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*

CIC 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

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Economic Review & Outlook

Trump - Great Medicine for the Economy & Markets

Mitch Pletcher
President
Chief Investment Officer

Whether you look at financial market performance, consumer confidence, the purchasing manager survey, or unemployment data, it is clear that Trump has been great medicine for the globe's economies and financial markets. The election of Donald Trump has brought higher confidence to consumers, investors, and unemployed Americans. The Trump effect has also played out in international economies. The globe is now in full expansion mode according to the latest purchasing manager index readings. (see p.4, figs. 1-6).

Equity markets roared in the first quarter of 2017 as confidence grew. The S&P 500 advanced 6.1%, NASDAQ gained 11.9%, Concord's Diversified Equity portfolio advanced 9.5%, and CIC's Dynamic Growth portfolio returned 8.7%. All told, the quarter provided strong absolute and relative returns for CIC clients including over 300 basis points of alpha. Technology, healthcare, and consumer discretionary sectors led the equity markets to new highs.

Likewise fixed income, commodities, and real estate logged another quarter of modest returns as investors opted for equity positions in corporate America over highly valued bonds and untimely commodities.

The move in the equity markets can be attributed to improving economic conditions and continued low inflation. Consumers continue to save and reduce debt more than they spend. While this may seem troubling to some economists, this is the needed action for our economy to regain its health over the long-term and for this economic cycle to stay in a slow but steady expansion. As a result inflation continues to remain subdued. Improving trends in the economy are rooted in job growth and the dent that we are now making in structural unemployment. Our workforce in America is finally expanding as workers who left the workforce return believing that efforts to find work will succeed. This has already proven true as we have seen significant gains in construction and manufacturing jobs. Trump has encouraged American builders and manufacturers to put American workers first and move their manufacturing back to American soil.

(cont. on p. 2)

Economic Review & Outlook (continued)

Mitch Pletcher
President
Chief Investment Officer

(cont. from p. 1)

The job gains are evidence that this in fact is occurring and the Trump Effect has given discouraged workers confidence to seek employment.

Most economists last year believed we were on the verge of wage inflation and that the Fed would have to raise interest rates soon or inflation would rise significantly.

The Trump effect has changed most economists' position on this and they now believe that the Fed can leave interest rates alone this year without the risk of inflation. The Fed has also recognized this and has changed their target for unemployment to 4% from 4.5% noting the growing workforce.

Earnings expectations are also on the rise and providing fuel for gains in equity markets. Earnings for the S&P 500 grew by 10.1% in the fourth quarter of 2016 after 8 quarters of flat or no growth. First quarter 2017 earnings for the S&P 500 are now expected to grow near 17.0%.

Trump has certainly had some problems moving his agenda forward and this has been due almost entirely to obstructive actions by Democrats. The repeal or replacement of Obama care has been tabled, and the executive order regarding immigration is tied up in the courts. Tax cuts, banking deregulation, and a major defense and infrastructure bill, are queued up but it is unknown whether they will get done. Regardless progress is being made in the economy and the equity markets will continue to move higher.

We remain optimistic.

Table 1: Stock & Bond Market Returns — 3/31/17

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	8.8%	15.6%	Small Cap Value (IWN)	-0.3%	29.2%
Large Cap Value (IWD)	3.1%	19.0%	Small Cap Growth (IWO)	5.2%	23.1%
Europe Asia Far East (EFA)	7.9%	12.4%	Emerging Markets (EEM)	12.5%	17.2%
Invest Grade Bonds (LQD)	1.2%	2.5%	High Yield Bonds (HYG)	2.3%	13.2%
Interm Treasurys (IEF)	1.0%	-2.6%	Mortgage Bonds (MBB)	0.6%	-0.2%

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

Table 2: Real Estate & Commodity Returns — 3/31/17

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	3.0%	5.0%	DJ Commodity Index (DJP)	-2.9%	9.4%
Int'l Real Estate (IFGL)	5.2%	1.1%	Goldman Commodity (GSG)	-5.4%	7.5%
NAREIT Residential (REZ)	2.7%	0.3%	Gold (GLD)	-8.3%	0.9%

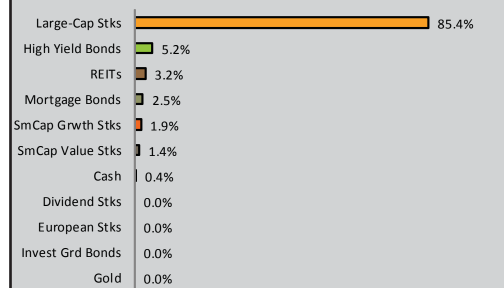
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

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.

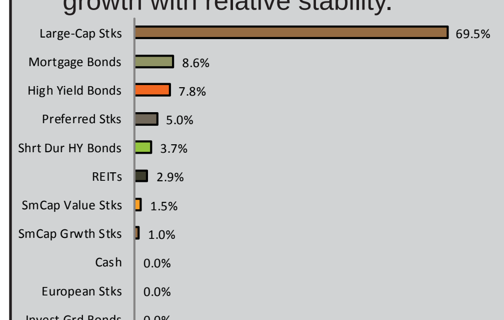
Focused REIT

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: Strong Start to 2017 for Equities

Equities started the year off with a bang as they continued the rally that began following Trump's election last November. Leadership flipped virtually 180-degrees, however, with last quarter's laggards now leading the pack. Investors took caution while digesting the sharp run-ups that sectors like industrials experienced at the close of 2016, as earnings growth remained negative in this segment for the fourth quarter. Moreover, investors weighed the difficulty the Trump administration was encountering in pursuing its policy agenda, impacting sectors like financials. Technology clearly lead the way in the first quarter, where investor appetite re-focused on strong earnings growth exhibited last quarter that is expected to continue.

Sector Performance Review *3/31/17*

	Quarterly Change	Trailing 12-Months
Technology	12.3%	24.8%
Healthcare	8.7%	12.5%
Consumer Discretionary	8.4%	13.5%
Utilities	6.3%	7.6%
Materials	6.2%	20.8%
Consumer Staples	6.1%	6.3%
Industrials	4.6%	18.6%
Financials	2.6%	33.4%
Telecom	-3.4%	4.0%
Energy	-6.6%	14.2%

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

Fixed Income Review

By Kyle Aron

Bonds in Rearview Mirror

Kyle Aron
Senior Analyst

Markets continued their Trump-fueled boom into 2017, with the S&P 500 finishing the first quarter with its best start in four years. Equity investors have taken back-to-back interest rate hikes in stride, with the Fed now having inched rates up three times since they bottomed out post-crisis. Confidence indeed abounds, as consumer confidence readings show levels that have now surpassed highs of the 2000's. Corporate earnings have meanwhile pulled themselves out of an extended slump and have once again begun to make forward progress. Markets and the economy seem to have shifted into a higher gear.

In light of this, the S&P advanced over 6.0% to start the year, while the best performing segments of the equity markets, like the NASDAQ, surged even further (QQQ, +12.0%). Fixed income also ended the quarter in positive territory, showing a modest rebound after sustaining a significant drawdown at the end of 2016. REITs generally followed suit, broadly up 3.0% in the first quarter (IYR). Oil prices weighed on commodity indices, which showed a decline of 2.9% (DJP). Gold surged after its heavy fall-off last quarter, starting this year up over 8.0%.

Bond markets enjoyed a relatively benign opening to 2017, with most fixed income segments exhibiting modest gains. By the time the Fed hiked rates again in March, the markets had widely priced in the move and, as a result, the reaction was relatively muted. Yields on intermediate and long-term bonds barely budged over the quarter after seeing a sharp increase in the second half of 2016 that accelerated in the weeks after the election. The yield on the 10-year Treasury finished the quarter at 2.4%, down just a few basis points from where it finished 2016. That, combined with an increase in short-term yields, which are most sensitive to Fed policy, led to a flattening of the yield curve during the quarter.

Segment-specific leadership in bonds virtually mirrored performance of the last quarter, as investors continued to embrace risk and consequently lower-grade securities. Indeed, the riskiest offerings were up mid single-digits: financial preferred securities finished the quarter up 5.3% (PGF), and leveraged commercial mortgage-backed issues up 3.9% (PCM). High-yield bonds likewise ended the quarter up 2.3% (HYG). Investment grade corporate offerings trailed their junkier counterparts, up only 1.2% for the quarter (LQD). Treasurys showed only minimal signs of life after their brutal sell-off to end 2016, with long-dated issue up 1.8% (TLT), and shorter offerings up 1.0% (IEF).

Advancing equity markets, an accelerating economy, and the Fed's recently quickened pace of rate hikes are likely to keep a lid on fixed income performance going forward. This lid is only tightened by Trump's policy agenda, which includes significant defense spending, infrastructure projects, and planned tax cuts. With yields still historically low, investors would be wise to seek other asset classes that have more to gain if the economy continues along its improving trajectory.

Economic & Financial Market Charts

Figure 1 - Source: Bloomberg Financial

Graph of U.S. Consumer Confidence Index, which sits at the highest level in 15 years

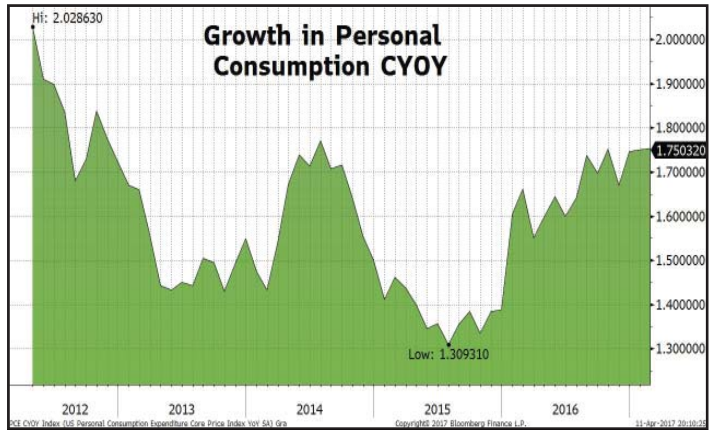


Figure 2 - Source: Bloomberg Financial

Graph of the growth in Personal Consumption, showing a stable uptrend since late 2015

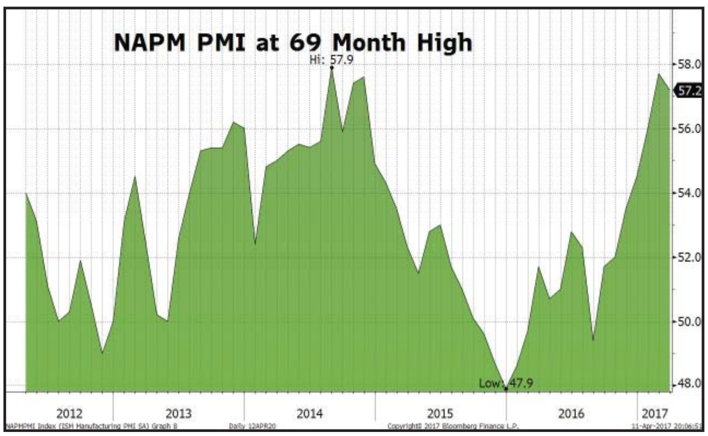


Figure 3 - Source: Bloomberg Financial

Graph of purchasing manager survery, showing expansion that has continued for 94 months

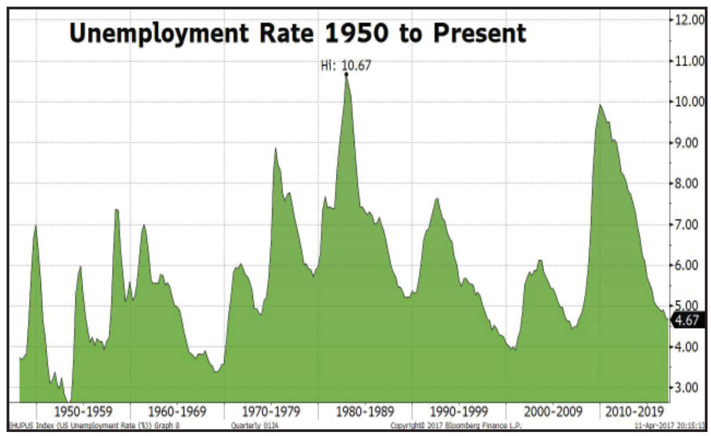


Figure 4 - Source: Bloomberg Financial

Graph of unemployment, which currently sites near pre-crisis lows

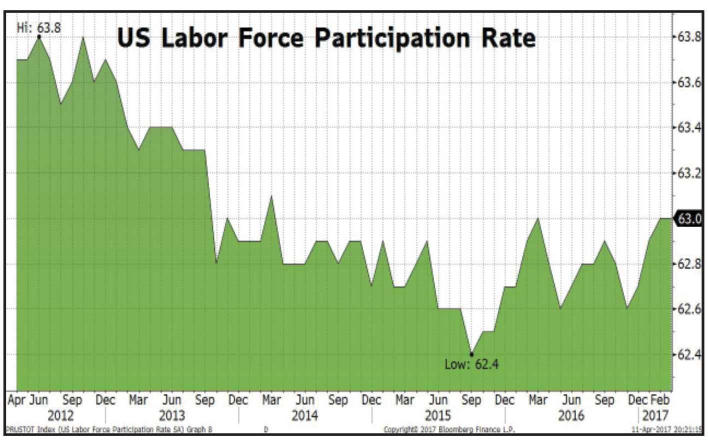


Figure 5 - Source: Bloomberg Financial

Graph exhibiting a recent uptick in the labor force participation rate

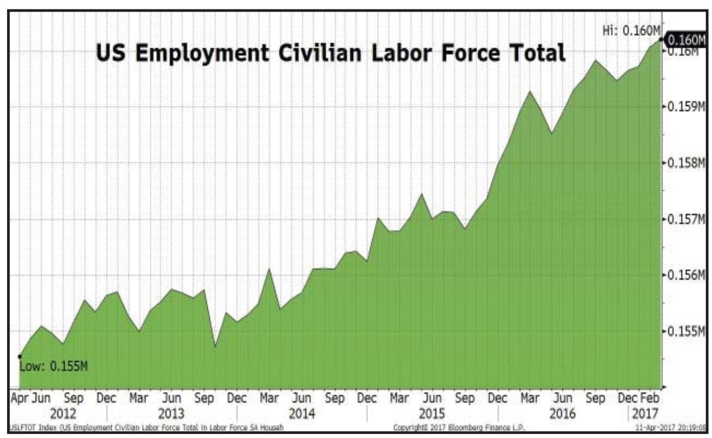


Figure 6 - Source: Bloomberg Financial

Graph reflecting a continued uptrend in US total overall employment