Inside Views From an Investment Management Leader

UPDATE

April 2013

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
facebook.com/ConcordInvestmentCounsel
View our blog at blog.cichome.com
linkedin.com/company/concord-investment-counsel

Economic Review & Outlook

The US Economy Improves Thanks To...

Mitch Pletcher
President
Chief Investment Officer

The US economy is getting better and the markets are celebrating! Better data in housing, retail sales, industrial production, employment, mortgage delinquencies, and consumer confidence highlight a long list of improving economic data. The pessimists are having to eat crow as light at the end of a long tunnel is now visible.

While nothing in the US economy is stellar there is sound broad improvement. Unemployment is now at 7.6% and falling (fig. 1 pg. 4). The stubborn housing sector has come to life. Existing home sales, which had fallen from a high of 7 million / month in 2005 to a low of 3 million in 2009, are now running over 5 million per month (fig. 2 pg. 4). Mortgage delinquencies likewise are on a path of strong improvement, having peaked at over 10% in 2009, they are now averaging 7% (fig. 3 pg. 4). Retail sales, which had paused in late 2012, are now making new highs each month. Mortgage debt is still a burden for many but continues to fall as consumers deleverage themselves from over 10.6 trillion of mortgage debt to 9.4 trillion today.

The deeply cyclical industrial sector fell into quite a hole in 2008. Now, five years later, the US industrial production index is within reach of its 2008 peak. Chinese demand has offset weak demand in North America for industrial products. The same can be said for retail goods. China is developing a middle class that the globe is relying upon. China is now not just a manufacturing player in the global economy. They are a meaningful consumption engine and the globe is lucky to have such a source of strength at a time of weakness among most mature economies.

China's economy will likely set the tone for economic conditions for many years. They have been in growth mode for 30 plus years now without a single recession. GDP in China peaked at 12% in 2008 as their economy roared. The central bank in China had to put the brakes on as inflation reared its head. By the middle of last year growth had slowed to near 6% causing concern worldwide. The storm seems to have ended now with CPI readings that were pushing 6% now below 2%. Last quarter's GDP was back near 8% (fig. 4 pg. 4).

Given all this data, it's not hard to understand why markets are off to such a good start this year.

We remain optimistic!

Financial Market Review & Outlook

Equity Markets Roar in First Quarter

Mitch Pletcher
President
Chief Investment Officer

Risk was on in the first quarter as bright economic data and near-zero interest rates stimulated investors to get off the sidelines. Domestic Equities and REITs lead the rally with returns that edged into double digits. Most large cap domestic indices established new record levels. The DJIA finished the quarter at an all time high of 14,606, slicing through its previous high like a hot knife through butter.

REITs were strong as well with broad strength in all categories of real estate. The Dow Jones Broadly Diversified US Real Estate iShare (IYR) advanced over 7% similar to the residential i-share (REZ). The NAREIT Industrial/Office REIT led with a near 10% gain.

Emerging markets, fixed income and commodities lagged badly and were flat to lower. Fixed income is highly valued and is a ripe target for sellers.

Commodities remain unappealing as an asset class while the economic outlook is one of only modest growth.

The leadership in equities was set by the dismal comments made by CFO's during the preannouncement period. Forecasts for earnings growth among many US corporations remained subdued, setting the tone for a defensive rally in stocks. Staples, healthcare and utilities lead the way for equities in the first quarter.

The rally in stocks is not over just as the recovery in the US economy has only just begun and is only partially priced into stocks.

Stay long!

Table 1: Stock & Bond Market Returns — 3/31/13

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	9.3%	9.8%	Small Cap Value (IWN)	11.4%	17.8%
Large Cap Value (IWD)	12.0%	18.6%	Small Cap Growth (IWO)	13.2%	14.5%
Europe Asia Far East (EFA)	3.7%	11.1%	Emerging Markets (EEM)	-3.6%	1.4%
Invest Grade Bonds (LQD)	-0.3%	7.7%	High Yield Bonds (HYG)	2.1%	11.0%
Interm Treasurys (IEF)	0.1%	5.7%	Mortgage Bonds (MBB)	0.1%	1.7%

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

Table 2: Real Estate & Commodity Returns — 3/31/13

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	8.3%	15.8%	DJ Commodity Index (DJP)	-1.8%	-4.0%
NAREIT Industrial/Ofc (FNIO)	10.1%	14.5%	Goldman Commodity (GSG)	0.3%	-5.4%
NAREIT Residential (REZ)	7.3%	14.7%	Gold (GLD)	-4.7%	-4.7%

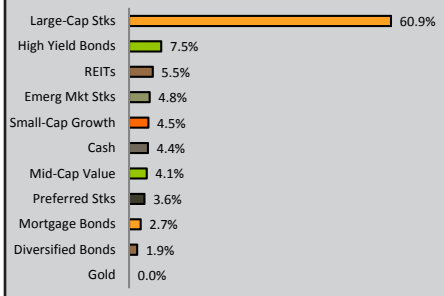
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

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.

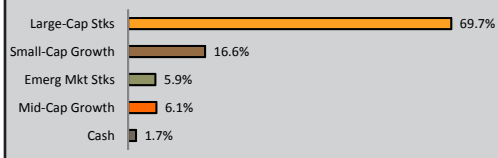


Growth

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.



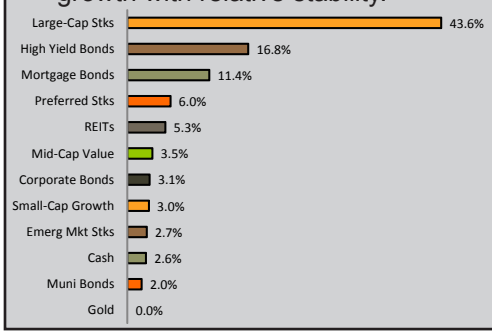
Focused REIT

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: Equities Strongly in Favor to Start 2013

Strengthening economic data coupled with continually accommodative fiscal and monetary policy led investors heavily into equities to start 2013. Nonetheless, modest expectations for earnings growth left many investors favoring more defensive sectors of equities such as healthcare, consumer staples and utilities. With broad-market P/E multiples still at relatively low levels, investors may have significantly more upside in store - particularly if forecasts for earnings begin to ratchet higher.

Sector Performance Review *3/31/13*

	Quarterly Change	Trailing 12-Months
Healthcare	15.8%	25.17%
Consumer Staples	14.7%	20.1%
Utilities	13.6%	17.4%
Consumer Discretionary	12.2%	20.0%
Industrials	12.0%	16.6%
Financials	11.9%	17.8%
Energy	10.5%	10.6%
Telecom	8.8%	25.4%
Technology	5.0%	-1.1%
Materials	4.8%	8.8%

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

Fixed Income Review

By Kyle Aron

All Eyes on Equities

Kyle Aron
Senior Analyst

US equity markets soared to all-time highs in the first quarter of 2013 as there was positive data to be found in nearly every segment of the economy. The S&P 500 registered its best start for the year since - *well* - 2012. This marks the second year in a row that the S&P has rallied more than 10% in the first quarter. In fact, only twelve years since 1928 have seen first quarters this good or better.

Economic indicators beat expectations almost unanimously in the first quarter. Nearly 30% more S&P companies beat revenue estimates in the first 2013 earnings season than did so in the prior earnings period. Naturally, fixed income failed to produce substantial returns to start the year as investors readily piled into riskier assets like equities. Interestingly, however, many fixed income segments performed comparatively worse relative to the same period last year in which equities exhibited an even stronger rally. The unfavorable nature of the fixed income landscape appears to be sinking in with investors as they watch the recovery continue to grow stronger.

Distressed commercial mortgage debt (PCM) was an outlier in the fixed income group, up over 9% for the first quarter. Yield-starved investors clearly favored riskier fixed income investments, many of which use leverage to bolster returns. PCM, for example, employs a leverage ratio of over 40%, taking advantage of access to cheap borrowing rates.

Distressed corporate debt was the only remaining segment to produce any noticeable positive return, up just over 2% for the first quarter. Mortgage-backed bonds, mid-term Treasurys and investment-grade corporate debt were all essentially flat for the quarter. Long-term Treasurys were down over 2%, only to be bested by emerging market government debt, down nearly 4%. Indeed, there were not many desirable places to be within the fixed income space to start the year.

Given the modest P/E of the broad equity market and clear risk appetite of investors, the fixed income space is likely to remain unfavorable in the near term. Equity markets have room to run, while the majority of fixed income segments remain near their highest valuations in history. Even if economic data becomes less favorable, defensive sectors within the equity market will likely see risk-off cash flows rather than bond markets. With the majority of large-cap dividend-paying companies offering yields nearly twice that of 10-year US Treasurys and equivalent to investment-grade corporate bonds, what else should be expected?

A Word from Our Advisory Team

Jill Pletcher
Vice President
Senior Financial Advisor

Getting the Most Out of Your Retirement Plans

Preparing for retirement involves many financial decisions. Simplifying the list of things to do is not easy but if we try we might look at a few things:

1.) Incorporating the best type of retirement plan(s) for your specific situation.

2.) Optimizing the return on your monies within your plan(s)

To know if you have the right plan(s) at work involves understanding what is available and what your goals are. While the world of retirement plans does not change wildly it does seem to keep evolving and if it has been a while since you have reviewed what you have, it might be worth a look.

Things are simple for folks already retired. An IRA rollover is generally the best choice for your assets once you are done saving for retirement. The rest of us must consider recent changes that allow anyone to convert traditional IRA's and 401k's to ROTH plans. Recent changes in tax laws eliminated the income restrictions for ROTH conversions. Anyone more than 10 years from retirement should consider this option.

Self employed people have several options as well. SEP's and profit sharing plans are less appealing than new individual 401k plans that come in many varieties. This is too complicated to talk about in detail here but if you are self employed you should review the type of plan you have every few years.

Defined benefit plans should be considered for anyone who is self-employed, has high income and is ten years or less from retirement. Defined benefit plans can be setup regardless of existence of other plans. If you want to sock away a lot of money quickly for an approaching retirement, this is the best option. By defining a high benefit at retirement you then fund annually to reach this benefit.

Annuities, while a common vehicle for those saving for retirement, are mostly used for the wrong reason. They are appealing because they allow you to put taxable money under the tax umbrella. However, most buy these because they want the guaranteed return, something you can get without putting your money into an annuity. For someone 59.5 or older they have immediate access to the money without penalty similar to an IRA. Beware that annuities are only as good as the credit of the company backing them. Most insurance companies today are distressed and do not have anything close to AAA rated debt.

Economic Charts

Figure 1 - Source: Bloomberg Financial
Graph of US Unemployment showing
a continued downward trend

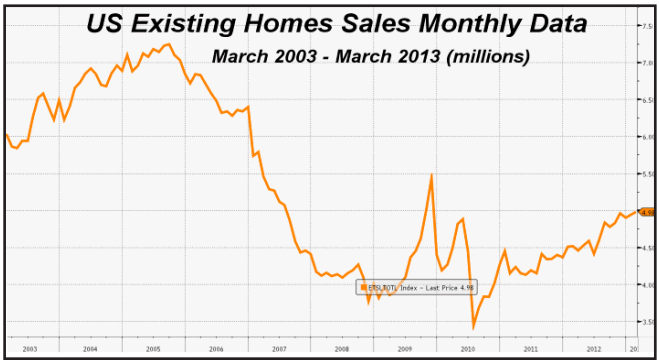


Figure 2 - Source: Bloomberg Financial
Graph of US Existing Home Sales
showing steady improvement

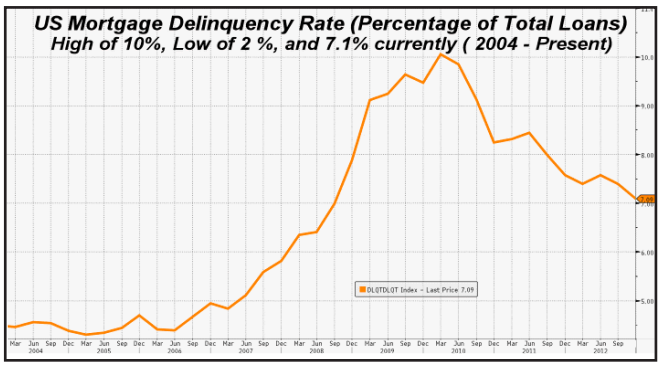


Figure 3 - Source: Bloomberg Financial
Graph of US Mortgage Delinquencies
exhibiting post-recession lows

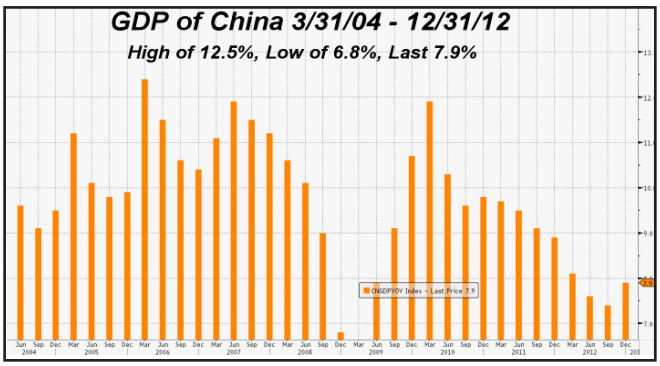


Figure 4 - Source: Bloomberg Financial
Graph of Chinese GDP showing
a significant positive upturn