

# UPDATE

July 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

### Another Cycle of Worry

Optimism gave way to pessimism in the 2<sup>nd</sup> quarter as another cycle of worry about deflation unfolded. Stocks declined broadly with the S&P 500 down 11.4% for the quarter. Foreign and emerging markets likewise fell. Europe and Far East markets (EFA) were off 15.4%, and emerging markets (EEM) were off 10.8%. Commodity baskets fell with the Dow Jones commodity i-path down 5.6% and the oil heavy

quarter as well, falling to 55 in May, from over 66 in April. The May data point for retail sales likewise fell backward a bit, but the strong trend upward would still seem intact.



Mitch Pletcher  
President & Chief  
Investment Officer



Figure 1 - Source Bloomberg Financial

Goldman Sachs i-share (GSG) off 10.8%. With deflation fears running high and investors fleeing the Euro, US Treasuries rallied strongly with 10 year notes gaining over 4% in the quarter. The strong rally in treasuries dragged most other fixed income instruments higher with mortgage bonds (MBB) up 3.1% and Investment grade corporates (LQD) up 3.9%. Behind the worry that unfolded in Q2 was disturbing data points on housing, economic growth, employment, and debt issues in Europe. The Case Shiller National Housing Price Index (pg2 table 2) flattened out during the quarter after a modest bounce in Q42009 and Q12010. Consumer confidence re-trenched in the

in the credit markets is the root of the fears in Europe. The ECB has been unwilling to take unconventional steps (similar to what the Federal Reserve has done) to stabilize credit markets. The ECB's hand may be forced if the credit markets current worries turn into a riot. These troubling data points that unfolded in Q2 really shouldn't be such a surprise to investors. They are just another rash that has surfaced on a sick patient that is being nursed back to health. We must remember that the real underlying ailment for the global economy is a massive meal of debt that will produce indigestion for years. Consumer household debt (fig 1) ballooned to about 14 trillion dollars in 2007 from 1 trillion in 1980, but has since begun a trend downward. Unfortunately US government

Employment trends were difficult to read in Q2 with numbers from census workers spoiling the data. European debt problems were likely the most significant area of concern for investors. The ECB's lack of action to deal with liquidity problems

## Stock & Bond Market Returns - Table 1

06/30/10

	Quarterly Change	Trailing 12 Month Change		Quarterly Change	Trailing 12 Month Change
Large Cap Growth (IWF)	-11.8%	13.3%	Small Cap Value (IWN)	-10.7%	24.8%
Large Cap Value (IWD)	-11.2%	16.4%	Small Cap Growth (IWO)	-9.1%	18.2%
Europe Asia Far East (EFA)	-15.4%	4.3%	Emerging Markets (EEM)	-10.8%	17.6%
Invest Grade Bonds (LQD)	3.9%	14.0%	High Yield Bonds (HYG)	-1.8%	16.8%
Interm Treasuries (IEF)	7.8%	9.6%	Mortgage Bonds (MBB)	3.1%	8.0%

Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

## Real Estate & Commodity Returns - Table 2

06/30/10

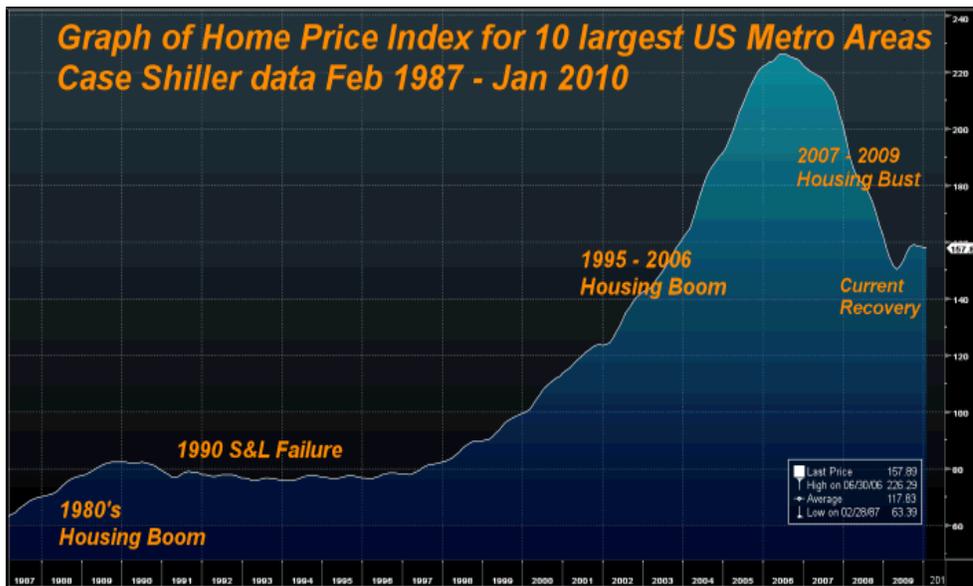
	Quarterly Change	Trailing 12 Month Change		Quarterly Change	Trailing 12 Month Change
Dow Jones US Real Estate (IYR)	-4.3%	51.4%	DJ Commodity Index (DJP)	-5.6%	1.4%
NAREIT Industrial/Office (FIO)	-7.7%	47.5%	Gold	11.7%	33.5%
NAREIT Residential (REZ)	1.3%	51.4%	Crude Oil	-10.0%	8.0%

Sources: Bloomberg Financial & Thomson Financial

## Case-Shiller Home Price Index - Table 3

02/28/87 - 01/31/10

Last 90 Days (1/31/10 - 04/30/10) -0.3%      Last 12 months (1/31/09 - 1/31/10) 4.6%  
Source: Bloomberg Financial



## Economic and Financial Market Update - continued from pg 1

debt (pg4 fig4) has accelerated upward keeping overall US debt growing. The globe has unfortunately become addicted to debt. The super-cycle of debt accumulation that began in 1982 needs to be broken for a healthy cycle of sustainable growth to emerge. It is unclear if the globe has realized this yet.

As troubling as the backdrop might be, optimism for economic recovery is not hard to produce. Debt service as a percent of disposable income (pg 4 fig 3) is declining due to the near zero rates the fed has engineered. The bad data points in Q2 were likely a result of a pause in consumption as demand was pulled forward in prior quarters from strong incentives and tax breaks. There are still very good trends in retail sales and industrial production. The dollar continues to rise and foreigner's appetite for US debt is accelerating (pg4 fig5).

The economic environment ahead will likely consist of modest inflation, very low interest rates, high employment, slow growth and a theme of asset and debt deleveraging. Equities and distressed income vehicles will be the best asset classes for this economic forecast. Real estate and commodities will lag. Treasuries will be strong until the deflation threat is over. The end game for the treasuries is near making it difficult to follow the current trend. Gold will remain strong as investors worry about the globe's ability to break its addiction to debt and the ultimate inflationary environment that would prevail in this were to unfold.

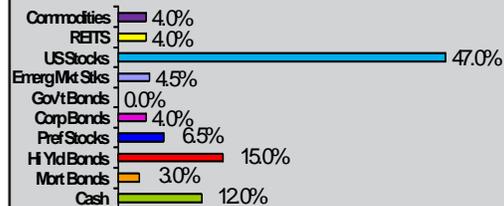
We remain optimistic.

## CIC Managed Accounts

### Growth Portfolios

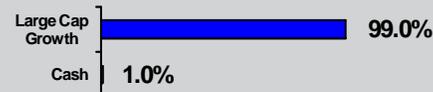
#### Dynamic Growth

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



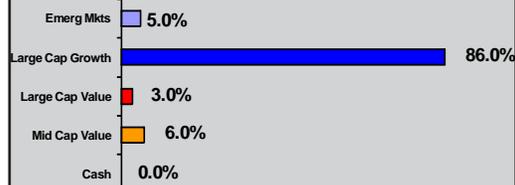
#### Growth

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.



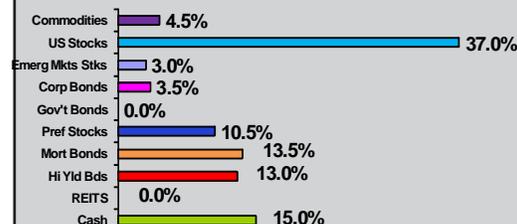
#### Focused REIT

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 stabilization and a return to banking profitability. **Sector: Financials**
- **Theme:** Improvement in hospital cap-ex spending and better visibility on the impacts of healthcare reform. **Sector: Healthcare**

### Commentary: Secular Consumption Not Strong Enough?

As the economy struggles to push forward the underlying consumption must be studied. Sustainable consumption themes are the area of utmost interest to growth investors. Currently wireless devices and healthcare have the strongest growth in consumption, but growth in profits for major players has been disappointing in both sectors. Competition and regulation have been notable obstacles. The destructive environment of the last cycle has damaged the breeding ground for the scaling up of businesses that have strong demand for their products. This is the reason why small and mid cap growth companies are underperforming, and likely why growth companies profitability has been compromised. Energy has been dealt a setback with the current problems in the gulf. These drilling problems will be overcome and this may be a great buying opportunity for this sector. Agriculture continues to be hindered by the macro picture. Global demand for food is tied heavily to employment and income trends which have been progressing slowly.

## Sector Performance Review

6/30/10

	Quarterly Change	12 month Change
Industrials	-0.8%	22.1%
Consumer Discretionary	-8.9%	23.5%
Financials	-8.9%	10.1%
Health Care	-10.0%	9.3%
Consumer Staples	-10.3%	12.5%
Materials	-11.4%	6.3%
Technology	-12.1%	16.0%
Telecom Service	-14.8%	25.2%
Energy	-15.7%	-1.4%
Utilities	-15.8%	-5.6%

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

## Stock Research: Our Work Product

### Cisco (CSCO) \$21.31 on 6/30/10

It is very difficult for a large-cap growth company to maintain growth status as it matures. In the rise and fall cycle of technology products, it's even harder. Cisco has done twice what almost no other large tech company has been able to do: leverage its monopoly position to maintain growth via new and adjacent markets. Today that strategy remains the same.

#### Headwinds

- Capacity rationalization: Enterprises holding off on upgrading networks and telecom carriers trying to do more with existing capacity.
- Partners turned competitors: Cisco has provoked some of its closest partners with its move into servers.
- Mature growth in core business segments: Puts further pressure on "peripheral innovation."
- Vertical integration of tech hardware industry: Fewer titans emerging with eyes on each other's customers.

#### Tailwinds

- Enterprise data center growth: Rapidly shifting infrastructure of the networks supporting digital data.
- Telecom network convergence: Voice, video and data all based on internet protocol, long Cisco's specialty.
- Data innovation/network redundancy: More traffic moving over both corporate and carriers' networks.
- Corporate IT standard: Buyer's standard in network switches and telecom routers.
- Product development track record: Network security, video conferencing, IP telephony.
- Economies of scale/customer switching costs: Results in sticky customers and competitive barriers.

#### Investment Thesis

Following an incubation period met largely with investor skepticism, Cisco's advanced technologies division has grown at 35% the past five years and climbed to more than 25% of sales. Cisco aims to provide corporations, consumers and telecom carriers end-to-end data networking products. If there is a type of hardware, software or service that touches IT networks, Cisco has designs on it. For example, the company recently announced a new tablet computing device targeted at enterprise users. The Cius will be latest addition to Cisco's growing "collaboration" toolbox (it is designed to work seamlessly with the company's popular Flip HD video recorder). CEO John Chambers has the company invested in 30 different markets in order to capture what he sees as a \$100B market opportunity, supportive of 15% sales growth. The world of digital data is still evolving rapidly, yet the movement of competitors onto each other's turf is evidence that the industry is also maturing. There is some risk of stumbling strategically in a reach for growth. The acquisition and product development record is solid, however. Cisco was the poster child for over-valued tech companies at the height of the boom in 2000, yet today its P/E remains modest at just 12 times EPS. For a dominant player in a still growing industry, the stock is compelling.

# News From Our Advisory Team



## Client Appreciation Event Scheduled for August 21, 2010

CIC will host a client appreciation event on August 21, 2010 at 6:30pm. A short presentation on the five goals of life will be presented by Jill Pletcher and Mike Buccowich. The presentation will precede the Main Event which will be a **Murder Mystery Dinner Affair** at the Balboa Inn in Newport Beach. Watch Your Mailbox for details on this exciting and fun event.



## Economic Charts



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

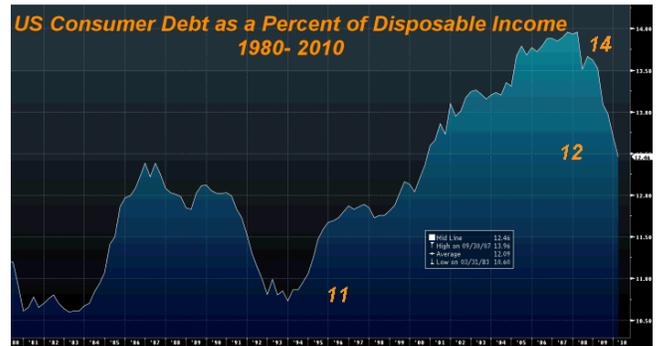


Figure 3: Debt service is falling from 2008 levels. Source: Bloomberg Financial



Figure 4: US Govt Debt has went up hyperbolically the last few years. Source: Bloomberg Financial



Figure 5: Foreigners appetite for US treasuries is Accelerating. Source: Bloomberg Financial

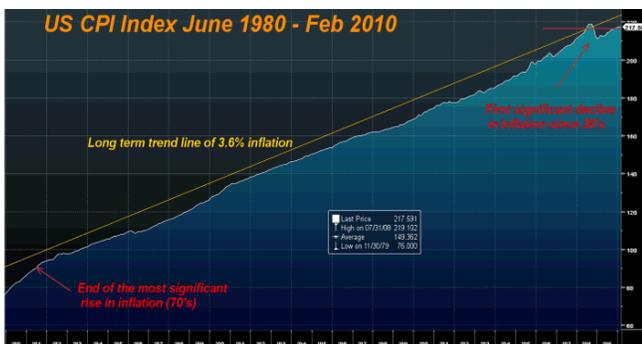


Figure 6: Graph of inflation showing first decline in many years. Source: Bloomberg Financial



Figure 7: Monthly change in US Employment. Source: Bloomberg Financial