Inside Views From an Investment Management Leader

UPDATE

April 2016

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

9811 Irvine Center Drive
Suite 200
Irvine, CA 92618
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
View our blog at blog.cichome.com
facebook.com/ConcordInvestmentCounsel
linkedin.com/company/concord-investment-counsel

Economic Review & Outlook

The Economy & Markets are in Yo-Yo Form

Expectations for economic growth in the US declined in Q1 of 2016 as economic data in the US disappointed. Financial markets quickly reacted as fear spread that the US economy might fall victim to the global weakness that has persisted for the last year.

A quick summary of the economic indicators that caused concern in January 2016:

Regarding the industrial sector, we found that factory orders had paused, durable goods orders were in decline, construction spending was in decline, industrial production was in decline, capacity utilization was falling, and manufacturing payrolls were in decline.

Regarding the housing sector, we found that existing home sales were in decline, housing starts flat, and building permits were in decline. The trends in this data are noted in chart 1 on page 4 in summary format through an economic surprise index.

This followed global weakness that began in the fourth quarter of 2015. Manufacturing and industrial sectors declined in Q1 following several quarters of weakness for energy. Recession fears have come and gone several times over the last few years, keeping investors on edge. The recent economic weakness came just as the Federal Reserve had declared that interest rates would be moved steadily higher over the next few years. Our analysts note that earnings growth for the S&P 500 has stagnated with virtually no growth visible since 2013.

Mitch Pletcher
President
Chief Investment Officer

All of this proved to be too much of an obstacle for investors and stocks slid considerably in the first half of the quarter. By mid-quarter (February 11, 2016) the S&P 500 had declined by over 10%. High growth indices such as NASDAQ fell further with losses of over 15% for the same period. Defensive areas were the beneficiaries of the renewed recessionary fears. Treasuries, gold, high-quality corporate bonds, and defensive stocks saw inflows as risk managers acted to protect portfolios from further damage.

By mid-quarter the economic data began to change and modest improvements in the industrial, manufacturing, and capital goods sectors became visible. The Federal Reserve also announced that the plan for raising rates would be postponed. These announcements put an end to the equity selloff and stocks began to rise. Most equity indices rebounded strongly and finished the quarter with only modest losses or slight gains. (S&P 500 +1.4%, Nasdaq Comp -2.6%). Conversely highly valued fixed income markets moved to further highs. (IEF +4.8%, LQD + 4.8%) The volatility in the first quarter of 2016 whipsawed risk managers seeking to protect portfolios from the more significant correction that would unfold should a full-blown recession occur. Most risk managers found themselves on the short end of the return spectrum after the market's rapid

(continued on pg. 2)

Economic Review & Outlook (continued)

Mitch Pletcher
President
Chief Investment Officer

(continued from pg. 1)

recovery from the fear driven selloff that occurred in January and February 2016. Concord's dynamic growth portfolio fell 3.6% in the first quarter as defensive action combined with high exposure to growth stocks and distressed debt took its toll on the portfolio.

This is the third time over the last two years that the markets have fallen double digits and then recovered quickly as recession fears faded. CIC used the volatility in the markets to rebalance portfolios into sectors and industry groups positioned to grow through the stagnation that is affecting most of the industrial areas of the economy. CIC added Facebook, Google, and consumer staple names to our portfolios in February. CIC increased its position modestly to distressed debt that became oversold as the problems in energy bottomed. Since March 7 of 2016 CIC's dynamic growth portfolio regained over 100 basis points that were lost in January and February of 2016.

Unfortunately, the outlook for the economy is still cloudy. Consumption will remain subdued for an extended period both domestically and globally. Unemployment has risen recently as a result of the stagnation of corporate earnings, contributing further to weak consumption. The earnings growth ahead will not be broad but there will be growth to leverage for those with the correct vision of what lies ahead.

We believe earnings growth will come primarily from companies well positioned in technology, consumer, and internet retailing segments. Earnings for energy will remain weak for an extended period, however the stocks have oversold and are due for a bounce. Healthcare continues to produce strong growth despite fears about a Clinton victory. The group is oversold and due for a bounce. Treasurys and corporate bonds in general remain highly valued and risky. Distressed debt continues to remain attractive, particularly now that energy appears to have bottomed and is recovering. High-quality intermediate to long-term debt is risky but will likely have stable returns if the globe remains in a period of modest to no growth. The upside does not seem to justify the downside.

The best asset classes remain a focused group of US equities and distressed debt. REITs are appealing but we are in the 7th to 8th inning of that game.

We remain optimistic.

Table 1: Stock & Bond Market Returns — *3/31/16*

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	0.7%	2.3%	Small Cap Value (IWN)	1.8%	-7.8%
Large Cap Value (IWD)	1.6%	-1.6%	Small Cap Growth (IWO)	-4.6%	-11.7%
Europe Asia Far East (EFA)	-2.7%	-8.6%	Emerging Markets (EEM)	6.4%	-12.7%
Invest Grade Bonds (LQD)	4.8%	1.0%	High Yield Bonds (HYG)	2.4%	-4.5%
Interm Treasurys (IEF)	4.8%	3.7%	Mortgage Bonds (MBB)	2.0%	2.0%

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

Table 2: Real Estate & Commodity Returns — *3/31/16*

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	4.9%	2.5%	DJ Commodity Index (DJP)	0.1%	-22.5%
Int'l Real Estate (IFGL)	5.5%	-2.4%	Goldman Commodity (GSG)	-3.1%	-29.3%
NAREIT Residential (REZ)	5.6%	10.6%	Gold (GLD)	15.9%	3.5%

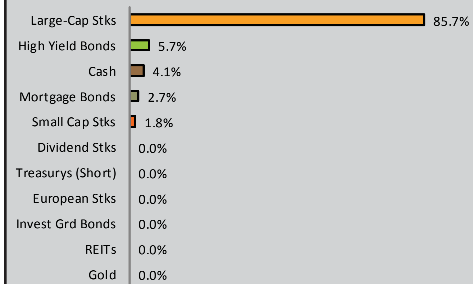
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

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.

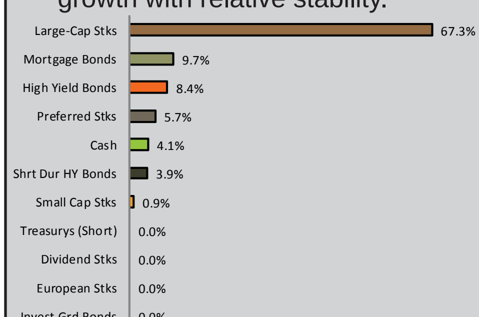
Focused REIT

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 Rattles Riskier Equity Sectors

Safe-haven sectors mostly lead the way through the volatility in the first quarter, with the Utilities, Telecom, and Consumer Staple sectors claiming the top three performance spots. However, as economic trends reversed course in the latter part of the quarter, related Industrial and Materials sectors followed, notching respectable gains and outperforming the broader market. Growthier segments, including Technology and Consumer Discretionary sectors, lagged overall, but were outperformers in the second-half of the quarter alongside improving data trends and the Fed's reposturing. Investors should expect these latter trends to continue if the forecasted pockets of growth amongst technology, consumer, and internet retailing companies play out as expected in the remainder of the year.

Sector Performance Review *3/31/16*

	Quarterly Change	Trailing 12-Months
Utilities	15.6%	15.2%
Telecom	15.2%	16.9%
Consumer Staples	5.5%	10.4%
Industrials	4.9%	1.4%
Materials	4.7%	-5.4%
Energy	3.7%	-17.8%
Technology	1.8%	6.0%
Consumer Discretionary	1.8%	4.7%
Financials	-4.2%	-4.0%
Healthcare	-6.1%	-6.5%

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

Fixed Income Review

By Kyle Aron

Mr. Market's Wild Ride

Kyle Aron
Senior Analyst

Volatility whipsawed markets once again in the first quarter, as economic and corporate earnings data stoked investor recession fears. U.S. economic data surprised to the downside across a swath of economic segments to start the quarter, including manufacturing, industrial, retail, and housing measures. Full-year 2015 corporate earnings data, which was already expected to show negative growth for the year, came in worse than expected as fourth quarter data also surprised to the downside.

Not atypically, the white knight Federal Reserve rode in to quell investor fears. While markets had put the odds of a further rate hike during the first quarter at 40% just last December, the Fed ultimately slowed down their timetable and decided against any increase during the first quarter of 2016. Odds now reflect only a 35% chance that the Fed will act to raise rates again by this coming September. Expectedly, markets cheered the Fed's decision, with a variety of assets rallying on the news.

Alongside the Fed's posturing, weak but steadily improving economic data helped ultimately buoy equities into positive territory to end the quarter. While getting off to a rough start, U.S. economic data's downside surprises narrowed through February and March of 2016, leading the S&P 500 to finish the quarter up 1.4%. Corporate earnings are poised to regain more ground in 2016 than was lost during 2015, which may well provide for equity leadership as the year progresses. Gold rallied as the dollar weakened on the Fed's decision to postpone more interest rate hikes, up 16.0% in the first quarter (GLD). Oil finished a volatile quarter in positive territory, though not without declining nearly 30% through the middle of February. REITs again notched gains similar to their investment grade fixed income counterparts, up 5.0% for the quarter (IYR).

Fixed income, particularly high quality, made it through the quarter with a one-two punch of solid performance. First invigorated by equity market volatility, fixed income rallied further to finish the quarter on the news that the Fed's interest rate agenda would unfold on an even slower timetable than previously anticipated. Long-dated Treasurys outperformed within the fixed income group, up 8.7% in the first quarter (TLT), as duration risk eased slightly alongside the Fed's actions. Shorter-term Treasurys also performed well, up 4.8% (IEF). Investment-grade corporate bonds performed in-line with shorter-term Treasurys and REITs, up 4.8% for the quarter (LQD). High-yield bonds, while still outperforming equities, continued to struggle in the first quarter alongside general investor risk-aversion. Wild swings in the price of oil and its implications for the segment's exposure to the energy space added to leave high-yield up 2.4% for the quarter, well behind its fixed income peers (HYG).

While the duration risk in fixed income has been dampened modestly by the Fed's recent actions, fixed income broadly remains abundant with risk. High-yield bonds are still relatively appealing, with outsized yields as compared to the majority of the fixed income space. Energy seeming to have found a bottom further bolsters the case for holding high-yield debt. If pockets of growth are able to turn corporate earnings positive for the year, as currently forecasted, the contemplation of further Fed rate-hike activity will likely keep a lid on the performance prospects of high-quality fixed income for the year. Investors must keep a close eye on incoming corporate and economic data trends, with posture that takes into consideration the equity and fixed income segments that will outperform if current forecasts materialize.

A Word From Our Advisory Team

Jill Pletcher
Vice President
Senior Financial Advisor

Tax Tid Bits for 2016

Starting with the year 2016, the following numbers will be applicable:

- Estate Tax Exemption amount increased from $5.43MM to $5.45MM
- Lifetime Gift Tax Exemption Exclusion $5.45MM
- Maximum Estate and Gift Tax Rate remains at 40%
- Annual Exclusion for Gifts remains at $14,000
- Capital Gains Rate remains at 15% for most taxpayers (20% for tax filers earning +$200K for single and +$250K for joint filers). Those in the 10-15% tax bracket do not pay capital gains
- Federal Tax Bracket rates are 10%, 15%, 25%, 28%, 33%, 35% & 39.6%
- The Child Tax Credit is $3,000 level per child through 2016
- Annual Benefit under a Defined Benefit Plan remains at $210,000
- The limit on annual additions to Defined Contribution Plans remains at $53,000
- 401(k) Contribution Limits remains at $18,000
- 401(k) Catch-Up Provision for individuals age 50 and over remains at $6,000
- IRA Contribution Limits
  - IRA & Roth IRA $5,500
  - IRA & Roth IRA over 50 $6,500
- Education IRA Contribution limit remains at $2,000
- College Tuition credit remains at $2,500 through 2017
- Social Security maximum wage base remains at $118,500
- All wages are still subject to the 1.45% Medicare tax
- FICA tax rate remains at 7.65% (combined social security tax rate of 12.4% and Medicare rate of 1.45%)
- Self-employment tax rate remains at 15.3% (combined social security tax rate of 12.4% and Medicare rate of 2.9%)
- Standard Business Mileage decreased to 54 cents per mile, down from 57.5 cents per mile rate during 2015

Economic & Financial Market Charts

Bloomberg's economic surprise index noted in the Economic Review above monitors surprises in 55 economic data points. When the graph is positive (GREEN) on average the 55 data points are reporting better than analysts had expected. When the graph is negative (RED) on average the 55 data points are reporting worse than analysts had expected.

The index is composed of six different segments. 1.) Housing and real estate market indicators, 2.) Industrial sector indicators, 3.) Labor market indicators, 4.) Personal/household sector indicators, 5.) Retail and wholesale sector indicators, and 6.) Surveys and business cycle indicators.

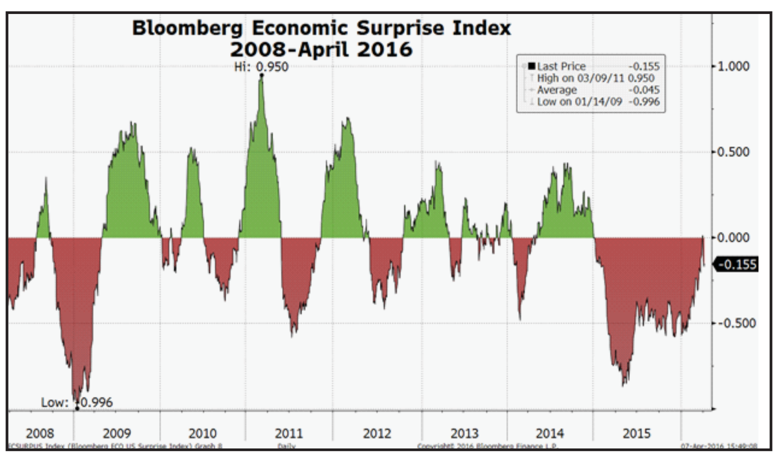


Figure 1 - Source: Bloomberg Financial

The chart illustrates how the economy underperformed expectations throughout 2015 which corresponds with flat performance in the equity markets in 2015. Notable is the sudden improvement in reports relative to expectations which corresponds to the sharp rebound we have seen in the equity markets since February 11 of 2016.