UPDATE

July 2009 — Investment Management News

ABOUT OUR COMPANY

Company Profile:

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

Investment Strategy:

Concord invests in mid- to large-cap growth oriented companies with strong leadership, superior products, and sustainable growth plans. Our investment strategy incorporates both growth and value methodologies.

Company Goals:

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

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Economic & Financial Market Review & Outlook

Dissipating Fear

Mitch Pletcher
President & Chief Investment Officer

The fear gripping consumers, investors, and our economic and market leaders began to subside in the 2nd quarter. By quarter's end there was substantial improvement in most measures of confidence.

The S&P 500 rallied over 15% in the quarter as investors' fears of a financial Armageddon in Q1 dissipated throughout Q2. The credit markets had a similar change of course. Treasury yields rose as investors left and began to return to corporate bonds, mortgage backed securities, and high yield markets. Consumers likewise began feeling better and more confident about the economic outlook. The conference board's measure of consumer confidence rose from its March low of 25 to 49.3 in June – a notable bounce, but the index is still well below its 2007 high of 101.

After 20 months of recession with historic economic events, optimism for a mild economic recovery has emerged. After Q1's GDP report of negative 5.5%, Q2 is expected to be down 1.5% and Q3 a positive 1%. The visible signs of recovery are still few and fuzzy, but there are a few worth noting. Manufacturing activity is improving as measured by the ISM index. The index recovered from a low of 34 in March to 45 in June. Auto sales have bottomed and will likely tilt upward for the rest of the year. Finally, while employment remains negative, the trend in job losses improved from January's 750,000 to the May-June average of just 350,000.

The meltdown in the financial sector and the balance sheet problems at our large banks was another source of significant fear for investors and consumers. The banks, Federal Reserve, and US Treasury have done a tremendous amount of work to keep our financial system functioning and rebuild its health. Banks have raised significant capital and will continue to set aside large provisions for the next 3-4 quarters for expected losses on their portfolios of mortgages, credit card loans, and commercial real estate. Most of their derivative assets that were considered toxic or high risk have been written off or disposed of already. Some future losses from these assets are possible, but are not likely to be significant relative to their loan portfolios. Toxic CMO assets were last year's problems. Non-performing loans are this and next year's areas of concern.

Inflation fears have come and gone several times throughout this crisis, hitting a peak again early in Q2 but diminishing quite a bit since then. These fears seem to be rooted in the significant expansion in the Fed's balance sheet, which is now over $2 trillion in liabilities. What has been misunderstood, however, is what's been done with the money the Fed printed and put on its balance sheet. Inflation hawks think too much of this money has gotten into the hands of consumers who will spend it and drive prices up. This simply is not true. Most of the money has found its way onto banks' balance sheets to pay for their sins of the past.

Fears about government intervention in business and a tighter regulatory environment have been quite high as well. These fears, too, have subsided as government actions thus far have seemed reasonable and necessary, although the corporate restructuring and government regulatory theme that will play out over the next decade is just beginning. Obama has his eye on unfair practices coming from large, strong players in telecom, healthcare, and the financial sector. Also, more transparency at the Federal Reserve has been proposed and seems reasonable.

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Economic & Financial Market Review & Outlook

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The rally in the financial markets in Q2 was substantial, so a pause seems reasonable until better visibility of recovery emerges. Leadership in the market has favored growth stocks over value. Year-to-date as of July 1, 2009, the Russell Large Cap Growth Index was up 11.5%, compared to the Russell large Cap Value Index, down 2.8%, while Concord's Growth Portfolio was up 9.3%.

During a typical market recovery value leads growth; but this cycle is quite different. Value portfolios tend to be heavy with companies with high cyclicality to their earnings and hence perform well in a "V" shaped recovery. But in a "U" or "L" shaped recovery, earnings improvement will be modest at best for these cyclical companies. Conversely, growth stocks tend to be driven by secular cycles of consumption.

There are several good secular consumption themes in the globe today, including:

1) increasing demand for food – benefiting agriculture, fertilizer and seed, 2) increasing demand for healthcare – benefitting drug makers, devices, and managed care, 3) increasing demand for wireless telecommunications – benefitting device makers and service providers, and 4) increasing demand for productivity-enhancing goods and services – benefitting several areas of technology.

These themes and others eventually will get the economy back on its feet again in support of more sustainable growth as we restructure and rebuild the foundation for capitalism.

Sector Review *06/30/09*

Best Performers	Quarterly % Change	Worst Performers	Quarterly % Change
Paper	98.42	Integrated Oil & Gas	2.70
Automobiles	85.57	Fixed Line Telecommunications	2.06
Tires	84.84	Food Retailers & Wholesalers	1.70
Real Estate Services	76.11	Broadline Retailers	0.94
Hotel & Lodging REITs	74.42	Insurance Brokers	-3.86
Alternative Fuels	68.54	Water	-5.36
Travel & Tourism	68.23	Forestry	-5.95
Gambling	67.45	Gold Mining	-6.70
Life Insurance	60.61	Farming & Fishing	-9.73
Hotels	53.19	Mortgage Finance	-13.58

Source: The Wall Street Journal

Market Diary *06/30/09*

Equity Returns	Quarterly Change	YTD Change		Quarterly Change	YTD Change
US Large Cap Core	16.30%	4.83%	Mid Cap Core	19.07%	9.21%
US Large Cap Growth	15.05%	10.90%	Small Cap Core	21.57%	6.29%
US Large Cap Value	16.28%	0.92%	International	25.54%	8.81%

Returns are Lipper Mutual Fund averages as reported by The Wall Street Journal. Performance includes dividends.

CIC Asset Allocation Growth	7.08%	2.16%	S&P 500	15.22%	1.78%
CIC Growth	17.19%	9.33%	DJIA	11.01%	-3.75%
CIC Diversified Equity	16.92%	9.14%	Nasdaq	20.05%	16.36%

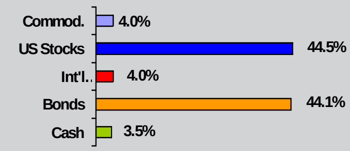
The data above for Asset Allocation Growth, Growth and Diversified Equity are CIC model portfolios and not composites of client accounts. Performance data for equity indices and CIC model portfolios listed here exclude dividends and are gross of fees. The information and data contained in this newsletter were obtained from sources considered to be accurate. Their accuracy and/or completeness cannot be guaranteed.

CIC Managed Assets

Balanced Portfolios

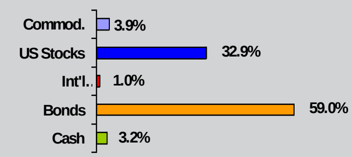
Asset Allocation for Growth
A dynamic blend of stocks, bonds, and cash for moderate investors with a bias toward growth balanced by income-producing investments.

Allocation as of 06/30/09:



Asset Allocation for Income
A portfolio of stocks, bonds, and cash for moderately-conservative investors seeking income and growth with relative stability.

Allocation as of 06/30/09:



Equity Portfolios

Growth
A portfolio of large- and mid-cap US stocks that are industry leaders with strong brands and timely products.

Diversified Equity
A global, all-cap equity portfolio following economic trends across capitalization and geographic ranges.

Focused REIT
A portfolio of companies whose primary business is owning and leasing real properties.

Fixed Income Portfolios

Strategic Total Return Bond
A diversified portfolio of mid-and long-term bonds, actively managed for yield, capital preservation, and strategic capital gains.

Ultra Short-Term Bond
A short-duration bond portfolio offering active management for yield, safety, and liquidity.

Research Spotlight

By Brian Thomas

EMC Corporation

Our economy has truly entered the digital age. Whether it's videos on YouTube, digital medical tests or corporate e-mail, we are producing vast quantities of data that must be securely stored and managed. This is a trend that will continue for many years and perhaps even accelerate. In today's IT infrastructure, storage is an essential component of the enterprise data centers that control these various functions. Purchases can be delayed but not avoided. As storage technology improves and prices decline, the revenues of storage vendors don't grow as swiftly as the volume of data, but the trend is powerful. IT managers can lower storage costs per unit over time, but they are forced buyers of storage hardware, software and services on an increasing scale each year. With such strong secular growth driving the industry, many competitors are trying to increase their stake in the market.

EMC Corp. is the dominant provider of enterprise storage solutions with 26% market share. After growing through the 1990s by selling storage servers, the company has evolved in the last 10 years away from just hardware and toward a total storage solution strategy. Software and services are higher margin products and together now represent more than 50% of sales. A lot of this diversification has been achieved via acquisition, but EMC is also a highly innovative company. R&D spending of $1.5B equals 12% of sales. Smaller companies can't match this effort and larger companies spread their R&D across broader product portfolios. As a result, EMC is very well positioned to capitalize on emerging trends in storage technology. The company is a leader in solid state drives (SSDs) that use flash memory as opposed to traditional mechanical moving parts to increase response times and lower energy use. Data deduplication software (that eliminates redundant storage of identical data) is also in demand. EMC has a competitive offering in addition to being involved in talks to acquire the leading provider of this technology. Virtualization, however, is the most exciting new development – and EMC appears to be firmly in control of the technology roadmap.

Virtualization is a generic term that covers many detailed advances in computing. The old rule in networking used to be "one server, one application." Now through the power of software, we can partition or "abstract" desktops, memory, or entire networks to function in powerful virtual environments that are largely impervious to hardware failure. A company called VMWare is the leading provider of virtualization software, and it is 85% owned by EMC (a partial IPO in 2007 made VMWare a separate company). There is a strong synergy between the two, as EMC's market share jumps to 50% in VMWare environments. This suggests the company should be closely guarding the technology and using it competitively. There is also the potential for VMWare to become the Microsoft of virtualization which means EMC needs to be sharing the technology with other hardware sellers. The VMWare strategy is becoming increasingly critical, but is highly uncertain. Virtualization (and cloud computing) is either one of the most disruptive technologies to come around since the internet, or it's simply a component of today's evolutionary data center that will not only become commoditized but not very profitable. EMC seems to still be in the process of figuring out how to play this hand; but the potential is significant.

In spite of its strengths and growth potential, EMC is not immune to the economic slowdown and its significant pressure on IT spending. Earnings are likely to be about flat this year on a 9% drop in sales. If the recession drags on, estimates will be at risk. When the economy improves, however, profit growth will surge. Longer term, a growth rate of at least 15% is likely given the sustainability of recent trends and strong secular demand for the company's products.

Bond Market Review

By Steve Davis

The second quarter 2009 saw a reversal of trends in the bond market as investors lowered their risk tolerances and transitioned out of safe-haven Treasuries into riskier spread product such as corporate bonds and asset-backed securities. We also saw continued credit market thawing, which enabled more creditworthy companies to raise cash to finance their operations and refinance debt.

The Federal Reserve left the Fed funds rate unchanged during the quarter, at or near 0%. In addition, the Fed continued to implement unconventional policy initiatives such as the purchase of Treasuries and mortgage-backed securities in order to promote a low interest rate environment.

The macroeconomic environment improved during the quarter with numerous "less bad" data points, leading to an increased risk appetite for bond investors. The data included a slowdown in the rate of initial jobless claims and improvement in some forward-looking economic indicators such as business and consumer confidence surveys.

Treasury rates on the long end of the yield curve rose while short-term rates showed little change, resulting in a steepening of the curve. Short-term rates reflected expectations of a relatively stable Fed Funds rate in the near term, while long-term rates were affected by the attractiveness of other bond investments as investor risk tolerances increased.

The yield on the 10-year Treasury bond rose from 2.60% to 3.52% and touched as high as 4% during quarter, translating to a 6.2% price loss. By contrast, the corporate bond market had a significant price rebound. The investment grade and high-yield markets rallied 6.5% and 17.6% respectively as represented by the LQD and HYG exchange traded funds.

Corporate bond spreads over Treasuries tightened significantly during the quarter. Investment grade spreads started the quarter at 6%, and contracted to 3.3% by quarter end, around the level they were before Lehman Brothers collapsed in September 2008.

High-yield spreads had an even greater tightening, from levels of over 16% in April to 11% at quarter-end. This reflected an improving outlook for defaults as market forecasts of future default rates have been declining, even though actual default rates continue to rise.

As the second quarter came to an end and transitioned into the third quarter, riskier spread product gave up some of its gains, accompanied by improved strength in the Treasury markets on the heels of renewed economic concerns.

A sustained rotation towards spread product hinges on an improving economy with solid economic data points, as opposed to last quarter's "less bad" momentum catalysts.

Stock Market Rebound Continues

By Michael Buccowich

The broad stock market recovery that began in early March took hold during the second quarter, attracting pent-up cash from the sidelines and creating a comforting margin beyond the lows of March 9th. Although prices softened slightly toward the end of June, the major equity indices managed to post impressive double-digit gains for the quarter and rally some 35% to 40% above the lows.

In a departure from a typical early-phase recovery, large caps and growth have outperformed small caps and value in this instance as investors opted for size and quality in whetting their appetite for risk. Money also looked for opportunity overseas with global growth themes remaining in play and perhaps a desire to be far-removed from the mired US economy. Bonds remain the only bright spot on the one-year column, yet their weak shorter-term performance reminds us that the US economic crisis originated in a bond market still in need of repair.

Stock and bond markets may be hampered in coming months by the US economy's especially deep recession and credit crisis. For most investors, maintaining a strategic asset allocation plan continues to be the best course of action.

	Index Name	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Large-Cap Equity	S&P 500	0.02	15.93	3.16	-26.21	-8.22	-2.24	-2.22
	Russell 1000® Growth	1.12	16.32	11.53	-24.50	-5.45	-1.83	-4.18
	Russell 1000® Value	-0.74	16.70	-2.87	-29.03	-11.11	-2.13	-0.15
Mid-Cap Equity	Russell Midcap®	0.35	20.80	9.96	-30.36	-9.25	-0.11	3.15
Small-Cap Equity	Russell 2000®	1.47	20.69	2.64	-25.01	-9.89	-1.71	2.38
International Equty	MSCI Eur/Asia/Far East	-0.57	25.43	7.95	-31.35	-7.98	2.31	1.22
	MSCI Emerging Markets	-1.35	34.73	36.01	-28.07	2.95	14.72	8.70
Fixed Income	Barclays Aggregate Bond	0.57	1.78	1.90	6.05	6.43	5.01	5.98
	Barclays Short Treasury	0.02	0.12	0.19	1.57	3.62	3.34	3.40
Commodities	S&P GSCI	0.57	19.24	6.55	-59.68	-15.18	-3.45	6.32

Percent returns ending 06/30/09. Source: Barclays Global Investors

CMO Update: Troubled Pricing

The long-playing crisis in the housing and fixed income markets continues to plague bond investors who hold mortgage-derived bonds that were sold to the public in record amounts from 2002-2007.

Collateralized Mortgage Obligation (CMO) holdings, one of the most common derivatives issued by Wall Street, have weighed down the performance of several Concord portfolios over the last year. The poor performance of this sector became more noticeable in the second quarter as our custodians made several broadly negative market price adjustments. We believe the performance of this sector has not been accurately measured due to pricing and valuation problems at Schwab and Union Bank.

CMO valuations undoubtedly have been a challenging problem for the entire financial sector. In a normal market, CMOs are thinly traded, sometimes making recent trade data hard to reference. But following last year's bond market meltdown, CMOs rarely trade. As a result, valuations must be estimated from pricing models that are complex and easily inaccurate. Creating reasonable price estimates requires extensive modeling and is expensive and imposes a cost obstacle for most custodians.

Schwab's pricing appears to have changed from a model that seemed a bit optimistic to one that now seems overly pessimistic. For example, on June 26, 2009 Schwab reduced the market price of one of our holdings, CSFB 2002-18-2B2, from a price of 96 to 7 (% of par value), a downward revision of 93%. Our research concludes that the underlying fundamentals for this bond did not change in May or June. In fact, loss ratios on the underlying collateral actually have slowed steadily since January 2009. Regardless of this fact, the reduced market price of this and other CMO securities negatively impacted 2nd quarter's performance for investors who held these securities.

CMOs on average comprise about 15% of the fixed income holdings in our portfolios. Purchased mainly between 2002 and 2006, all were investment grade and many were AAA rated and/or insured when we acquired them. CMOs were attractive to us and most investors because of higher yields and/or more certainty about the maturity, although with a slightly higher principal risk when compared to plain vanilla mortgage bonds like GNMA and FNMA. Unfortunately, the unprecedented defaults on home mortgages today were not in the forecasts utilized several years ago by investors and bond rating agencies.

While recent performance of these securities appears poor, it's impossible to calculate accurate performance for something that is not accurately valued. Most of the CMOs we hold will likely achieve a significant recovery from today's prices and pay off in full over the next several years with the returns they offered at purchase. It is possible some may end in default. Unfortunately, we are unable to sell the troubled CMOs we have identified because they are practically illiquid, with no buyers offering bids remotely close to what we consider a fair price. The US Treasury is trying to resolve this liquidity problem by implementing a program called the Public Private Investment Partnership (PPIP), using government money and private capital to bid for these trouble assets. The program is likely to begin within the next month. We suspect that the PPIP program will help but not resolve most of the liquidity problems CMO investor's face.

We will continue to follow the events surrounding this part of the portfolio and will make whatever appropriate changes we can.