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*

CONCORD Investment Counsel

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In the News

Concord Has Moved!

We are excited to announce that we've moved to a new location! Please see the full details on page 4 of this newsletter. We look forward to welcoming each of you at our large new facility!

Economic Review & Outlook

Growth Remains a Mixed Picture

Mitch Pletcher
President
Chief Investment Officer

The growth in the equity markets has been far greater than the growth in our economy since President Trump was elected. The S&P 500 logged another quarter of growth with the index advancing 3.1% in the quarter and advancing 9.3% year to date. Concord's dynamic growth portfolio also logged another good quarter of growth advancing 4.4% in the quarter and 13.5% year-to-date. This is not unusual as markets seem to perform the best during periods of slow growth with low inflation and friendly monetary policy. While this is true, we must note that the equity market rally paused in 2014 and 2015 when corporate America fell into an earnings recession and slow growth was replaced by no growth.

This earnings recession that had gripped corporate America finally came to an end in the fourth quarter of 2016 when the S&P 500 reported earnings growth of 8.4%. This occurred after eight quarters of flat growth for the S&P 500. Thus far in 2017 the recovery in earnings growth has continued with first quarter's growth roaring at 17.8% and second quarters' growth estimated to be 18%. Unfortunately it's not time to break open the champagne as this growth in earnings has occurred despite only modest improvement in reported growth for GDP. GDP grew by 2.1% in Q4, 1.4% in Q1, and is estimated to grow at 2.4% in Q2. Earnings growth is almost always much stronger then GDP growth, generally related to improving margins at corporate America or financial engineering at companies, to show better earnings without actually earning more gross profit. These normal explanations have been ruled out and the mystery remains a problem for investors and the markets.

Equity markets have moved substantially over the last year for a variety of reasons and clearly one of those drivers of the markets was the improving picture for growth. This improving growth picture was founded upon actual improvement in S&P 500 earnings growth, expectations for improvement in GDP growth based upon improving consumer confidence and consumption, expectations for improvement in GDP growth based upon spending initiatives planned by the Trump administration, and expectations for stronger GDP growth due to an improving export market. Thus far the higher expectations for GDP growth that began at the end of 2016 have not been validated with stronger growth in GDP. This is a bit of a headwind for the markets but not a major obstacle as long as earnings growth continues, if even at a modest pace.

The leadership in the equity markets this year has correlated quite well with the leadership in earnings in the S&P 500. Technology, financials, healthcare, and industrials have all enjoyed great earnings

(continued on pg. 2)

Economic Review & Outlook (continued)

(continued from pg. 1)

growth this year and likewise have been the leading sectors in the market. Conversely, utilities, energy, telecom, and consumer staples had poor earnings growth and thus were the laggards in the market.

Inflation continues to remain subdued with strong structural underpinnings that will keep inflation muted for years to come. As a result, central bank policy is accommodative and friendly and will likely remain this way until much stronger growth emerges.

The equity markets could do a lot better with an improved picture for growth in GDP. Unfortunately growth in consumer consumption is at a two decade low and likely to remain subdued due to debt levels that are still far too high. As a result, consumers continue to save at record levels and postpone consumption.

Washington policy has had the biggest impact on our financial markets this year than we have seen in decades. Generally Washington policy only impacts the economy meaningfully through changes it imparts on consumer confidence. President Trump has been highly successful in improving consumer confidence with the index now close to all-time highs.

Thus far President Trump has had substantial opposition from politicians to virtually everything he has sought to do. He has, however, had some minor victories recently that have given investors some optimism that his agenda can be achieved. However problems remain. President Trump was elected by a majority in a sharply divided nation with initiatives that will radically change America. Trump was elected based upon goals and plans he promised to put in place if elected. Some are quite controversial, which include cleaning up the swamp in Washington, reforming our tax structure, removing unnecessary regulations, destroying ISIS and radical terrorists groups that threaten America, replacing Obamacare, reforming our immigration process to emphasize immigrants who embrace American values, bringing jobs back to America, and improving America's competitive position in the export market. President Trump's tax cut and growth initiatives are wildcards that could accelerate growth should he have success in getting these plans off the ground.

We remain optimistic.

Table 1: Stock & Bond Market Returns — 6/30/17

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	4.6%	20.2%	Small Cap Value (IWN)	0.6%	24.5%
Large Cap Value (IWD)	1.3%	15.4%	Small Cap Growth (IWO)	4.4%	24.3%
Europe Asia Far East (EFA)	6.4%	19.9%	Emerging Markets (EEM)	5.6%	22.4%
Invest Grade Bonds (LQD)	3.0%	1.4%	High Yield Bonds (HYG)	2.0%	9.8%
Interm Treasurys (IEF)	1.4%	-3.4%	Mortgage Bonds (MBB)	0.8%	-0.3%

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

Table 2: Real Estate & Commodity Returns — 6/30/17

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	2.5%	0.9%	DJ Commodity Index (DJP)	-3.6%	-8.3%
Int'l Real Estate (IFGL)	4.8%	5.1%	Goldman Commodity (GSG)	-5.4%	-9.7%
NAREIT Residential (REZ)	4.0%	1.1%	Gold (GLD)	-0.6%	-6.7%

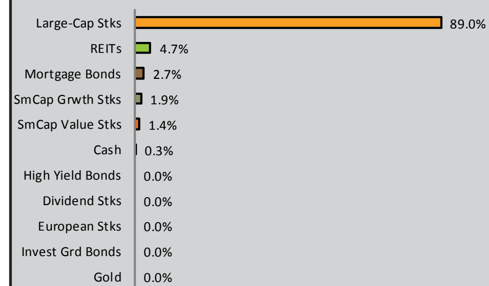
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

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.

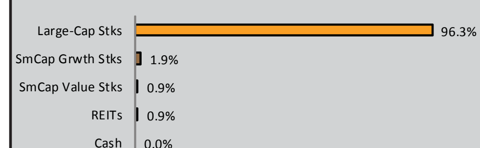


Growth

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.



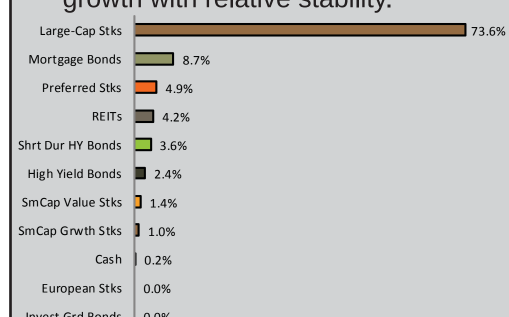
Focused REIT

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: Earnings Drive Performance

Equities continued to rise, albeit at a more moderate pace, in the second quarter of the year. Earnings growth seemed to drive performance, with sectors like technology and financials out in front. Each of these sectors delivered first quarter earnings that were over 30% higher than the same period in 2016. Indeed, earnings growth was evident virtually across the board, with the broad S&P 500 index showing 17% quarterly earnings growth when compared to Q1 2016 earnings. Energy and telecom rounded out the bottom of the group, as the only two sectors to deliver negative earnings growth in relative quarters and negative performance for Q2 2017.

Sector Performance Review *6/30/17*

	Quarterly Change	Trailing 12-Months
Healthcare	7.2%	13.6%
Industrials	4.3%	22.2%
Technology	4.2%	33.0%
Financials	4.1%	37.1%
Materials	3.2%	19.7%
Consumer Discretionary	3.0%	18.5%
Utilities	2.2%	2.7%
Consumer Staples	1.4%	2.9%
Energy	-7.1%	-4.6%
Telecom	-7.1%	-9.9%

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

Fixed Income Review

By Kyle Aron

Fed Talks Exit Strategy

Kyle Aron
Senior Analyst

Markets extended their rally in the second quarter of 2017 as the recovery in corporate earnings continued. The S&P 500 took the Fed's second interest rate hike this year in stride, ending the quarter up over 3.0%. At their meeting in June, the Fed not only raised their interest rate target by another 0.25%, but also indicated that they soon planned to unwind the massive expansion of their balance sheet that amassed since late 2008. Despite the unprecedented nature of Fed balance-sheet reduction used essentially as a monetary tightening tool, markets calmly accepted this news, as it had been anticipated for some time now. The Fed sought to reassure markets by providing specific balance-sheet reduction caps over time which should serve to smooth this normalization process.

Setting aside benign GDP growth, equity market performance remained positive for the second quarter in light of growth in earnings. Sectors with the strongest earnings growth, including technology, healthcare, industrials, and financials, all outperformed the broad S&P 500 index. The tech-heavy NASDAQ-100, for example, ended the quarter up 4.3%, and is now up over 16.0% year-to-date (QQQ). Fixed income investors seemed to focus on soft economic data, rather than the Fed's stated policy trajectory, leading virtually all fixed income segments to positive performance for the second quarter in a row. REITs generally rose in-line with fixed income, broadly up 2.5% in the quarter (IYR). Gold digested its strong prior gains this quarter, with flat performance overall. Commodity indices generally fell (DJP, -3.6%), weighed down by a 10% decline in the price of oil in the quarter.

Fixed income markets fared well during the second quarter, despite the Fed's announcements at its June meeting, as inflation readings trended down and were below the Fed's target range. While the Fed has stated that it intends to hike interest rates once more this year and three times in 2018, given the current lackluster economic environment, market participants are betting that no additional hikes will occur in 2017 and only two will materialize next year. With this backdrop, long-term Treasurys showed strong performance for the quarter, up 4.3% (TLT). High quality corporate bonds also performed well, up 3.0% (LQD). Junk bonds also had a modest quarter (HYG +2.0%), muted perhaps in part by the continued downtrend oil exhibited this year. Leveraged commercial mortgage bonds shined in the quarter, with PCM up over 13.0%. Interestingly, PCM began trading at a premium to its net asset value this year, and extended this gap in the second quarter to its widest since 2013. Concord's strategic positioning in this segment has been highly rewarded this year.

It seems equity markets have been able to disregard slightly worrysome economic data in favor of Trump-fueled optimism and reinvigorated corporate earnings growth. In an interesting dichotomy, fixed income markets seem to have been unphased by the Fed's tightening plans by focusing on relatively weak economic trends. It remains to be seen how long these disparate narratives can continue to coexist. Fixed income markets may be precarious going forward as they face down a combination of decreased government purchases via the Fed's balance-sheet reduction initiative, and possible increased government bond offerings in support of the Trump administration's ambitious spending initiatives.

A Word From Our Advisory Team

Jill Pletcher
Vice President
Senior Financial Advisor

Vehicles Available to Aid in the Planning for Educational Expenses

How can you help your family members save for college? There are several vehicles the government has provided to citizens to make saving for college and other educational expenses more affordable. The alternative that is best for your circumstances depends on several variables, i.e., the amount of contribution, level of control or involvement, and cost(s).

A popular vehicle is a Qualified Tuition Program (QTP or 529 Plan). The 529 Plans provisions allows an individual to make contributions up to $70,000 ($140,000 for married couples) per child in one year without having to pay a gift tax. The benefits include: 1.) tax free growth, 2.) the donor has ownership and control of account, 3.) transfers between family members are allowed, 4.) plan contains spendthrift provisions against creditors, and 5.) some states permit an income tax deduction. The downside is that the donor does not have discretion over the investments, only cash contributions can be made, and there is a mandated penalty of 10% for withdrawals not used for qualified expenses.

An Education IRA, now known as a Coverdell ESA, is another idea. The annual contribution for these plans is $2,000. Here the benefits are: 1.) The earnings are tax free, 2.) the beneficiary can be changed to another family member, and 3.) contributions are allowed to be made in the same year a contribution is made to a 529 plan for the same beneficiary. The downside is the limited annual contribution, the mandatory 10% penalty for withdrawals not used for proper expenses, no tax deduction, and that there are AGI limitations for donors ($110K single and $220K for joint).

A Unified Transfer to Minor (UTMA) account is an easy way to save for a minor whether it be for education or any type of need the minor might have. The maximum annual contribution is $14,000 per individual ($28,000 per couple), the contribution is treated as a completed gift and you can select the age in which the beneficiary can receive the funds, age 18, or 21. One draw back is that a UTMA requires a separate custodian until the beneficiary obtains majority age to keep the account out of donor's estate. Keep in mind that the beneficiary has full rights to the account when they reach the specified age.

For the more sophisticated plan, an irrevocable trust (Crummey trust) could be established. The contribution limits are the same as an UTMA. This trust allows for flexibility in helping the beneficiary for health, education, maintenance and support. Contributions can be cash, stocks or property. The trustee has control over the investment management and the trust can continue for the entire life of the beneficiary. This type of vehicle is more costly to set up and administer and requires a non-parent to act as trustee.

With many options available, the Concord team is here to help you decide which is the best alternative for your goals.

Concord Has Moved to a New Location

As clients may recall, Concord's offices were relocated from Main Street in Newport Beach to the Irvine Spectrum office area approximately four years ago. The four year lease Concord had on the subsequent location matured in early 2017. All things considered, we have decided to make the Irvine Spectrum office area our permanent home. As such, we are proud to announce that Concord has purchased a larger office building just a few blocks from the current location in Irvine California.

The new facility has two conference rooms, four private offices and a 100 seat theater. This new facility along with its built-in theater will allow our firm to conduct in-house luncheons, client meetings, and investment events, enabling us to enhance our client services and at the same time stay close to the markets and the ever-changing global economy. The new facility is located just a few blocks from our previous location. Our phone numbers remain the same. We look forward to seeing each of you at our next private client meeting or client event held at our new facility.

Our new address is:

9259 Research Drive
Irvine, California 92618