

UPDATE

October 2009

About our Company

Company Profile:

Concord Investment Counsel is an Irvine based, fee-only investment management company specializing in growth strategies. Our prudent investment philosophy is ideal for conservative investors seeking growth, 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

Optimism Abounds

A modest upturn in housing and manufacturing produced a significant change in optimism held by investors hoping for a cyclical bounce in the economy.

This optimism turned almost euphoric as the market's rally intensified into the end of the quarter. Most US equity indices gained 15% or more, while emerging markets gained over 30%. Investors embraced risk in a way not seen since late 2007.

Value stocks, which do well during "V" shaped recoveries, lagged the market in Q1 and Q2 as investors favored growth in the belief the recovery would be "U" shaped or "L" shaped. However, thoughts of recovery developing sooner and stronger than anticipated led to optimism boiling over in Q3 and investors favoring value over growth. As a result, the Russell 1000 Large Cap Value Index gained 17% in Q3 versus a 13% gain for the Russell 1000 Large Cap Growth Index.

Investor euphoria affected the credit and REIT markets as well. Distressed income investments which had been left for dead in late 2008 returned to favor. Most junk bond indices gained double digits in Q3 along with private label CMOs, mortgage REITs, and preferred stocks. Stock investors decided real estate was likely to bounce soon and hence ran into REIT stocks, driving commercial property and office building REITs up over 30% from decade lows.

Unfortunately, the excitement noted in financial markets was absent from trends in the US and global economies. Consumer confidence (see graph above) still lies at levels far from optimistic.

Investors have seemed to ignore trends in commodities, the dollar, (see charts on page 2) debt, housing foreclosures, and employment. Obviously, one could argue these are lagging indicators and will eventually reverse trend. But it would seem too early to begin the party, especially given the fact that some of these data points (like foreclosures) are accelerating again.



Mitch Pletcher
President & Chief
Investment Officer



We believe the upbeat thesis held by the market will prove true over the next several years; however, today's optimistic bets on highly cyclical names may be disappointed in the near term.

The obstacles opposing a "V" shaped recovery present a challenging – if not near impossible – obstacle course for our economy to maneuver. The most daunting roadblock is the job creation required to get back to 3-4% annual GDP growth. This means adding jobs at a rate not seen in past recoveries nor even in good growth phases. So far, 8 million jobs have been lost in this recession. Meanwhile, the debt overhang is another onerous challenge. The deleveraging cycle our nation faces could last a decade or more, slowing consumption and growth considerably. The economy will get better, but the "U" or "L" shaped recovery is much more likely than the "V" shaped currently expected.

Q4 will likely see growth stocks in favor again as in Q1 and Q2, with value stocks fading along with the present cyclical optimism. Despite our cautious tone for a quick economic recovery, we believe stocks, commodities, and real estate can do quite well in a slower, more subdued recovery similar to the early 90's.

Stock & Bond Market Returns

09/30/09

| | Quarterly Change | YTD Change | | Quarterly Change | YTD Change |
|----------------------------|------------------|------------|------------------------|------------------|------------|
| Large Cap Growth (IWF) | 13% | 25% | Small Cap Value (IWN) | 21% | 15% |
| Large Cap Value (IWD) | 17% | 12% | Small Cap Growth (IWO) | 15% | 29% |
| Europe Asia Far East (EFA) | 19% | 22% | Emerging Markets (EEM) | 21% | 56% |
| Invest Grade Bonds (LQD) | 6% | 5% | High Yield Bonds (HYG) | 8% | 14% |
| Interm Treasuries (IEF) | 2% | -6% | Mortgage Bonds (MBB) | 1% | 2% |

Source: Barclay's Global Investors ETFs. Actual performance excluding dividends.

Real Estate & Commodity Returns

09/30/09

| | Quarterly Change | YTD Change | | Quarterly Change | YTD Change |
|--------------------------------|------------------|------------|--------------------------|------------------|------------|
| Dow Jones US Real Estate (IYR) | 32% | 15% | DJ Commodity Index (DJP) | 4% | 10% |
| NAREIT Industrial/Office (FIO) | 39% | 17% | Gold | 7% | 14% |
| NAREIT Residential (REZ) | 29% | 5% | Crude Oil | 1% | 58% |

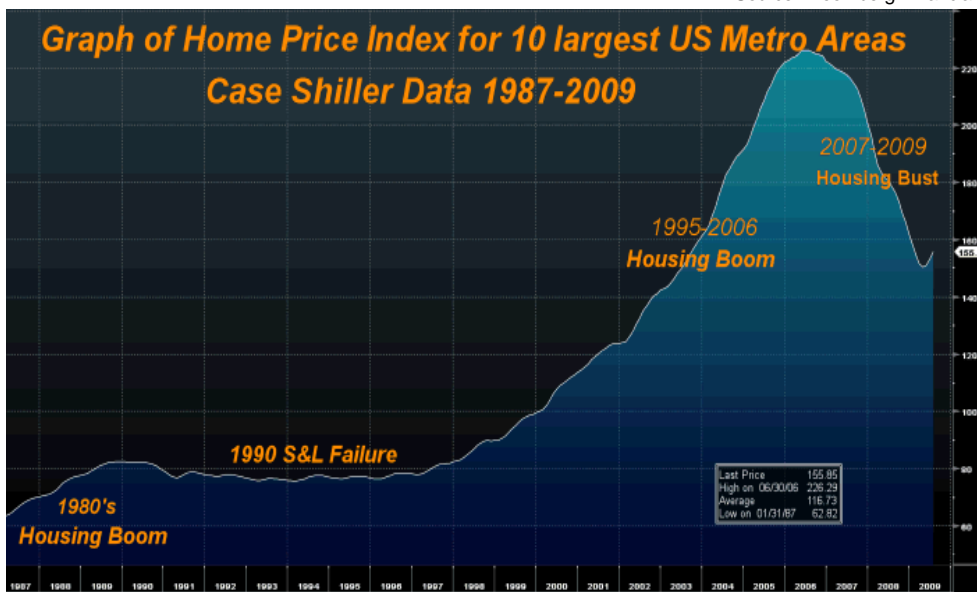
Source: Bloomberg Financial & Thomson Financial

Case-Shiller Home Price Index

01/31/87 - 07/31/09

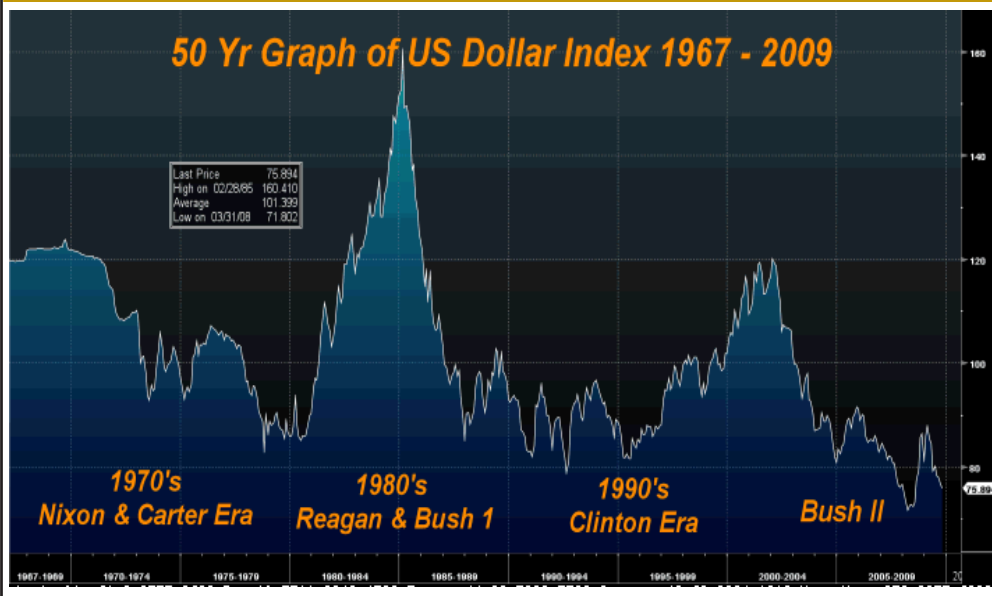
Last 90 Days (04/30/09 - 07/31/09) 3.6% YTD (12/31/08 - 07/31/09) -3.9%

Source: Bloomberg Financial



US Dollar Index Spot Currency

02/03/67 - 10/06/09

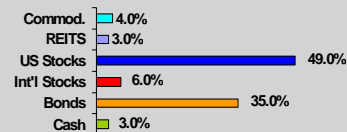


CIC Managed Accounts

Growth Portfolios

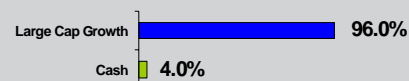
Dynamic Growth

A dynamic blend of stocks, bonds, commodities, REITs, and cash for growth investors with a bias toward timely asset classes.



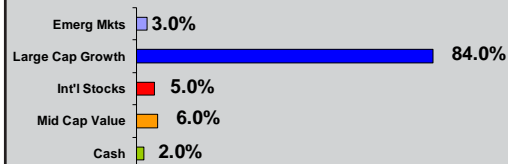
Growth

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.



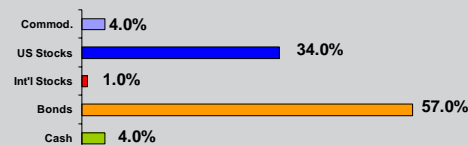
Focused REIT

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.



Sector Focus: 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 a look at what is active in this market cycle.

Secular Consumption Themes:

- The merging of stand-alone technologies into convergent wireless devices. **Technology**
- Wealthier and growing emerging market populations demanding greater agricultural yields to support more "western-like" eating habits. **Materials**
- Secular global demand for energy and the technologies that make it viable to extract natural resources from the farthest reaches of the earth. **Energy**
- Innovation in the development of life-saving drugs and medical devices, and the reduction of inefficient costs within the US healthcare system. **Healthcare**

Cyclical Consumption Themes:

- The return of mild consumer discretionary spending balanced against purchasing decisions based on need instead of want. **Consumer Discretionary/Staples**
- Pent-up demand within the enterprise upgrade cycle. **Technology**
- The re-surfacing of emerging market infrastructure spending. **Industrials**
- Credit market stabilization and a return to banking profitability. **Financials**
- Improvement in hospital cap-ex spending and better visibility on the impacts of healthcare reform. **Healthcare**

Consumption Theme Commentary:

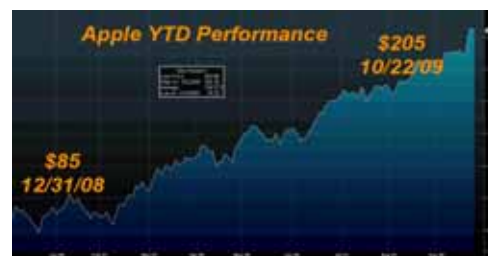
The past year has seen a historic sell-off and rally in the global equity markets. The root of these movements centered on the divergence between perception and reality related to the cyclical consumption themes noted above. At the depth of the market lows in March, investors severely discounted the viability of these cyclical themes; but a 50% rally in the equity markets must mean optimism has emerged for cyclical consumption. In reality, the amount of progress made toward realizing these cyclical consumption themes remains uncertain, which is why we at Concord have been focusing more on the secular consumption themes that are driving growth.

We remain tuned-in to cyclical forces, but resist allowing them to direct our long-term investment decisions based on short-term changes in perception vs. reality. These secular consumption themes have materialized from our investment process, allowing us to manage through the volatility of the current economic cycle.

Stock Research: Our Work Product

Apple Computer (AAPL) \$205.2 on 10/22/09

While historically a great stock and a great company, is Apple an orchard of opportunity or starting to brown? Since it is most



important to test one's assumptions when it feels like both the company and stock can do no wrong, we are reviewing our thesis for continuing to hold Apple.

Headwinds

- Still a Windows world: Apple has 10% market share in computer hardware; but 85% of Mac owners also own a PC.
- Smartphone competition: Wave of new products coming at lower prices with similar features.
- iPhone addressable market: Smaller at higher prices.
- iPod sales decline: Maturing market and iPhone cannibalization.
- Pressure to innovate: Consumer expectations have to be sustained over a broadening product line.
- International: Iconic brand is strictly a US phenomenon. Not as well positioned vs. the competition outside the US.
- Netbook strategy: No participation in fast growing product segment.
- Premium prices: How inelastic is demand in a slower economy with weak consumer spending?

Tailwinds

- Smartphone growth: Powerful convergence trend driving demand for iPhones and like devices.
- iPhone applications: Not just a feature but another product. Big network effect in developer community.
- Marketing strength: Almost as good as the products themselves.
- Halo effect: iPod/iTunes footprint driving Mac sales.
- Superior products: Elegantly simple combination of software and hardware supported by company culture.
- Customer loyalty: Created by brand awareness and positive user experience.
- Profitability: Nearly 50% gross margins on iPhone significantly higher than smartphone competition.

Investment Thesis

Apple's strategy of simplifying technology combined with its software integration prowess should lead to the continued development of evolutionary tech products that consumers love. Revenue from the iPhone will exceed that from Macs by 2011, quite a feat in just four years and testament to the amazing industry growth benefitting the smartphone story. This growth will likely forgive many setbacks, be they flops from fast, expensive product cycles or concerns about CEO Steve Jobs' health. Apple is a free cash flow machine with \$30B in cash on the balance sheet. With nearly unlimited financial flexibility to continue investing in new products and markets, the company is poised to thrive. It is true the stock has doubled since Jan 1, but it commands an earnings multiple in line with a growth rate we expect the company to achieve (in the mid-20s). A market-driven correction could come at any time, but we expect Apple to continue to outperform.

Sector Performance Review

09/30/09

| | Quarterly Change | YTD Change |
|------------------------|------------------|------------|
| Financials | 17.7% | 32.1% |
| Consumer Discretionary | 16.5% | 32.3% |
| Materials | 16.3% | 34.3% |
| Technology | 16.2% | 44.9% |
| Industrials | 15.9% | 18.0% |
| Consumer Staples | 11.4% | 11.1% |
| Energy | 10.5% | 25.9% |
| Health Care | 9.6% | 14.1% |
| Telecomm Service | 9.1% | 21.9% |
| Utilities | 7.8% | 13.0% |

Data based upon Russell 1000 Growth Index and GICS sectors - source: Thomson Financial

Appetite for Risk Sustains Recovery in Stocks



Investors continued to plow cash back into stocks following March's market lows, resulting in the best quarter for large caps since 1998. The Dow Industrials and S&P 500 are up 48% and 56% respectively since March 9, an advance that's typical of recoveries during recessionary bear markets.

The quarter's best returns came from International Emerging Markets, up nearly 21% and dominating all columns dating back ten years. Reversing last quarter's trend, small- and mid-cap stocks led large-caps, and value led growth – also more typical of early phase expansion. The table below illustrates that the 2000s are a lost decade for the S&P 500, flat over the past ten years, while bonds returned a respectable 6.3% for the same period. After substantial price inflation through the mid-2000s, commodities were hammered with dramatic 1-year losses compared to other assets. Large Cap Growth YTD is a notable leader over Large cap Value as seen in the graph below. This reverses the trend of the last 10 years.

As the US economy slogs along between recession and recovery, it seems the cash-driven phase of the rally has run its course, leaving stocks subject to the sensitivity of earnings growth in a weak environment. Working with an appropriate and well-defined asset allocation strategy will continue to benefit most investors.

| | Index Name | MTD | QTD | YTD | 1 Year | 3 Years | 5 Years | 10 Years |
|----------------------|-------------------------|------|-------|-------|--------|---------|---------|----------|
| Large-Cap Equity | S&P 500 | 3.73 | 15.61 | 19.26 | -6.91 | -5.43 | 1.02 | -0.15 |
| | Russell 1000® Growth | 4.25 | 13.97 | 27.11 | -1.85 | -2.50 | 1.86 | -2.55 |
| | Russell 1000® Value | 3.86 | 18.24 | 14.85 | -10.62 | -7.87 | 0.90 | 2.59 |
| Mid-Cap Equity | Russell Midcap® | 5.67 | 20.62 | 32.63 | -3.55 | -4.07 | 3.89 | 6.05 |
| Small-Cap Equity | Russell 2000® | 5.77 | 19.28 | 22.43 | -9.55 | -4.57 | 2.41 | 4.88 |
| International Equity | MSCI Eur/Asia/Far East | 3.83 | 19.47 | 28.97 | 3.23 | -3.60 | 5.93 | 2.59 |
| | MSCI Emerging Markets | 9.08 | 20.91 | 64.45 | 19.07 | 7.95 | 17.31 | 11.38 |
| Fixed Income | Barclays Aggregate Bond | 1.05 | 3.74 | 5.72 | 10.56 | 6.41 | 5.13 | 6.30 |
| | Barclays Short Treasury | 0.04 | 0.14 | 0.33 | 0.99 | 3.21 | 3.29 | 3.29 |
| Commodities | S&P GSCI | 0.17 | -1.76 | 4.68 | -44.52 | -10.80 | -6.71 | 4.50 |

Percent returns ending 09/30/09. Source: Barclays Global Investors

The information and data contained in this newsletter were obtained from sources considered to be accurate. Their accuracy and/or completeness cannot be guaranteed.

