Inside Views From an Investment Management Leader

UPDATE

July 2011

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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Strong Earnings Ahead

Despite a recent decline in economic conditions, expectations for corporate earnings growth remain high. Wall Street analysts expect record earnings of over $95.00/share (11% growth) for the S&P 500 this year. This year's earnings will surpass the 2006 high for the S&P 500 of $88.17 and follow a 33% gain in 2010. Earnings for small-cap companies look even better. The Russell 2000 Small Cap Growth Index had earnings of $84.64 in 2010, surpassing their 2007 high of $73.09 by 16%. This year's earnings for the Russell 2000 growth index are forecasted to be $110.31 (a 30% increase from last year) and $145.93 for 2012. With P/E ratios at historically low levels and strong earnings growth likely ahead, upside in stock prices seems reasonable. Investors today are likely unaware that earnings are now surpassing levels last seen when the Dow was over 14,000.

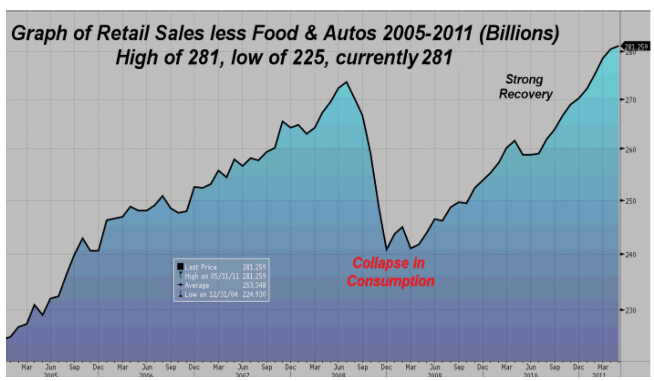


Figure 1 - Source: Bloomberg Financial

Will the softening economy change the direction of earnings and markets? The US economy has slowed recently after a few quarters of above trend growth. The weak data reports have come from employment, housing, consumer confidence, and foreign debt markets. May and June employment gains were a modest 20,000 after averaging close to 200,000 for several months. Industrial production was flat in May and June following steady gains for 2 years. Consumer confidence fell to 58.5 in June from 70 in May (figure 2 page 4).

Mitch Pletcher
President
Chief Investment Officer

On the positive side, personal income continues to grow nicely posting over 4% growth this year and surpassing the $13 trillion mark (figure 3 page 5). Retail sales (figure 1 below) posted a record in June as consumers spent $281 billion (excluding food and autos). Global conditions remain robust despite China's recent taps on the brakes to control rising inflation. Debt problems in Western Europe continue to worry global investors. Hints of problems in Italy and Spain surfaced recently, driving bond yields to over 6% in those countries. The globe is still over leveraged with debt, and the pain associated with deleveraging assets will continue to play out.

Debt problems will be an uncomfortable headwind for mature economies around the globe. GDP growth will likely be 2 to 3% for the foreseeable future for most of the G-7. While fears of a double dip have surfaced recently, the current recovery is unlikely to stall. The financial system is working and optimism is a notable characteristic of Americans. The housing overhang will weigh on consumption, as will unemployment. Our economy will function just fine with the current level of employment. Unemployed workers will need to be more ambitious to find work in

(Continued on bottom of Page 2)

Table 1: Stock & Bond Market Returns — 6/30/11

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	0.7%	6.7%	Small Cap Value (IWN)	-2.6%	3.6%
Large Cap Value (IWD)	-0.6%	5.7%	Small Cap Growth (IWO)	-0.5%	8.6%
Europe Asia Far East (EFA)	2.0%	5.3%	Emerging Markets (EEM)	-1.3%	0.9%
Invest Grade Bonds (LQD)	3.0%	3.6%	High Yield Bonds (HYG)	1.1%	4.3%
Interm Treasuries (IEF)	3.9%	3.5%	Mortgage Bonds (MBB)	2.2%	2.6%

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

Table 2: Real Estate & Commodity Returns — 6/30/11

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	2.4%	9.6%	DJ Commodity Index (DJP)	-8.0%	-3.9%
NAREIT Industrial/Ofc (FNIO)	2.4%	9.8%	Goldman Commodity (GSG)	-8.7%	0.0%
NAREIT Residential (REZ)	3.4%	10.9%	Gold (GLD)	4.4%	5.3%

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

Table 3: Case-Shiller Home Price Index — 7/31/95 - 4/30/11

Last 90 Days (1/31/11 - 4/30/11)	-4.8%	Last 12 months (4/30/10 - 4/30/11)	-3.1%

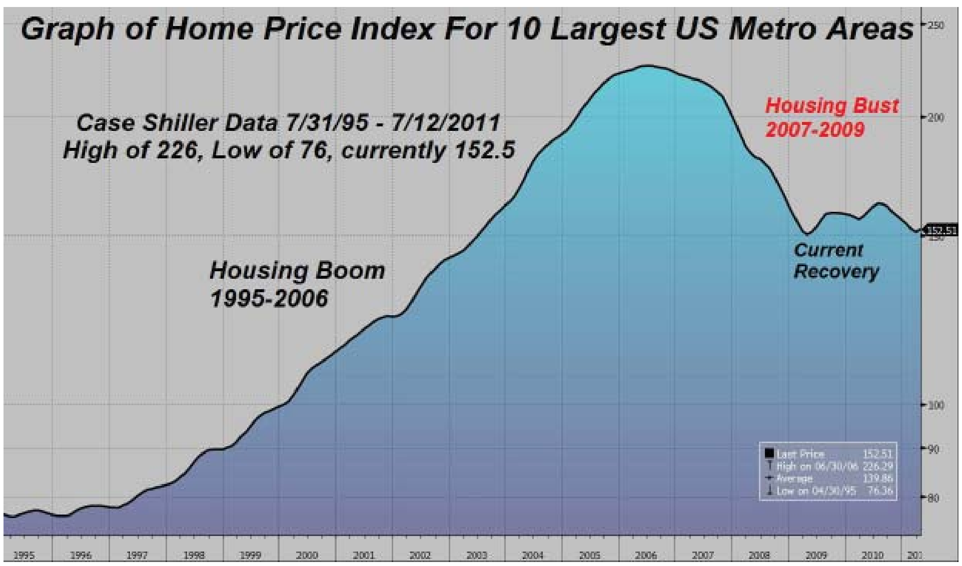


Figure 6 - Source: Bloomberg Financial

Economic and Financial Market Update

From Page 1

a more productive workplace. The American worker became a bit lazy in the last cycle and he now needs to wake up and retrain himself for the needs of our current workplace. There are opportunities for skilled, ambitious workers in our economy. Unfortunately, the unemployed population has a small percentage of these people.

The strength in the BRIC (Brazil, Russia, India and China) will offset soft consumption in the G-7. The US economy has bobbed and weaved over the last two years with data points that look good and bad from quarter to quarter. We suspect that the last few months of data are no different and that the real, overriding trend will continue to be upward.

Stocks, commodities and commercial real estate all look attractive in the current environment.

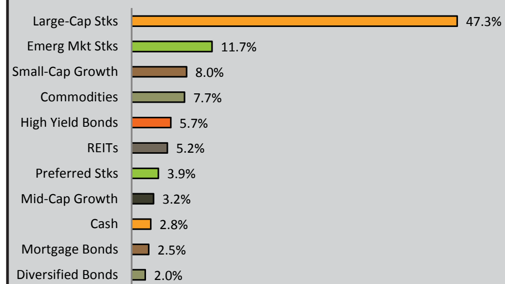
We remain optimistic.

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.

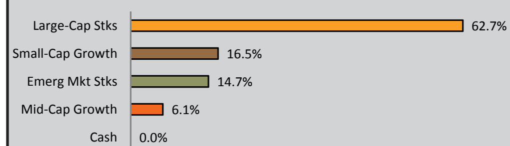


Growth

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.



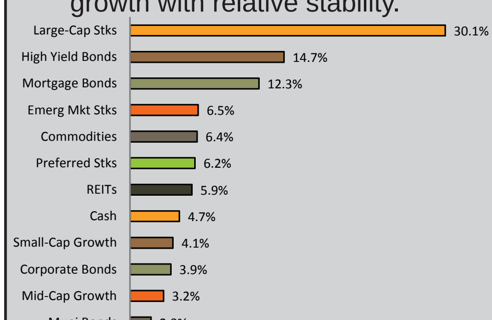
Focused REIT

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.



Equity Markets: 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 what is active in this market cycle.

Secular Consumption Themes:

- **Theme:** Global demand for wireless devices, digital media and cloud computing power. Demand growth is a product of industry's ability to innovate. Sector: Technology
- **Theme:** Global demand from wealthier and growing emerging market populations for meat and poultry to support more "western-like" eating habits, as well as growing demand for technologies that provide greater agricultural yields.

  Sector: Materials
- **Theme:** Global demand for energy as population grows as well as increasing demand for the technologies that make it viable to extract natural resources from the farthest reaches of the earth. Sector: Energy
- **Theme:** Increasing demand for healthcare as population ages, as well as growing demand for new and better products provided by innovation in the development of life-saving drugs, devices, and services. Sector: Healthcare

Cyclical Consumption Themes:

- **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 of demand for investment banking products and services. Sector: Financials
- **Theme:** The return of demand for manufactured products.

  Sector: Industrials, Energy

Commentary: Energy, Staples, Healthcare, and industrial Equipment

The slow growing US economy is demanding more defensive items like healthcare, staples, energy, and food. Cyclical rebounds in apparel and leisure are also occurring, but durable items have not rebounded to post recession levels. The demand for technology has also occurred but is not as strong as many had predicted and has been overshadowed by growing global demand for raw materials, industrial equipment and agriculture. Financial services has also underperformed expectations as global financial service demand has been weak but recovering.

Sector Performance Review *6/30/11*

	Quarterly Change	Trailing 12-Months
Healthcare	**7.3%**	**14.2%**
Consumer Staples	**5.6%**	**8.8%**
Utilities	**5.5%**	**9.4%**
Consumer Discretionary	**3.5%**	**8.6%**
Telecom	**2.1%**	**7.2%**
Industrials	**-0.9%**	**7.9%**
Materials	**-1.0%**	**3.9%**
Technology	**-1.1%**	**2.5%**
Energy	**-5.0%**	**10.9%**
Financials	**-5.3%**	**-2.0%**

Data based upon Russell 1000 Index and GICS sectors. Source: Bloomberg Financial

Sector Focus: Earnings Outlook

Brian Thomas
Senior Analyst

Strong Growth but Modest Expectations for Earnings. Investors and Analysts Disagree.

The philosophy behind the management of our equity portfolios focuses on our desire to be invested in areas that are experiencing rising expectations for growth.

Analysts expect total earnings growth of about 11% this year for the S&P 500. The dispersion of this growth rate across sectors is significant. Our process involves a comparison of these disparate growth rates to the growth rate implied in the price of the stock or sector (by investors). Secondly we compare our outlook for the sector with the growth expected by analysts and investors. Street analysts are reasonably accurate on near term earnings but the further out you look the less reliable they tend to be. Investors have a better track record of pricing long term growth. Following is a table of investor expectations for growth and street analyst-projected growth rates:

	Investors	Analysts
Energy	13.76	35.80
Materials	14.90	34.05
Industrials	15.36	19.63
Cons. Staples	14.61	13.83
Cons. Discretionary	15.27	9.01
Technology	12.92	7.82
Healthcare	11.67	4.71
Financials	10.20	-7.19
Utilities	12.27	-2.03

Of course the analysis doesn't end here. We have to do our own research work to decide who we think is closer to reality – the analysts or investors. We also work to validate some of the thoughts that jump out at first in studying the table. There are several observations that can be made. One is the degree to which implied growth rates are all clustered in the low double-digits. Now there's a mathematical lower bound to these numbers (financials are not a screaming short, for example). What we are interested in is the lack of uniformity by comparison in the analyst estimates.

Energy, basic materials, and industrials are all expected to grow swiftly. Technology and the consumer sectors are close to average—while healthcare, financials and utilities are expected to exhibit poor growth this year. Further, analysts have been raising their estimates all year for the three strongest sectors in a struggle to keep up with the growth being reported. These sectors share a similar growth theme in their exposure to stronger economic growth in key foreign economies. This gives companies in these sectors the ability to grow their earnings faster than they'd be able to if they only operated domestically. This is a perspective that we perceive to be valid, and are overweight these three sectors as a result.

A significant edge can be gained on the market by investors who are focused on the dynamic balance of the various ways to measure expectations for growth. A process for identifying and then testing these observations is what creates outperformance. This is but a peek at our process for getting those results.

Estate Tax Update

Mike Buccowich
Senior Financial Advisor
Certified Financial Planner ®

Jill Pletcher
Vice President
Director of Client Relations

As the story goes, when Elvis Presley died, his nephew asked how much money Uncle Elvis left. The half-joking reply came with the full force of truth: "All of it." The King's estate was worth an estimated $10 million when he died in 1977, but after probate and estate taxes, his family was left with an estimated $3 million. We know you can't take it with you – but we also know the estate tax could have first dibs on what you leave.

How will the estate tax affect you? The answer has been like trying to guess where a bouncing football will land after a punt. The estate tax has been a constant feature of American financial life since 1916, when the rate was set at 10% and the personal exemption at $50,000. During much of the 1990s, the numbers were easy to keep in mind – the rate was stable at 55% with an exemption of $600,000. But as of 1998, the estate tax scheme has adjusted annually and made its impact hard to predict. Fortunately, the trends favored taxpayers with lower rates and higher exemption amounts, culminating in 2010 when the estate tax was zero. No estate tax. 2010 may not have been very nice for the rich man who died, but it was *the* year to be his heir.

For Americans with an estate still in play, where does it stand today? Through 2012, the estate tax rate has been reinstated at 35% with a personal exemption of $5 million ($10 million for couples). Aside from last year's 0%, that's the lowest rate since 1931. The exemption amount is also relatively generous as it reflects American wealth expansion over the last several decades and means most middle-class households needn't worry about the estate tax – for now. But beware 2013, when the estate tax shoots back up to 55% and the exemption amount slumps down to $1 million as the extended "Bush tax cuts" are set to expire.

What about an estate tax at the state level? For California residents, there is currently no estate tax collected by the Franchise Tax Board. Federal tax reforms made effective in 2005 (EGTRRA) prevented states from taking a portion of any federal estate taxes due. California has not implemented a separate estate tax since then, and would require voter approval to do so.

The estate tax is little threat for most Americans today. In 2013 things may change for the better or worse but the trend seems to be moving away from taxing estates. Married couples threatened by current estate taxes or future taxes they believe may unfold should maximize personal exemptions using the basic credit shelter strategy in their living trust. This common practice allows growth assets to be set aside in a separate trust (up to the exemption amount of $5mm today) after the first spouse dies so future growth can pass to heirs without estate taxes. Other techniques to minimize estate taxes also may be in order, like family partnerships or charitable trusts. Those who want to provide cash for any estate taxes due may also consider a life insurance trust.

Economic Charts

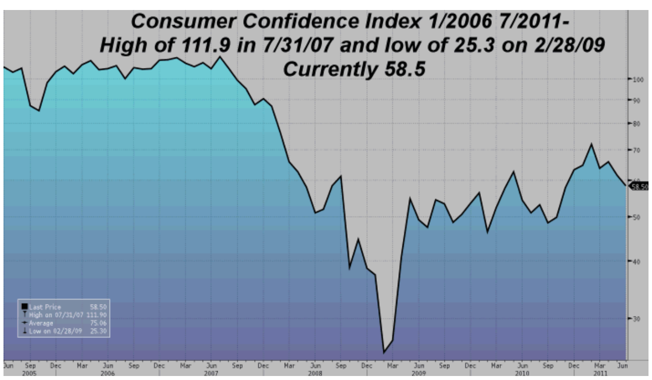


Figure 2 - Source: Bloomberg Financial

Consumer Confidence shows weak recovery since trough in early 2009.

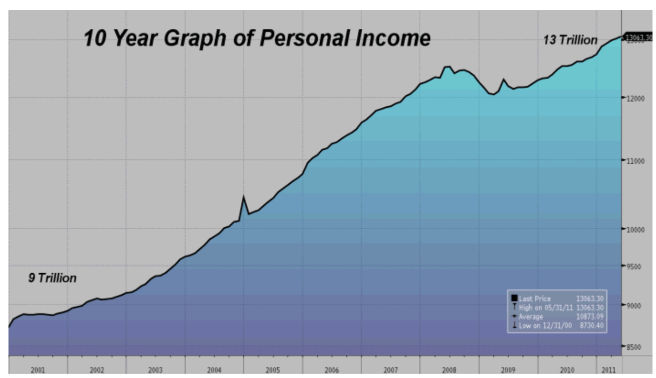


Figure 3 - Source: Bloomberg Financial

Personal Income 2001-July 2011

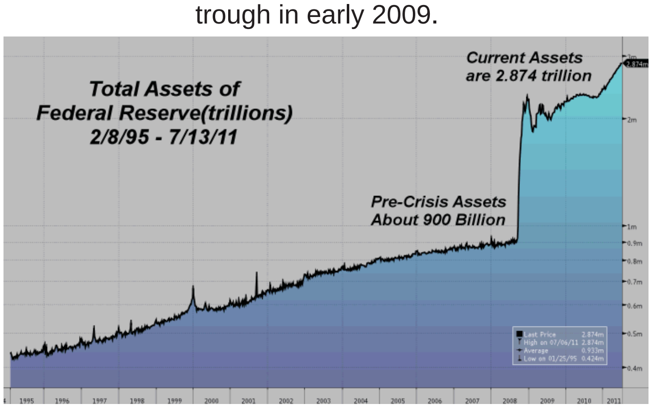


Figure 4 - Source: Bloomberg Financial

Federal Reserve balance sheet showing massive build-up in assets.

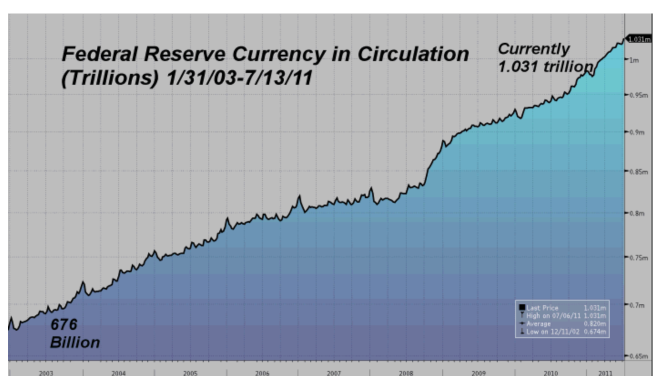


Figure 5 - Source: Bloomberg Financial

Federal Reserve data regarding currency in circulation.