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

Markets Languish in the Second Quarter

Mitch Pletcher
President
Chief Investment Officer

U.S. financial markets languished in the second quarter of 2015, as mixed economic data emerged amongst a darkening environment in Europe. US economic conditions overall continued to improve despite the first quarter's report of negative GDP. This was mostly weather-related, but still was cause for concern. Unemployment fell to 5.3% and consumer spending showed signs of accelerating toward the end of the quarter. Consumer confidence continues to rise and is now at a post-recession high, but still far short of levels achieved during the 90s. Data on the industrial and manufacturing sectors was mixed with mild improvement throughout the quarter. Commodity prices were mostly flat to lower during the quarter outside of a nice bounce in crude prices. (Fig. 1, Pg. 4).

The problems in Europe continue despite aggressive and extremely accommodative monetary policy by the European Central Bank. Interest rates in Europe changed course in April after hitting all-time lows during the first quarter of 2015. Germany's 10 year note began the quarter yielding 0.1% and ended the quarter with a yield of 0.8%. (Fig. 2, Pg. 4). Likewise interest rates in the U.S. rose steadily throughout the quarter as visibility of the end of the period of accommodation by the Fed emerged. (Fig. 3, Pg. 4). Fed posture has been hard to predict as US economic conditions continue to progress alongside very visible stagnation in Europe and the likely default in Greece. Greece's economy is very small and does not make a big impact on Europe or the globe; however, Greece has a significant amount of debt that the world has loaned them which might create another round of modest losses for U.S. and European banks in the event of a default. The significance of what is happening in Greece relates to the problem of reversing the trends in a highly socialistic economy. Greece is clearly the extreme, but other economies have similar problems that need reform as well.

Problems in the U.S. still revolve around debt and related consumption that is less than robust. In fact, expectations for earnings growth for the S&P 500 have fallen considerably over the last year. While valuations on stocks are cheap relative to absolute terms, they look expensive relative to current expectations for growth. Double-digit earnings growth drove double-digit market returns for the last five years. Today we are faced with expectations for mid-single digit earnings growth. This has caused the markets to languish as they await improving trends for earnings.

Earnings expectations have fallen considerably for energy and commodity related sectors as global conditions have been slow to recover from the 2008 collapse. Earnings for our financial sector have been dormant as the cleanup from the sins of the last 20 years of debt-based consumption has been long and hard but may be finally approaching the end.

For the equity markets to move higher the economy needs to progress with solid signs of wage growth and price growth. There is some evidence that this is beginning to occur; however, these trends remain below their longer term averages. (Fig. 4, Pg. 4).

We remain optimistic.

Financial Market Review & Outlook

Correlation Between Stocks & Bonds Ends

Mitch Pletcher
President
Chief Investment Officer

Surprisingly for the last few years we've seen a high correlation between the performance of stocks and bonds. In 2014, both stocks and bonds advanced. Similar correlation was seen in 2011 and 2012. This is not abnormal during the first year or two of recovery, but this recovery began in 2009. These surprising trends are mostly explained by the globalization of the financial markets that continues to occur. Economic conditions in 2014 improved and stocks moved higher with that improvement. Bonds also moved higher in price and lower in yield in 2014, but this occurred because of the high yield of U.S. Treasurys relative to the lower yields on government bonds in other parts of the world.

In the second quarter of 2015 stocks were mostly flat to higher (SP500 +.28%; Concord Diversified Equity Strategy +1.4%) and bonds were significantly lower (TLT-9.6%). After making nice gains within the quarter, stocks retreated in the final days as a default in Greece seemed highly likely and the impact on the equity market was felt.

European equity markets, which have underperformed over the last few years, made nice gains in the first quarter and into the second quarter, but gave most of this back as the problems in Greece mounted toward the end of the quarter (EFA -4.7% YTD). Emerging markets in a similar manner gave back all of their gains toward the end of the quarter as problems in Brazil, Russia, China, and India continue to be difficult to overcome. Concord has been fortunate to have steered clear of investments in the BRIC countries and Europe for the last few years.

Here in the U.S., leadership continues to be in large-cap stocks while small caps threatened to lead over the last few months. Earnings growth drives leadership in U.S. stocks and current expectations for earnings in both small and large caps are mixed. The best earnings growth has been achieved in healthcare and likewise the best market performance. Concord has been fortunate to be overweight healthcare for the last four years. Technology, consumer cyclicals, and consumer staples rounded out the group with above average earnings growth. Financials, energy, and basic materials continue to struggle to produce strong growth.

U.S. stocks continue to look appealing relative to emerging and foreign markets. A long cycle for higher rates lies ahead and is a strong headwind for owning high-quality debt. Stocks remain the desired asset class as we await more inflation.

Table 1: Stock & Bond Market Returns 6/30/15

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	0.1%	10.4%	Small Cap Value (IWN)	-1.2%	0.7%
Large Cap Value (IWD)	0.1%	4.0%	Small Cap Growth (IWO)	2.0%	12.6%
Europe Asia Far East (EFA)	0.7%	-4.6%	Emerging Markets (EEM)	-0.5%	-6.4%
Invest Grade Bonds (LQD)	-4.1%	0.3%	High Yield Bonds (HYG)	-0.7%	-1.6%
Interm Treasurys (IEF)	-2.7%	3.4%	Mortgage Bonds (MBB)	-1.1%	2.1%

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

Table 2: Real Estate & Commodity Returns 6/30/15

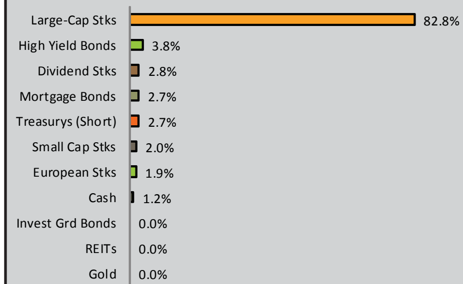
	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	-9.3%	3.1%	DJ Commodity Index (DJP)	4.8%	-26.3%
Int'l Real Estate (IFGL)	-2.6%	-4.1%	Goldman Commodity (GSG)	8.3%	-37.8%
NAREIT Residential (REZ)	-9.0%	8.7%	Gold (GLD)	-1.1%	-12.2%

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.



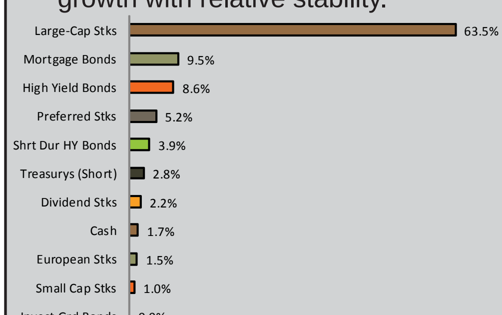
Growth
A portfolio of large- and mid-cap US stocks that are industry leaders with strong brands and timely products.

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: Sluggish Earnings Growth Hangs Over Equities

Muted earnings growth and global market turmoil dampened U.S. equity market performance in the second quarter of 2015. Dividend-heavy sectors, like utilities, performed particularly poorly as the Federal Reserve indicated that it would begin to raise its target Fed Funds rate off of the zero-bound before year-end. Healthcare outperformed, with strong gains coming after the Supreme Court ruled in favor of maintaining the already-in-place Affordable Care Act. Overall, the spread of performance between most sectors remained tight as investors wait to see whether or not companies can get earnings growth back into a higher gear after some recent sputtering.

Sector Performance Review *6/30/15*

	Quarterly Change	Trailing 12-Months
Healthcare	3.2%	24.7%
Telecom	1.7%	1.7%
Consumer Discretionary	1.5%	15.2%
Financials	1.2%	9.3%
Technology	0.0%	11.0%
Materials	-0.5%	-1.5%
Consumer Staples	-1.7%	9.6%
Energy	-2.0%	-23.1%
Industrials	-2.6%	1.9%
Utilities	-6.2%	-4.1%

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

Fixed Income Review

By Kyle Aron

We Are Go for Liftoff

Kyle Aron
Senior Analyst

At long last, the Federal Open Market Committee indicated a near unanimous consensus in its June projections that monetary policy would begin firming before the end of 2015. The Fed's seemingly endless game of kicking the can down the road appears to have finally come to an end.

Despite a negative GDP reading for the first quarter of 2015, the Fed still sees enough underlying strength in the economy to warrant raising rates, albeit at a snail's pace. The Fed is obviously keen to the fact that poor wage growth and a lackluster employment environment continue to hold back a strong return of the U.S. consumer and domestic GDP growth. The Fed continues to reiterate that it will proceed with caution and balance all decisions upon incoming economic developments.

The S&P 500 was essentially flat for the quarter (SPX, +0.3%), as investors mulled over weak GDP data, tightening monetary policy and earnings growth that was less than spectacular. Rocky global equity markets didn't serve to boost investor confidence either. Commodities were generally flat to down as inflation remained subdued, with commodity funds only able to manage positive performance alongside a recovery in the price of oil (DJP, +4.8%; Crude Oil +24.9%). REITs, again trading on their fixed-income like qualities, were down significantly for the quarter (IYR, -9.3%).

The fixed income space in the second quarter was somewhat of a race to the exit as investors repositioned themselves given the Fed's upcoming monetary policy shift. Even with heightened market volatility resulting from a continued game of poker between Greece and the Eurozone, as well as a market sell-off in China, fixed income investors were broadly unable to realize positive performance in the second quarter of the year. Duration-heavy issues, like long-dated Treasurys, saw sharply negative performance (TLT, -9.6%). High-quality corporate bonds fared poorly as well, down over 4.0% for the quarter (LQD). Conversely, shorter duration instruments were spared much of the carnage, with high-yield corporate bonds off by only 0.7% (HYG). Leveraged instruments like PCM, while saved in part by their shortened duration, ultimately sold off as investors grappled with leverage becoming somewhat more costly (PCM, -2.8%).

Concord, however, has been posturing for such a move by the Federal Reserve for some time now, and was able to achieve sizeable gains via short positions in long-dated Treasurys (TBF, +9.3%). Concord was further able to avoid much of the fixed income losses by remaining positioned in shorter duration, lower quality segments, including high-yield corporate bonds. As a long cycle for rising rates is finally nearing liftoff, investors would be well-suited to avoid high-quality and long-duration debt instruments where possible.

A Word From Our Advisory Team

Jill Pletcher
Vice President
Senior Financial Advisor

How to Select Trustees

As we age we start to think about our mortality. At the same time, many of us have significant responsibilities overseeing family, friends, and significant others who are not capable of managing their own wealth, expenses, or income needs. Choosing a successor trustee to our family trust is a very important decision and one in which I regularly provide counsel to our clients. The following article written by Ben Mattlin of financial advisor magazine summarizes the points quite well.

How to Select Trustees by Ben Mattlin, Financial Advisor Magazine, October 12, 2010.

In recent years, trusts have become a popular financial planning tool. Whether they are for wealth transfers, estate planning, creditor protection or other purposes, they "are almost required these days," says Kevin Mooney, a financial advisor at Jagen Investments in Henderson, Nev. Yet trusts can only be as successful as the trustees who manage them. So picking the right trustees is crucial. That's not always easy. "A lot of clients may understand their own business models but not the complexities of trusts," observes David Kleinhandler, a wealth advisor at New York-based DKA.

Choosing Family And Friends - To help clients choose trustees, it's important to zero in on trust particulars. If the trust is designed mainly to transfer assets to children or grandchildren, a relative or close family friend would seem a logical choice. But, "This can become an uncomfortable discussion, involving all kinds of family dynamics," says Lenore "Elle" Hawkins, a director at Creekside Partners, an investment advisor in La Jolla, Calif. "It's not a black-and-white situation," says Jeff Fishman, a financial advisor and attorney at JSF Financial in Los Angeles. "If small kids are involved, [a client should] choose someone familiar with the immediate family. That's the least unsettling option—someone who will try to maintain the kids' lifestyle. It should not be the same person who takes care of them, though, since there could be a conflict of interest." If the trust consists primarily of real estate, family businesses or other assets that require ongoing, active maintenance, a family member or close relative probably makes the most sense, too. "Most corporate fiduciaries won't even want to serve these situations, because of the expenses and liability issues," says Robert Struble, a lawyer at Meyer, Unkovic & Scott in Pittsburgh. Whoever assumes the trusteeship must also be good with financial matters. "You need to focus on the skills necessary to be a good."

To download the full article go to: www.cichome.com/commentary/selecting-trustees.pdf

Economic & Financial Market Charts

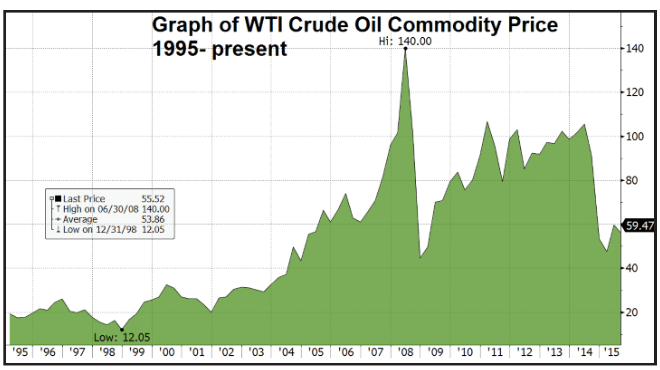


Figure 1 - Source: Bloomberg Financial

Graph of the price of WTI Crude Oil, showing a sharp recovery during the second quarter of 2015

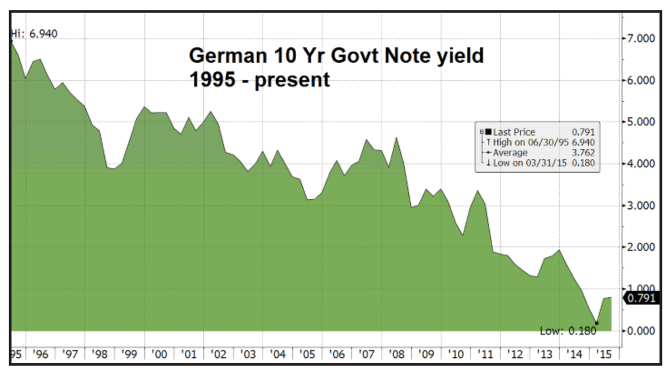


Figure 2 - Source: Bloomberg Financial

Graph of the yield on German 10-year government debt, shown rising during the second quarter of 2015

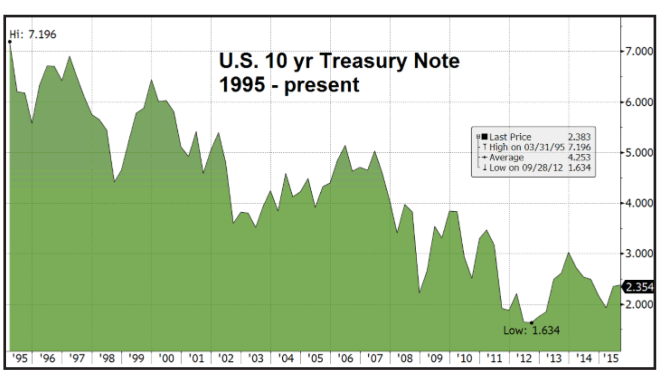


Figure 3 - Source: Bloomberg Financial

Graph of the yield on U.S. 10-year government debt, exhiting a rise similar to German debt in the second quarter

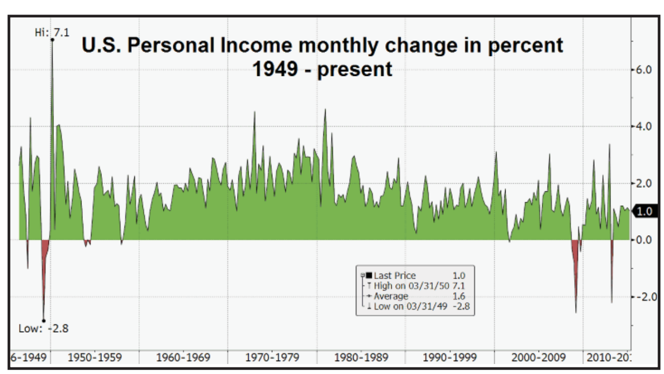


Figure 4 - Source: Bloomberg Financial

Graph of month/month change in U.S. personal income, presently sitting below its long-term average