Inside Views From an Investment Management Leader

UPDATE

January 2014

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

Equity Markets Soar in 2013

2013 was a fantastic year for equity investors. US markets roared in the 4th quarter with the S&P 500 posting a 10% gain for the quarter and capping a year that produced in excess of 30% appreciation in the highly followed index. 2013 was the best of the last 5 years where stock returns averaged 21.9% Risk assets in general had a great year with broad participation in most areas of the equity market.

The excitement in the stock market was curious to many who saw the US economy still mired in a slow growth recovery that seemingly won't accelerate. Stock investors did not care, and noted the Fed's easy monetary policy as more than enough reason to get them to embrace risk assets. With Mr. Bernanke on his way out and Ms. Yellen on her way in the policy seems destined to remain accommodative. Monetary policy has been the primary engine of economic recovery and market performance.

For those following the growth in the balance sheet of the Fed it unmistakably has aligned well with the equity markets returns of the last 4 years. Fed assets grew 30% over the last 12 months to near 4 trillion. Since the March of 2009 market bottom and economic trough stocks have appreciated by an annualized rate of 21.9%. Recent comments from the Fed state that bond purchases will slow a bit in 2014 from the 85 billion per month pace of 2013, but the monetary pump will undoubtedly stay on through 2014 giving rise to optimism for another good year for stocks.

Mitch Pletcher
President
Chief Investment Officer

There are other good trends in the US economy that underlie the rally as well. Unemployment is now at 7% and falling in a slow but steady manner (pg. 4 fig. 1). Retail sales are now over 300 billion per month, far above the 2008 peak of 273 billion/month. Residential home prices grew at a 13.6% pace over the last 12 months accelerating from the 3.8% rate since March of 2009 (pg. 4 fig. 2).

Inflation is modest and the dollar is still the reserve currency for the globe's business transactions. Gold was down 28% in 2013 versus annualized appreciation of 2.8% since the economic trough in March of 2009.

The dark side of the economic perspective resides in deficits, debt levels, and weak growth. Government debt is now over 15 trillion but the rate of growth decelerated

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Economic Review & Outlook

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Mitch Pletcher
President
Chief Investment Officer

in 2013 to 6.2% from the 16% rate seen since the 2007 financial crisis. Although concerning, we are nowhere close to debt levels that would spell crisis. Americans and other global investors seem happy to consume and hold our debt, and with interest rates at 3% or lower actual debt service has only grown modestly.

The dismal picture we have for growth is troubling and we cannot see stocks and risk assets moving significantly higher if this continues. GDP has been modest with 2% or so growth in 2013 (pg. 4 fig. 3). Growth in corporate profits likewise slowed to 4-5% in 2013 after nice double digit gains in prior years from cost cutting and improving profit margins. However top line growth has been weak since 2009. Expectations for earnings must improve for our pro-equity policy to remain intact. This is entirely possible given current trends in consumption. US personal consumption stumbled in 2009 but has since recovered and is nearly back of the same great path of growth seen for the last 20 years (pg. 4 fig. 4). Global consumption is now accelerating with China and India developing meaningful middle classes. Revenue growth is bound to accelerate this year. We remain optimistic.

Financial Market Review & Outlook

Equities Lead the Risk Asset Game

US stocks were the preferred risk asset in 2013 with US equities notably outpacing other common areas of risk. Real estate, commodities, currencies, Treasurys, and even junk bonds were abandoned in favor of stocks with earnings growth and/or good dividends. In the US leadership was notable in the small cap growth arena where expectations for earnings were far superior to other stock groups and were steadily rising throughout 2013. This arena (IWO) gained 43.3% versus 32.4% for the S&P 500, and was the largest holding in Concord's Dynamic Growth Portfolio.

Foreign markets did well but mostly lagged the US markets. Japan did the best in the non US equity world with the Nikkei posting a 30.5% gain in US dollars. Most indices of Western Europe showed gains of 20% or more.

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Table 1: Stock & Bond Market Returns *12/31/13*

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	10.3%	33.1%	Small Cap Value (IWN)	9.3%	34.3%
Large Cap Value (IWD)	9.9%	32.1%	Small Cap Growth (IWO)	7.9%	43.3%
Europe Asia Far East (EFA)	6.0%	21.4%	Emerging Markets (EEM)	3.4%	-3.7%
Invest Grade Bonds (LQD)	1.9%	-2.0%	High Yield Bonds (HYG)	3.4%	5.7%
Interm Treasurys (IEF)	-2.2%	-6.1%	Mortgage Bonds (MBB)	-0.8%	-1.9%

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

Table 2: Real Estate & Commodity Returns *12/31/13*

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	-0.2%	1.1%	DJ Commodity Index (DJP)	-1.4%	-11.1%
NAREIT Industrial/Ofc (FNIO)	-0.6%	5.3%	Goldman Commodity (GSG)	-0.6%	-1.8%
NAREIT Residential (REZ)	-4.9%	-3.5%	Gold (GLD)	-9.4%	-28.3%

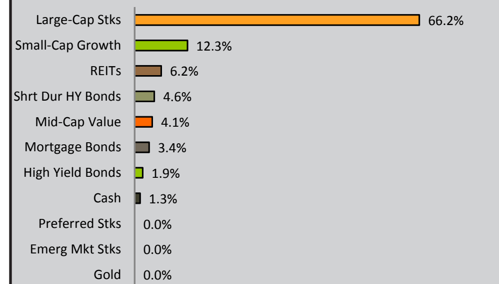
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

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.

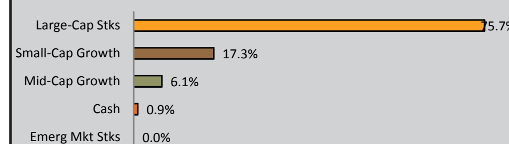


Growth

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.



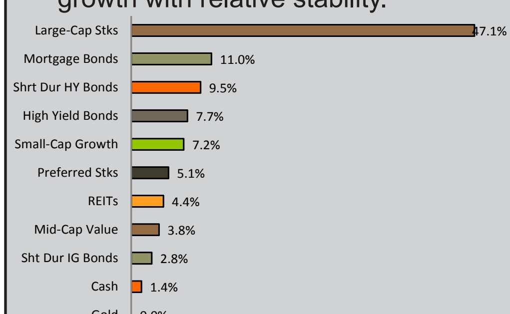
Focused REIT

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: Cyclical Leadership in Equities

Strengthening economic data in housing, retail, manufacturing, and employment segments helped fuel broad gains for equity markets in the fourth quarter of 2013. Technology played a bit of catch-up as AAPL rallied back to end the year after a disappointing start to 2013. Look for continued outperformance in consumer related and cyclical sectors in 2014 as a sizeable rise in year-over-year home prices has many households feeling richer and has pulled many homeowners out from underwater.

Sector Performance Review *12/31/13*

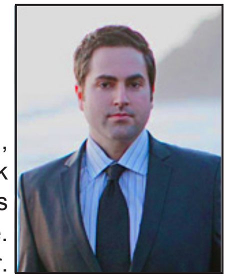
	Quarterly Change	Trailing 12-Months
Industrials	13.3%	42.1%
Technology	12.7%	29.8%
Consumer Staples	10.6%	26.8%
Materials	10.3%	24.4%
Consumer Discretionary	10.2%	44.2%
Healthcare	9.9%	41.9%
Financials	9.6%	33.0%
Energy	8.7%	25.7%
Telecom	6.8%	13.8%
Utilities	2.9%	14.7%

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

Fixed Income Review

By Kyle Aron

Bernanke's Swan Song



Kyle Aron
Senior Analyst

In his farewell to the Fed Chair position, Ben Bernanke finally laid the groundwork for the beginning of the end to the Fed's unprecedented asset purchasing initiative. Following its December meeting, Mr. Bernanke announced that the Fed would be paring back its bond purchases from $85 to $75 billion, with the expectation of additional tapering to occur throughout 2014. This reduction will purportedly consist of a reduction in both Treasury and mortgage-backed instruments.

Unlike prior brushes with talk of tapering, the Fed's confirmation of a reduction in asset purchases sent markets into rally mode to end what was already a terrific year for equity markets. Logically, tapering shouldn't entirely be cause for concern as the Fed's reduction in purchases is directly linked to improvement in the economy.

Asset classes generally continued their trends for the year in the final quarter of 2013. Equities rallied strongly, with the S&P 500 (SPY) up over 10.5%, finishing the year up over 32.3%. Gold (GLD) continued to decline amid Fed tapering and minimal inflation, down 9.4% for the quarter and 28.3% for the year. REITs (IYR) continued their year of muted performance, down 0.2% for the quarter and up a mere 1.2% for the year.

Outperformance within fixed income again came from the shorter duration and lower-quality segments in the fourth quarter. PCM, the leveraged commercial mortgage-backed fund, lead the way and was up over 5.1% for the quarter. High-yield corporates (HYG) finished the quarter up nearly 3.5%, while their short-duration counterparts (HYS) ended up nearly 3.0%. Investment grade corporate bonds managed to finish positive, up 1.9%. Emerging market government bonds (EMB) lagged alongside poor overall emerging market performance, up a mere 0.8% for the quarter. Treasurys across the yield curve ended down for the quarter, with mid-dated Treasurys (IEF) down 2.1% and long-dated Treasurys (TLT) down 3.2%. High-yield corporates were the clear fixed income winners for the year, with HYS up 7.7% and HYG up 5.8% in total.

Investors should expect previously heightened levels of fixed income risk to shrink modestly going into 2014 given the clarity of tapering and the market's response to the December announcement. Much of the risk of a rise in interest rates became priced into fixed income during 2013, evidenced by negative total performance across a variety of fixed income instruments. Mid-dated and long-dated Treasurys ended the year down 6.1% and 13.4%, respectively. Likewise investment grade corporate bonds (LQD) finished down 2.0%.

Broadly, however, fixed income as an asset class should remain a lesser component of a portfolio's overall allocation. If economic fundamentals continue to improve in 2014, investors would be best served to be positioned in similar segments of fixed income that performed well in 2013 - short duration and high-yield.

Financial Market Review & Outlook

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Despite being the strongest area of growth in the globe the emerging markets surprised lots of investors with losses (EEM -3.7%) or flat returns in 2013. Valuations in these markets were just too high for stocks in the BRIC to rally in the face of a significant slow-down in growth as these economies begin to mature and the desire to manufacture abroad declines.

Most asset allocation funds did well in 2013 but lagged returns in equity only portfolios. Any allocation to things other than US stocks dragged upon overall performance in 2013 as non-equity returns were poor. Concord's Dynamic Growth portfolio advanced about 23% in 2013, a great year for the portfolio and its investors but below the return of the bogey (SP500). Minor exposure to REITS, Fixed income, and AAPL stock were the responsible for the underperformance relative to the bogey. The Asset Allocation Income Portfolio returned about 17% in 2013, a great year for the portfolio and its investors. The absolute performance was good and the relative performance to its bogey (50-50 blended SP500 and Lehman Aggregate + 15.1%) was great as well. Concord's Diversified Equity Portfolio did well in 2013 with a 31% gain versus its bogey's (70-20-10 blend of SP500, EFA, and EEM) return of 26.8%). Concord's Large Cap Growth Portfolio gained 31% versus its bogey (Russell Large Cap Growth) of 33%. Concord's Fixed Income Portfolio gained 2.5% versus its bogey (Citigroup Treasury Agency Bond Index) which lost (2.6%) ground in 2013.

Real estate did well in 2013 as measured by the Case-Shiller indices of residential real estate. The 20 city index rose 13.6% in the trailing 12 months that ended in October of 2013. This was the best year since the 2009 trough in housing prices. REITs however in the stock market had a poor year with most REIT indices producing flat returns for 2013. REIT performance has been far ahead of actual price appreciation in residential property and 2013 was a year of catch up with the underlying values of their holdings.

The outlook for financial assets is mixed with optimism for equities and concern for bonds and commodities as economic conditions remain modest with almost no inflation and undoubtedly higher rates as bond investors brace for the better economy ahead. Stay long US equities but prepare to move to cash if top line growth does not emerge. Avoid intermediate to long term bonds and most commodities.

Economic Charts

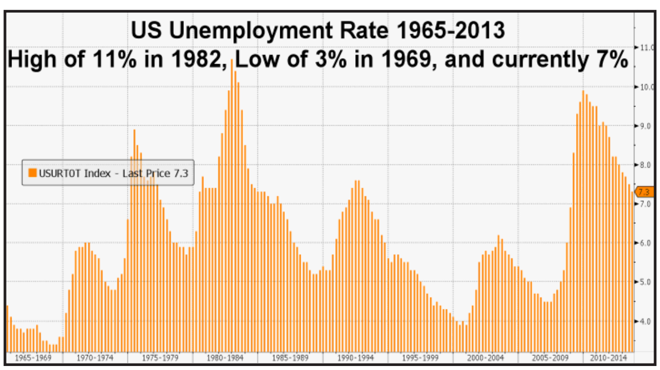

Figure 1 - Source: Bloomberg Financial

Graph of US Unemployment Rate showing a continued downward trend

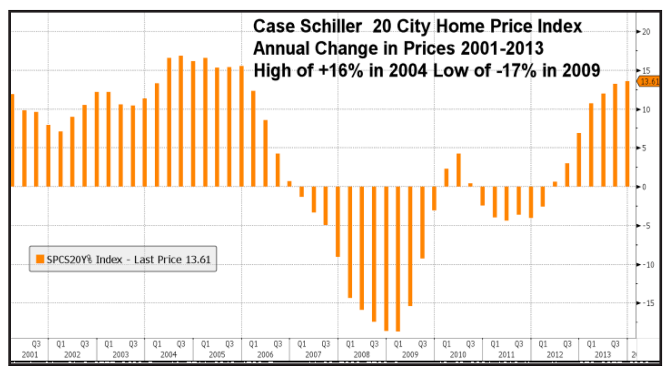

Figure 2 - Source: Bloomberg Financial

Case-Shiller 20-City Home Price Index showing significant growth in home prices

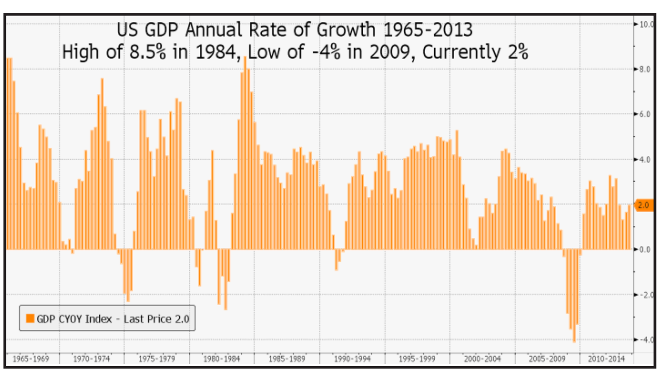

Figure 3 - Source: Bloomberg Financial

Graph of US GDP Annualized Growth Rate, exhibiting modest but positive growth

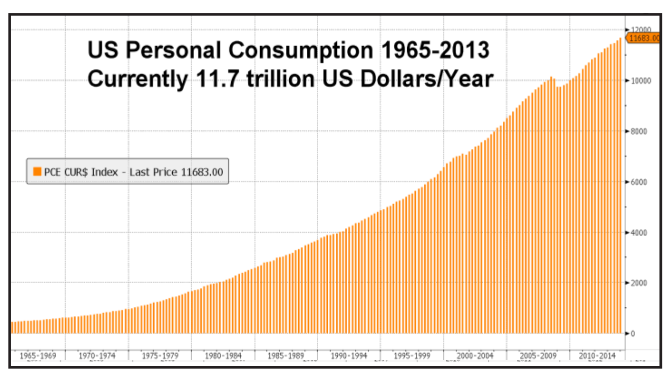

Figure 4 - Source: Bloomberg Financial

Graph of US Personal Consumption showing a return to its pre-crisis growth trend