UPDATE

October 2007 Investment Management News

ABOUT OUR COMPANY

Company Profile:

Concord Investment Counsel is an Irvine based, fee-only investment management company specializing in Domestic Equity Management. Our prudent investment philosophy is ideal for conservative investors seeking growth, and risk management.

Investment Strategy:

Concord invests in large-cap growth oriented companies with strong leadership, superior products, and sustainable growth plans. Our investment strategy focuses upon growth methodologies.

Company Goals:

- *High Alpha*
- *Low Tracking Error*
- *Average Volatility*
- *Excellent Client Communications*
- *Comfortable Relationships*

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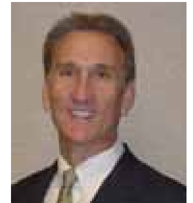
ECONOMIC REVIEW AND OUTLOOK

Credit Markets Recovering


Mitch Pletcher
President & Chief
Investment Officer

The markets' drastic re-pricing of credit spreads and the resulting shocks to the financial system were the highlight of the quarter and will dominate Wall Street narrative for years. Events such as this happen occasionally; but the severity of this one was especially notable.

Healing in the money and credit markets is now well under way and has enabled a partial reversal of the summer's liquidity squeeze. Since the Fed eased on September 18, the improvement in most credit markets has been dramatic. The financial system, however, is still distressed. Expectations for economic growth continue to decline as the 1-2 punch of housing problems and now tight credit conditions take their toll on our economy. Thus far, strength from the humming global economy has kept us out of recession. GDP forecasts have fallen as 2007 growth is now expected to be only 2%, with 2008 projections a bit better at 2.5%.

Recent data on the economy continue to echo a familiar tone. Housing sales, starts and prices have not shown signs of bottoming. Employment growth has clearly weakened. However, gains are still strong enough to maintain modest growth in household income, which underpins growth in consumer spending. The September employment report was good news with an over 110,000 gain in non-farm payrolls. Solid gains in government and services more than offset weakness in finance, construction, and manufacturing.

The inflation picture has brightened slightly as economist lowered CPI forecasts for 2007 and 2008 to 2.7% and 2.3% respectfully. These forecasts seem rooted in the belief that softer growth will ease recent upward price trends in food, energy and commodities.

There are, however, some different views from inflation hawks that follow more traditional inflation indicators. They believe that the steep yield curve, weak dollar and recent Fed easing will rekindle inflation fires that weren't yet under control.

We believe the current backdrop has more risks to growth than inflation, and we prefer a slow-growth, lower-inflationary environment.

We remain optimistic.

The Equity Market

By Steve Davis, Equity Analyst

3rd Quarter 2007 Review: Volatile, But Worth The Risk

Though the 3rd quarter was turbulent, the returns in most markets were worth the risk. The S&P 500 growth index finished the quarter up 3.76%, while the broad-based Russell 1000 growth index was up 4.21%. Concord's Focused Growth model portfolio had an outstanding quarter, returning approximately 7.5%. All returns noted are total returns.

In early July, momentum from the previous quarter prevailed. But problems in the subprime housing market and a severe credit crunch within the broad economy sent equity markets tumbling from mid-July through mid-August as investors sold stocks and riskier assets, buying safer investment vehicles such as Treasuries. The Federal Reserve and other central banks saw the potential effects of a prolonged credit problem on the economy, and took action in August by injecting cash into the global financial system. The Fed then cut its Fed Funds rate by 0.5% to 4.75% in September. As a result, equity markets turned about and rallied throughout the remainder of the quarter to finish on a remarkably positive note. Quarterly sector leadership resided in energy, technology, industrials, materials, and consumer staples, while market performers included healthcare, telecom, and utilities. The worst performers were the financial and consumer discretionary sectors. At an industry level, the leaders included metals, consumer electronics, and heavy construction, while the laggards were home construction, agencies, and mortgage finance companies.

Looking forward, although the credit markets have calmed and the equity markets have rallied, there are still several obstacles in the path of a sustained equity advance. The slow motion housing trainwreck is an obvious worry; and investors also will fret about consumer spending for the holidays and credit availability for companies to complete deals and make capital expenditures. But with inflation in check, the Fed in potential rate-cutting mode, modest economic growth, and expectations for near double-digit corporate earnings growth, we remain moderately bullish.

SECTOR REVIEW 09/30/07

Best Performers	Quarterly % Change	Worst Performers	Quarterly % Change
Nonferrous Metals	19.88	Home Construction	-35.11
Consumer Electronics	18.72	Bus. Trng. & Empl. Agencies	-21.28
Heavy Construction	18.57	Specialty Finance	-19.62
Gambling	16.17	Mortgage Finance	-16.36
Gold Mining	15.22	Home Improvement Retailers	-14.59
Nondurable Household Products	13.53	Apparel Retailers	-14.21
Aerospace	12.10	Paper	-14.20
Oil Equipment & Services	11.58	Real Estate Holding & Dev.	-13.94
Soft Drinks	11.35	Building Materials & Fixtures	-12.45
Computer Hardware	11.23	Recreational Products	-11.65

Source: The Wall Street Journal

MARKET DIARY 09/30/07

Equity Returns	Quarterly Change	YTD Change		Quarterly Change	YTD Change
US Large Cap Core	1.96%	9.02%	Mid Cap Core	-1.56%	9.72%
US Large Cap Growth	6.19%	14.25%	Small Cap Core	-3.44%	4.74%
US Large Cap Value	-0.01%	7.19%	International	3.22%	14.29%

Returns are mutual fund averages from Lipper as reported by The Wall Street Journal. Performance includes dividends.

CIC Focused Growth	**+ 7.45%**	**15.09%**	**Russell 1000 Growth**	**4.21%**	**+12.68%**
S&P 500 Growth Index	**+3.77%**	**+10.53%**	**S&P 500**	**+2.03%**	**+9.13%**

The data above for Focused Growth is from a composite of client accounts and is gross of fees. Performance data for indices are total return numbers. The information and data contained in this newsletter were obtained from sources considered to be accurate. Their accuracy and/or completeness cannot be guaranteed.

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Industry Focus

By Brian Thomas, Senior Analyst

Wireless Communication

The last decade moved us quickly towards a wireless world of digital content even before the "wired" world had a chance to take root. While some anticipated technologies have yet to materialize, it's been an impressive period of change. Consumers have enjoyed huge surges in functionality and productivity. We've witnessed some companies ride trends well, some flounder, and some rise out of nowhere to capture market share and capitalization. But the medium's most exciting growth may lie in the future. As always, the key in technology investing is to understand the resilience of emerging trends based on product quality and consumer demands.

In our research meetings at Concord, we are disciplined about avoiding the "wow" factor when analyzing tech companies. A cool product concept alone doesn't always translate into a viable investment (think Microsoft's recent Ultra-Mobile PC flop). When it comes to the new wireless frontier, we're following several trends we think will be important drivers of future growth.

3G? 4G?

Basic wireless calling (however unreliable) satisfied users during the first generation of cell phones, and the second generation (2G) made things more interesting with text messaging and low-grade web browsing. 2.5G added pictures and video but with sluggish speeds. The yet-arriving 3G rollout has increased bandwidth and has enhanced 2.5G's multimedia capabilities. And while the four major US wireless carriers have yet to realized the full potential of their 3G networks, there is already talk of WiMax (4G) technology covering entire cities with ubiquitous broadband. In short, soon we will have the ability to send massive amounts of rich data wirelessly just about anywhere.

We think Qualcomm (QCOM) is the best pure play on 3G adoption which is built entirely on CDMA-based standards. Simply put, no one can make or sell anything related to CDMA without owing QCOM some money. If consumers continue to become interested in more advanced data streaming, the number of global handsets passing through QCOM's tollbooth will be awesome. But how quickly might that trend materialize? The answer lies with consumers' ability to interact with the data on a mobile platform. If wireless devices lack an interface that makes people want all that robust content on the go, then the promise of 3G will be slow to materialize.

Smartphones

Enter the next generation of mobile phones. Handset makers are working overtime to create devices that will "pull through" the demand for better wireless content. Research In Motion (RIMM) carved out its niche among enterprise users, and now is betting its future on the non-business user with new products like the Curve and Pearl. Apple (AAPL) made an impressive opening entry with the iPhone, and heavyweights Nokia (NOK) and Motorola (MOT) are directing massive R&D budgets toward next generation mobility. Innovations like flexible, rolled up screens and virtual keyboards may be coming soon to a store near you. We think, however, that until there is such a leap forward with the user experience and content interaction, accelerated penetration of higher-end smartphones risks being delayed.

Location-Based Services

Another emerging element in wireless content is GPS location-based services. As GPS technology weaves into the mobile experience, applications will extend far beyond helping people get from point A to B. These apps may be numerous, from gaming to customized advertising. We believe GPS has the potential to impact wireless communication the same way search transformed the internet. We seek to understand what GPS trends means competitively for Garmin (GRMN), our long-time holding, and we work to discover the new winners in a rapidly evolving market.

The Bond Market

By Mitch Pletcher

Crisis in Credit Markets

The fixed income spread market (corporate bonds, mortgage bonds, etc) had its worst quarter in relative terms since 2002. For the last 5 years, spread product has been tightening relative to treasuries. Yield-starved investors wanting more yield than treasuries offered drove the spread between treasuries and other securities to the lowest margins seen (in percentage terms) in decades.

Finally, in August of 2007, alarm bells blared as investors realized that the risk adjusted returns in many areas of the corporate and mortgage bond world were poor. Dealers became overwhelmed with massive sell orders and the dominoes began to fall. Credit markets were frozen for weeks - and poorly positioned investment banks suffered massive losses.

The Fed opened their tool box and intervened with a cut at the discount window and then a 50 bps reduction in the Fed Funds rate. The Fed also bought massive amounts of bank securities in open market transactions. The crisis in the spread product market produced a flight to quality that drove treasury prices up and yields down.

Treasuries had a great quarter as yields fell about 50 basis points on the ten-year. High quality corporates and mortgage bonds performed poorly on a relative basis; but prices were only modestly lower during the quarter. Some areas of the mortgage bond market were hit hard. Junk, lower end investment grade bonds, or CMO's with questionable structures saw sizeable drops in dealer bids as the re-pricing of risk hit this area the hardest.

With the crisis now mostly behind us, the outlook is brighter - but wider credit spreads are likely with us for the near term. Meanwhile, the problems in housing are still unfolding. The repercussions on mortgage bonds are now more completely discounted into current prices, but the final impact is unknown.

We remain optimistic.

Asset Allocation Review

Michael Buccowich CFP
Investment Consultant

Style Rotation to Growth Solidifies

In dramatic fashion, the equity style rotation that began last quarter grew more pronounced in 3Q07 as growth outperformed value, and large caps outperformed small caps. Take a look at the table below. Growth beat value in each category for the MTD, QTD, YTD and 1 Year periods ending 09/30/07. As if to emphasize the shift, all value categories had negative returns for the quarter, trailing growth up to 6.24% among small caps. I often comment about the US economy's clock-like pattern that migrates from expansion to recession and back again in an average eight-year historic cycle. The 3Q data supports the economy's current posture in late-cycle economic expansion led by large-cap growth.

	Index Name	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Large-Cap Indexes	Russell 1000® Growth	4.19	4.21	12.68	19.35	12.2	13.84	4.06
	Russell 1000® Value	3.43	-0.24	5.97	14.45	15.25	18.07	8.8
Mid-Cap Indexes	Russell Midcap® Growth	3.92	2.15	13.35	21.22	17.01	20.39	7.47
	Russell Midcap® Value	2.46	-3.55	4.83	13.75	17.22	21.02	11.31
Small-Cap Indexes	Russell 2000® Growth	2.91	0.02	9.35	18.94	14.1	18.7	3.65
	Russell 2000® Value	0.45	-6.26	-2.7	6.09	12.51	18.7	10.07

Percent returns ending 09/30/07. Source: The Frank Russell Companies

In this economic go-round, the main force behind value's cyclical ebb has been the financial sector, which had been driving value's prior advance (and now has led its decline). For our crisis du jour, the credit malaise hit mortgage companies and investment banks hard, knocking air out of their share prices. Meanwhile, growth companies ascended as investors soured on financials and found opportunities in the companies that make must-have tech products like iPods, Blackberries, and GPS devices. Investors also poured cash into industrial sector shares as Fluor capitalizes on building global infrastructure, Boeing rides the airline industry wave, and Emerson and Rockwell continue to automate the manufacturing world.

So why the pullback in small caps? Most small-cap companies generate business more domestically than multinationally. This fact helped them greatly in the recent US-led global economic expansion; but has hurt them during the current US slowdown. Simply put, large-cap multinational companies can continue dancing because they've brought their global partners to the party. Time will tell how long the punch bowl stays filled.

The Model Portfolio

George Gajewski
Investment Consultant

Knowing Your Benchmark

So you make a nice income, but where do you rank among your professional peers? I know XYZ Corp. had a 20% annual drop in earnings, but did their quarterly number exceed what investors were expecting? Sure, your large-cap equity portfolio was up 20% last year, but what did the market do? We live in world where performance is measured on a relative basis. To distinguish between good and bad or high and low, we rely on comparisons or benchmarks.

Nowhere is the focus on relative performance more acute than in money management. For style-specific managers like Concord, relative performance not only measures their success but affects how they build a process to achieve superior results. Unfortunately, "knowing your benchmark" only gets you so far. The majority of investment professionals, for example, use $10B or greater in market cap as the definition of a large-cap stock. Moreover, while the S&P 500 is universally considered to be a large-cap index (capturing 75% of total domestic market value), 186 of its 500 components fall below $10B and 68 below $5B, with the smallest weighing in at a skimpy $1.6B.

Beyond S&P's qualification criteria (liquidity, domicile, public float, operating structure, etc.) there simply aren't enough "large-cap" companies to populate the index. Thus, they keep climbing down the ladder into the universe of mid-cap companies. So is it reasonable for a US large-cap manager to own a $3B company in his portfolio simply because there are dozens of others in the benchmark? Or does the large-cap label on the product require a different definition of the investable universe?

There are no exact answers to these questions for the professional money manager. It's more about what he decides is reasonable and that he makes proper disclosure to clients and prospects. So the next time a manager tells you about the performance of his large-cap growth product as compared to the S&P 500 Growth Index, look under each hood to see exactly how each engines is constructed. You might see components you would never expect to find in such an investment vehicle.