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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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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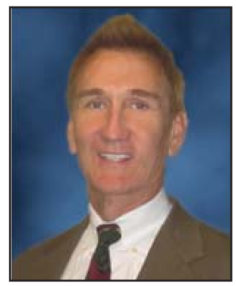
Economic Review & Outlook

Geopolitical Issues Push Much of Globe into Recession



Mitch Pletcher
President
Chief Investment Officer

Russia, Brazil, much of Eastern Europe, and now Western Europe are in recession again. Lukewarm monetary policy from the ECB over the last 4 years has failed to stimulate growth, and now geopolitical issues are an even greater threat to Europe's recovery. As a result a flight to quality emerged in the second half of 2014 driven by deflationary fears. Long term bonds of America, Germany, France, Italy, and the United Kingdom rallied driving yields to 1.5 - 2.5%. Total returns in US Treasurys in 2014 topped 27%, far exceeding the returns in stocks. Most US investors were unaware of the rally in global debt as they were caught up in excitement over the narrow rally in US stocks. Large Cap blue chip American stocks did well but most equity markets were left out of the rally. Mid to Small Cap US stocks did poorly, along with foreign mature markets and most emerging markets. Asia did far better than Eastern Europe.

The two largest economies in the world (America and China) seemingly have sidestepped the problems gripping the rest of the globe and economic conditions in America continued to progress in 2014. China likewise has seen its economy transition from an export based economy to a country with balanced demand both internally and externally for the goods and services they produce. China has a middle class that has jobs, and wealth, and consumes both domestic goods as well as imported goods and services. China's market finished the year positively after a weak start and notched over 10% gains.

As the globe slowed the demand for oil fell from 94 million barrels/day to 92 mb/d, all while production of oil rose from 94 mb/d to 95mb/d. As a result a surplus of oil has developed causing prices to plummet (Pg. 4, Ex. 1). Production has ramped up in many parts of the globe over the last few years for various reasons. Shale projects in America have kicked into gear taking American production of oil to over 10mb/d, surpassing Saudi Arabia at 7mb/d. With war in Iraq and Libya seeming over, oil production has come back online adding another 6 mb/d to global production. OPEC has lost its ability to control prices given that the cartel now produces less than 1/3rd of global oil.

The falling price of oil has frightened investors causing significant volatility in markets. Some see the lower cost of fuel as simulative to global economies, while other see it as a sign that the global economy is softening. Lower oil prices hurts large exporters of oil like Russia, Canada, Nigeria, Venezuela, and most of the middle east.

Bill Gross, the bond king, has called for an end to the asset boom in America now that Fed policy is changing. While that may be true for the highly valued fixed income he trades, American equities will push higher as monetary policy remains neutral and earnings continue to advance. The narrow leadership in the market will likely continue until global conditions improve and debt markets correct.

We remain optimistic.

Financial Market Review & Outlook

Economic Volatility Makes for a Difficult Year for Prudent Investors

Mitch Pletcher
President
Chief Investment Officer

The turmoil in the global economy wreaked havoc on what had been a steady improvement in US economic conditions. As a result, markets were volatile over fears that the global problems would seep into the American recovery. Risk managers running prudent retirement money were whipsawed by volatility in the markets and ever-changing perceptions about growth prospects.

Domestic market performance in 2014 was mostly positive but results were mixed across asset classes. The leadership in equities was narrow, providing very little room for error for a portfolio manager. The equity market performance was driven by the change in expectations for earnings. The S&P 500 began the year with expectations for earnings being a mere 6%, but ended up delivering what will likely be over 12% growth in earnings. Small cap stocks began the year with the best expectations for growth with the average analyst forecasting over 20% growth. As the year progressed it became clear that this was far too optimistic and earnings for the Russell 2000 will likely come in under 15%.As a result the S&P 500 outperformed and registered a 12% plus gain for the year while the Russell 2000 gained only 5% for the year.

Sector performance in the US market was dominated by defensive steady growers, with utilities healthcare, technology, and consumer staples at the top of the list, while energy rounded out the bottom of the list.

Commodities had a broadly poor year as asset prices failed to rise in a world mired in debt and slow growth.

After five years of extremely accommodative monetary policy, investors became concerned about who might have over consumed on debt and be vulnerable to a downturn in their industry. At the top of this list are oil and gas producers, followed by telecom infrastructure providers and selective areas of technology. These industries binged on debt and may be in for a rough ride as the globe progresses much slower than expected.

The bond market was flush with buyers of US Treasurys but yet lower quality corporate debt was left out as investors braced for possible defaults if things get worse globally.

Investors seem to embrace the possibility of the globe falling into a deflationary spiral similar to what happened in Japan in the early 90's. While this is still highly unlikely, the severely depressed yields on long Treasurys show you how strongly investors feel about this risk (Pg. 4, Ex. 2).

Table 1: Stock & Bond Market Returns — 12/31/14

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	4.7%	12.8%	Small Cap Value (IWN)	9.4%	4.2%
Large Cap Value (IWD)	4.9%	13.2%	Small Cap Growth (IWO)	10.1%	5.9%
Europe Asia Far East (EFA)	-4.2%	-6.2%	Emerging Markets (EEM)	-4.2%	-4.0%
Invest Grade Bonds (LQD)	2.1%	8.2%	High Yield Bonds (HYG)	-0.8%	1.9%
Interm Treasurys (IEF)	3.0%	9.1%	Mortgage Bonds (MBB)	1.8%	6.4%

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

Table 2: Real Estate & Commodity Returns — 12/31/14

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	12.2%	26.7%	DJ Commodity Index (DJP)	-13.0%	-18.6%
Int'l Real Estate (IFGL)	0.7%	1.2%	Goldman Commodity (GSG)	-27.1%	-33.0%
NAREIT Residential (REZ)	16.1%	35.2%	Gold (GLD)	-2.3%	-2.2%

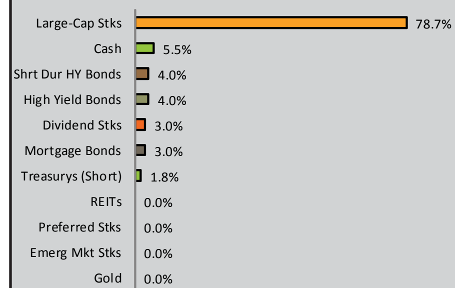
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

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.

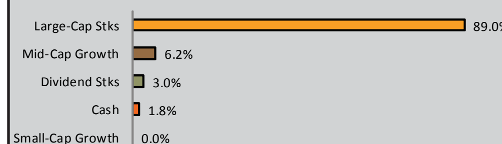


Growth

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.



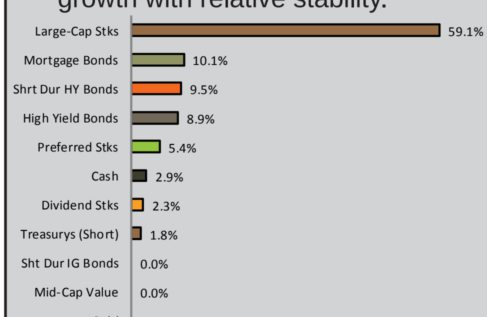
Focused REIT

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 Continues as Performance Diverges

Volatiliy (VIX) again plagued investors, vascilaiting from a low of 11.5 to a high of 25.2 within the fourth quarter. Investors largely flocked to more defensive sectors for the second quarter in a row, with utilities, consumer staples and healthcare leading the way in equity performance. The energy sector continued to fall as oil prices plummeted, ending the year down nearly 9.0%. The divergence in performance between leading and lagging sectors reached an astonishing 35.9% (utilities vs. energy) for the year, leaving many investors struggling to navigate the pockets of good and bad performance in domestic and global equity markets.

Sector Performance Review *12/31/14*

	Quarterly Change	Trailing 12-Months
Utilities	12.7%	27.3%
Consumer Discretionary	8.4%	9.9%
Consumer Staples	8.3%	15.7%
Healthcare	7.8%	25.3%
Financials	7.4%	15.0%
Industrials	6.8%	8.9%
Technology	4.9%	18.7%
Materials	-1.1%	6.9%
Telecom	-4.3%	1.8%
Energy	-12.2%	-8.6%

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

Fixed Income Review

By Kyle Aron

Treasurys Reign

Kyle Aron
Senior Analyst

While investors widely expect the Federal Reserve to increase its target interest rate off of the zero bound within the next year, the Fed surprised markets at their December meeting when their median benchmark rate expectation for 2015 was lowered from 1.375% to 1.125%. Taking into account still low domestic inflation and GDP growth (albeit with an impressive third quarter final revision of 5.0% year/year), the Fed's unpredicted downward move in expectations provided a boost to high quality fixed income. Long-term Treasurys (TLT), in example, rallied an impressive 9.3% in the fourth quarter to finish the year up 27.3%, beating the S&P 500 return by nearly 15.0%.

Geopolitical issues, disinflationary fears, slow global growth and elevated market volatility helped boost U.S. Treasury performance for the year and were positive conditions for high quality fixed income in general. Further supporting gains in U.S. Treasury debt were depressed yields for comparable debt issued by other developed economies around the globe, such as Germany, France and Italy, which themselves appear in quite weak economic shape relative to the U.S. In fact, as of early January, 2015, U.S. 10-year Treasury debt yields more at 1.98% than comparable issues from Germany (0.48%), France (0.78%), Italy (1.90%), and even Spain (1.68%).

To the contrary, overall asset performance for the year was widely mixed, with only U.S. large-cap equities leading the way while U.S. small-cap, European, and the majority of emerging market equities lagged. Strong corporate profits among U.S. blue-chip companies lead the S&P 500 to a 13.7% gain for the year. U.S small-caps (IWM) ended the year up a modest 5.0%, while European equities (EZU) ended down 9.9% and emerging market equities (EEM) fell 4.0%. Commodities also suffered alongside the slide in the price of oil and low global inflation, with broad indicies (DJP) down 18.6% and gold (GLD) down 2.2%.

As mentioned above, fixed income mostly performed well, with U.S. Treasurys and high quality fixed income leading the way. While long-term U.S. Treasurys showed the strongest performance of the group, intermediate-term U.S. Treasurys (IEF) also performed well, up 9.1% for the year. Investment grade corporate bonds (LQD) had a strong showing for the year, up 8.2%. Mortgage-backed bonds also did well, returning 6.4% over the year.

However, high yield fixed income lagged as sizeable exposure to energy companies begat investor concern as oil prices plummeted, potentially endangering oil players that leveraged up by issuing junk debt in recent years. Further, as the Fed begins to raise its target rate in 2015 and has essentially finished its asset purchase program, the liquidity that fueled much of the debt in the high yield space may soon be drying up. As such, general high-yield corporate debt (HYG) returned a mere 1.9% for the year, while short-duration high-yield corporate debt was down 0.1%.

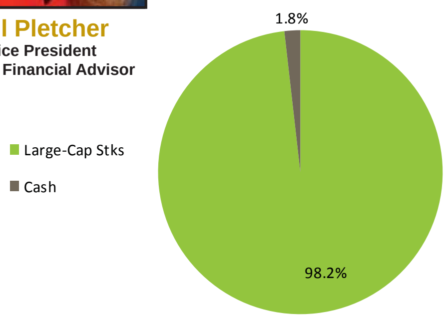
In light of this, Concord has lessened its exposure to the high-yield fixed income space, although we still believe it to be perhaps the most desirable segment of fixed income given the Fed's coming interest rate actions and now severely depressed yields across high-quality fixed income. Given the potential shake-up in the interest rate environment expected over the coming year, Concord has cautiously reduced its fixed income holdings overall in favor of other assets, such as quality dividend-paying equities. These will likely perform well in an environment of slow but stable and improving growth and are supported by dividend payments that are nearly similar to the yield on long-term U.S. Treasurys.

A Word From Our Advisory Team

Jill Pletcher
Vice President
Senior Financial Advisor

Investment Alternatives - Choosing the Managed Portfolio that Fits Your Needs

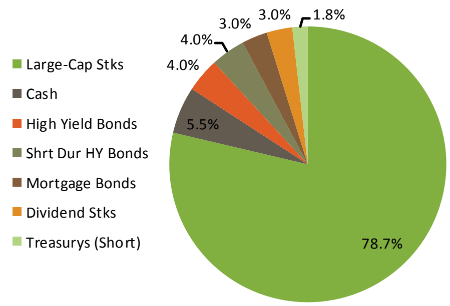
Concord offers a wide variety of managed accounts so each and every prudent investor can have a managed portfolio that fits their goals and risk tolerance. Concord works exclusively in the management of retirement money and speculative accounts are not in our offering. For investors seeking growth of capital we have four alternatives – our Growth strategy, Dynamic Growth strategy, Diversified Equity strategy and Highly Focused Equity strategy. Here is how they are currently invested:



GROWTH STRATEGY

Top 5 Holdings

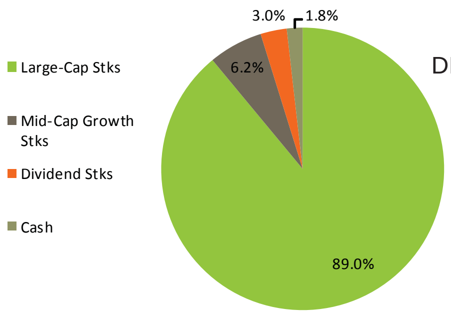
AAPL - 7.1% UNH - 4.3%
MSFT - 5.2% QCOM - 4.1%
NKE - 4.8%



DYNAMIC GROWTH STRATEGY

Top 5 Holdings

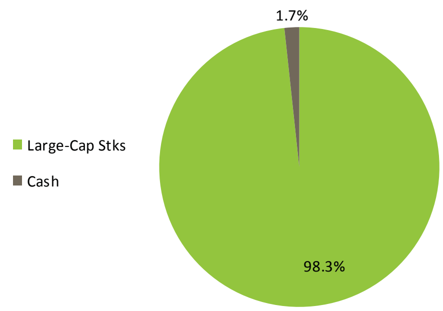
XLI - 6.7% XLK - 5.3%
AAPL - 6.1% XLP - 4.9%
Cash - 5.5%



DIVERSIFIED EQUITY STRATEGY

Top 5 Holdings

XLP - 9.9% XLK - 6.7%
AAPL - 9.3% IWP - 6.2%
XLI - 7.1%

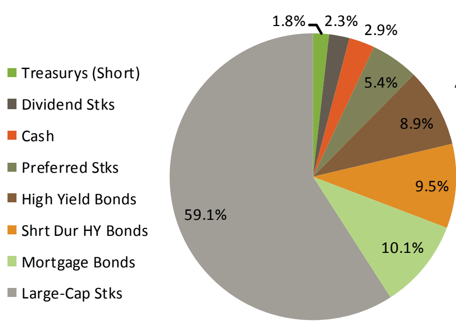


HIGHLY FOCUSED EQUITY STRATEGY

Top 5 Holdings

AAPL - 11.5% BA - 6.1%
NKE - 9.6% PG - 5.8%
MSFT - 6.2%

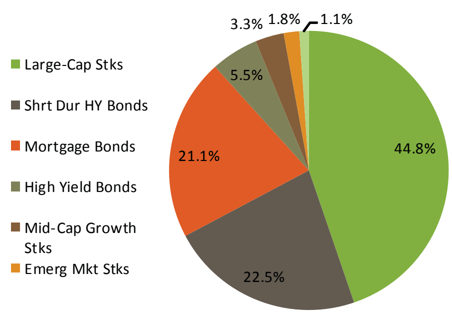
For investors seeking growth and income we have two alternatives – our Asset Allocation Income strategy, and our Balanced strategy. Here is a snapshot of how they look today:



ASSET ALLOCATION INCOME STRATEGY

Top 5 Holdings

HYS - 9.5% AAPL - 6.2%
HYG - 8.9% XLK - 6.0%
XLI - 6.6%



BALANCED STRATEGY

Top 5 Holdings

HYS - 22.5% XLP - 5.0%
PCM - 10.4% MBB - 4.8%
HYG - 5.5%

Economic & Financial Market Charts

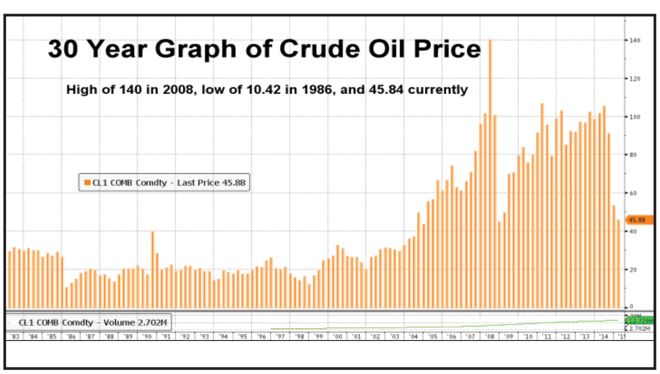


Figure 1 - Source: Bloomberg Financial

Graph of price of crude oil, showing a steep decline in 2014

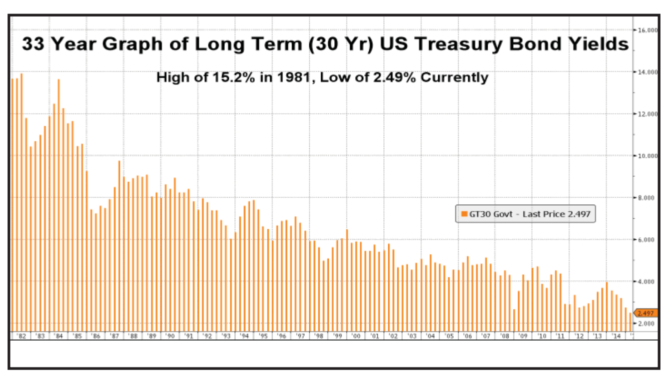


Figure 2 - Source: Bloomberg Financial

Graph of long-term (30 Yr) U.S. Treasury yeilds, hovering near historic lows