Inside Views From an Investment Management Leader

UPDATE

July 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*

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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

Understanding the Current Path of Growth

Since the crash of 2008 financial markets have swung wildly with ever-changing data on the state of the economy. The overall trend in our markets and economy however has been strongly positive, but the market volatility has had most investors on edge. A lack of understanding of the fundamentals involved in the recovery is the reason for the anxiety. The optimists have had exaggerated expectations for growth, and likewise the pessimists have continued to fear financial armageddon. The view from economic analysts in tune with the current engines of growth and the obstacles in our economy's path is neither highly optimistic nor pessimistic. Our economy's expected growth for the next decade is indeed modest. There are far too many obstacles ahead to expect more than a 2-3% rate of economic growth. The gradual decline in volatility over the last year is evidence that the market is realizing this as well (Pg 4 Chart 1). The globe has entered a secular cycle of debt repayment and asset deleveraging. As a result, inflation will be muted and consumption will be modest. Access to credit will be available for only quality borrowers. Job creation and wage growth will hinge heavily on new consumption themes that need to emerge. So far cloud computing, digitization of data, and smart phones and related devices are the only notable themes present. Politicians on both sides have talked about the need to create jobs. However, both sides lack the tools to accomplish this goal. Job creation is a very difficult thing to stimulate when the economy is deleveraging itself of debt and assets. Any new consumption will buck these headwinds. Politicians do have power to provide tax incentives to producers of products and services. This can help lower the prices and stimulate new production of goods and services. The question that both sides need help with is, what product or service does the globe want and need? Is it infrastructure, energy, healthcare, weapons or technology? No party or group has offered any strong opinion or idea, so the problem of stagnant growth remains unsolved. With the elections on the horizon there will undoubtedly be more ideas put on the table to address this issue. We can only hope that something productive and executable will emerge.

Mitch Pletcher
President
Chief Investment Officer

Financial markets are pricing in a more pessimistic outlook for economic growth. Ten year treasury yields of 1.6% are clear evidence of this. Stocks look incredibly cheap relative to treasuries with the earnings yield of stocks at a historical high relative to treasuries. Stocks would seem to have considerable upside as sustainable economic growth of 2-3% emerges.

The leadership in equities will likely be tied heavily to future earnings growth as valuations across sectors are uniformly low. The puzzle of finding the growth will come back to the visibility gained from an analysis of consumption themes.

We believe the equity market will move higher in the coming months. Gold will likely continue to descend as inflation expectations dissipate. Commodities will lag and treasury prices will remain strong but extremely vulnerable to easing pessimism.

We remain optimistic.

Financial Market Review & Outlook

Pessimism Leads Investors to Treasurys Again!

Mitch Pletcher
President
Chief Investment Officer

Weak economic data and Federal Reserve posture caused investors to overreact and push treasury prices significantly higher in the 2nd quarter. The long treasury produced the best performance of all asset classes in Q2 as it advanced by over 12%. Only the most courageous investor benefited from this move given the poor risk reward characteristics of long treasuries. Intermediate treasurys had a good quarter as well with a total return of 5%. Corporate bonds, mortgage bonds and even high-yield likewise did well as growth expectations fell during the quarter. Assets tied to inflation expectations had a difficult quarter with CPI data still reading virtually no inflation (Pg 4 Chart 2). Gold fell 4.3%, silver fell 15.1%, and commodity baskets (DJP) fell over 5%. Equity assets overall had a mixed quarter with most indices posting losses of over 2% (S&P500 -3.4%). Growth stocks did worse than value type stocks given that growth was coming off a strong period of outperformance over the last 6 months. Real estate had mixed returns with office and apartment REITs posting positive performance of low single digit type returns (FNIO +.8%, IYR +3.5%). Residential real estate showed no signs of a rebound with the Case Schiller Index still close to its lows (SPCS10 +1.2%).

The outlook for the remainder of the year is bright for equities, high-yield and REITs as slow growth is not yet priced into these assets. The sharp sell-off in growth stocks seems like a great buying opportunity as this area will likely lead the market in earnings growth. Deep cyclical businesses are cheap and could likewise bounce nicely as pessimism subsides.

Table 1: Stock & Bond Market Returns — 6/30/12

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	-4.0%	5.7%	Small Cap Value (IWN)	-2.9%	-1.4%
Large Cap Value (IWD)	-2.1%	3.0%	Small Cap Growth (IWO)	-3.9%	-2.6%
Europe Asia Far East (EFA)	-6.9%	-14.0%	Emerging Markets (EEM)	-7.8%	-16.0%
Invest Grade Bonds (LQD)	2.7%	11.3%	High Yield Bonds (HYG)	2.4%	7.5%
Interm Treasurys (IEF)	5.0%	15.2%	Mortgage Bonds (MBB)	1.0%	4.7%

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

Table 2: Real Estate & Commodity Returns — 6/30/12

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	3.5%	10.2%	DJ Commodity Index (DJP)	-5.1%	-14.9%
NAREIT Industrial/Ofc (FNIO)	0.8%	1.4%	Goldman Commodity (GSG)	-12.5%	-10.8%
NAREIT Residential (REZ)	4.4%	15.6%	Gold (GLD)	-4.3%	6.3%

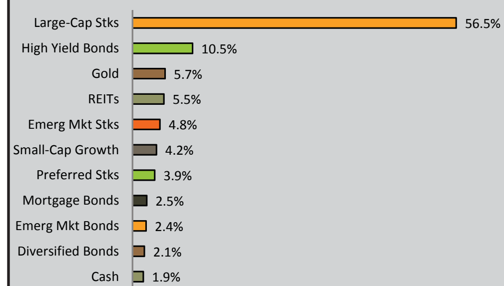
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

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.

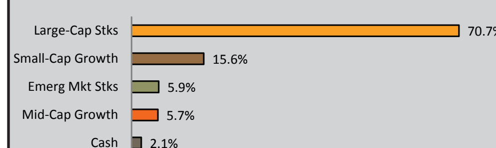


Growth

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.



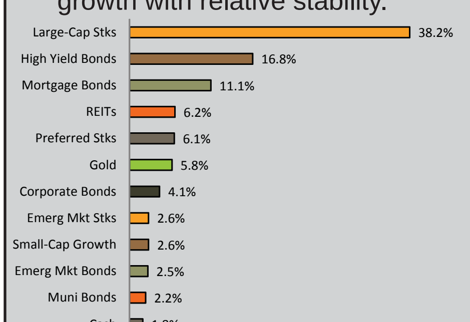
Focused REIT

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: Telecom, Utilities, Consumer Staples, and Healthcare sectors lead market!

The slow growing US economy is demanding more defensive items like healthcare, staples, energy, and food. These strong economic performers bounced back to the head of the class in Q2 after a brief pause in Q1. Soft economic data and poor guidance from retailers in Q2 caused pessimism to return for cyclical areas of the economy. The secular demand for technology continues to grow along with continued global demand for raw materials, industrial equipment and agriculture. Financial services have recovered from ultra cheap levels but remain growth challenged.

Sector Performance Review *6/30/12*

	Quarterly Change	Trailing 12-Months
Telecom	13.1%	13.2%
Utilities	6.0%	13.7%
Consumer Staples	2.5%	13.7%
Healthcare	1.7%	8.5%
Consumer Discretionary	-3.8%	8.1%
Industrials	-3.9%	-1.7%
Materials	-5.1%	-7.3%
Financials	-5.8%	-1.5%
Energy	-6.6%	-9.8%
Technology	-7.1%	10.9%

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

Fixed Income Review

By Kyle Aron

Risk-on, Risk-off

Kyle Aron
Senior Analyst

Following a bumpy path similar to 2011, risk took a backseat to safety in the second quarter of 2012 after leading the way in the first. Economic data cooled in the US and Eurozone troubles persisted as a headwind. While much of US data was stronger year-over-year, nearly all economic categories (manufacturing, employment, consumer) were down sequentially each month in the second quarter. Given this backdrop, fixed income outperformed most other asset classes.

Leading the way in fixed income were long-term Treasurys, which continue to see record-low yields as the Fed pursues Operation Twist. The Fed opted to extend Operation Twist by $267 billion at their June meeting. Long-term Treasurys (TLT) were up 12.4% for the quarter, with 30-Year yields ending the quarter at just 2.7%. Intermediate Treasurys (IEF) also posted a respectable quarter, returning 5.0%. 10-Year yields were 1.6% at quarter-end.

Corporate bonds saw modest returns for the quarter, with high-yield bonds returning 2.4% and investment-grade bonds up 2.7%. Spreads continue to make corporate bonds relatively appealing. Investment-grade spreads over 10-Year Treasurys averaged 200 basis-points at quarter-end, while high-yield spreads reached near 700 basis-points. Spreads remain significantly higher year-over-year as the Fed's purchases continue to weigh on Treasury yields. Duration risk remains contained as inflation readings have been lower than forecast and the Fed has held firm in its mandate to keep the yield curve flattened.

Emerging market government bonds again outperformed corporate bonds for the quarter, returning 2.8%. Emerging markets continue to do well as most major emerging market countries have manageable inflation and GDP growth rates that far outpace developed nations. As investor interest in emerging market debt continues to grow, there has been a surge in funds offering easy access to these markets. EMHY, the iShares high-yield emerging market corporate bond ETF launched on 4/3/12, returned 4.54% for the quarter. Investor demand for yield amidst depressed rates domestically has clearly developed a new product niche that provides interesting fixed income alternatives.

Mortgage bonds and preferred securities had the most lackluster of a second quarter, each returning just over 1%.

Going forward, with the Philly Fed Leading Indicators Index leveling off during the quarter and ticking up in June, the markets may look more favorably on risk in the coming months. However, in following a somewhat similar trajectory to 2011 (and 2010), economic data may still remain seasonally soft until the last quarter of the year. Fixed income continues to be appealing given current levels of uncertainty.

A Word from Our Advisory Team

Jill Pletcher
Vice President
Senior Financial Advisor

Is Private Equity More Appealing than Public Equity?

Private Equity is an asset class that most investors know little about. Historically the returns have been quite high and in some periods more than double the rate of public equity. The table below summarizes the returns for some of the indices that track private equity. Are we beginning one of those great periods for private equity? We believe this may be true. The reasons are numerous, but the best rationale involves the following: the premium for liquidity in the marketplace and the lack of good liquidity for private equity is at the forefront of current low valuations in small private businesses. The financial crisis of the last 4 years crushed valuations in both public equity and private equity. However the less liquid private equity world has felt the brunt of this storm and liquidations combined with a tight lending environment at banks has pushed valuations in small businesses to historically low levels.

Privately held businesses are a huge and growing part of our economy and contribute more to US GDP than publicly held companies. Innovation is typically stronger at private businesses. Business politics, red tape and a more ominous regulatory environment is common at public firms resulting in more rigid environments that don't stimulate innovation or attract creative minds.

The recession has displaced hundreds of thousands of employees as corporate America has reduced headcounts in the same manner that they take inventory off the shelf. The large rank of unemployed has caused many talented individuals to join small businesses or ventures with little pay but big incentives to create and innovate.

Government realizes the need to stimulate innovation as it is tied heavily to the development of new consumption engines for our economy. Fiscal help is on the way and with the elections on the horizon the possibilities are numerous. The missing link for private businesses is capital that normally comes from banks and private equity funds. The funds with capital will be rewarded with a lush environment of hungry private businesses with great ideas, but in desperate need of liquidity.

Our investment team is currently exploring this area of the market and searching for the best way to take advantage of the opportunities in private equity. More news to come on this promising new idea.

US Venture Capital Index Returns for the Periods Ending 12/31/2011

Cambridge Associates LLC U.S. Venture Capital Index® 1for the periods ending	Qtr.	1yr	3yrs	5yrs	10yrs	15yrs	20yrs
December 31, 2011	1.4	13.2	10.0	5.3	3.3	28.0	26.0
December 31, 2011							
U.S. Venture Capital - Early Stage							
Index 1	0.4	12.9	9.5	4.9	1.7	44.4	31.6
U.S. Venture Capital - Late &							
Expansion Stage Index 1	3.1	15.2	18.0	10.5	7.56	12.55	19.9
U.S. Venture Capital - Multi-Stage							
Index 1	2.4	12.9	7.8	3.8	4.71	17.15	20.1
DJIA	12.8	8.4	14.9	2.4	4.6	6.7	9.5
NASDAQ Composite *	7.9	-1.8	18.2	1.5	2.9	4.8	7.7

Sources: Barclays Capital, Bloomberg L.P., Cambridge Associates LLC U.S. Venture Capital Index®, Frank Russell Company, Standard & Poor's, Thomson Datastream, The Wall Street Journal, and Wilshire Associates, Inc. The Cambridge Associates LLC U.S. Venture Capital Index® is an end-to-end calculation based on data compiled from 1,347 U.S. venture capital funds, including fully liquidated partnerships, formed between 1981 and 2011. 1. Pooled end-to-end return, net of fees, expenses, and carried interest. *Capital change only.

Economic Charts

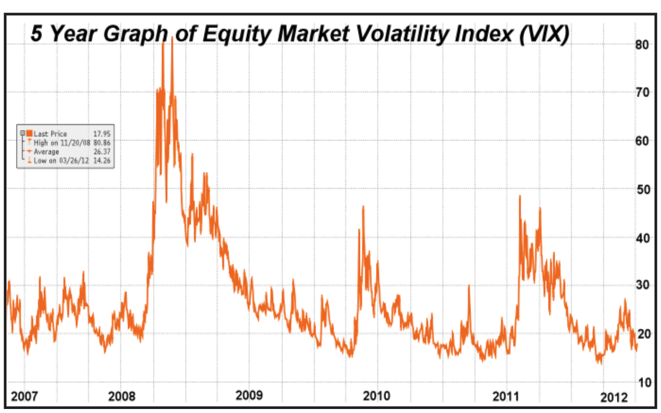


Figure 1 - Source: Bloomberg Financial

Graph of Market Volatility Index (VIX) showing rising and falling volatility since 2008 Financial Crisis

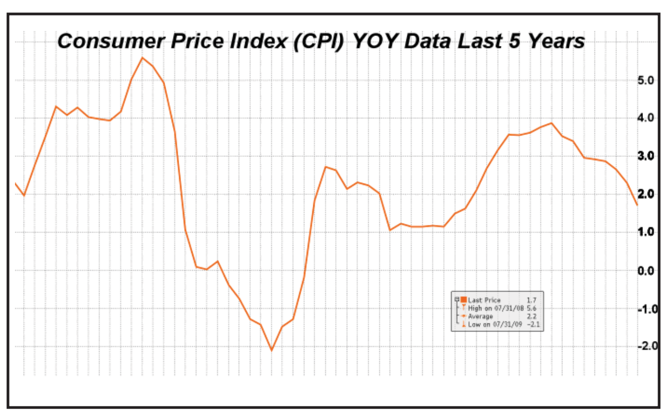


Figure 2 - Source: Bloomberg Financial

Graph of Consumer Price Index (CPI) year over year data show very little inflation over last 5 years