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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Economic Review & Outlook

Rising Consumer Confidence Leads Equity Markets Higher

Mitch Pletcher
President
Chief Investment Officer

2016 was a volatile year for the global economy and the world's financial markets. The year began with the markets and the economy drowning in pessimism, but ended with consumer confidence at a 15 year high and the DJIA knocking on the door of 20,000. (Pg. 4, Fig. 1). One might say that investors have blind optimism in pushing the DJIA to all-time highs given the fact that significant obstacles remain in the path of our economy. Mr. Trump is likely a big part of the reason for this optimism. His campaign identified and shouted from the mountaintop the problems that have handcuffed the globe's economic superpower for the last decade. Whether Mr. Trump can seek and destroy these obstacles and clear the path for America's economy remains to be seen. Nonetheless, investors seem excited about his plans despite no improvement in the earnings recession that has gripped America for the last two years.

Domestic US stocks moved higher in 2016 with the S&P 500 gaining over 11% for the year and close to 4% in the last quarter. Leadership in the equity market changed after the election. Growth stocks carried the baton during the first three quarters of 2016 and then handed it over to value stocks after the election. Defense, aerospace, industrial giants, energy, and bank stocks, that had performed poorly for the last few years quickly came to the top in the last few months of 2016 as leadership in growth stocks paused as investors weighed Mr. Trump's plans to renegotiate trade deals with Asia and end the theft of US technologies in China. (Pg. 4, Figs. 2, 3). Foreign markets sold off as a result of these statements and emerging markets fell 5% or more in the fourth quarter (EEM -5.4%).

Mr. Trump's plans for cutting corporate taxes caused a significant selloff in the bond market. Treasuries and investment-grade corporate bonds performed poorly in the fourth quarter. Long treasuries dropped over 12% in the fourth quarter (TLT -12.6%).

Gold likewise plunged 13% in Q4 along with other commodities. The rise in interest rates was not greeted well by real estate investors and REITs fell 3% to 10% in the fourth quarter. US Stocks were the sole asset class that performed well in 2016 and as a result diversified portfolios only had modest gains for the quarter and the year. (Pg. 4, Fig. 4). Volatility also chipped away at performance as nervous investors braced the storms that occurred in February as the economy threatened to fall back into recession.

(continued on Pg. 2)

Economic Review & Outlook (continued)

Mitch Pletcher
President
Chief Investment Officer

(continued from Pg. 1)

2016 was marked by modest but steady growth in consumption. Retail sales rose over 3% led by strong demand for consumer durable products. Demand for financial services continued to improve and the banking sector is finally showing modest growth. Demand for healthcare remains at all-time highs with strong growth in pricing. Consumer confidence as measured by the Conference Board rose to 113.7, a level not seen since 2002. Most of this rise came after the election. Corporate investment remained flat to lower as corporate America seemed content with its capacity, given only modest growth in trends with consumer spending.

Global debt remains the primary obstacle to strong economic growth and is compounded by poor political policy and a regulatory environment that is burdensome and ineffective. The size of government is far too large and the cost of supporting it is a burden on American consumers and corporations.

Inflation remains benign despite the US economy now at or near full employment. Central bank policy continues to be accommodative but is gradually turning toward neutral. The Fed has now raised rates twice as it works to bring policy back to normal.

Washington policy remains the wildcard with much still unknown about Mr. Trump's plans. Trump has talked a good story but can he deliver? America needs better trade deals, better protection of its products in the global markets, and objective leadership. These problems are not new and we have not had a president in decades willing to take on this sort of challenge. Mr. Trump seems serious about his plans for significant change and is surrounding himself with a cabinet of accomplished business people to help him achieve his goals.

Historically, Washington has not had much impact on the economy due to politicians inability to increase confidence. The White House's biggest hammer lies in its ability to foster confidence so Americans will spend and consume. The President along with the Congress can also be effective by creating a fertile environment for economic growth. This means favorable trade deals and just the right amount of regulation for fair competition.

The markets will likely move higher as Mr. Trump continues his plan of change.

We remain optimistic.

Table 1: Stock & Bond Market Returns *12/31/16*

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	1.1%	7.0%	Small Cap Value (IWN)	14.2%	31.9%
Large Cap Value (IWD)	6.8%	17.2%	Small Cap Growth (IWO)	3.7%	11.6%
Europe Asia Far East (EFA)	-1.4%	1.4%	Emerging Markets (EEM)	-5.5%	10.8%
Invest Grade Bonds (LQD)	-3.8%	6.2%	High Yield Bonds (HYG)	0.8%	13.3%
Interm Treasurys (IEF)	-5.8%	1.0%	Mortgage Bonds (MBB)	-2.3%	1.3%

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

Table 2: Real Estate & Commodity Returns *12/31/16*

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	-3.3%	6.9%	DJ Commodity Index (DJP)	3.2%	12.9%
Int'l Real Estate (IFGL)	-8.6%	1.3%	Goldman Commodity (GSG)	5.7%	10.1%
NAREIT Residential (REZ)	-3.3%	3.0%	Gold (GLD)	-12.8%	8.0%

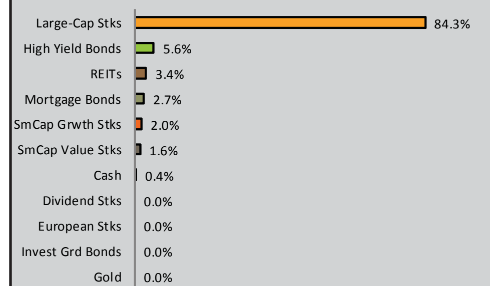
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

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.

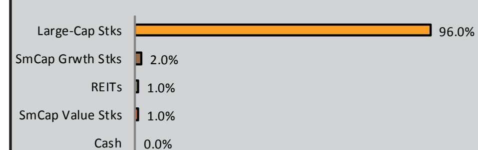


Growth

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.



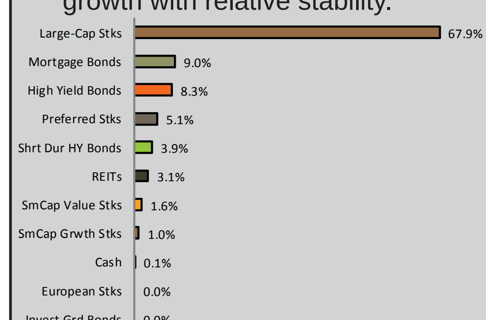
Focused REIT

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: Equities Rally on Trump Presidency

Equities rallied overall in the fourth quarter on the news of a Trump presidency. Individual sector performance, however, saw a fair amount of variance as investors placed bets on the tenets of Trump's policies. Financials, Industrials, and Energy sectors lead the way, bolstered by the anticipated favorable Trump agenda. Healthcare saw the worst performance, as investors faced uncertainty surrounding Trump's proposed Obamacare repeal and Trump's target on high drug costs. Interest-rate sensitive utilities also fared poorly, as Trump's spending agenda and tax-cutting policy sparked concerns (along with the Fed's interest-rate policy shift in December).

Sector Performance Review *12/31/16*

	Quarterly Change	Trailing 12-Months
Financials	20.3%	21.5%
Industrials	7.7%	19.1%
Energy	7.0%	26.7%
Telecom	5.2%	23.9%
Materials	5.0%	19.1%
Consumer Discretionary	2.6%	6.5%
Technology	1.0%	13.1%
Utilities	0.3%	17.1%
Consumer Staples	-1.8%	5.6%
Healthcare	-4.1%	-2.6%

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

Fixed Income Review

By Kyle Aron

Trump Triumph

Kyle Aron
Senior Analyst

U.S. markets cheered the widely unexpected election of political outsider Donald Trump in the fourth quarter of 2016. This outcome flew in the face of political analysts who almost uniformly predicted Trump's campaign would fail, casting him as doom for the economy and financial markets. Republicans now have a government stronghold, controlling both houses of Congress and the Presidency. The stars may have finally aligned in Washington - the time has come to get down to the critical work of fixing problems that malign the U.S. political and economic environment.

The S&P 500 notched an additional 3.8% gain for the fourth quarter, bolstered by enthusiasm for a Trump presidency and its largely business-friendly political intentions. The S&P's total-year increase registered at 12.0%. This was the market's best annual performance since 2013, defying earnings which declined overall for the second year in a row. Conversely, fixed income was largely down in the fourth quarter as the bond market reacted to Trump policy implications and the Fed's decision to raise its benchmark interest rate in December (while further signaling three more increases slated to come in 2017). Real-estate mostly followed the performance of its fixed income peers, as rising rates and rental overcapacity weighed on investors. REITs ended the quarter down 3.2% (IYR). Gold fell sharply in the fourth quarter, down nearly 13.0%, though it ended the year up over 8.0% (GLD).

Fixed income markets, while enduring a bumpy ride in 2016, still managed to end the year with overall positive performance. High quality bonds started the year off strong, bolstered by an equity market sell-off and a dovish Fed posture. Brexit volatility mid-year continued to push these bonds higher. However, this trend reversed sharply in the fourth quarter. Trump's sizable infrastructure spending initiatives and planned tax-cuts weighed on interest-rate and inflation sensitive bond investors, as did the Fed's rate hike. After falling nearly 13.0% in the fourth quarter, long-term Treasurys ended the year up just 1.2% (TLT). Mid-term Treasurys followed suit, down 5.8% in Q4 and up 1.0% for the full year (IEF). Investment-grade corporate and mortgage-backed securities likewise fell 3.9% and 2.3%, respectively, in the fourth quarter (LQD; MBB).

Conversely, high-yield fixed income performed strongly alongside rallying equity markets and risk-on investor sentiment. High-yield performance was further buoyed as this sector recovered from the harsh energy-related sell-off of 2015. High-yield corporate bonds were up 0.9% in the fourth quarter, and returned 13.4% overall for the year. Leveraged commercial mortgage-backed securities also performed strongly, up over 25.0% in 2016.

As investors look forward for 2017, close attention must be paid to the incoming administration. Trump's policy initiatives are a mix of those that are more imminent, and those that must undergo lengthy approval processes in order to be fully (if ever) realized. Trade, healthcare, deregulation, and tax agendas comprise the former, while infrastructure and other spending policies remain the later. As these policies flow through and impact asset classes, investors would be wise to understand how and when they may actually be realized, and position accordingly. Further, clarifying the line between Trump's rhetoric and actual intention will be key. A tough, business-oriented negotiator could be just the medicine Washington and the economy need.

A Word From Our Advisory Team

Jill Pletcher
Vice President
Senior Financial Advisor

Tax Tid Bits for 2017

Starting with the year 2017, the following numbers will be applicable:

- Estate Tax Exemption amount increased from $5.45MM to $5.49MM
- Lifetime Gift Tax Exemption Exclusion $5.49MM
- Maximum Estate and Gift Tax Rate remains at 40%
- Annual Exclusion for Gifts remains at $14,000
- Capital Gains Rate remains at 15% for most taxpayers (20% for tax filers earning +$418,400 for single and +$470,700 for joint filers). Those in the 10-15% tax bracket do not pay capital gains
- Federal Tax Bracket rates remain the same - 10%, 15%, 25%, 28%, 33%, 35% & 39.6%
- Annual Benefit under a Defined Benefit Plan increase to $215,000 from 210,000 in 2016
- The limit on annual additions to Defined Contribution Plans increases to $54,000 from $53,000
- 401(k) Contribution Limits remains at $18,000
- 401(k) Catch-Up Provision for individuals age 50 and over remains at $6,000
- IRA Contribution Limits remain unchanged
  - IRA & Roth IRA $5,500
  - IRA & Roth IRA over 50 $6,500
- Education IRA Contribution limit remains at $2,000
- College Tuition credit remains at $2,500 through 2017
- FICA tax rate remains at 7.65% (combined social security tax rate of 12.4% and Medicare tax 1.45%)

Economic & Financial Market Charts

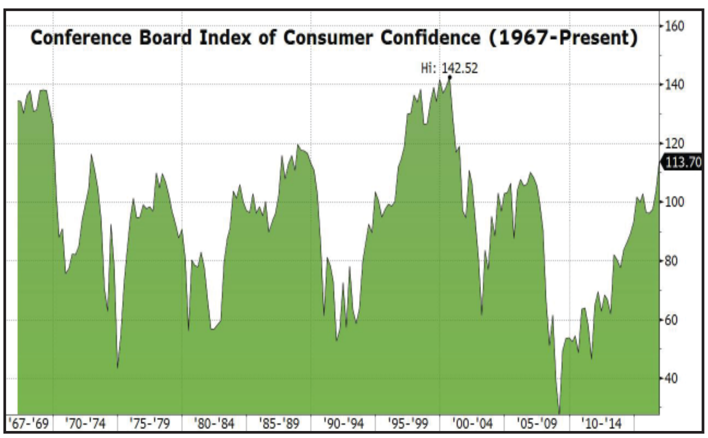


Figure 1 - Source: Bloomberg Financial

Graph of U.S. Consumer Confidence Index, which sits at the highest level in 15 years

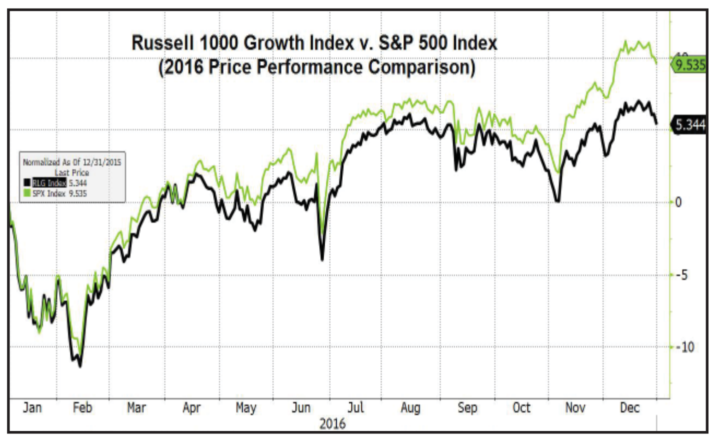


Figure 2 - Source: Bloomberg Financial

Graph of equity market growth index price performance (Russell 1000 Growth) vs. the S&P 500 in 2016

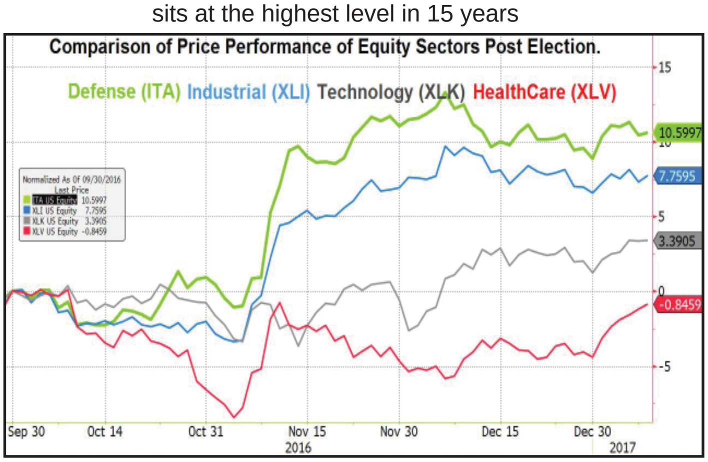


Figure 3 - Source: Bloomberg Financial

Graph showing price performance of select equity sectors following the election of Trump

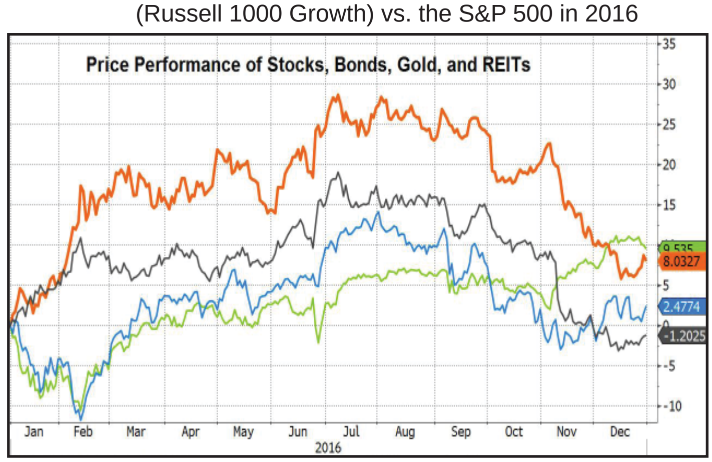


Figure 4 - Source: Bloomberg Financial

Graph reflecting price performance of the S&P 500, Gold, REITs, and Treasurys in 2016