Inside Views From an Investment Management Leader

UPDATE

October 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

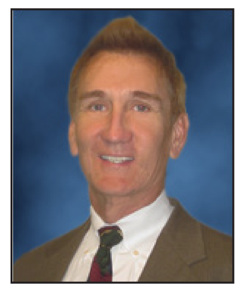
Follow the Concord Team on Twitter, Facebook, and LinkedIn.

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!

- Follow our tweets via @concord_invest
- facebook.com/ConcordInvestmentCounsel
- View our blog at blog.cichome.com
- linkedin.com/company/concord-investment-counsel

Economic Review & Outlook

Economy Struggles to Gain Momentum as Election Nears



Mitch Pletcher
President
Chief Investment Officer

The US Economy continues to limp along as the election draws closer. Will the fragile economy drive a shakeup in Washington or will voters opt to stay with the current group conceding that things are as good as can be expected? Nothing is clear about the state of the US Economy, or the probability that Romney can do better with the imposing problems hanging over the US and the Global Economies. Presidents do seem to get elected mostly based upon the state of the economy, with likeability that they present to the American public seemingly playing a secondary role. Voters generally are not able to get to the meat of a candidate's ability to run the government and hence default to simpler things like the charisma of the candidate, what general position they have that benefits them, or things about the candidate that offend them. This unknown will soon be behind us but the problems will not.

The US economy does seem to be getting better in some aspects. Consumer confidence is at a four year high (Pg. 4, Fig. 1), and monthly retails sales continue to make historical highs (Pg. 4, Fig. 2). The auto sector has had three consecutive years of 10% or more growth in sales and the US players are more competitive now than in recent decades. The best for this industry is likely still ahead of us with consumer wealth and pent up demand still flowing forward. The service sector here in America is vital to growth and the recent readings have improved to the best levels in over a year. The energy sector is also doing quite well as the globe's thirst for energy is still accelerating. North American oil production has risen significantly over the last four years from about 4.8 to 6.7 million barrels per day. This is mostly due to new technologies that American know-how has produced and is now using effectively. Unfortunately, we are mostly exporting the new production because we lack the refining capacity to process the sweet crude North America produces. Our refineries are mostly tooled to crack the heavy sour crude we get from Saudi Arabia and they cannot be changed overnight. Obama has opened up new Federal land for drilling but the timeline for building the infrastructure to get to these areas is long and the benefit will come over the next decade. The soft side of our economy lies in housing and the industrial sector. Housing has an enormous headwind of excess inventory from the last super-cycle and the number of foreclosures in the pipeline is still overwhelming. Industrial production is improving steadily from the 20% decline in 2008, but is still 5% below the 2007 peak (Pg. 4 Fig. 3).

The major headwind for the US economy is the overhang of debt that grips the US and the rest of the world, and unfortunately neither candidate has any ideas that are meaningful to solve this problem. It will simply have to resolve itself over the next decade. Some progress has been made in the US and around the globe. For example, mortgage debt has declined from \$10.6 trillion to \$9.6 trillion since 2007. Slow growth is certainly better than no growth and the needed come to Jesus with the sins of the last twenty years seems to be happening, building a foundation for a sustainable cycle of growth down the road.

We remain optimistic.

Financial Market Review & Outlook

Central Bank Actions Drive Confidence

Mitch Pletcher
President
Chief Investment Officer

Risk markets have rallied as resilient Fed posture and improving outlooks for growth push investors off the sidelines and into markets. The 3rd Quarter was another solid period of gains for stocks, distressed income, selective REITS, and gold. The S&P 500 rose over 5% in the quarter leading most equity benchmarks. Small cap stocks, emerging markets, Europe, and other foreign markets were unable to outperform large cap domestic stocks as is normally the case when markets rally. The reasons for this are complex but the dividends in large stocks are quite valuable in a world where 10-Year Treasurys only yield 1.6%. This, coupled with Fed comments about leaving rates low for another 2-3 years, has been powerful in motivating investors to embrace risk assets.

Stocks were not the only asset class of choice for investors. Distressed bonds also did well with many high-yield segments posting returns of over 4% for the quarter. Distressed mortgage funds were up double digit (PCM +13.8%), and preferred stocks also did well (PGF +4.1%). California municipal bonds gained ground (CMF+3.5%), versus treasury funds (TLT -.2%) which lost ground in the quarter. Gold flew to life after several quarters of flat performance (GLD+10.8%). The gains in gold were a bit hard to understand given the continued benign reports for CPI, and the steady decline in the Fed's balance sheet this year (Pg. 4 Fig. 4). It was likely tied to the Fed's announcement of more quantitative easing. There is still a disconnect between expectations for inflation and the reality of what drives inflation.

The news flow from Europe's woes has not really changed much but the impact of Europe's problems has yet to be felt globally. Further upside in risk assets is likely as the gap between risk and non risk is still large.

Table 1: Stock & Bond Market Returns 9/30/12

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	5.9%	28.7%	Small Cap Value (IWN)	5.6%	32.5%
Large Cap Value (IWD)	6.4%	30.6%	Small Cap Growth (IWO)	4.8%	31.3%
Europe Asia Far East (EFA)	6.1%	14.8%	Emerging Markets (EEM)	5.6%	20.3%
Invest Grade Bonds (LQD)	4.5%	12.9%	High Yield Bonds (HYG)	2.8%	19.4%
Interm Treasurys (IEF)	0.9%	5.3%	Mortgage Bonds (MBB)	1.1%	3.5%

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

Table 2: Real Estate & Commodity Returns 9/30/12

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	1.5%	31.9%	DJ Commodity Index (DJP)	10.0%	5.9%
NAREIT Industrial/Ofc (FNIO)	2.5%	29.3%	Goldman Commodity (GSG)	11.0%	12.0%
NAREIT Residential (REZ)	-1.3%	25.3%	Gold (GLD)	10.8%	8.7%

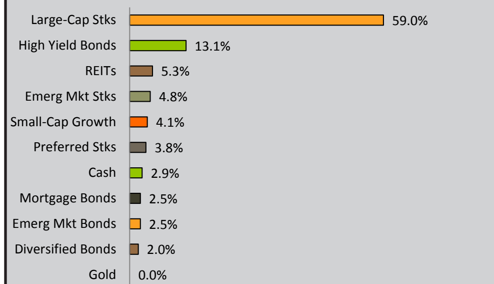
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

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.

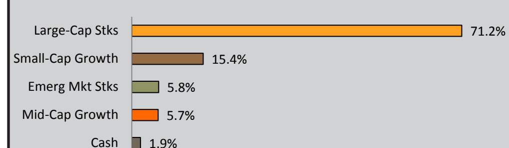


Growth

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.



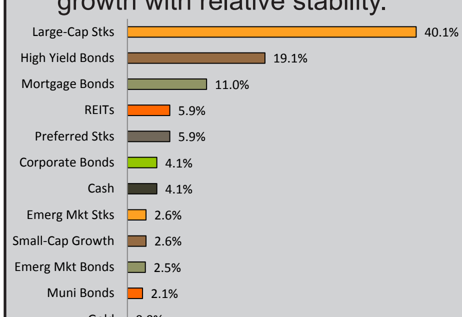
Focused REIT

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: Mixed Leadership for the 3rd Quarter

The slow growing US economy is demanding more defensive items like energy, utilities, and healthcare. These strong economic performers saw leadership in Q3 and mostly strong performance for the past twelve months. Mixed economic data left cyclical sectors like consumer discretionary in the middle of the pack for Q3. The secular demand for technology continues to grow. Continued global demand for raw materials, industrial equipment and agriculture is evidenced in strong trailing twelve month performance, but this has softened recently. Financial services have recovered from ultra cheap levels but remain growth challenged.

Sector Performance Review *9/30/12*

	Quarterly Change	Trailing 12-Months
Energy	14.8%	29.6%
Utilities	12.3%	6.9%
Technology	8.4%	33.8%
Consumer Discretionary	7.4%	30.2%
Healthcare	7.0%	30.8%
Materials	4.9%	30.8%
Telecom	4.6%	26.3%
Financials	2.2%	31.3%
Industrials	1.9%	24.6%
Consumer Staples	1.6%	22.6%

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

Fixed Income Review

By Kyle Aron

No Ease on Easing

Kyle Aron
Senior Analyst

Actions by central banks around the globe bolstered market confidence in the 3rd quarter of 2012. Mario Draghi, President of the European Central Bank, promised to "do whatever it takes" to defend the Euro and avert catastrophe in Europe. Fed Chairman Ben Bernanke likewise spoke in a do-whatever-it-takes tone, stating that "a highly accommodative stance of monetary policy will remain for a considerable time after the economic recovery strengthens."

As expected, the S&P soared 6.4% and gold roared up 10.8%. Emerging market government bonds (EMB) were up 6.5%. Corporate bonds saw good returns, with speculative-grade (HYG) up 2.8% and investment-grade (LQD) up 4.5%. Distressed commercial mortgage bonds (PCM) also did well, netting a 13.2% return. Long Treasurys (TLT) held mostly flat as Operation Twist remained in effect, ending the quarter down just 0.4%. Residential mortgage-backed bonds (MBB) ended up 1.1% as the Fed refocused additional asset purchases into the mortgage space.

With nearly every segment of fixed income yielding multi-decade lows, it's tough to shed the overbought feeling. However, given the Fed's explicit commitment to an extended period of rate suppression, investors are left to seek out relatively appealing yields while keeping an ever-watchful eye on duration risk and inflation. Both speculative and investment-grade corporate bonds have better yield spreads now than they did in most of 2010 and 2011. These remain the most favorable segments of fixed income, along with emerging market government bonds. Treasurys across the yield curve remain unappealing and highly risk-skewed in their risk-return tradeoff. Mortgage bonds also have little appeal to offer, except in the more distressed commercial space. We continue our lean toward lower-quality credit going into the 4th quarter.

Given current economic conditions, it is unlikely that we will see the Fed abating the support channels it is providing anytime soon. Some recent economic data has been positive - consumer confidence levels are at their highest since the onset of the recession and housing market data finally appears to support a firm bottom and potential uptrend. However, the final estimate for 2nd quarter GDP this year shows us trailing 2011 2nd quarter GDP by an annualized rate of 1.2%. We may be well behind the 2011 4th quarter annualized GDP rate of 4.1% by the end of 2012. Further, the percent of companies that beat their revenue estimates for the 2nd quarter this year fell to just 48.4%, the lowest level since the 1st quarter of 2009.

Given our bumpy economic path and perceivably endless policy of fiscal accommodation, fixed income finds a welcome fit in investor portfolios.

A Word from Our Advisory Team

Jill Pletcher
Vice President
Senior Financial Advisor

Taxes - A Review & Outlook

There has been a lot of talk about the “fiscal cliff” we are facing this year and the possible outcomes, but nothing remains done and this will likely remain the case until after the elections. With our economy in so much trouble fiscally we know that tax increases will likely be on the table no matter who wins. Romney talks about not raising taxes but instead will eliminate deductions. Obama wants to raise taxes on incomes over 250k and extend the tax decreases he has signed since taking office. Regardless of what either candidate wants to do it will likely take some time to get it done and we believe that current rates will likely get extended as the haggle about how to redo the tax code ensues next year. Income tax rates are not the only tax that has a possible increase coming. Capital gains rates are set to rise on Jan 1 from the healthcare legislation passed in 2010. An Obama victory would seemingly make this stick for a while.

Estate taxes are also set to rise as is the exemption from them. Currently the individual exemption from estate taxes is $5,120,000. This has grown significantly over the last decade and provided a haven for small to mid-sized estates. It has also reduced the need for living trusts as a strategy to reduce or avoid estate taxes. A-B trusts allow a surviving spouse to maintain control of the decedent’s assets but yet pass the decedent’s assets on to heirs and utilize their estate tax exemption. Without the A-B trust the decedent’s exemption would be likely be lost and the survivor would only have their exemption for the entire estate at their death. The current estate tax for over 5 million is 35%. In 2013 this will increase to a maximum of 55% and the exemption from estate taxes will revert back to 1 million. Romney has proposed eliminating estate taxes all together, while Obama has proposed a 3.5 million exemption and a top rate of 45%. Once again we believe that current estate taxes and exemptions will be extended for next year until congress deals with this issue as well.

We are optimistic that the current fear about fiscal issues is vastly overdone. However, we cannot believe that the problems of the last few decades that have resulted in $16 trillion of debt can be fixed without taxpayers reaching into their wallets to pay for this.

Economic Charts

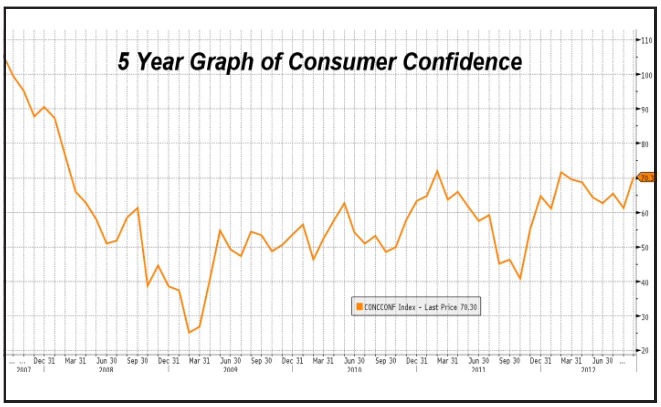


Figure 1 - Source: Bloomberg Financial

Graph of Consumer Confidence showing levels near a multi-year high

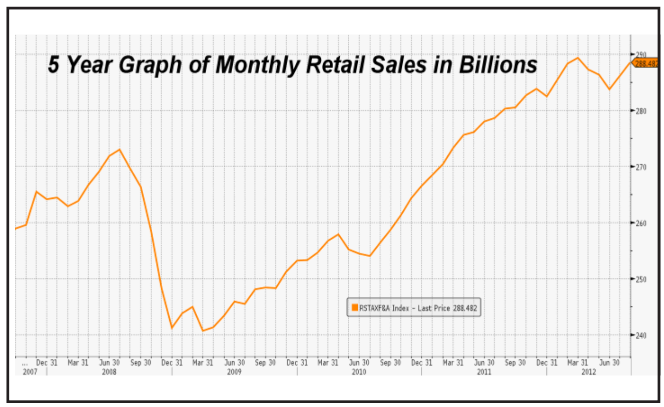


Figure 2 - Source: Bloomberg Financial

Graph of Retail Sales exhibiting continued strength

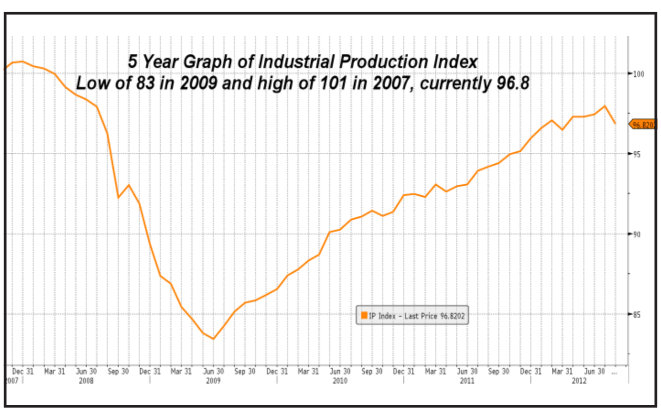


Figure 3 - Source: Bloomberg Financial

Graph of Industrial Production reaching new high since the onset of the recession

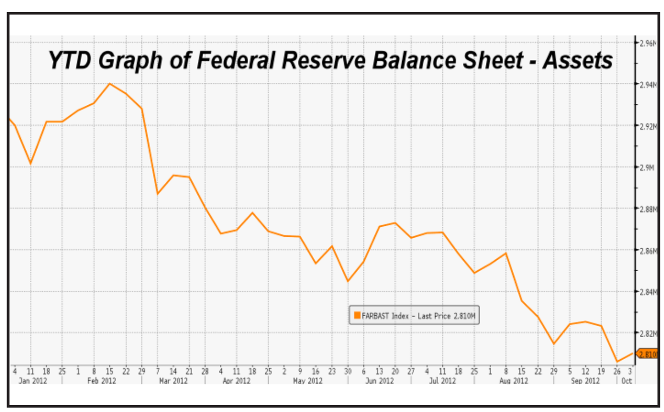


Figure 4 - Source: Bloomberg Financial

Graph of Federal Reserve Balance Sheet showing a reduction in assets