

UPDATE

January 2009

ABOUT OUR COMPANY

Company Profile:

Concord Investment Counsel is an Irvine based, fee-only investment management company specializing in Domestic Equity and Domestic Fixed Income Management. Our prudent investment philosophy is ideal for conservative investors seeking growth, income, and risk management.

Investment Strategy:

Concord invests in mid- to large-cap growth oriented companies with strong leadership, superior products, and sustainable growth plans. Our investment strategy incorporates both growth and value methodologies.

Company Goals:

- High Alpha
- Low Tracking Error
- Average Volatility
- Excellent Client Communications
- Comfortable Relationships



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Economic & Financial Market Review & Outlook

Worst Recession Since?

The US is in what appears to be the worst recession since 1990 and may well exceed many measures of that downturn. Consumer-led recessions are more difficult to recover from and tend to be longer than recessions brought on by corporate over-consumption (as in 2001). This will likely be no different. The drivers of this recession are rooted in the housing boom that began in the late 90's and accelerated over the last five years. Monetary stimulation by the Fed, combined with consumer and corporate greed, throughout and following the 2002 recession, produced the boom and bust cycle that we are reeling from today. There are lots of immediate problems for the economy and some long term concerns as well.

The state of our banks and the poor shape of the US consumer are the headline issues that are being dealt with first. Unfortunately there is no quick fix for the consumer's problems. Unemployment and high levels of debt will persist for some time. Foreclosure rates are still rising but Fed and government actions have been quick and strong and will likely stabilize housing some time this year.

Credit problems are a sizable obstacle for a recovery in housing and general consumption. The credit problem is complicated and will linger for quite sometime. Capital is not available through normal channels because banks and investors' appetites for risk have changed. The financial world abused the securitization process which provided a large part of the debt that consumers and corporate America borrowed over the last decade. That process is now gone and the void is significant.

To counter these problems the Fed has opened the discount window to investment banks and auto makers. He has lowered short rates to near zero and driven longer term rates to historical lows with open market transactions. Today's near-zero interest rates will likely be around for years, not months (as in 2002). The problems in housing are being mitigated by lowering rates. Adjustable mortgages that had 3-5 year balloons are now being reset. Most adjustable mortgages are based upon 1 year Treasuries plus a margin of 2-3%. With today's rates the reset will be affordable; however, if rates bounce back the problem will resurface quickly.

The banking sector's health is critical to recovery. The Treasury has loaned billions to our largest banks in an attempt to fix their balance sheet problems. To further restore order, the Fed has insured intra-bank lending and the FDIC is now insuring new bond market issues for several troubled banks. The government appears to have decided that A BANK THAT IS TOO BIG TO FAIL IS JUST TOO BIG and is forcing banks like Citigroup to shrink considerably. The success of all of these actions is unclear; but earnings reports due from most banks over the next few weeks will give us more insight as to whether the worst is behind us.

America and Capitalism have taken a fall through this crisis. However, if we gauge respect for America by the flow of foreign money into our Treasury market, we would have to conclude that respect is still quite high. Despite record borrowing by the US Treasury, interest rates have found their way lower, not higher, indicating strong demand for US dollars and US debt. With rates between 0-3 percent, the costs to finance this bailout

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are modest and have likely allowed the Fed's printing press to remain relatively quiet. The risks in the markets have now turned toward deflation again.

Unfortunately, cheap but hard-to-get credit and \$2 gasoline will not get people re-employed. Obama has proposed \$1 trillion in government spending on public works projects to get people in construction back to work. Tax rebates and more help for distressed homeowners are likely as well.

The equity and corporate bond markets were hit hard by fear, panic and forced liquidations in 2008. Both markets seemed to hit bottom in the 4th quarter. Bond markets have recently reversed course and have rallied strongly from their October lows. Investors' appetite for risk also has begun to return, while the bond market has been the beneficiary.

Equity markets normally bottom 9-12 months before the economy does. If November was the equity market's low, the economy may bottom out in late 2009. We believe the equity market's performance will be closely tied to news from the banks regarding their health. Ultimately, financial stocks will lead the market higher. There is a value proposition in stocks that is hard to overlook and will provide support at current levels until a recovery in the economy is visible.

We remain concerned.

Sector Review

12/31/08

Best Performers

Quarterly %
Change

Worst Performers

Quarterly %
Change

Brewers	16.29	Oil Equipment & Services	-48.95
Gold Mining	3.15	Renewable Energy Equipment	-49.70
Airlines	0.15	Coal	-50.05
Water	-0.76	Aluminum	-50.72
Fixed Line Telecommunications	-1.44	Full Line Insurance	-52.95
Restaurants & Bars	-6.71	Real Estate Services	-53.00
Waste & Disposal Services	-7.03	Paper	-54.22
Pharmaceuticals	-7.30	Tires	-57.77
Integrated Oil & Gas	-7.74	Automobiles	-57.81
Biotechnology	-8.45	Alternative Fuels	-70.76

Source: The Wall Street Journal

Market Diary

12/31/08

Equity Returns

Quarterly
Change

YTD
Change

Quarterly
Change

YTD
Change

US Large Cap Core	-21.99%	-37.23%	Mid Cap Core	-25.09%	-38.53%
US Large Cap Growth	-23.25%	-40.70%	Small Cap Core	-25.95%	-36.21%
US Large Cap Value	-21.72%	-37.36%	International	-21.27%	-44.24%

Returns are mutual fund averages from Lipper as reported by The Wall Street Journal. Performance includes dividends.

CIC Asset Allocation Growth	-13.89%	-29.52%	S&P 500	-22.56%	-38.48%
CIC Growth	-25.72%	-41.69%	DJIA	-19.12%	-33.84%
CIC Diversified Equity	-27.39%	-44.88%	Nasdaq	-24.61%	-40.54%

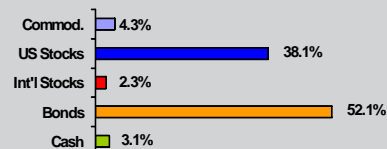
The data above for Asset Allocation Growth, Focused Growth and Diversified Equity are CIC model portfolios and not composites of client accounts. Performance data for equity indices and CIC model portfolios listed here exclude dividends and are gross of fees. The information and data contained in this newsletter were obtained from sources considered to be accurate. Their accuracy and/or completeness cannot be guaranteed.

Balanced Portfolios

Asset Allocation for Growth

A dynamic blend of stocks, bonds, and cash for moderate investors with a bias toward growth balanced by income-producing investments.

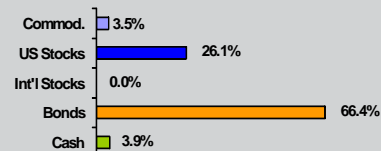
Allocation as of 12/31/08:



Asset Allocation for Income

A portfolio of stocks, bonds, and cash for moderately-conservative investors seeking income and growth with relative stability.

Allocation as of 12/31/08:



Equity Portfolios

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.

Fixed Income Portfolios

Strategic Total Return Bond

A diversified portfolio of mid-and long-term bonds, actively managed for yield, capital preservation, and strategic capital gains.

Ultra Short-Term Bond

A short-duration bond portfolio offering active management for yield, safety, and liquidity.

Research Spotlight: *Gilead Sciences Inc.*

With the US economy in the midst of a potentially lengthy recession, we have decided to increase our exposure to the relatively defensive healthcare sector. The biotechnology industry has less exposure to discretionary consumer spending, and is exhibiting solid growth.

We recently purchased Gilead Sciences, a company in the business of developing and commercializing drugs for life-threatening infectious diseases, with the majority of revenues coming from their HIV franchise. Their top-line is growing at 25%, and the company is the dominant player in the Nucleoside Reverse Transcriptase Inhibitor (NRTI) class of HIV drugs, which makes up 61% of the total HIV drug market. NRTIs block an enzyme called reverse transcriptase from transforming RNA to DNA within the human body. DNA is the building block of life, and without it the HIV virus is unable to make functional copies of itself and proliferate throughout the body. What this means is that individuals who used to die as a result of AIDS-related complications within an average of 10 years, are now living closer to the average life expectancy of those who are not infected with HIV as a result of these drugs. Unfortunately, neither a cure nor a vaccine has been developed for the HIV virus, so individuals who stop taking the drugs will eventually develop AIDS-related complications, meaning infected patients are required to take these drugs for the rest of their lives.

Despite concern that the market for HIV drugs has peaked, we believe that ample growth still exists and that Gilead has the opportunity to benefit. First, there are alarming statistics showing that HIV infections in the US and worldwide are growing at disturbingly high rates. 40 million people are infected with HIV worldwide, with 5 million new cases each year. The United States has 1.2 million people living with HIV, which is estimated to grow to 2 million in 2019. Second, only 75% of US HIV patients are diagnosed. But this number should increase as states are now eliminating the requirement of written consent to perform an HIV test (two-thirds of states currently require consent to test for HIV when drawing blood). Third, the Department of Health and Human Services has recommended treating HIV patients earlier, when CD4 white blood cell counts drop below 500 cells/mm³ instead of the current guidelines of 350 cells/mm³. In addition, Gilead continues to take significant market share within the NRTI class from GlaxoSmithKline, due to better efficacy and health concerns related to one of Glaxo's primary drugs.

Outside of HIV, Gilead has a solid portfolio of drugs to treat various infectious diseases, which include chronic hepatitis B, invasive fungal infections, and long-term treatment of pulmonary arterial hypertension. In the phase III pipeline, Gilead is developing a new class of HIV medication (Integrase Inhibitor) and treatment for cystic fibrosis. Gilead also has a promising drug for the treatment of hepatitis C in earlier stage clinical trials.

As mentioned above, we favor biotechnology companies in this economic environment due to their defensive recessionary characteristics. Most biotech drugs are developed for life-threatening diseases, which users rely on for survival regardless of underlying themes in the economy. Gilead is one of the most defensive names within the industry group, and their HIV treatments are highly recurring and have little correlation to consumer spending. HIV drugs are covered by insurance, with the majority funded by government payers in both the US and abroad.

With the Obama administration pledging to reform healthcare spending, much rhetoric has surfaced related to the exorbitant cost of biotech drugs. Biotechs have had little threat of generic substitution to this point, due to the cost and difficulty in creating a generic substitute, but the potential threat of "biosimilars" is a long-term concern to investors in these companies. Yet we feel that any resolution of these issues is several years away, making the intermediate term benefits of investing in these names difficult to ignore. Therefore, we are very comfortable owning a biotech name in this troubled economic environment, and especially a name like Gilead Sciences.

For most of 2008, the US bond market struggled with more or less typical bear market challenges. Financial institutions were dealing with the lending bubble hangover, and economic recession progressed from possibility to reality. As the fourth quarter approached, however, a shockingly rapid chain of events shook the world's financial system to its core. Following the TARP snafu in September, confidence continued to unravel as the survival of the globe's most important financial institutions was called into question. Credit markets froze over with destructive consequences—we would later learn that the credit vacuum slammed the brakes on almost every area of the economy in the quarter. For most of the final quarter of the year, each day ended with doubt as to whether the financial system as we know it would still be there the following morning.

Policymakers responded with aggressive action, recognizing the importance to the global economy of keeping credit flowing. Without precedent or playbook, there were stumbles and inconsistent application of policy. As the credit market struggled to come back to life, the Fed and Treasury raised the bar and unleashed an unprecedented amount of monetary stimulus. With money markets and commercial paper in crisis, a veritable alphabet soup of purchase facilities and loan programs were created. Crudely accounted for, these efforts totaled more than \$2 trillion for the year. The Fed also cut rates essentially to zero at its December meeting.

For a time and in spite of policy action, investors continued to shun risky assets and fled to the perceived safety of Treasuries. T-bills were purchased at 0% yield in the panicked dash to cash. Intermediate- and long-term Treasuries also rallied sharply—the yield on the 10-year note dropped to as low as 2.04% while the 30-year bond reached 2.52%. Inflation-protected TIPS are implying just 0.17% annual inflation for the next decade, an unlikely outcome. Speculators have begun to wonder if Treasuries have become the next bubble and whether higher rates will be required to attract investors as the Treasury seeks to fund at least a \$1 trillion deficit in the coming year.

Lower rates were of no help to the rest of the bond market. Spreads on investment-grade corporate bonds exploded to an astonishing 600 basis points over Treasuries. High-yield bonds were eviscerated as yields rose over 20%. This segment of the market suffered its worst year ever, collapsing to levels that imply default rates of over 50%. As worries grew over the credit quality of state and local governments, municipal bonds also widened to unprecedented levels. Agency and agency-backed mortgage paper drew support from government actions, while the securitized mortgage market continued to deteriorate.

By the end of the quarter, policy action succeeded in thawing the frozen market and signs of healing began to emerge. Spread product rallied strongly in the final weeks of December. Even with a very bad economy in 2009, bond spreads have the potential to tighten. What is much less certain, however, is whether that will occur in the context of higher interest rates. With Treasuries prices at lofty levels, any sudden improvement in the economy will likely push rates back up.

A Year We're Glad to Leave Behind Us

By Michael Buccowich

It's a good thing recessions and bear markets don't last, because times like these can wear on a person. 2008 seems like one of those years investors were just glad to escape alive. Most investors understand the trade-offs of stock ownership for the best after-tax returns over time beyond inflation, we put up with market declines about one third of the time. In other words, we know that some 12 of every 36 months we won't like owning stocks, but we never know which 12 will be lousy, so we stay with it for the superior long-term results. To insulate our portfolios during stock slumps, we often diversify to other asset classes like bonds, foreign markets, and real estate so our wealth doesn't cluster up on a chart, either soaring or swooping in tight formation. But in rare seasons, declines are deep and pervasive, and nothing much works well.

The striking thing about 2008 is that it seemed like just about everything was down about 40%. A closer look shows bonds provided some welcome relief on the year, while a modest equity surge in December mitigated a little of the overall damage. The fourth quarter was especially brutal and offered vague comfort only as we recall "it's always darkest before the dawn."

	Index Name	MTD	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Large-Cap Equity	Russell 1000® Growth	1.81	-22.79	-38.44	-38.44	-9.11	-3.42	-4.27
	Russell 1000® Value	1.39	-22.18	-36.85	-36.85	-8.32	-0.79	1.36
Mid-Cap Equity	Russell Midcap®	4.27	-27.27	-41.46	-41.46	-10.68	-0.71	3.18
Small-Cap Equity	Russell 2000®	5.80	-26.12	-33.79	-33.79	-8.29	-0.93	3.02
International Equity	MSCI Eur/Asia/Far East	6.01	-19.95	-43.38	-43.38	-7.35	1.66	0.84
	MSCI Emerging Markets	7.80	-27.60	-53.33	-53.33	-4.91	7.66	9.02
Fixed Income	Barclays Aggregate Bond	3.73	4.58	5.24	5.24	5.51	4.65	5.63
	Barclays Short Treasury	0.14	0.66	2.85	2.85	4.27	3.38	3.61
Commodities	S&P GSCI	-13.32	-47.00	-42.35	-42.35	-15.53	-2.36	7.35

Percent returns ending 12/31/08. Source: Barclays Global Investors

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Important News for IRA Owners over age 70½

By Michael Buccowich

President Signs Bill – RMD Suspended for 2009

IRA owners who don't want or need to take a required minimum distribution (RMD) in 2009 received a gift before Christmas – the US Congress approved legislation that provides relief to Americans who are required to make retirement account withdrawals after age 70½. President Bush signed The "Worker, Retiree, and Employer Act of 2008" on December 23, 2008, placing a one-year moratorium on required minimum distributions for 2009.

While much of the legislation relates to pension plan funding requirements by revising earlier law, one of the most significant provisions in the act is the temporary suspension of required minimum distributions (RMDs) for 2009 from IRAs and employer plans such as 401(k), Profit-Sharing, Money Purchase Pension, 403(b), and certain 457 retirement plans.

The law does not change requirements for taxpayers who attained age 70½ in 2008 and could have taken their RMD last year, but choose to wait until April 1, 2009. They still are required to take their first RMD by April 1, 2009.

Technically, the law waives the 50% excise tax imposed on RMD amounts not taken by the annual deadline. The required minimum distribution for each year generally is determined by dividing the account balance as of December 31 of the prior year by a distribution period, generally a number in the Uniform Lifetime Table. This table is based on joint life expectancies of the individual and a hypothetical beneficiary 10 years younger than the individual. There are other rules used for individuals whose spouse is more than 10 years younger as well as rules for annuity payments from insurance contracts. In practice, the RMD usually amounts to about 4% of the prior year's closing value.

Of course, American retirees might have liked to see the law take effect retroactively for 2008 since many RMDs were generated against falling IRA portfolio values. But it would have been impossible to implement backwards in a fair manner since no one could reverse the untold numbers of transactions and distributions that had taken place before December 23rd. As a matter of financial planning, the timing of each RMD should be set to meet the retiree's cash flow needs in monthly, quarterly, or annual payments and not be based on market expectations – but clearly the stock market favored distributions made earlier during 2008.

The bottom line: if you are an IRA owner over age 70½, you are not required to take a distribution in 2009. If you turned 70½ in 2008, you must take your 2008 distribution by April 1, 2009 if you haven't done so already. IRA distributions in 2009 are voluntary and, like always, are taxable as income. If you are over age 59½, you may withdraw only what you need, if anything, otherwise leaving the investments for potential growth recovery during the year.