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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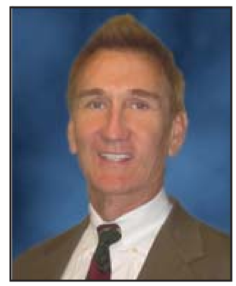
Economic Review & Outlook

Better Data, Rising Expectations



Mitch Pletcher
President
Chief Investment Officer

Better data on jobs, corporate spending, consumer spending, and consumer confidence emerged in the third quarter of 2016 (pg. 4, fig. 1). As a result, expectations for corporate earnings for both small-cap and large-cap stocks during the quarter rose. Additionally, the nation's money supply, which has been growing at approximately 4.5% for the last five years, accelerated to over 8% for the second consecutive quarter (pg. 4, fig. 2). The equity markets embraced this news enthusiastically with the S&P 500 rising 3.9% for the quarter. Concord's Dynamic Growth portfolio, likewise, had a terrific quarter on both a relative and absolute basis, rising over 7% for the quarter. Distressed debt markets, which perform more like stocks than bonds, also advanced in the quarter with over 4% gains (HYG 4.4%).

Conversely, high-grade fixed income markets moved inversely to stocks and distressed debt, with treasury markets off 0.5% to 1% for the quarter. (TLT -0.50%). Most areas of real estate were soft with shopping center REITs off over 4% (SPG) and storage properties (PSA) off close to 3% in the quarter. Rounding out the asset class group was commodities with broad declines of mid-single digits in almost all commodities including gold and silver. (DJP -5.1%).

With better economic data visible, the Fed jawboned about higher interest rates during the quarter, but again prefaced that any move on interest rates would be made in a very slow and gradual manner.

There was little progress visible in the quarter to the average investor with respect to the biggest obstacle facing the equity markets advance - the fact that earnings for the S&P 500 have not risen for five consecutive quarters (with the yet to be counted third quarter numbers likely to be the sixth). The stock market has done reasonably well given the fact that we are in an earnings recession.

(continued on pg. 2)

Economic Review & Outlook (continued)

(continued from pg. 1)

Mitch Pletcher
President
Chief Investment Officer

This clearly highlights the fact that markets are driven by liquidity and fundamentals take a backseat to the effects of liquidity. The earnings recession is tied heavily to the modest rise in consumption we have seen throughout this recovery. With debt levels high consumers have been using discretionary income to reduce debt rather than consume at normal levels.

We at Concord believe that this pause in consumption is likely to end soon. The evidence giving us the confidence to make this statement lies in the acceleration in M2 we have seen over the last two quarters. The nation's money supply is almost always growing but rarely exceeds 5% annually for any extended period. The 8.5% growth in M2 we have seen the past two quarters has produced a sizable amount of excess cash that the consumer has built that will likely go into asset purchases or consumption. Generally the growth in M2 equals the summation of inflation and GDP growth. This leads us to believe that we are on the verge of 3% or more GDP growth as well is a bit higher inflation. This will be welcome news for stock investors.

We believe assets classes of all types are highly valued today as a result of high debt levels and near zero interest rates. The Federal Reserve undoubtedly would like to get interest rates back to 2 to 5% along with a normal yield curve, but we believe that is at least a decade away.

As a result stocks, bonds, and real estate will remain highly valued. Our posture reflects the highly valued markets and our belief that the earnings recession is close to an end.

We remain optimistic.

Table 1: Stock & Bond Market Returns 9/30/16

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	4.5%	13.6%	Small Cap Value (IWN)	8.6%	18.6%
Large Cap Value (IWD)	3.4%	15.9%	Small Cap Growth (IWO)	9.1%	12.2%
Europe Asia Far East (EFA)	5.9%	6.2%	Emerging Markets (EEM)	9.0%	16.9%
Invest Grade Bonds (LQD)	1.2%	9.7%	High Yield Bonds (HYG)	4.4%	10.8%
Interm Treasurys (IEF)	-0.5%	5.6%	Mortgage Bonds (MBB)	0.6%	3.3%

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

Table 2: Real Estate & Commodity Returns 9/30/16

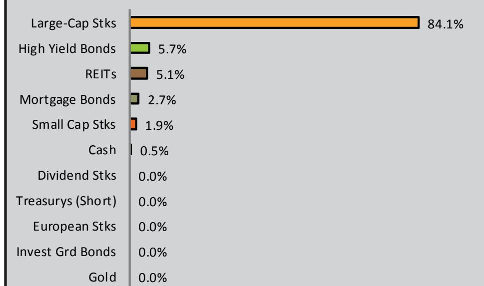
	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	-1.3%	18.5%	DJ Commodity Index (DJP)	-5.1%	-4.0%
Int'l Real Estate (IFGL)	4.2%	11.0%	Goldman Commodity (GSG)	-4.5%	-13.2%
NAREIT Residential (REZ)	-2.1%	14.9%	Gold (GLD)	-0.7%	17.6%

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.



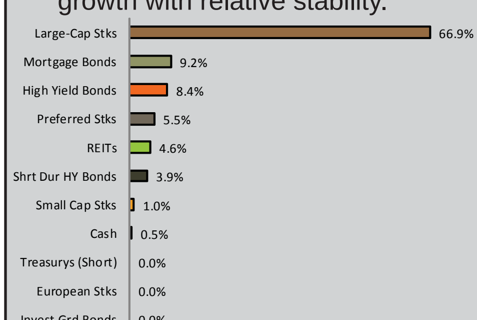
Growth
A portfolio of large- and mid-cap US stocks that are industry leaders with strong brands and timely products.

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: Leadership Shifts as Equities Rally in Q3

The Technology sector shifted into the lead in the third quarter, bolstered by strong earnings and expectations. Similarly situated Consumer Discretionary followed suit, further bolstered by positive consumer data. Materials and Industrials, which have led the way sector-wise for much of 2016, continued their strong performance in the third quarter. Alongside recent economic data and Fed-speak, safe-haven and interest-rate sensitive equity segments reversed course in the third quarter (after a strong second quarter), with Telecom and Utilities rounding out the bottom of the equity groups.

Sector Performance Review *9/30/16*

	Quarterly Change	Trailing 12-Months
Technology	12.6%	21.9%
Financials	6.7%	5.9%
Industrials	4.1%	18.4%
Materials	4.0%	23.7%
Consumer Discretionary	3.4%	9.2%
Energy	2.7%	17.4%
Healthcare	1.7%	10.4%
Consumer Staples	-2.6%	15.5%
Telecom	-4.7%	26.1%
Utilities	-5.7%	18.5%

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

Fixed Income Review

By Kyle Aron

Investors Eye Equities

Kyle Aron
Senior Analyst

U.S. markets rallied alongside strengthening corporate and consumer economic data in the third quarter. Duly noted, the Fed remarked that the "growth of economic activity has picked up from the modest pace seen in the first half of this year," which has "[strengthened] the case for an increase in the federal funds rate[.]" Nevertheless, Fed officials again remained cautious and held off from making any adjustments to their target interest rate in Q3. Indeed, we may well see a repeat of 2015 this year, with the only adjustment to the Fed Funds rate occurring in the late-year Fed meeting in December. In fact, markets are currently placing a 70% chance on this outcome. Investors would be wise to keep in mind that last year's rate increase appeared to be much ado about nothing; notably, the S&P 500 has put forth strong performance in 2016, up over 7.0%, with many other asset classes putting in similarly positive performance.

Alongside the Fed's continued steady and dovish posture, and underlying strengthening economic data, investors flocked to equities in the third quarter. Amid strong earnings growth, the tech-heavy NASDAQ 100 led the way higher, up over 10.0% (QQQ). Small-cap equity segments also soared, with both growth and value segments up roughly 9.0% (IWO; IWN). The S&P did notably well, up nearly 4.0%. Globally, both developed and emerging markets performed strongly, seemingly pulling themselves out from a period of underperformance. Europe rallied 6.9% (EZU), and emerging markets were up 9.0% (EEM; up over 17% year-to-date). Risk-haven assets like gold were down slightly for the quarter (GLD, -0.7%), with broad commodity indices performing more poorly (DJP, -5.1%). REITs eased modestly for the quarter, after stellar performance during the first half of the year. While down 1.3% in Q3, REITs remain up double digits in 2016 (IYR, +10.6% year-to-date). Investors seem confident that, despite the impact rising rates may have on REITs, many REIT players have and will continue to grow earnings in ways that outpace interest rate drags.

Fixed income performance was generally muted in light of the Fed's indication that it believes the case for further tightening strengthened in the quarter. However, lower-quality fixed income, moving more similarly to equities, shined as a bright spot in the segment. High-yield ended the quarter up 4.4% (HYG). Indeed, Concord's perseverance in high-yield has paid off in spades this year, with performance up in the double digits year-to-date (HYG, +12.4%). Leveraged commercial-backed mortgages also performed well in the quarter (PCM, +5.4%). Nonetheless, most other fixed income sectors remained in neutral during the third quarter. Long-Treasurys ended the quarter down 0.5% (TLT), with mid-dated Treasurys down approximately the same. Mortgage bonds eked out a slight gain (MBB +0.6%), while investment-grade corporate bonds ended the quarter up just 1.0%. Overall, investors remained cautious in the fixed income space in Q3.

Given the Fed's current posture, as well as incoming economic data and related money supply data, asset allocation should be focused on those areas that will continue to benefit in this environment – largely equities and related risk assets. As GDP growth looks to potentially be sparking upwards in the near term, and S&P 500 companies may reverse several quarters of negative earnings growth, the outlook remains positive for equities and similarly situated distressed debt. High quality segments of fixed income will likely remain under pressure, particularly as we close in on the late-year Fed meeting.

A Word From Our Advisory Team

Jill Pletcher
Vice President
Senior Financial Advisor

Sorting Out Healthcare Coverage

As our society matures the demand for healthcare continues to rise. However, sorting out the options and identifying the most appropriate plan for your needs can be as confusing as doing your income taxes or picking investments. The individual in the best position to answer these questions is an independent plan provider who can offer plans from multiple companies. If you have someone who is clearly neutral, and understands the alternatives, hang on to them tightly. If you do not have a trusted professional then you may want to seek out one rather than trying to do it yourself. For those who want to do it themselves, here are a few helpful tips.

Due to consolidation in the healthcare industry most of the quality healthcare plans come from a handful of large companies who compete vigorously with each other. The free market seems to have equalized the playing field for most of these providers and as a result there is some uniformity of pricing. Whether you are shopping for primary care insurance or a Medicare supplemental plan they are not cheap and prices have been rising steadily for over a decade. When Medicare supplemental plans first began, pricing was stable for several years but since 2006 premiums for Medicare supplemental plans have risen steadily at approximately 6% per year, close to triple the rate of inflation.

The same principles seem to apply whether you are shopping for a Medicare Part C or Part D plan or whether you are shopping for new primary care insurance. Obviously, the goal is to maximize value from the health care plan or Medicare supplement plan. First and foremost this means acquiring benefits that align with your projected health care needs. You can waste a lot of money paying for benefits that you are not likely to utilize and are better off self-insuring against this risk. This is where the challenge begins. Once you have identified whether you need a plan that provides, for example, broad coverage for prescription medicine, you need to seek out plans that include this type of benefit balanced with the other needs you have. It can be quite challenging to make an apples-to-apples comparison but it can be done if you are willing to take the time to identify the benefits of the different plans and the associated costs.

For Medicare Parts C and D, the open enrollment period is October 15 through December 7, so now is the time to either seek out a consultant to help you find an optimal plan or start doing your own work.

Economic & Financial Market Charts

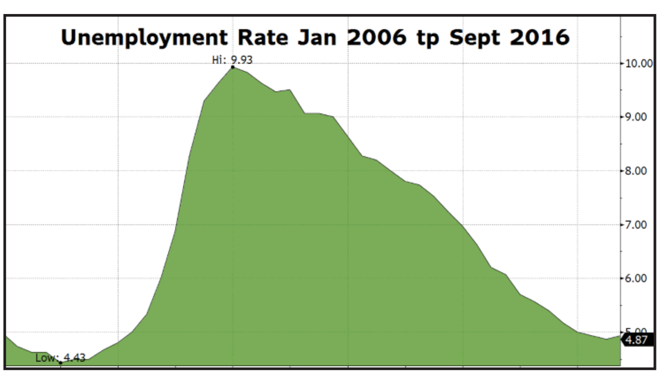


Figure 1 - Source: Bloomberg Financial
Graph of U.S. Unemployment Rate, showing steady downward trend since the Great Recession

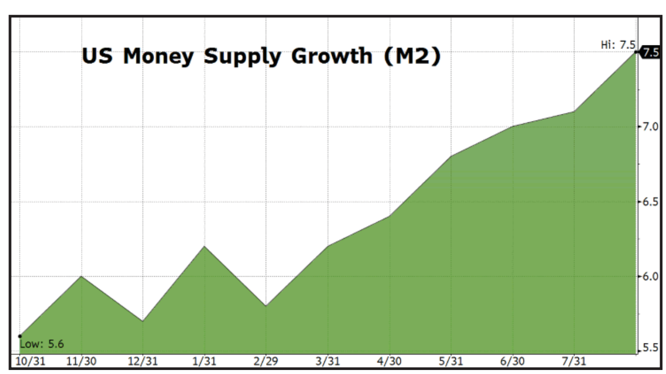


Figure 2 - Source: Bloomberg Financial
Graph of U.S. Money Supply (M2) Growth, the pace of which has quickened in recent quarters