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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Economic Review & Outlook

Market Volatility Rises as Growth Concerns Mount

Mitch Pletcher
President
Chief Investment Officer

The economic problems of the globe that surfaced in the second half of 2014 have now started to seep their way into the US economy. Overcapacity in energy, telecom, and manufacturing are now weighing on the US economy. Oil prices have not snapped back as many hoped they would, forcing layoffs in the energy sector, and curtailing plans that had been in place for expansion of shale and fracking projects in America. The growth in demand in emerging markets for oil has moderated as these economies in Brazil, Russia, India, and China have matured. The rapid growth in telecom has also moderated globally and there is now overcapacity of telecom services in America, as well as many other parts of the world. Durable goods orders, which tend to lead economic conditions, fell considerably in the first quarter. (Fig. 1, Pg. 4). The ISM Manufacturing Index also fell close to recessionary levels toward the close of the first quarter. Home prices nationally have been flat for the last two quarters (Fig. 2, Pg. 4). All of this has brought concern to the table of US investors. As a result, Treasury markets rallied again in the first quarter and equity markets were extremely volatile.

The growth slowdown was evidenced in several reports throughout the first quarter of 2015. GDP came in at a mere 2.2%, disappointing most of the optimists and validating many of the pessimist's position. (Fig. 3, Pg. 4). Earnings growth for the S&P 500 also missed expectations by a substantial margin. (Fig. 4, Pg. 4). For all of 2015, earnings growth was a mere 5.3%, failing to meet the 14.0% forecasts expected by the average analyst on Wall Street as late as October of 2014.

Equity markets are primarily driven by favorable central bank policy, inflation expectations, and an environment of economic growth. Growth does not have to be substantial for money to flow to equity markets, and in fact some of the best years for stocks have come during periods of only modest growth. Bull markets tend to end when the economy falls into recession and growth turns negative. We are clearly not facing that problem yet; in fact, the inflationary environment and central bank policy remain in the green zone. Falling prices in energy and energy related markets added to an already deflationary environment, giving the Fed a clear green light to keep monetary policy extremely accommodative. Yellen's recent comments have shown that she's more than willing to react to the environment and not adopt any predetermined policy toward raising rates. As such, the economy will continue to have strong fuel for growth and investors will continue to be motivated to embrace risk.

The European Central Bank has monetary policy in the most accommodated position ever in history, and is finally giving Europe the vital medicine that it has needed for years. Progress will be made in Europe when the current monetary environment is joined by a political environment that forces people to embrace getting back to work and off of social programs that the European governments can no longer afford to fund. China has been the workhorse for consumption in the globe along with the US consumer. For the mature parts of the world to progress and grow at 3% or more, we will need to see Chinese consumption continue to grow at an above trend pace. The political environment in China would seem to be the main obstacle that could derail this trend. China announced stimulus toward the end of the quarter which seem to bring relief to the markets.

While the environment is not perfect for businesses or workers it remains quite appealing for equity market investors. We remain optimistic.

Financial Market Review & Outlook

Changing Expectations for Earnings

Mitch Pletcher
President
Chief Investment Officer

Leadership in the equity markets is driven by earnings growth. The growth picture in America has been fluid recently with ever-changing expectations for different sectors of the market. In 2014, the year began with high expectations for strong earnings growth in small-cap stocks. By year end it became clear that most small companies were challenged by the environment and actual growth was far below earlier expectations. Now, in 2015, expectations for small companies have risen again as investors note the strong dollar and its likely impact on large cap companies and unlikely impact on small caps.

The US equity market performance in the first quarter was highly impacted by earnings announcements for the fourth quarter of 2014 that were broadcast throughout the first quarter of 2015. Earnings came in far below expectations, causing significant volatility as investors reacted and reallocated their assets. Most of the disappointment for 2014 earnings growth came in the fourth quarter, when expected quarterly earnings for the S&P 500 of $32.24 were reported to be a mere $26.77, down 5.0% from the previous quarters $28.25 and 17.0% below expectations.

The S&P 500 had a disappointing quarter to start 2015, logging in mere 0.9% gain. Concord's portfolios conversely had above-average quarter, with Concord's Diversified Equity portfolio gaining over 5.0% for the quarter, Concord's Dynamic Growth portfolio logging 4.5%, and Concord's Highly Focused Equity and Growth portfolios each up over 4.0% for the quarter, all of which significantly beat their benchmarks. Earnings from almost every sector of the economy disappointed in the fourth quarter, but the most significant misses came in energy, materials, and telecom services. Technology and the consumer discretionary sectors were the lone areas that had quarter over quarter earnings growth.

Expectations are now quite low for the first quarter of 2015, with most analysts expecting flat earnings in the first quarter compared to the fourth quarter of 2014. For the entirety of 2015, earnings growth for the S&P 500 is only expected to be 4.9%. While there is quite a bit of room for companies to beat expectations, if current expectations prove accurate the upside in stocks this year will likely be modest. Sector wise for 2015 the highest expectations for earnings growth lies with healthcare, technology, industrials, and consumer discretionary names. There are broadly higher expectations for growth in small companies over large companies in America.

European markets have started the year quite strong, with most indices of European stocks up 5.0% or more. However, this move is based upon the favorable monetary policy that has emerged, rather than a significant change to the earnings picture in Europe.

Table 1: Stock & Bond Market Returns — 3/31/15

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	3.8%	15.9%	Small Cap Value (IWN)	1.9%	4.4%
Large Cap Value (IWD)	-0.8%	9.1%	Small Cap Growth (IWO)	6.6%	12.3%
Europe Asia Far East (EFA)	5.5%	-1.2%	Emerging Markets (EEM)	2.1%	0.0%
Invest Grade Bonds (LQD)	2.5%	7.6%	High Yield Bonds (HYG)	2.0%	1.3%
Interm Treasurys (IEF)	2.6%	8.8%	Mortgage Bonds (MBB)	1.1%	5.7%

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

Table 2: Real Estate & Commodity Returns — 3/31/15

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	4.1%	21.5%	DJ Commodity Index (DJP)	-7.3%	-29.7%
Int'l Real Estate (IFGL)	3.9%	6.9%	Goldman Commodity (GSG)	-9.6%	-40.9%
NAREIT Residential (REZ)	6.4%	28.4%	Gold (GLD)	0.1%	-8.0%

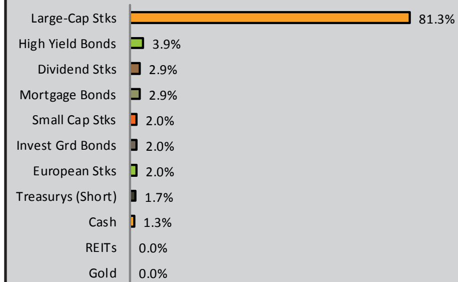
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

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.

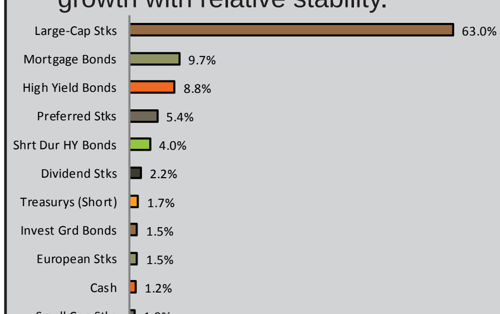
Focused REIT

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 Growth Slows

Disappointing fourth quarter earnings reports dominated the equity markets in the first quarter of 2015, as sectors across the board earned less than forecast as recently as October of 2014. Materials, energy, and telecom sectors were among the biggest offenders, earning 29.3%, 44.3%, and 146.9% less than previously anticipated, respectively. As a result, these sectors failed to post gains of any significance in the first quarter, with energy performing the worst in losing 2.3%. Healthcare and consumer discretionary sectors came out on top for the quarter as they, although earning less than forecast in the fourth quarter, managed to produce double-digit earnings growth for the year in total.

Sector Performance Review *3/31/15*

	Quarterly Change	Trailing 12-Months
Healthcare	7.4%	27.1%
Consumer Discretionary	4.6%	17.3%
Telecom	2.0%	3.9%
Technology	1.4%	17.6%
Consumer Staples	1.3%	16.7%
Materials	1.1%	4.6%
Industrials	0.2%	8.5%
Financials	-0.9%	10.7%
Energy	-2.3%	-12.0%
Utilities	-5.1%	10.2%

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

Fixed Income Review

By Kyle Aron

Volatility Fuels Fixed Income

Kyle Aron
Senior Analyst

Fixed income largely outperformed the broad U.S. equity market in the first quarter of 2015. Heightened volatility stemming from disappointing fourth quarter earnings results for the S&P 500 paved the way for safe-haven fixed income to shine. Further, the Federal Reserve continued to maintain a highly accommodative position on monetary policy, bolstering investor confidence to remain in fixed income instruments with historically depressed yields. In part an attempt to sooth volatile markets in the first quarter, Fed Chair Janet Yellen tempered concern about coming rate hikes by saying that "the actual path of [monetary policy] will evolve as economic conditions evolve, and policy tightening could speed up, slow down, pause, or even reverse course depending on actual and expected developments in real activity and inflation." (Fed Policy Speech, March 27, 2105).

In light of its underwhelming earnings picture, the S&P 500 posted a gain of slightly less than 1.0% for the first quarter of the year. Commodities, after a dismal 2014, were mixed overall as the Fed seemed squeamish (if ultimately determined) to put rubber to the road in raising interest rates and inflation remained subdued. Gold was up a negligible 0.1% for the quarter (GLD). REITs, which often perform in similar fashion to fixed income given their stable yield, held true to form and returned in-line with the best performing segments of fixed income for the quarter, up 4.1% broadly (IYR).

Still some of the highest yielding debt in the developed globe, U.S. fixed income showed broadly strong performance in a highly volatile first quarter for equities alongside seemingly ever-favorable Fed policy tailwinds. Treasurys remained the preference of many fixed income investors, with long-term Treasurys up 4.2% for the quarter (TLT). Mid-term Treasurys (IEF) performed in-line with investment-grade corporate debt (LQD), each up approximately 2.5% in the first quarter. Mortgage-backed debt generally lagged for the quarter, with consumer-related debt (MBB) up 1.1% and commercial-related debt up 1.6% (PCM).

High-yield corporate debt had modest returns, up about 2.0% for the quarter (HYG). Holding a fair amount of energy-related issues, high-yield debt funds largely sold off alongside the tumble in energy prices in 2014. These funds may well recover in 2015 as troubled energy company debt issues are scooped up by larger, more stable companies in merger/acquisition activities before actually facing defaults on their debt.

Looking forward, investors must balance the risks of rising interest rates as Fed policy ultimately shifts along with a less-than-rosy earnings picture for equities. The S&P 500 is expected to post no earnings growth for the first quarter of 2015, and the full year outlook is only in the mid-single digits, in-line with the full year realized earnings growth in 2014. Investors must bear in mind that, after being projected to see full year 2014 earnings growth of over 10.0% (as recently as the end of the third quarter in 2014), the S&P 500's final tally for the year came in at a mere 5.3%. With the current S&P 500 earnings projections for this full year registering a similar 4.9%, equities may be in for a bumpy ride in 2015. Tempered exposure to the less interest rate sensitive, lower-duration segments of fixed income are likely to prove a welcome counterpart to equities for investors looking to smooth their investment return profile for the year.

A Word From Our Advisory Team

Jill Pletcher
Vice President
Senior Financial Advisor

Tax Planning for 2015

The government's rules for what we can do financially are always evolving. As such, running your financial situation efficiently requires that an investor and/or his advisor stay current on everything from contribution limits for IRAs to annual gifts that can be excluded from taxes, current estate tax credits, the Social Security wage base, the maximum Social Security wage, federal tax rates, state tax rates, standard deductions for filers, and changes to Social Security and Medicare. These are only a handful of things that must be considered but may be the most important to the average investor.

For those of us who still have taxable earnings, IRA contributions can be as high as $5,500 for those 50 and younger and $6,500 for individuals over age 50. Roth IRA contributions have the same rules for contribution amounts and age, but to qualify your adjusted gross income must be less than $183,000 if you're married and $116,000 if you are single. For those of us who are self-employed, 25.0% of your compensation (or up to $53,000) can be put into a SEP IRA.

For those of us who have an interest in gifting, the annual gift exclusion is now $14,000 per individual. Estate taxes continue to have more protection, with the unified credit now $5,430,000 and the tax rate for estates over the exemption amount now sitting at 40.0%. The Social Security wage base is $118,500, and the maximum Social Security wage for calculating QRP contributions is $260,000. The maximum tax rate for federal income taxes is 39.6%, and the maximum tax rate for California filers is 13.3%. For those of us trying to minimize our income that is taxable, the tax rate jumps from 15.0% to 25.0% for income over $36,900 for single filers and $73,800 for married filers.

Economic & Financial Market Charts

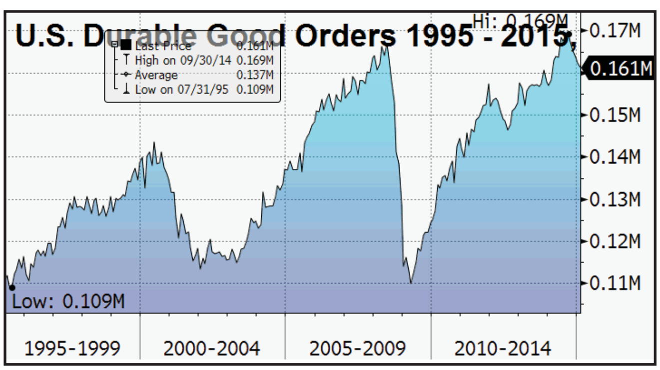


Figure 1 - Source: Bloomberg Financial

Graph of U.S. durable goods orders, reflecting a steep decline during the first quarter of 2015

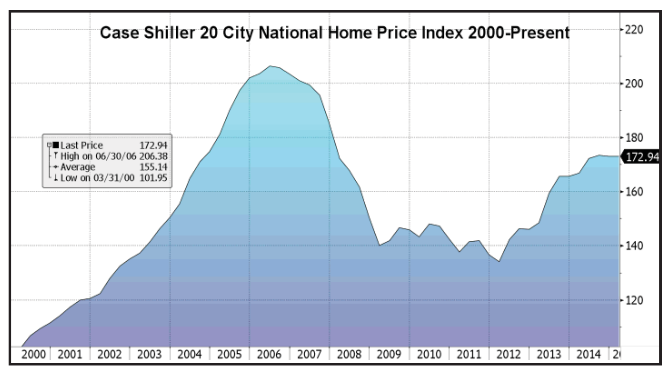


Figure 2 - Source: Bloomberg Financial

Graph of 20-city Case Shiller home price index, exhibiting stagnant home prices for the last two quarters

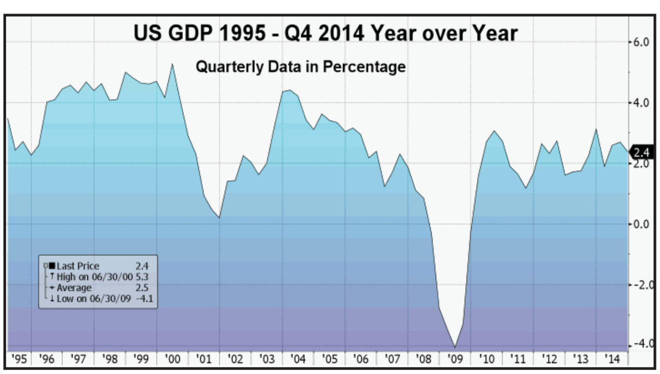


Figure 3 - Source: Bloomberg Financial

Graph of U.S. GDP, showing only modest 2.2% growth year-over-year

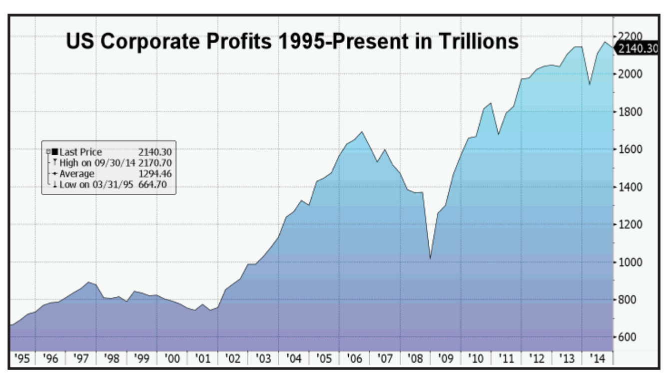


Figure 4 - Source: Bloomberg Financial

Graph of corporate profits declining during two quarters within the last year