Inside Views From an Investment Management Leader

UPDATE

January 2016

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

Will China Undermine US Economic Growth?

U.S. economic data drove strong U.S. financial market performance in the fourth quarter of 2015. Unemployment continued to fall, inflation reports were benign, consumer consumption progressed nicely, and modest to moderate progress was seen in the housing sector. (Figs. 1-2, Pg. 4). This produced the best quarter for the equity markets in all of 2015. The S&P 500 gained 7.03%, the NASDAQ 100 gained 10.3%, and Concord's Large-Cap Growth portfolio gained 9.2%. These fourth-quarter gains in equity markets reversed similar sized losses in the third quarter of 2015.

Conversely, global economic data in the fourth quarter of 2015 failed to improve and China's economy continued to slow, muting the rally of US equities. Since the end of 2015, financial markets have again begun to worry about an economic stall. The S&P 500 has fallen 10.6% from its December 1, 2015 highs in the first few weeks of 2016. Data out of the US economy for the most part remains robust and the weakness in China still has yet to manifest itself in the US economy. This is the third time over the last two years that the market has braced for an economic stall based upon problems in China undermining the economic global recovery. The markets corrected in September 2014, only to quickly recover when a stall failed to materialize. This happened all over again in August of 2015 with a quick recovery as well. Now the same fears are playing out yet again, and this time the correction has been a bit deeper and broader, with crude oil prices leading the way down.

The markets have come a long way since 2009 and it's not unreasonable for such extreme volatility to occur. Traders don't want to be caught long stocks when the next recession hits. As such, traders and nervous investors quickly run for the door when any sign of economic weakness occurs.

Mitch Pletcher
President
Chief Investment Officer

The weakness in our economy has yet to materialize, but could it be on the horizon. A quick review of the vital signs of the US economy reveals: 1.) an economy that is close to full employment, 2.) benign inflation, 3.) central bank policy in accommodative mode, 4.) continued growth in consumer spending, 5.) a steadily improving housing sector, 6.) bankruptcies and restructuring in energy, and lastly 7.) an industrial and manufacturing sector whose growth has paused seemingly tied to the slowdown in China. Items one through five are encouraging; items six and seven are cause for concern.

Oil has traditionally been a leading indicator of economic strength. Energy is fundamental to economic growth, however the current pricing environment for oil has come about as a result of overcapacity to produce rather than a global slowdown in demand. With oil at $28 per barrel and falling, independent overleveraged American producers flirt with bankruptcy or restructuring. At least 30% of the sector has already restructured, mostly to the benefit of the large integrated US oil companies.

(*continued on pg. 2*)

Economic Review & Outlook (continued)

Mitch Pletcher
President
Chief Investment Officer

30% of the sector will likely survive but the remaining 40% will likely restructure over the next year. OPEC has accelerated their production even as the price of oil plunged over the last six weeks. OPEC seems determined to put the American producer out of business believing it will lead to better OPEC control of prices over the long-term. OPEC is likely not exercising their best judgment by failing to understand that past and current gains in American technology for fracking have and will continue to reduce the costs for fracking. The rig count will start to rise again in the Dakotas and Montana as soon as oil returns to the $45 range, with the only difference being the majors with deep pockets will be operating the wells. OPEC will eventually realize this and cut back production as the current prices they are forcing are causing tremendous debt problems for their underlying governments, which are running deficits due to the substantial decline in tax revenues from oil sales at $50/barrel or less. Production is inevitably going to be reduced either through North American consolidation forced by OPEC actions or by OPEC's own realization of the fundamentals supporting oil.

The other storm on the horizon involves the unknowns about China's economic slowdown. China's growth has slowed from 12% to 6% over the last decade. This occurred as the economy grew from a $2 trillion economy to a $12 trillion economy. China's growth is slowing for two reasons. The first is simply related to the law of large numbers. The second is more concerning and is related to overconsumption of infrastructure, housing, and manufacturing plant and equipment. China accumulated substantial debt as the ruling party tried to accelerate growth with a global plan that was far too optimistic. Information and data out of China has become more dependable but is still questionable and difficult from which to forecast.

While China's economy is approaching the size of the US economy, it is by no means mature. China's population is five times that of America's and they are still in the early stages of assimilating their population into effective elements of their gross machine. It's reasonable to believe they can grow between five and 10% for another decade. The people of China are ambitious and seemingly want to be wealthy and successful which is essential to the process of transitioning from a poor country to rich one.

China's problems will have to be monitored carefully. China's growth should stabilize here at 5 to 6% and then re-accelerate if the overcapacity problems are more benign than thought. If growth in the second and third quarters of this year continues to decelerate then a global stall becomes a real possibility but still not likely.

We remain optimistic.

Table 1: Stock & Bond Market Returns — *12/31/15*

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	7.4%	5.5%	Small Cap Value (IWN)	2.8%	-7.7%
Large Cap Value (IWD)	5.6%	-3.9%	Small Cap Growth (IWO)	4.3%	-1.3%
Europe Asia Far East (EFA)	3.3%	-0.9%	Emerging Markets (EEM)	-0.3%	-16.2%
Invest Grade Bonds (LQD)	-0.7%	-1.2%	High Yield Bonds (HYG)	-1.3%	-4.9%
Interm Treasurys (IEF)	-1.5%	1.5%	Mortgage Bonds (MBB)	-0.3%	1.1%

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

Table 2: Real Estate & Commodity Returns — *12/31/15*

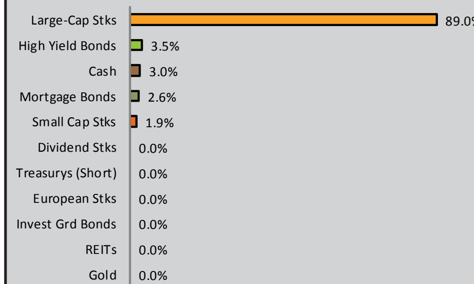
	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	7.2%	1.6%	DJ Commodity Index (DJP)	-12.2%	-28.2%
Int'l Real Estate (IFGL)	0.2%	-3.9%	Goldman Commodity (GSG)	-16.7%	-34.1%
NAREIT Residential (REZ)	7.8%	11.4%	Gold (GLD)	-5.1%	-10.7%

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.



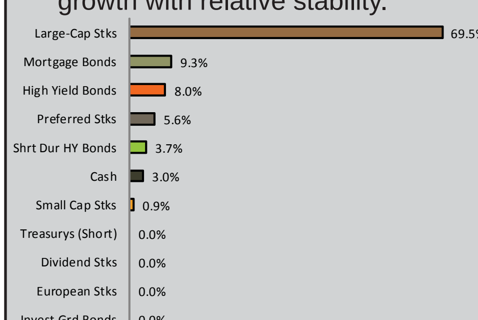
Growth
A portfolio of large- and mid-cap US stocks that are industry leaders with strong brands and timely products.

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: Markets Reverse Damage Done in Third Quarter

Markets looked past tumult in the Chinese markets and focused on continued US economic strength in the fourth quarter of 2015. Hard-hit sectors like Materials and Industrials roared back, with the latter sector nearly bringing performance positive for the year. Technology and Healthcare swung back into the green for the year, alongside an already strong Consumer Discretionary sector, where earnings growth drove sizeable outperformance in 2015. Looking forward to 2016, with meager earnings expectations for the S&P 500 in aggregate, investors would be wise to align their portfolios with areas where pockets of growth can still be found.

Sector Performance Review *12/31/15*

	Quarterly Change	Trailing 12-Months
Materials	9.0%	-8.9%
Technology	8.7%	5.5%
Healthcare	8.7%	6.3%
Consumer Staples	7.3%	5.0%
Industrials	7.3%	-3.2%
Telecom	7.0%	3.5%
Financials	5.6%	-0.7%
Consumer Discretionary	5.0%	7.7%
Utilities	1.6%	-5.4%
Energy	-0.9%	-22.5%

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

Fixed Income Review

By Kyle Aron

Low and Slow

Kyle Aron
Senior Analyst

Federal Reserve officials unanimously voted to raise the Fed Funds rate at their final meeting in 2015. The Fed's target range is now 0.25-0.50%, or incrementally about 0.25% higher than the previous target. The equity market's reaction was largely positive, advancing on the Fed's perception that such a move was warranted by underlying economic strength. In fact, the Fed noted that 2015 saw "considerable improvement in labor market conditions," among other positive signs for the US economy.

Setting aside the Fed's positive outlook, US equity markets saw widely divergent performance in 2015 as corporate profits receded modestly. Equity segments still exhibiting strong earnings growth outperformed, with the NASDAQ 100 and Russell 1000 Growth up 9.5% and 5.5% for the year, respectively. Value equities lagged (Russell 1000 Value, -4.0% in 2015). Overall, broad market performance was subdued, with the S&P 500 barely notching a gain for the year, up 1.4%. Commodities sputtered in 2015 as oil prices continued to fall and inflation remained benign (GSCI Commodity Index -34.0% in 2015). Not atypically, REITs returned performance in 2015 similar to investment grade fixed income segments (DJ US Real Estate up 1.6%). Notably, residential/apartment REITs shined for the year, up over 11.0% (REZ) as homeownership remained at multi-decade lows.

While bolstered slightly by equity market volatility in 2015, fixed income performance for the year was fairly muted alongside the Fed's gradual tightening. Duration-heavy long-dated Treasurys fared most poorly among high-quality issues, down 1.8% on the year (TLT). Investment-grade corporate bonds also finished the year down modestly (LQD, -1.3% in 2015). Shorter-maturity Treasurys (IEF) and residential mortgage bonds (MBB) saw gains for the year, up 1.5% and 1.1%, respectively. Interestingly, 10-year US Treasurys still remain some of the highest yielding in the globe at 2.3%. This is nearly four times the yield on comparable 10-Year German bonds (0.6% yield). It remains to be seen if (and how) this spread may tighten.

Despite their shorter duration, high-yield bonds saw the worst performance in 2015, mired by their exposure to beleaguered energy issuers (HYG -4.6% in 2015). Distressed-debt funds are now yielding over 8.0%, the highest level since the Eurozone crisis in 2011 and well above their long-term average spread to Treasurys. Meanwhile, defaults among high-yield issuers, at just 1.8% overall, remain below their historical average of 3.9%. The aggregate use of leverage is also well below pre-Great Recession levels. Much of the damage has likely been done in the high yield space, and consolidations by major energy players may help keep a lid on further defaults in that sector.

As we move into 2016 with the potential for more tightening by the Fed, investors must continue to temper duration exposure in their portfolios and be generally cautious within fixed income. Over the past 50 years, environments with 10-year Treasury yields below 5.0% and rising have been strongly correlated with positive equity performance. Keeping an eye on China's economy and its implications for the US and the globe, investors should seek out pockets of growth that remain in equities and other asset classes. High yield also appears conditionally attractive on a relative basis, having been potentially oversold in the wake of the oil crisis.

A Word From Our Advisory Team

Jill Pletcher
Vice President
Senior Financial Advisor

What to do with that Annuity?

Annuities are an investment product commonly sold or used by financial advisors. Sometimes appropriately, but many times inappropriately. If you do not have an annuity, under what circumstances should you consider getting one? If you do have one, should you keep it? The following are common questions that I get regularly from clients regarding annuities that have easy answers.

WHEN IS AN ANNUITY AN APPROPRIATE INVESTMENT? Let's first define an annuity. Annuities were created by Congress to allow investors to save on a tax-deferred basis for retirement. Money put into an annuity must stay there until age 59 ½ or a 10% penalty is applied to principal and interest withdrawn prior to 59 ½. In exchange for committing the money until age 59 ½ all taxes due on the growth of the principal are deferred until withdrawn. The growth portion when withdrawn is taxed as ordinary income. The amount of money you contribute to an annuity is guaranteed by the underlying insurance company as a death benefit of the annuitant. Within an annuity you can generally invest in any type of security you want similar to an IRA.

WHY DO I HAVE AN ANNUITY WITHIN MY IRA? Annuities are generally not appropriate as investments for IRAs as the primary objective of an annuity is to defer taxes on the growth and the IRA already achieves this goal. Sometimes financial advisors purchase annuities within IRAs because the underlying product has a guaranteed return that their client wants. Fixed annuity contracts are guaranteed but only by the insurance company issuing them. An investor could easily achieve this same goal by purchasing a debt instrument of the underlying insurance company within the IRA generally with a much higher return to the investor. The financial advisor likes to utilize this strategy because he gets paid a 4 to 8% commission on the sale of the annuity to the investor.

I HAVE AN ANNUITY - SHOULD I KEEP IT OR LIQUIDATE IT? If you have an annuity you may wonder at times if you should keep it. If it's within your IRA generally the question would be no. However, if it is outside the IRA and invested in high returning bond funds or guaranteed investment contracts than it is likely a keeper. If it's invested in stocks then you may consider liquidating it. The underlying equities that you are invested in within the annuity would normally produce preferential tax treatment of long-term capital gains. However the stock funds within the new annuity when sold will be taxed as ordinary income and the preferential tax treatment will be lost. Annuities are best for money you want to put in income earning securities rather than growth investments.

SHOULD OLD ANNUITIES BE CONVERTED TO NEW CONTRACTS? The other issue to consider about an existing annuity is converting it through a 1035 exchange into a new annuity that has lower management fees and better performance of the underlying investments offered. By converting through a 1035 exchange you can now increase the insured death benefit to the current value of the annuity. For example, if you bought an annuity 20 years ago for $50,000 and it is now worth $100,000, your death benefit itself remains guaranteed only at $50,000. If you convert the annuity to a no-load annuity at Vanguard or Schwab, you can lower your cost and increase your insured value to $100,000. If the underlying investments go bad between now and death your beneficiaries will be guaranteed of getting $100,000 instead of $50,000.

Economic & Financial Market Charts

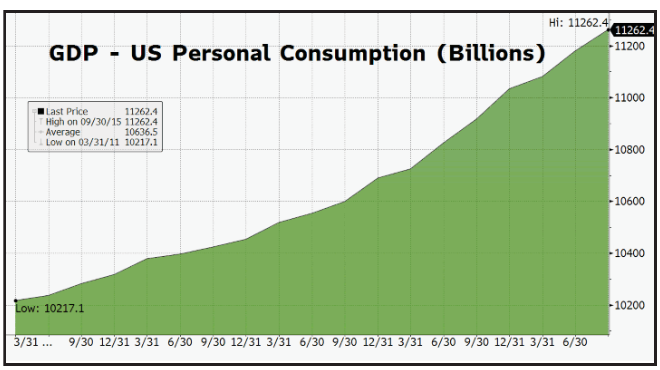


Figure 1 - Source: Bloomberg Financial

Graph of GDP - US Personal Consumption, showing a strong and continued uptrend

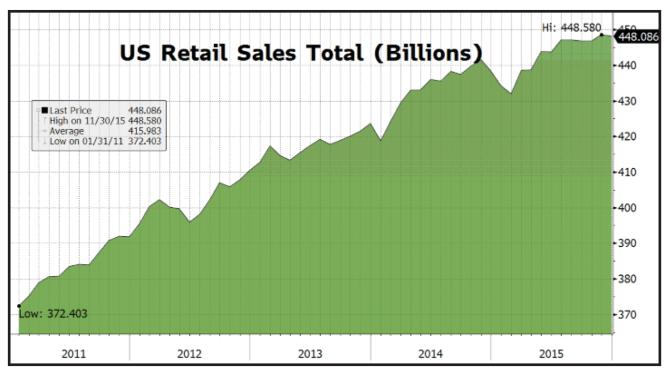


Figure 2 - Source: Bloomberg Financial

Graph of US Retail Sales, reaching new highs with continued growth in 2015

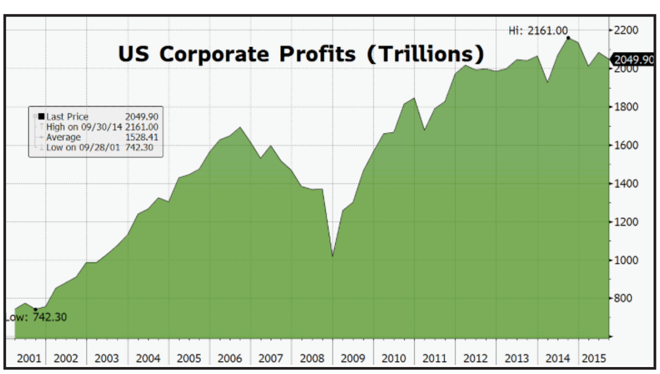


Figure 3 - Source: Bloomberg Financial

Graph of US Corporate Profits, showing a modest growth pause during 2015

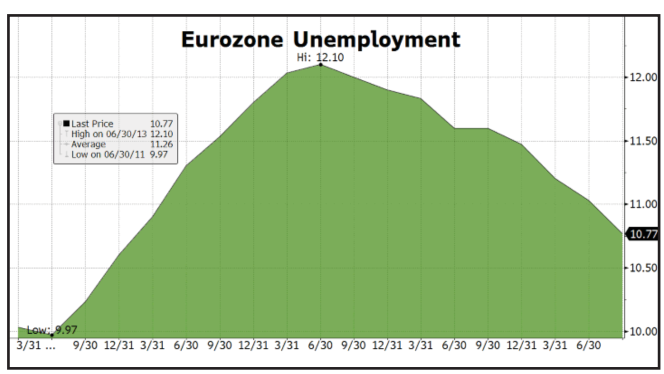


Figure 4 - Source: Bloomberg Financial

Graph of Eurozone Unemployment, finally trending down as Europe embarks on US-like policy support

CONCORD Investment Counsel

December 31, 2015

Please be advised that a copy of our current registration as an investment adviser with the Securities and Exchange Commission is available for your review upon written request.

If you desire a copy of such registration, please forward your written request to:

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Sincerely,

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