Inside Views From an Investment Management Leader

UPDATE

October 2017

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

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In the News

Concord Has Moved!

In case you missed the news in our last letter - we are excited to announce that we have moved to a new location! Please see the full details on page 4 of this newsletter. We look forward to welcoming each of you to our large new home!

Economic Review & Outlook

Growth Picture Improves!

Mitch Pletcher
President
Chief Investment Officer

Despite a flattening in consumer confidence in the US (pg. 4, fig. 1), growth in the American economy improved in the third quarter of 2017. GDP for the second quarter was revised upward from 2.2% to 3.1%. Corporate earnings accelerated in the third quarter for the S&P 500 to over 17% (pg. 4, fig. 2). Consumer confidence which hit a 17 year high in March 2017, has since eased back modestly. The change in trend for consumer confidence is difficult to quantify but it is likely due to politics in Washington and the country's inability to come together since the election.

Historically the country has been sharply divided during election years over the way the country should be led. However, the country has almost always united after the election and worked together to make the best of what the majority voted for during the election. 2016 was another election year where our citizens were sharply divided over the direction America should take going forward. As we are all aware, the majority elected Donald Trump, and in doing so voiced support for the significant change he promised to bring to America. Some of these changes represent a 180° reversal from the way Obama had led the country over the last eight years. Despite the fact that the majority has spoken, the country has not been able to come together, seemingly due to divisive actions and comments from highly visible individuals that don't understand successful democracies. The country seems to be almost experiencing a revolution between the citizens who represent the way the country has been run for the last 200 years versus the new direction pushed by liberals over the last few decades. The conservatives claim that Obama took America down this liberal path deceptively and without full disclosure, while the liberals believe that the socialistic ways of Europe were bound to overtake the capitalistic ways of America. While it is unclear how this will play out it would seem like the country is more likely to come together than be torn apart. Consumer confidence will likely return to its path of the last ten years as the country unites.

For the most part the consumption engines driving the American economy are up and running at a modest to moderate pace (pg. 4, fig. 3). US exports, while flat the last several months, have been on a higher trend for the last year. The globe is getting better economically and as a result it is consuming more American goods and services. Emerging markets have come to life as manufacturing accelerated in the third quarter due to this global strength. Personal income and wage growth in America continue to show mild improvement (pg. 4, fig. 4). US wages accelerated in the third quarter to $26.55 per hour as unemployment fell to a 10 year low of 4.2%.

(continued on pg. 2)

Economic Review & Outlook (continued)

(continued from pg. 1)

While retail sales have been flat, personal consumption experienced mild growth during the third quarter. Government spending has been flat to lower but the data is concealing higher spending that will come over the next few years as US defense contractors accumulate orders now. The same trend is visible in the industrial sector.

China continues on a path of strong growth, albeit slower relative to historical standards. Russia continues to be an island of political problems in the mature part of the world with little to no growth this year.

Inflation continues to remain subdued with strong structural underpinnings that will keep inflation muted for years to come. As a result, central bank policy is accommodative and friendly and will likely remain this way until much stronger growth emerges.

There are not any signs of excess capacity to note, something that occurs regularly near the end of growth cycles.

The outlook for corporate earnings continues to improve. Thus far in 2017 the recovery in earnings growth has continued with first quarter's growth netting 18.6%, second quarters' growth logged 16.5%, third quarters' growth was 10.9%, and fourth quarters' growth is estimated to be 20.3%.

The leadership in the equity markets this year has correlated quite well with the leadership in earnings in the S&P 500 with the outlier being energy. Technology, financials, healthcare, and industrials have all enjoyed great earnings growth this year and likewise have been the leading sectors in the market. Energy has performed poorly in the market but earnings have now turned upward in Q317 for the first time in several years. Utilities, telecom, and consumer Staples had poor earnings growth and likewise were the laggards in the market.

With interest rates still close to all time lows, and earnings growth reaccelerating nicely, equities still seem to be the asset class of choice.

We remain optimistic.

Table 1: Stock & Bond Market Returns — *9/30/17*

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	5.7%	21.7%	Small Cap Value (IWN)	5.3%	20.6%
Large Cap Value (IWD)	3.0%	14.9%	Small Cap Growth (IWO)	6.4%	21.3%
Europe Asia Far East (EFA)	5.0%	18.9%	Emerging Markets (EEM)	8.3%	21.6%
Invest Grade Bonds (LQD)	1.4%	1.6%	High Yield Bonds (HYG)	1.7%	7.0%
Interm Treasurys (IEF)	0.4%	-3.1%	Mortgage Bonds (MBB)	0.9%	0.0%

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

Table 2: Real Estate & Commodity Returns — *9/30/17*

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	1.0%	3.2%	DJ Commodity Index (DJP)	2.6%	-0.9%
Int'l Real Estate (IFGL)	3.1%	3.9%	Goldman Commodity (GSG)	6.3%	0.5%
NAREIT Residential (REZ)	-1.4%	1.8%	Gold (GLD)	3.0%	-3.2%

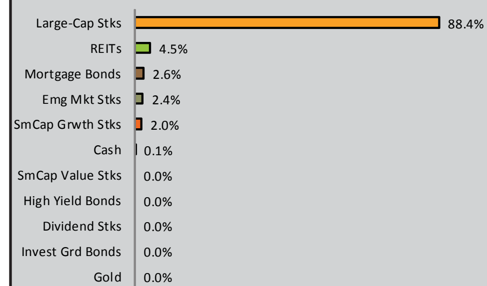
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

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.

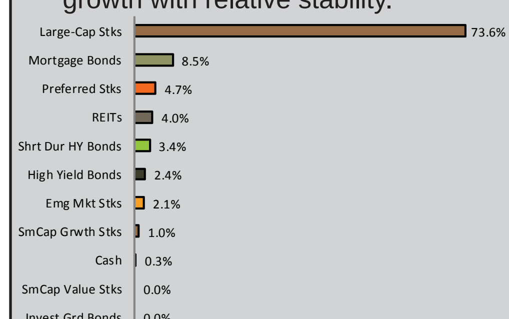
Focused REIT

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: Earnings Drive Performance; Leadership Rotates

Equities continued their steady climb upwards in the third quarter of 2017. Year-over-year quarterly earnings growth was strong once again for the broad S&P 500, up 11.0%. The technology sector led the way once more, with nearly 9 in 10 companies reporting upside earnings surprises. The quarterly earnings growth for the technology sector was a staggering 18.8%, leading this segment to return 8.6% in Q3. Apart from technology, sector leadership largely rotated to prior laggards. Energy earnings roared back from the depths this quarter, up 274.4% year-over-year. Energy was a top performer as a result, returning 6.9% for the quarter. Telecom and materials segments also performed strongly in Q3. Every sector showed aggregate earnings growth for the quarter, helping the S&P 500 rise to an impressive 13.3% return year-to-date.

Sector Performance Review

9/30/17

	Quarterly Change	Trailing 12-Months
Technology	8.6%	28.3%
Energy	6.9%	-0.7%
Telecom	6.5%	0.8%
Materials	5.9%	21.9%
Financials	5.1%	35.1%
Industrials	4.7%	22.9%
Healthcare	3.4%	15.5%
Utilities	2.9%	12.1%
Consumer Discretionary	1.2%	15.9%
Consumer Staples	-1.3%	4.2%

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

Fixed Income Review

By Kyle Aron

Equities, Uninterrupted

Kyle Aron
Senior Analyst

Strong earnings, improving economic data, and a persistently cautious Fed led markets to continue their steady climb upwards in the third quarter. The S&P 500 registered a solid 4.5% return in Q3. Quarterly earnings for the S&P 500 grew in every market sector, as Q2 GDP was revised up to a moderate 3.1% annualized pace. Businesses and consumers have clearly felt a positive impact from strengthening economic conditions, with the ISM Manufacturing index trending upward to its highest level in three years and consumer confidence still hovering near the highest levels since 2000. Despite geopolitical tensions and a somewhat turbulent start for the tenacious Trump administration, markets, businesses and consumers remain confident in the path of the country and its economy.

Equities clearly led the way in performance for the third quarter alongside their continued earnings growth (S&P 500 +4.5%). Technology again outperformed in both returns and earnings growth, while the remaining sectors saw some rotation in leadership. Fixed income performance was largely flat, buoyed only by flare-ups in geopolitical tensions and the Fed's reluctance to raise rates for a third time this year at its September meeting. REITs moved up only slightly in the third quarter, in-line with their fixed income counterparts (IYR, +1.0%). Broad commodity indices did modestly better (DJP, +2.6%), as oil rallied off the depths of its Q2 lows and gold showed a glimmer of life (GLD, +3.0%).

As noted above, fixed income continued to lag as an asset class during the third quarter of 2017. Rising geopolitical tensions, ostensibly a boon for safer asset classes, were tempered as the Fed reiterated its plan to begin winding down its balance sheet this coming October. While perhaps wishful thinking, the Fed hopes to reduce holdings up to 60.0% over the next five years. In light of this, Treasurys across the curve returned an average of only about 0.3% in Q3 (TLT, IEF). Investment-grade corporate bonds did slightly better in-line with continued business strengthening, up 1.4% (LQD). High-yield corporate debt slightly edged out its higher-quality counterparts alongside risk-on investor sentiment (HYG +1.7%). In the same vein, leveraged commercial mortgage debt continued to shine, substantially outperforming in the fixed income space (PCM +5.8% QTD, +24.9% YTD).

Investors may well be pleased that the Fed has begun putting some powder back in its pack as it gradually tightens policy alongside improving economic conditions. Nevertheless, the Fed maintains that it would be willing to halt or reverse tightening measures if presented with unfavorable and or worsening conditions. Meanwhile, corporate earnings continue to grow as economic growth has ticked up. The Trump team inevitably scoring a major policy victory (i.e. healthcare, tax reform) will only serve to fuel the fire driving markets higher and economic progress forward.

Economic and Financial Market Charts

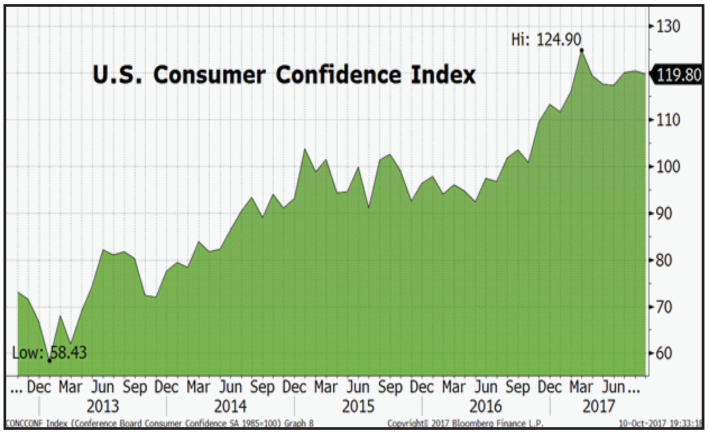


Figure 1 - Source: Bloomberg Financial

Graph of U.S. Consumer Confidence Index, which sits near the highest levels in 17 years

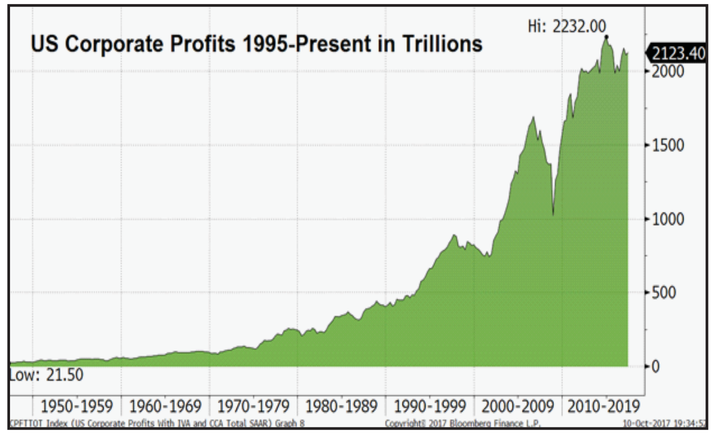


Figure 2 - Source: Bloomberg Financial

Graph of U.S. Corporate Profits, hovering near all time highs

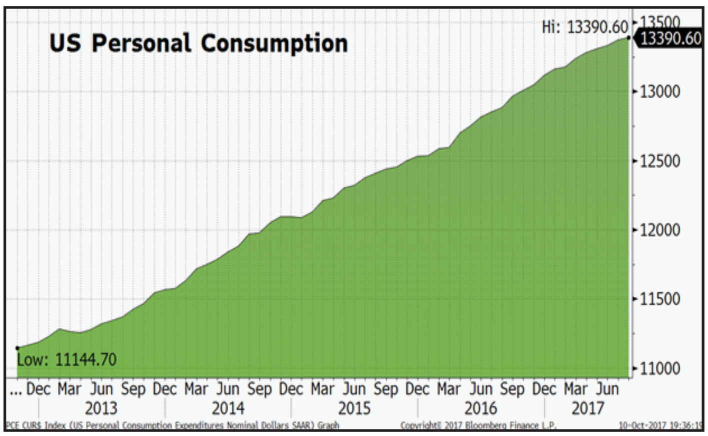


Figure 3 - Source: Bloomberg Financial

Graph of U.S. Personal Consumption, continuing on a steady upwards climb

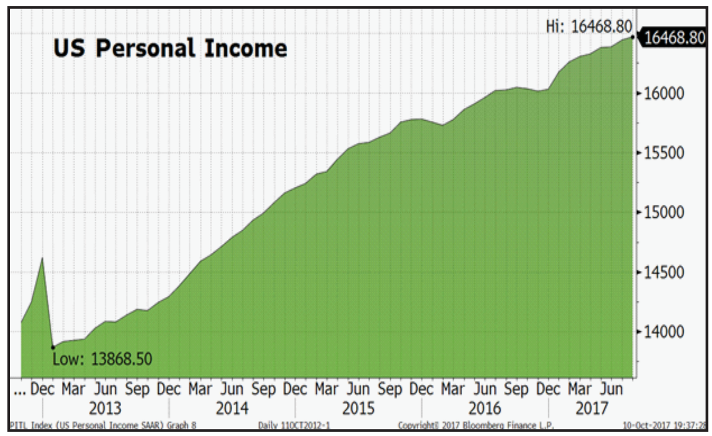


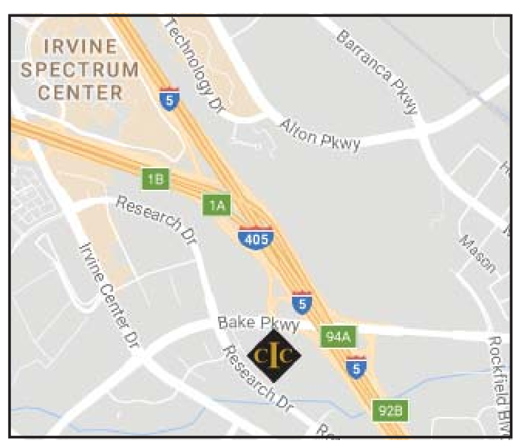
Figure 4 - Source: Bloomberg Financial

Graph of U.S. Personal Income, resuming its path upwards after pausing in late 2016

Concord Has Moved to a New Location

As clients may recall, Concord's offices were relocated from Main Street in Newport Beach to the Irvine Spectrum office area approximately four years ago. The four year lease Concord had on the subsequent location matured in early 2017. All things considered, we have decided to make the Irvine Spectrum office area our permanent home. As such, we are proud to announce that Concord has purchased a larger office building just a few blocks from the current location in Irvine California.

The new facility has two conference rooms, four private offices and a 100 seat theater. This new facility along with its built-in theater will allow our firm to conduct in-house luncheons, client meetings, and investment events, enabling us to enhance our client services and at the same time stay close to the markets and the ever-changing global economy. The new facility is located just a few blocks from our previous location. Our phone numbers remain the same. We look forward to seeing each of you at our next private client meeting or client event held at our new facility.



Our new address is:

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