Inside Views From an Investment Management Leader

UPDATE

April 2010

About our Company

Company Profile:

Concord Investment Counsel is a private, boutique investment firm who has helped our clients grow and protect their wealth since 1991.

Key Offerings:

- *Personal wealth management*
- *Proactive investment strategies*
- *Proprietary research*
- *A professional team*
- *Fee-only services*

Distinguishing Values:

- *Passion for excellence*
- *Strategic focus*
- *A disciplined process*
- *Prudent risk management*
- *Comprehensive client care*
- *Superior long-term performance*
- *Sound judgment*
- *Objective analysis*

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Economic & Financial Market Review & Outlook

Head of NBER - Recession Over!

Mitch Pletcher
President & Chief Investment Officer

Robert Hall, the head of the National Bureau of Economic Research, says the deepest recession since the 1930's has likely ended. Hall, a Stanford professor, points to the March employment report (figure 1) of 224,000 job gains (revised from 162,000) as evidence that the contraction has ended. NBER, who is the government's assigned authority to monitor recessions, has yet to make the call official and tends to lag other experts who monitor the economy. Most believe the recession has ended. The data speaks for itself; and several data points are significant. Retail sales, industrial production, and government spending all have positive trends. Retail sales (Figure 5, page 4) have rebounded strongly. March sales grew 9% after modest gains in January and February. Industrial Production has had 8 months of steady gains. The index is now up 5% from the June 2009 low, with the manufacturing sector leading the recovery thus far. Government spending has had a significant impact as well. Almost half of 4th quarter's GDP came from government spending (up from normal levels of 15-20%).

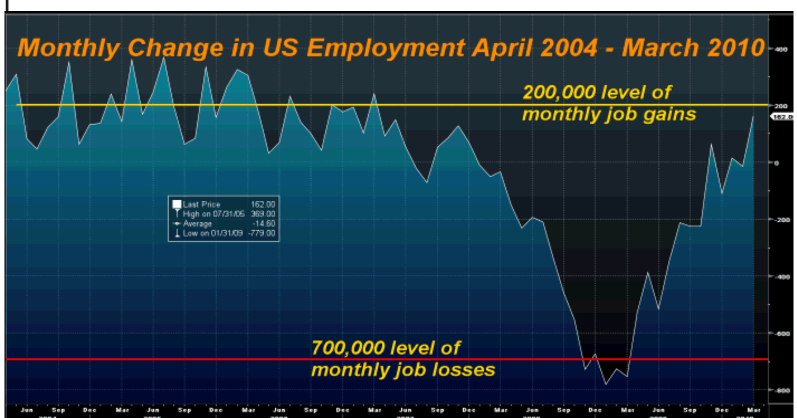


Figure 1 - Source Bloomberg Financial

The headwinds for the economy are still very evident and cannot be ignored. China has put the brakes on its stimulus spending, realizing their economy was doing fine and would likely overheat if continued. US housing continues to be a problem for our economy along with structurally high unemployment. New home sales continue to make new lows after a rebound in January. Existing home sales are languishing as well. The Case Shiller Home Price Index noted on page two illustrates the lack of progress since the index bottomed in April 2009.

Economic improvement is somewhat difficult to understand, given the status of housing, employment, and sub-sequential low consumer confidence. With confidence indices still close to all time lows (Figure 2, page 4), it is once again more important to watch what consumers are doing rather than what they are saying.

The first quarter was very good overall for risk investors, with the best returns in equities. Small cap value stocks gained over 10%, while large cap stocks enjoyed 4% to 6% returns. Corporate America's earnings were impressive overall as CEO commentary brought optimism for current trends to continue. Emerging markets lagged US markets for the first time in several quarters. The strong dollar and braking in China were likely behind this change in trend. Most investment grade or better income vehicles had modest returns as better-than-expected growth pushed rates higher. Distressed income securities did better than their quality counterparts as investors continued to embrace risk in an improving economic environment.

Most commodity baskets lost 5-7% in the quarter. With core inflation still negative and the dollar recovering, even gold, often bought for currency and inflation reasons, had a soft quarter and gained only 1.5%. The dollar continued its rally as problems for the Euro emerged again (Figure 4, page 4).

The economic environment has made a lot of progress - and our optimism for continued growth in our economy and markets continues to rise!

Stock & Bond Market Returns - Table 1 03/31/10

	Quarterly Change	Trailing 12 Month Change		Quarterly Change	Trailing 12 Month Change
Large Cap Growth (IWF)	4.5%	50.3%	Small Cap Value (IWN)	10.3%	64.7%
Large Cap Value (IWD)	6.9%	53.2%	Small Cap Growth (IWO)	7.8%	60.3%
Europe Asia Far East (EFA)	1.3%	53.4%	Emerging Markets (EEM)	1.5%	72.5%
Invest Grade Bonds (LQD)	2.4%	18.7%	High Yield Bonds (HYG)	2.1%	43.6%
Interm Treasuries (IEF)	0.2%	-3.7%	Mortgage Bonds (MBB)	1.7%	4.8%

Source: Barclay's Global Investors ETFs. Actual performance excluding dividends.

Real Estate & Commodity Returns - Table 2 03/31/10

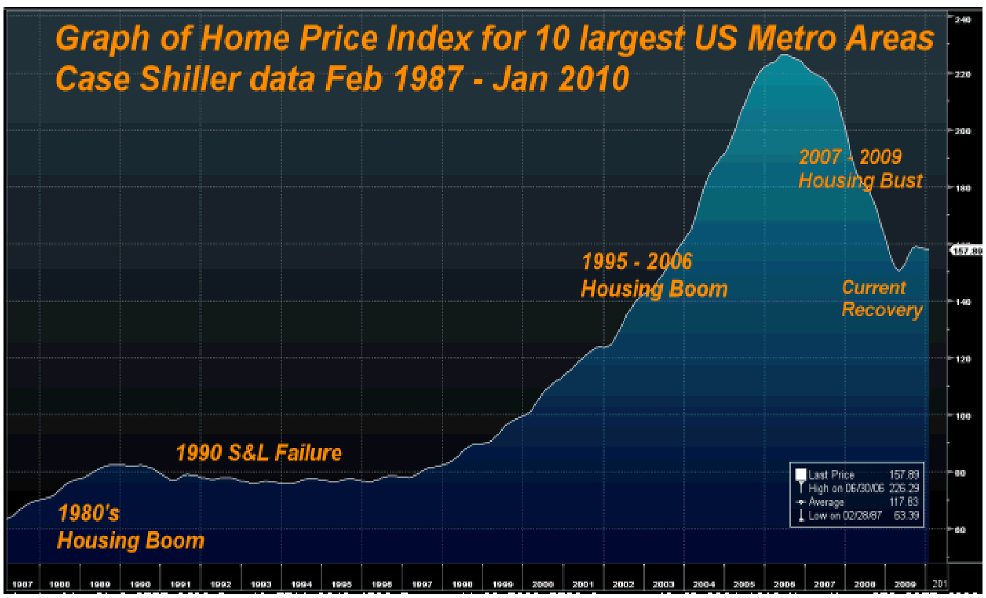
	Quarterly Change	Trailing 12 Month Change		Quarterly Change	Trailing 12 Month Change
Dow Jones US Real Estate (IYR)	9.5%	104.3%	DJ Commodity Index (DJP)	-5.7%	20.6%
NAREIT Industrial/Office (FIO)	6.7%	109.2%	Gold	1.5%	20.7%
NAREIT Residential (REZ)	8.5%	90.9%	Crude Oil	5.8%	69.0%

Sources: Bloomberg Financial & Thomson Financial

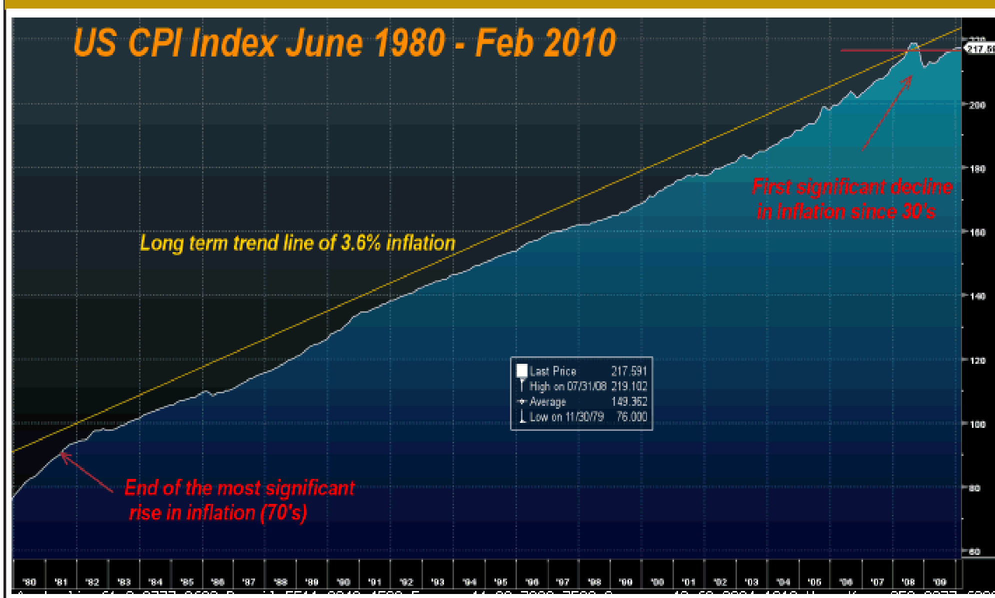
Case-Shiller Home Price Index - Table 3 02/28/87 - 01/31/10

Last 90 Days (10/31/87 - 01/31/10) -0.6% Last 12 months (1/31/09 - 1/31/10) - 0.04%

Source: Bloomberg Financial



US CPI Index 6/30/80 - 2/28/10

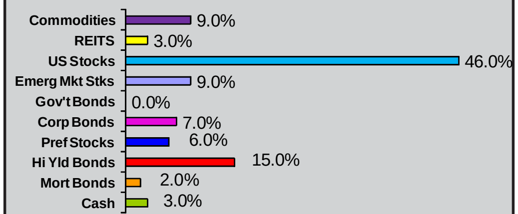


CIC Managed Accounts

Growth Portfolios

Dynamic Growth

A dynamic blend of stocks, bonds, commodities, REITs, and cash for growth investors with a bias toward timely asset classes.

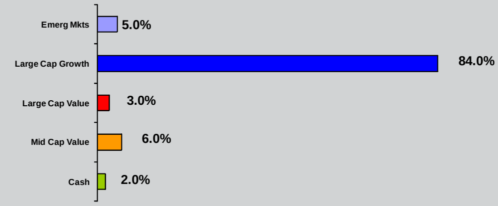


Growth

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.



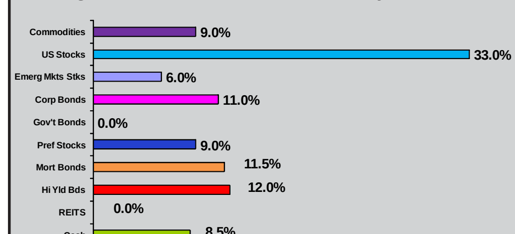
Focused REIT

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

Balanced Portfolios

Asset Allocation for Income

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



Sector Focus: Consumption Drives Growth

Earnings growth drives leadership in the stock market, while consumption generally drives earnings. Every market cycle has consumption themes which are either secular or cyclical in nature. Here's a look at what is active in this market cycle.

Secular Consumption:

- **Theme:** The merging of stand-alone technologies into convergent wireless devices. Sector: Technology
- **Theme:** Wealthier and growing emerging market populations demanding greater agricultural yields to support more "western-like" eating habits. Sector: Materials
- **Theme:** Secular global demand for energy and the technologies that make it viable to extract natural resources from the farthest reaches of the earth. Sector: Energy
- **Theme:** Innovation in the development of life-saving drugs and medical devices, and the reduction of inefficient costs within the US healthcare system. Sector: Healthcare

Cyclical Consumption:

- **Theme:** The return of mild consumer discretionary spending balanced against purchasing decisions based on need instead of want. Sector: Consumer Discretionary/Staples
- **Theme:** Pent-up demand within the enterprise upgrade cycle. Sector: Technology
- **Theme:** The re-surfacing of emerging market infrastructure spending. Sector: Industrials
- **Theme:** Credit market stabalization and a return to banking profitability. Sector: Financials
- **Theme:** Improvement in hospital cap-ex spending and better visibility on the impacts of healthcare reform. Healthcare

Commentary: Are US consumer trends a head fake?

Market leadership changes again. A notable rebound in consumer spending and strong earnings reports from retailers and manufacturing names drove a change in leadership in the market in the 1st quarter. Growth stocks have fallen behind more value oriented cyclical names over the last few months as improving consumer trends emerged. These improvements to the cyclical side our our economy are impressive given the weak financial state of US consumers. The sustainability of these changing trends will determine the leadership in the market over the next year. We still believe consumer spending will be secondary to the more dominant secular consumption going on in our economy.

Our investment focus over the last year has mostly targeted secular consumption themes; however, given the improving consumer trends, we have added positions in the small cap value space recently in our Dynamic Growth portfolio. When it comes to making investment decisions, we continue to be mindful of the cyclical and secular forces behind consumption and invest appropriately.

Sector Performance Review *03/31/10*

	Quarterly Change	12 month Change
Industrials	9.9%	64.3%
Consumer Discretionary	9.3%	58.3%
Financials	9.1%	77.6%
Health Care	5.5%	33.6%
Consumer Staples	5.2%	35.3%
Materials	1.8%	36.0%
Technology	1.6%	58.1%
Telecom Service	-0.2%	35.5%
Energy	-0.6%	40.0%
Utilities	-6.7%	25.6%

Data based upon Russell 1000 Growth Index and GICS sectors - Source: Thomson Financial

Stock Research: Our Work Product

Oracle (ORCL) Share price: $25.71 on 3/31/10

In the search for growth, investors often limit themselves the most exciting or tangible product stories. This narrowing of focus often overlooks companies with less sizzle, where "slow and steady" is indeed winning the race. Oracle is one such company. Savvy investors will be rewarded for foregoing ubiquitous media coverage.

Tailwinds

- Cloud computing: Applications migrating to the web, benefitting providers with the scale required to host platforms.
- Maintenance revenue: Updates and support revenues have 7yr growth of 20%. 70% of operating income.
- Scale/operating efficiency: Operating margins of 46% now top perennial leader Microsoft.
- Leadership/track record: Demonstrated ability to acquire wisely and integrate successfully.
- Vertical consolidation: Addition of Sun Micro gets them the hardware necessary to deliver total enterprise solutions and better compete with IBM.

Headwinds

- SAAS (software as a service): Small and mid-size businesses replacing software licenses with periodic subscriptions for "on-demand" products.
- Low-cost competition: Small start-ups trying to under price lucrative maintenance fees.
- Maturing database market: Growth is strongest in updates and cost-lowering support products.
- Financial sector weakness: A major consumer of Oracle's products.
- Investor perception: Dislike of CEO Ellison and acquisition strategy.

Investment Thesis

Thanks to an acquisition spree unprecedented in Silicon Valley, Oracle is the world's largest seller of business software with $35B in annual revenue. The company is #1 in two out of three main enterprise software categories: non-mainframe databases, used in networks of computer servers, and middleware, which allows databases to talk to applications used in processes like accounting and payroll. Oracle is #2 in enterprise applications behind SAP, but the strategy is to vault past SAP in apps by continuing to acquire smaller firms geared to specific industries. Acquiring Sun Micro represents a tactical shift, and turning Sun into a valuable asset won't be easy. A broad technology footprint is the company's greatest competitive advantage, however, and the Sun deal only enhances the strategic value of Oracle to IT buyers. The company is very well-managed with a demonstrated ability to improve the profitability of acquired businesses over time. Given the remarkably consistent growth and one-of-a-kind software vendor status, investors should love to own this name. Yet the valuation remains modest, resulting in a high-quality risk/reward opportunity.

Tax Watch 2010

By Michael Buccowich CFP®

Just as the decade has come to a close, so shall its familiar tax structure. The sweeping 2001 tax act known as EGTRRA will fade into the sunset on January 1, 2011 unless Congress makes it permanent – a likelihood that wilts with each uptick of the federal deficit. Here are some key tax changes to consider:

Estate tax repealed in 2010

The estate tax is officially 0% until December 31, 2010 (and will revert to 55% on January 1, 2011). While the repeal is welcome news for beneficiaries who receive large estates this year, it's also complicated by one tax replacing another, a "carry-over basis" rule enacted in response to EGTRRA. As a result, instead of taxable property being stepped-up to fair market value at time of death, the recipient will also inherit the deceased owners adjusted cost basis – often much lower. Thus, the IRS will collect a larger tax on a larger gain when the property is sold.

Higher tax rates, fewer deductions in 2011

While EGTRRA pegged the top marginal tax rates at 28%, top income earners will find the top bracket extended to 36% and 39.6% for single filers earning over $200k and married couples filing jointly earning over $250k. Furthermore, since itemized deductions will be limited to 28% next year, a $10,000 charitable deduction that saves a 35% taxpayer $3500 this year will be capped at $2800 next year. Higher taxes in 2011 extend to capital gains as well, with taxpayers in the new 36% and 39.6% brackets forfeiting the 15% tax rate on gains to a new 20% rate.

Planning for 2011:

Clearly, Americans who earn more than $200-250k are in the bull's-eye for tax hikes in 2011 and can soothe the impact with strategic steps in 2010:

Accelerate income. Self-employed persons and IRA owners over 57½ may have some leeway here. This may include converting to a Roth IRA since the $100k income limit is waived during 2010 and taxes can be deferred until 2012 and 2013.

Take capital gains. If sitting on large, unrealized capital gains in the face of higher tax rates next year makes little sense, high income earners with legacy stocks acquired from family or employers ought to sell and diversify in 2010.

Accelerate deductions. Taxpayers in the highest marginal bracket next year will lose 30% of their deduction by comparison and may wish to front-load activities like charitable contributions this year.

Reposition assets. High income earners will benefit more than ever by owning tax-advantaged investments like municipal bonds in 2011 and should consider converting IRA assets to a Roth IRA.

Since the brunt of these tax increases will affect those earning more than $200-250k, making rash tax moves if you have a low marginal rate will not help you and may actually harm you with lost opportunity.

In this environment, every investor should watch for more tax gyrations in Washington, beware of state & local tax increases, and consult a professional tax advisor regarding the best personal strategy.

Economic Charts

Figure 2: Confidence is recovering, yet at low levels relative to history. Source: Bloomberg Financial

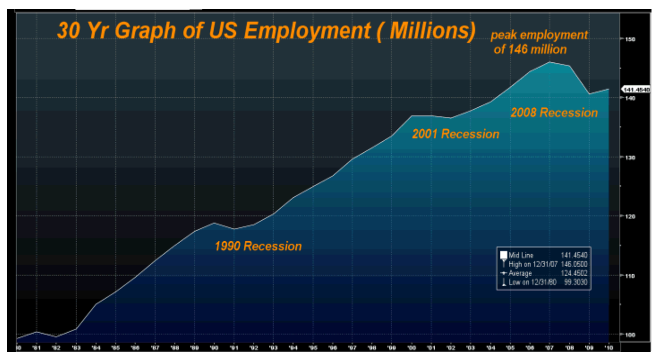


Figure 3: Job growth since 2000 has declined from trends of past decades. Source: Bloomberg Financial

Figure 4: Recovery in the Dollar began in the 4th Quarter of 2009. Source: Bloomberg Financial

Figure 5: Retail sales declined suddenly in 2008; but recovery is underway. Source: Bloomberg Financial