Inside Views From an Investment Management Leader

UPDATE

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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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Economic Review & Outlook

Is a Slowdown on the Horizon?

Mitch Pletcher
President
Chief Investment Officer

Financial market performance is telegraphing a slowdown in the US economy. The markets signposts are flashing ALERT. Last quarter Treasurys rallied again, distressed debt fell, High growth areas in the US corrected sharply, and Europe and emerging markets sold off again. All signs of problems on the economic front. Global economic conditions have stumbled and it threatens to disturb the recovery in America that has just taken hold. However, domestic large cap stocks pushed a bit higher as US economic conditions improved. US unemployment fell to 5.9% - the lowest level since the past economic peak in 2007 (pg. 4 ex. 1). US manufacturing has also pushed to its highest levels of activity since 2007 as well. No wonder volatility in the market has picked up recently.

Economic conditions and associated monetary policy drive markets. As the globe consolidates into a more singular worldwide economy, US investors can no longer look only at the economic performance of America and must consider the impact of international economies on the American economy. What is behind the slowdown in Europe, Latin America and the BRIC, and is it a real trend or just a bump in the road?

China's problems are tied to the maturity of its now 5 Trillion dollar economy, and politician's reluctance to take steps to manage their economy like a respected global power. Their currency must be free to float and the corruption needs a strong hand. China's consumption is driving the global economy in the greatest way ever in history, particularly now that American consumption is soft due to debt burdens. Investors can't help worry that the recklessness of the Chinese will implode their economy, and hence any sign of a slowdown in China causes selling in markets. The reality is that China seems to be getting through this but it is anything other than smooth and linear.

Eastern Europe has similar problems as China but Western Europe is another situation entirely. Western Europe economy has ebbed and flowed with only modest progress with entitlement reforms, and only small progress with employment. While US unemployment has fallen to 5.9% from a peak of 10%, Europe's unemployment, at 9.7%, is still near its peak of 10.25% (pg. 4 ex. 2). The recovery path in Europe will just take substantially longer than in America. The ECB has finally got interest rates near zero but it was inexcusably late (pg. 4 ex. 3).

The rest of the Globe – India, Latin America, Eastern Europe are also victims of their Central Bank's lack of quick action when the financial crisis began in 2008. Further, the geopolitical problems of Russia are hurting all of Europe.

America and China are the best performing parts of the global economy and they will have to be the workhorses to drive the globe forward.

We remain optimistic.

Financial Market Review & Outlook

Mitch Pletcher
President
Chief Investment Officer

Broad Leadership Fades as Globe Softens

Equity Markets around the globe stumbled in the 3rd quarter as economic conditions in Europe, Asia and the BRIC worsened. Most investors were unaware of the mounting concerns with the DJIA and S&P 500 making new highs throughout the quarter, and seemingly masking the problems abroad. The bright spot was large cap growth stocks in America which advanced 2.0-3.0% in the quarter. Most other equity markets corrected as global growth concerns mounted. The S&P 500 advanced 1.1% while Concord's Large Cap Growth Portfolio gained 3.0%. Small-cap US stocks lost 6.0-9.0% (IWO -5.9%, IWN -8.5%) in the quarter, while Western Europe (EZU -9.0%), and the BRICs lost 3.7% (BKF). Concord's Dynamic Growth portfolio lost 1.4% as exposure to soft distressed debt and small cap growth stocks masked strong performance in Large Cap growth. Indeed it was a tough quarter for an asset allocation manager with very narrow performance in the market.

Treasurys had another good quarter (TLT +3.2%) despite constant statements from the Fed that purchases are over and the path ahead will be less accommodative. Bond investors decided to focus on the problems in the BRIC and Western Europe and looked away from gradual improvement in US economic conditions. Distressed debt (HYG -2.1%, PCM -7.5%) had a soft quarter after two years of strong performance. The departure of the Bond King (Bill Gross) from PIMCO had a negative effect on some Concord holdings that PIMCO manages that will likely only be temporary.

Commodities and gold had a terrible quarter. Inflation expectations fell to new lows with the global concerns about growth causing broad price declines in most indices. Gold fell 9.2%, and the Goldman Sachs basket of commodities (GSG) fell 12.3%.

Real estate likewise was soft with all indices of REITs down in the quarter (IYR -2.7%, REZ -3.3%, FNIO -4.8%).

The geopolitical events are the main driver of the global concerns. The problems in Europe are not new and the globe seemingly is recovering without their contribution.

Markets will likely push broadly higher after this correction runs its course and geopolitical concerns dissipate.

Table 1: Stock & Bond Market Returns — 9/30/14

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	1.4%	18.8%	Small Cap Value (IWN)	-8.5%	4.1%
Large Cap Value (IWD)	-0.2%	18.5%	Small Cap Growth (IWO)	-6.0%	3.8%
Europe Asia Far East (EFA)	-6.2%	3.8%	Emerging Markets (EEM)	-3.9%	3.7%
Invest Grade Bonds (LQD)	0.0%	7.9%	High Yield Bonds (HYG)	-2.1%	6.2%
Interm Treasurys (IEF)	0.6%	3.6%	Mortgage Bonds (MBB)	0.2%	3.6%

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

Table 2: Real Estate & Commodity Returns — 9/30/14

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	-2.7%	12.7%	DJ Commodity Index (DJP)	-12.9%	-7.8%
NAREIT Industrial/Ofc (FNIO)	-4.8%	9.2%	Goldman Commodity (GSG)	-12.8%	-8.6%
NAREIT Residential (REZ)	-3.3%	10.7%	Gold (GLD)	-9.2%	-9.3%

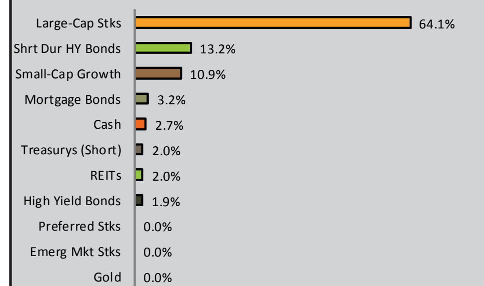
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

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.

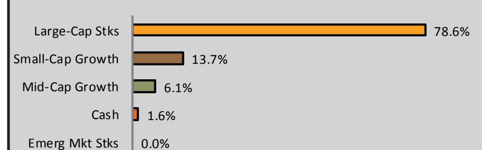


Growth

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.



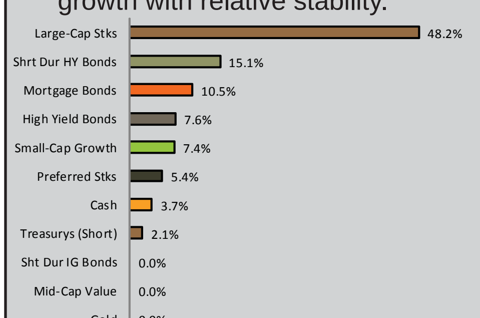
Focused REIT

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: Volatility Rises as Leadership Becomes Sparse

Volatiliy (VIX) rose over 40% within the quarter as the spread between positive and negative performing equity sectors widened. Healthcare lead the way for equities, up over 5.0% for the quarter. Energy, meanwhile, ended down nearly 9.0%. With the Federal Reserve set to finish its asset purchases within the year, investors are becoming nervous despite still positive U.S. economic data prints. Continuinally slow GDP growth in developed economies overseas isn't helping investor confidence either. A strong upcoming earnings season should help solidify the U.S. growth picture and lead the way for broadly higher equity performance.

Sector Performance Review — *9/30/14*

	Quarterly Change	Trailing 12-Months
Healthcare	5.2%	27.5%
Technology	4.3%	27.4%
Telecom	2.5%	14.3%
Consumer Staples	1.6%	16.1%
Financials	1.5%	17.2%
Consumer Discretionary	0.1%	12.1%
Materials	-0.8%	19.2%
Industrials	-2.1%	15.6%
Utilities	-4.4%	15.9%
Energy	-8.5%	12.6%

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

Fixed Income Review

By Kyle Aron

Treasurys Push Higher

Kyle Aron
Senior Analyst

Fixed income showed relative strength in the third quarter as global economic growth remained subdued and geopolitical turmoil raised tension levels worldwide. Despite domestic economic data continuing to bode well for the U.S., high unemployment and sluggishly reactive fiscal policy left many developed ex-U.S. and emerging markets in the red for the quarter. These concerns weighed on U.S markets, with the S&P 500 up a mere 1.1% for the quarter. With Europe finally embracing the fiscal policies championed by the U.S. when the crisis began, the U.S. Dollar showed significant strength in the quarter, rising nearly 8.0% versus the Euro to its strongest level since 2012.

In light of the globe's struggles and alongside the Eurozone's steadily increasing fiscal policy efforts, U.S. Treasurys continued their rally and pushed yields across the curve to new lows for the year. Long-term Treasurys (TLT) had the strongest showing, ending the quarter up nearly 3.2%. Mid-term Treasurys (IEF) showed modest strength for the quarter, gaining 0.6%.

Investors similarly leaned toward quality in the corporate issue space. Investment-grade bonds (LQD) were essentially flat for the quarter, besting their high-yield counterparts. Both broad and short-duration high-yield bonds (HYG, HYS) ended the quarter down over 2.0%. Mortgage-backed securities (MBB) meanwhile edged out a small gain in the quarter, up 0.2%. Preferred securities (PGF) were likewise up a meager 0.4%.

Perhaps the talk of the fixed income world circa the end of the third quarter was the exit of PIMCO's co-founder and CEO Bill Gross. If nothing else, the ousting of the man overseeing not only the largest mutual fund in the world (PIMCO Total Return), but the largest fixed income firm by assets worldwide should be reason enough for fixed income investors to take pause. After Gross' staggeringly unsuccessful move out of Treasurys in 2011, PIMCO has been roiled with C-level tumult, not least of which included the additional departure of former co-CIO Mohamed El-Erian.

Certainly the fixed income space has been a conundrum at times throughout this recovery. The handoff in Treasury purchases from the public to private sector as part of the tapering of quantitative easing has undoubtedly moved smoother than many expected thus far. Meanwhile, continually muted inflation and global stagnation have helped imbue investors with confidence in U.S. Treasurys. Nonetheless, duration risk remains elevated and yields throughout the fixed income space seem inadequate compensation. Investors would be wise to utilize fixed income as a safe haven if the remaining global troubles begin to seriously infect the U.S., or if the domestic economy otherwise struggles as the Fed's asset purchases cease. Apart from these scenarios, it becomes difficult to justify taking on the duration risks present in much of fixed income, particularly evident in high quality issues.

A Word From Our Advisory Team

Jill Pletcher
Vice President
Senior Financial Advisor

Has the Cost of Retirement Increased Substantially?

How much does it take to retire comfortably today? $500,000, 1 million, 2 million? For those of us who have pensions and social security benefits to turn on at retirement, the cost of retirement has not changed significantly over the last five years. But for investors without pensions, the outlook has changed significantly. The ability to generate low risk income streams from investments is not near what it was a decade ago.

When interest rates fell to near zero in the middle of 2009 after the meltdown of our banking system, income-seeking investors became concerned. Five years later long-term Treasury rates are nearly unchanged from the lows of 2009, and investors are now alarmed. Bank CD's still pay less than 1percent and short-term Treasurys are likewise under 1 percent. Short-term high quality corporate bonds yield less than two percent. Figure how much capital it takes to generate $50,000/year in income off those returns and you may likewise become alarmed.

Investors are looking for alternatives and likely making bad choices in taking on too much risk to achieve a 5.0% percent return on investment. Many are investing in low quality long term annuities, low quality unmanaged debt, stocks of high-yielding distressed businesses, or speculating in income property.

Every market and economic cycle has opportunities, but some cycles such as the one we are in today require more careful examination of the environment ahead and the likelihood of success before entering without professional guidance.

If you are concerned about the rates of return you are getting on bank CD's and can no longer sit and wait for rates to rise, now is the time to talk to me or anyone here at Concord about how to generate income in today's environment.

Economic & Financial Market Charts

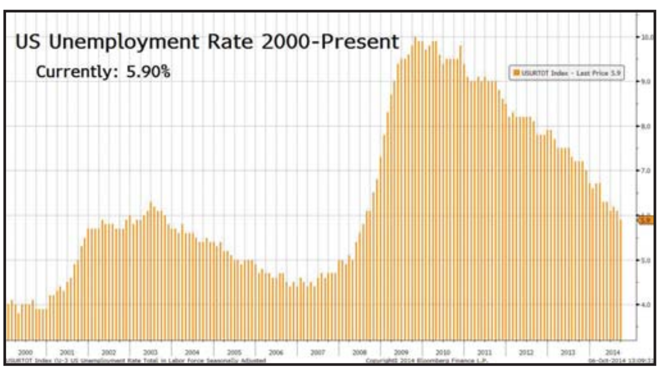


Figure 1 - Source: Bloomberg Financial

Graph of US unemployment rate crossing below 6.0%

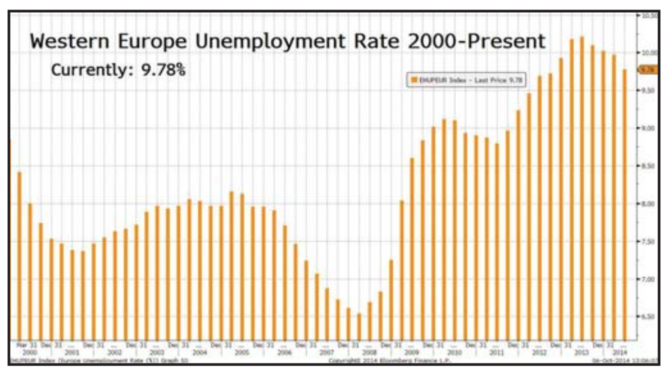


Figure 2 - Source: Bloomberg Financial

Graph of Western European aggregate unemployment rate, still hovering near 10.0%

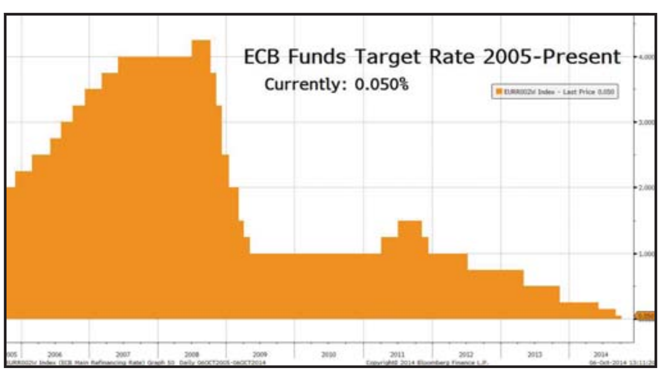


Figure 3 - Source: SSA; FRED

Graph of ECB funds target rate finally approaching the zero bound

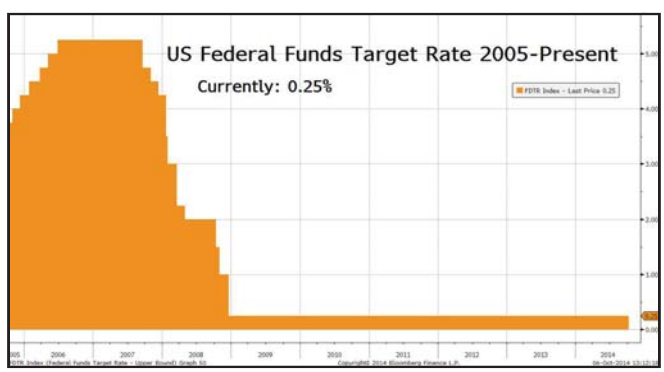


Figure 4 - Source: Bloomberg Financial

Graph of US Federal funds target rate at a prolonged near-zero level