to control on their trip into the wilderness. It doesn't matter how experienced they might be (or how earnestly they might want to try.) The weather, and the climate, are two of the biggest ones. Those just must be endured.

So, the one thing a guide must do – but can only do with the close cooperation of his or her clients - is to plan carefully and to prepare thoroughly for a wide range of possibilities. Good equipment, realistic expectations, and a determined

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sense of adaptability and resilience are musts. A solid grasp on what one must do, and what one must not do when conditions suddenly change is critical.

I think about our current environment in those terms. I don't think there's any other logical choice.

So here are some of the things that we're talking about internally, and some of the things we can do to prepare ourselves and our treasured clients (you) for this continued journey into the unknown.

First and foremost, we can inspire trust by being honest, transparent, and being willing to say: "I don't know." Not only is there no shame in that, but there is honor in it. Because nobody else knows anything for sure either, though plenty in our profession pretend they do.

We can focus on setting realistic expectations, and by checking emotions – avoiding the extremes of deep pessimism or giddy ebullience that result in making big mistakes. And we can align investment portfolios with the specific financial needs, time horizons, and individual tolerance for ambiguity of each of our clients, getting to know each of them on a personal level so we know what's most important, and why. And we can make sure never to take on more clients than we can responsibly serve in that individual manner, so we never jeopardize our ability to maintain those close relationships – especially during times of duress.

We can make sure to get things done, handling hundreds of important details with disciplined, documented processes that we follow, and by providing accountability, courage, and discipline in the face of the unknown and the unexpected.

We can have the intestinal fortitude to prevent destructive behaviors by being willing to say "no, you mustn't do that." And we can mitigate liquidity risk with careful individual planning and by following thoughtful cash management guidelines.

We can conduct "lifeboat drills" so none of our clients is caught unprepared by surprises or unexpected turns of events – because surprise is the mother of panic, and panic is to be avoided at all costs.

And we can commit to be there during times of stress or crisis – whether that stress and crisis happens to be widespread among many, or specific to just one – so every single client we guide has the confidence that they will never have to face any challenge alone.

And we can continue to emphasize the three critical principles of patience, discipline, and a long-term, hard-nosed faith in the future, along with the equally critical three practices of asset allocation, diversification, and rebalancing that have served all of us so well for so long.

Thank you again for your confidence and trust. We appreciate it more than we can ever convey.

Thomas G. Twombly
President

Investment & Economic Views

As you will note from the personal Quarterly Review that accompanies this report, and from the General Market Results shown on page 4 of this report, the first quarter of 2024, and the last twelve months as well, were rewarding periods of time for our clients. All areas of the US and international equity markets to which we allocate assets provided positive results, and several major equity indices far outshone their long-term averages. Fixed income results have been more muted across the board, as higher interest rates proved stickier than many had expected at the beginning of the year, and some of the caution we expressed last quarter towards moving too quickly into longer-dated maturities proved to be well-founded.

Inflationary pressures continue to remain somewhat elevated, though still well below where they were a few years ago, and the expected cuts to interest rates on behalf of the Federal Reserve that many had been anticipating in the first quarter failed to materialize.

As a result, shorter-dated bonds continued their relative outperformance in what can only be described as a pretty nervous bond market.

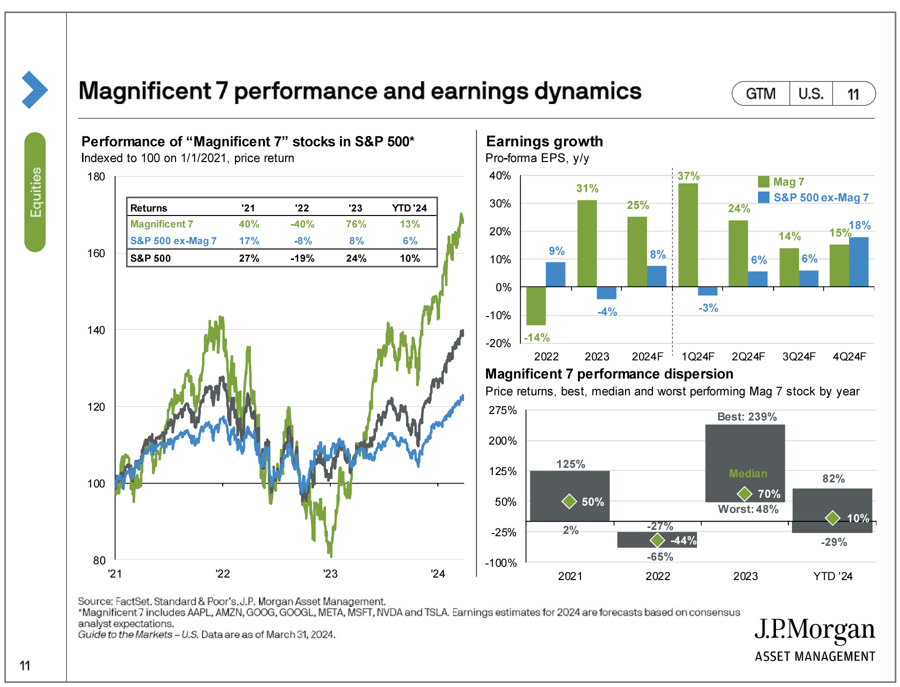
The US economy remains on solid ground, with broad indications of continuing strength. Despite the widespread predictions of an imminent recession being just around the bend for quite some time, along with a vocal pooh-poohing of the possibility of a so-called “soft landing” eventually coming to pass, the data available through the end of the first quarter suggests that that is exactly what we’re witnessing at this point in time.

Obviously, we live in an uncertain and unstable world, and any number of developments could eventually change that reality, so this is certainly not a time to blithely relax the watch. But it is important to recognize the fact that both American businesses and the American people have remained a good deal more resilient and more adaptable than a fair number of outspoken pundits have posited in recent years. It’s also important not to get swept up in the sense of existential angst that so many politicians and media figures continue to promote. Equanimity, temperance, and a long-term perspective, while certainly not easy to maintain, are nonetheless very important.

Business investment spending as a percentage of Gross Domestic Product also remains above the long-term average of the last five decades, while inventories to sales ratios are holding below their long-term averages – suggesting that business leaders are investing steadily for the longer term, without witnessing any worrisome imbalances in the more cyclical sensitive areas of the economy that have historically foreshadowed slowdowns.

All that said, it’s important not to confuse the economy with the equity markets. Stock markets have always been “forward-looking”, and a lot of this positive economic news may well already be reflected in the current share prices of US equities in particular. Additionally, there has been a great deal of excitement about the possibility of artificial intelligence radically changing business profitability overall, and there can be no question that the major companies who are leading this charge – the so-called “Magnificent 7” - have already seen massive increases in the growth of their earnings, and also in the levels of their stock prices, and especially in their outsized influence over the recent performance of the S&P 500 Index as a whole – as one can easily note from the chart from JP Morgan Asset Management below.

Consumer spending continues to show signs of strength, as a large percentage of the populus has enjoyed real wage growth (earned income growing faster than inflation) for over a year now, and as their willingness to spend those increased earnings has continued. Additionally, we’ve seen a steady increase in the growth of the labor force in recent months as many people have now returned to full-time work after the steep downturn in employment we experienced during the first quarter four years ago. In fact, the labor force participation rate of 18–64-year-olds has now fully rebounded to exceed pre-pandemic levels and is actually higher than at any time since 1999.



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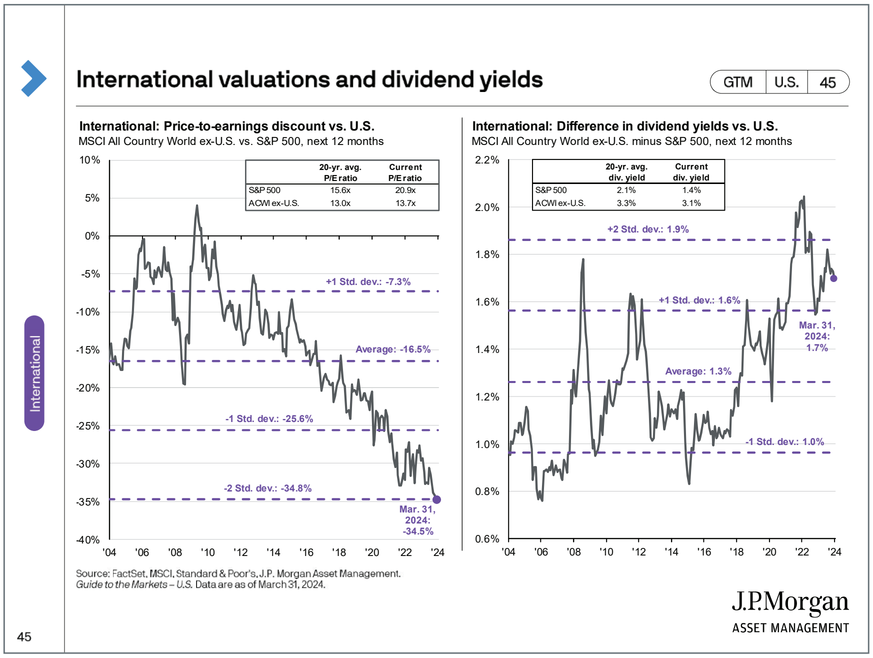
Hindsight is always 20/20, and one can never know for sure until after the fact whether lofty valuations like this are indicative of a "bubble" that is bound to pop, or whether they are harbingers of such massive transformation in the global economy that they will change everything about how we live and work. There are certainly many voices on either side of that argument, and plausible reasons to believe that either side could eventually prove to be right.



From our perspective, prudence demands that we take a nuanced approach, acknowledge the limitations of our knowledge and understanding, and invest with both possibilities (and more beyond that) in mind. The US currently represents 64% of global equity market capitalization, according to JP Morgan, and that is an all-time high. International price to earnings multiples are now -34.5% lower than those in the US, as the chart to the right shows, and dividend yields outside the United States remain substantially more attractive.

As a result, we continue to remain broadly diversified, with meaningful allocations to managers who specialize in small and mid-sized US companies, non-US equity holdings, medium-term fixed income investments, and what we believe to be a prudent level of cash in most portfolios - which is now earning a reasonable yield - and which can be invested at a later date if and when opportunities were to present themselves.

We would welcome a discussion about any questions you have about our perspective, and about your individual situation. Please give us a call if you would like to talk!

General Market Results

	1st Quarter	YTD	One Year	Three Year	Five Year	Ten Year
Bloomberg US Agg Bond TR USD	-0.78	-0.78	1.70	-2.46	0.36	1.54
S&P 500 TR USD	10.56	10.56	29.88	11.49	15.05	12.96
DJ Industrial Average TR USD	6.14	6.14	22.18	8.65	11.31	11.76
S&P MidCap 400 TR	9.95	9.95	23.33	6.96	11.71	9.99
Russell 2000 TR USD	5.18	5.18	19.71	-0.10	8.10	7.58
NASDAQ Composite TR USD	9.31	9.31	35.08	8.17	17.19	15.73
MSCI EAFE NR USD	5.78	5.78	15.32	4.78	7.33	4.80
MSCI EM NR USD	2.37	2.37	8.15	-5.05	2.22	2.95

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"Smart Decisions About Serious Money"

7800 N Mopac Expy Suite 340 | Austin, Texas 78759
Phone: 512-458-2517 | Fax: 512-458-3120
www.lsggroup.com