Inside Views From an Investment Management Leader

UPDATE

January 2012

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*

CONCORD Investment Counsel

2020 Main St. Suite 300
Irvine, CA 92614
Phone: 949-852-4100 or 800-497-9400
Fax: 949-852-4106
www.cichome.com

In the News

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Why wait for paper when you can get the latest thoughts from your wealth manager in real time? Economic updates from Mitch Pletcher are seen first in real time by following Concord Investment Counsel around the web. Tune in for our exclusive up-to-the-minute commentary!

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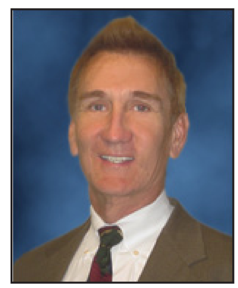
Economic Review & Outlook

Anchored by the Scars of the Last Cycle

The outlook for global growth is not bright as wounds and fat left from the sins of the last cycle have become a significant scar on the face and body of global growth. Despite the ugliness, the global economy is pushing forward and seems likely to continue on this path. The overall health of the global economy is not easy to diagnose when weighing its obstacles against the consumption engines of growth. The obstacles are clearly significant and may be the worst in modern history. Fortunately the global engines of growth are likewise significant, leaving the globe hanging in a delicate balance

The scars on the face of growth are ugly. They are deep pockmarks from an unhealthy appetite for debt. The globe accumulated a mountain of debt over the last few decades, so the resulting deleveraging cycle has forced the mature parts of the world to reduce consumption. The US and other obese areas could well be on a Jenny Craig diet for the next decade. Less significant but still notable would be: the ongoing and costly fight against terrorism, persistent global disasters, and geopolitical events.

On the better side of the face of growth is a profile that we have grown to like. The engines of growth for the globe are mostly about rising consumption due to a growing base of middle class consumers in emerging areas of the world (ie: Brazil, Russia India and China). This is not a new trend but one that has accelerated over the last decade as repressive governments have fallen and Capitalism has taken hold in many areas including Eastern Europe, Asia, Africa, and the Middle East.



Mitch Pletcher
President
Chief Investment Officer

Product innovation is another significant engine that made the 90's such a great cycle for growth and is still alive today. The most exciting and notable areas include healthcare, energy, consumer electronics, and telecom. Fortunately, capitalism is still alive and growing and is the root of great innovation.

How does a reasonable investor balance the engines of growth against the obstacles on the road? This difficult problem may bring rationality to those of us having a difficult time understanding the volatility the financial markets have produced over the last few years.

Will the good defeat the bad or will the globe fall into a terrible depression? Clearly one needs to have a deeper understanding of the obstacles in the road to recovery. The subject matter here is far greater than the scope of this article but has been researched extensively by our team and will be summarized in a series of articles to come on the Concord Blog (blog.cichome.com):

The Economic Revolution

Part 1 – Global Debt – Are We Past the Point of Return?
Part 2 – The Evolution of the Political Environment – US and Global Trends
Part 3 – Weighing the Cost of Terrorism and Global Disasters
Part 4 – Capitalism & Communism – Under Fire

Financial Market Review & Outlook

Disappointing Year as Volatility Reigns

Mitch Pletcher
President
Chief Investment Officer

Financial markets in the 4th quarter and throughout 2011 changed course regularly as economic data ebbed and flowed. Trends were short and difficult to follow. The first half of 2011, however, was mostly filled with optimism and steady data on economic growth. The second half was entirely different as global conditions darkened and economic data became mixed to pessimistic. The Russell 1000 finished the year up a modest 1.4% compared to Concord's Dynamic Growth portfolio which fell 2.4%. The results in the equity markets were disappointing but for the most part reflected the reality of where the outlook for economic recovery lies. Unexpected debt problems in Europe changed the outlook for global recovery and spooked risk-based investors. This in turn caused investors to embrace even bigger positions in highly valued Treasury markets. The economic environment proved difficult to forecast and was the root of a troubling year for asset allocators. The performance of our Dynamic Growth portfolio lagged its benchmark, largely a result of our early exit from the highly valued Treasury market and poor performance from small cap equities. The Dynamic growth portfolio just had too much of an optimistic blend of assets to beat the bogey in a year where pessimism returned to the forefront.

The best performance in 2011 came surprisingly once again from long Treasurys (+34%) as yields plunged to 1.9% on ten year notes and 2.9% on 30 year bonds. Debt in general did well with most other debt areas producing high single digit returns. Concord's fixed income portfolios were a bright spot for CIC's team with strong absolute performance and good relative performance as well.

Equities in general had disappointing returns after two years of double digits gains in 2009 and 2010. Equities with low valuations and good dividends did well (healthcare, utilities, and staples). Commodities and growth stocks generally did poorly as the outlook for growth and inflation dimmed. Gold was an exception (+9.6%) but finished the year in a steady decline from mid-year highs. The Fed's Operation Twist surprised gold investors hoping for another round of quantitative easing. This effectively turned off the Fed's printing press and strengthened the dollar.

The outlook for the financial markets hinges heavily on progress in Europe. The rest of the world seems to be recovering in a slow but steady manner and will likely continue as Europe mops up their debt problem. Optimism is returning to the horizon already this first week of January 2012.

Table 1: Stock & Bond Market Returns — 12/31/11

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	10.4%	2.3%	Small Cap Value (IWN)	15.9%	-5.7%
Large Cap Value (IWD)	13.0%	0.1%	Small Cap Growth (IWO)	15.0%	-3.0%
Europe Asia Far East (EFA)	4.9%	-12.0%	Emerging Markets (EEM)	9.1%	-18.7%
Invest Grade Bonds (LQD)	2.7%	9.5%	High Yield Bonds (HYG)	10.6%	6.5%
Interm Treasurys (IEF)	1.2%	15.4%	Mortgage Bonds (MBB)	0.9%	5.8%

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

Table 2: Real Estate & Commodity Returns — 12/31/11

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	13.5%	5.4%	DJ Commodity Index (DJP)	1.2%	-14.0%
NAREIT Industrial/Ofc (FNIO)	10.2%	-2.6%	Goldman Commodity (GSG)	9.2%	-3.3%
NAREIT Residential (REZ)	15.0%	15.8%	Gold (GLD)	-3.8%	9.6%

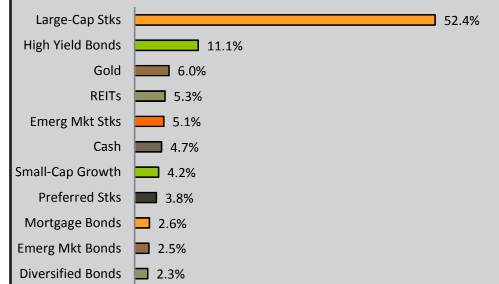
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

CIC Managed Accounts

Growth Portfolios

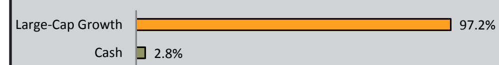
Dynamic Growth

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



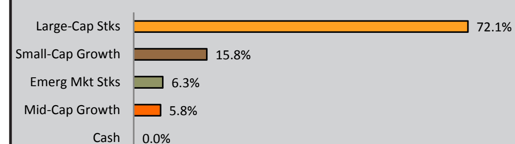
Growth

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.



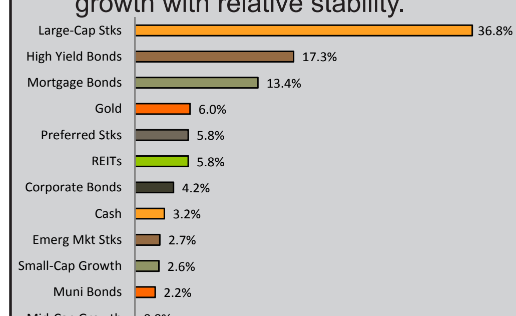
Focused REIT

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 have also underperformed expectations as global financial service demand has been weak but recovering.

Sector Performance Review *12/31/11*

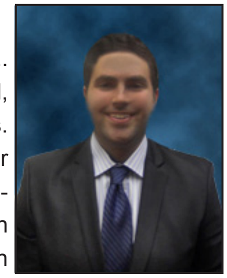
	Quarterly Change	Trailing 12-Months
Energy	18.5%	3.4%
Industrials	16.9%	-1.5%
Materials	16.4%	-9.7%
Consumer Discretionary	12.4%	4.6%
Financials	11.2%	-14.9%
Consumer Staples	9.7%	14.1%
Healthcare	9.6%	11.2%
Utilities	8.6%	19.0%
Technology	8.5%	1.0%
Telecom	7.3%	4.3%

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

Fixed Income Review

By Kyle Aron

Year of the Treasury



Kyle Aron
Analyst

And the winner for asset class of the year is... (drumroll please)...US Treasury debt! Well, more precisely, long-term U.S. Treasurys. After an exceptional rally in the 3rd quarter following the Fed's Operation Twist, long-term Treasurys held their gains amid a 4th quarter S&P 500 surge of over 10% to finish the year up nearly 34%. Investment-grade corporate debt had a respectable quarter, netting a return of just under 3%.

Nonetheless, risk-on trading prevailed in the 4th quarter as US economic data largely strengthened and Europe slowly worked through its debt crisis. High-yield corporate debt registered a similar 4th quarter gain to the S&P and ended the year with a total return just shy of 7%. Emerging market sovereign bonds also rallied for a 4th quarter gain of nearly 5% to finish the year up over 6%. Fixed income as a whole was the superior asset class for 2011, a year marked by US and European volatility that left the S&P 500 flat and the Euro STOXX down nearly 20%.

Within the 4th quarter long-term Treasurys lost most of their steam, ending only slightly positive as the Eurozone crisis sustained US sovereign debt demand. Treasurys further held their gains as the Federal Reserve continued to make clear it will maintain stimulus measures supporting the US recovery.

Already averse toward Treasurys given their record-low yields, we now add to our bearish case the brightening of the picture in Europe. Steps are finally being taken toward tighter Eurozone fiscal integration and larger-scale ECB support. While Treasurys may continue to muddle through with near-zero performance, we view any remaining upside as limited.

Historically high corporate cash levels, strong earnings and strengthening of the US consumer continue to bode well for the corporate debt market. Despite this, the spread between high-quality Aaa corporate debt and 10-year Treasurys remains high at nearly 2% (relative to the 2009 peak of 2.9%). In comparison, this spread in mid-2007 was a mere 0.6%. However, yields on high-quality corporate debt are still relatively low on a historical basis and indicate an overly pessimistic outlook. We prefer to move down the quality scale where we find significantly higher yields and are still confident in low default probability. Lower-end investment grade and high-yield corporate debt remain the best values in the corporate debt market, which itself is particularly appealing relative to US government debt.

Emerging market sovereign debt also continues to be attractive. Emerging markets have exhibited a strong recovery, controllable inflation, and continued growth of intra-country wealth and consumption that we believe will continue. With yields that beat US investment grade debt and demand that works in a risk-on environment, emerging market sovereign debt represents a close alternate to balance with US high-yield debt. We feel price performance has significant upside to be realized if emerging markets further outpace a struggling Europe and slow-growing US.

A Word from Our Advisory Team

Mike Buccowich
Senior Financial Advisor
Certified Financial Planner ®

Tax Planning for Life Events

Smart tax ideas are up for grabs – can you find the money?

During tax season we reckon with many facets of the massive, quirky, and complex US tax code. While most tax activity involves cash passively flowing from us to the government, some of it requires action on our part to reverse the money flow back to us. For perspective on those tax management activities, let's think of the US tax code as a board game.

That's right, Hasmo presents America's family night sensation, "Find the Money." What a thrill as you roll the dice and advance your game token around the IRS labyrinth! Take the trail to a charitable contributions deduction and collect $350! Climb the hill to the energy-saving home improvements credit and get $500! Miss the ramp to foreign taxes paid, and no dough for you, Charlie!

The truth is there are smart ideas you can employ to find more money. Otherwise, the IRS keeps it. It's their game.

Jill Pletcher
Vice President
Director of Client Relations

Life events, their taxes (and strategies to deal with them)

While the tax management strategies that work for you will reflect your specific financial life, here are some general life events to consider along with the taxes that come with them. Perhaps these will stir your spirits to "Find the Money" on your game board.

- **High Income** - Professional success leads to the reward of high income – but also higher income taxes.
- **Highly Appreciated Assets** - If you sell an appreciated asset like stocks, art or real estate (remember when we could do that?), you'll face capital gains taxes.
- **Inheritance** - If you inherit a brokerage account or real estate, you'll reckon with capital gains. If you're the beneficiary of an IRA, you'll have income taxes.
- **Retirement** - In retirement you'll need sustainable income that may come from a variety of sources like Social Security, retirement accounts, brokerage assets, or a company pension. These generate income and capital gains taxes.
- **Death** - Since death and taxes are still a certainty, they come together with the estate tax – in 2012, for personal estates worth over $5.12 million.

To read the first article in this series, High Income, please visit our blog at blog.cichome.com. Stay tuned for the remaining series articles on our blog coming soon!

Economic Charts

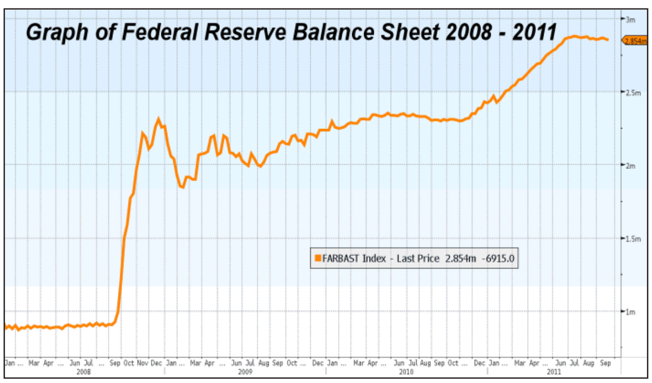


Figure 2 - Source: Bloomberg Financial

Graph of Federal Reserve Balance Sheet showing possible end to expansion

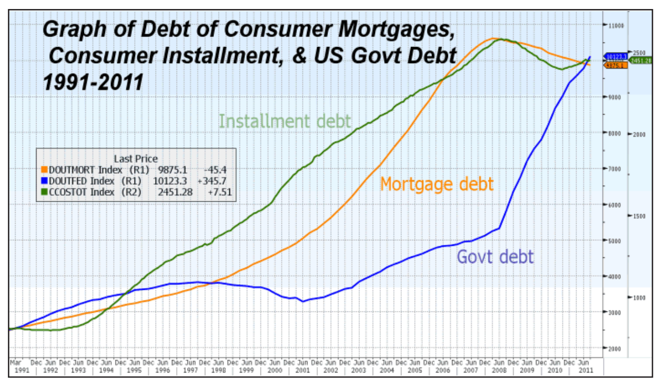


Figure 3 - Source: Bloomberg Financial

Graph of US debt by sector showing declining levels of consumer debt contrasted against rising Govt debt

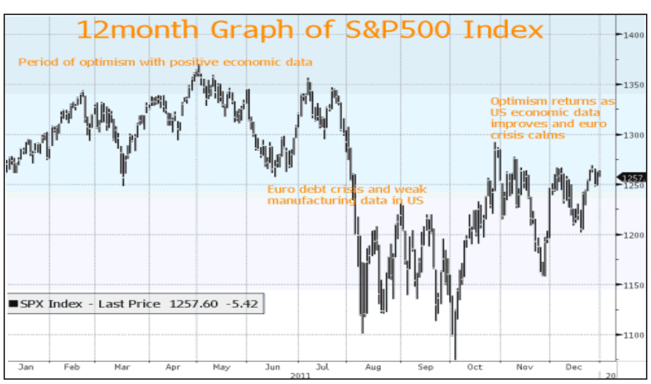


Figure 4 - Source: Bloomberg Financial

Graph of US Equity Market with commentary noting the changing tide of optimism and pessimism

Figure 5 - Source: Bloomberg Financial

Yield graph of Long Treasury Bond showing how significant the decline in rates has been