Investor Insights & Outlook

April 2018 1st Quarter Concorde Investment Management

Domestic Economic Overview

A Message from Concorde Investment Management

We are pleased to provide the following overview of the domestic and international economic backdrop and the financial markets that impacted our investment policy and strategy during the First Quarter of 2018, as well as other articles of interest.

As we enter the 106th month of economic expansion, surveys were in the range for Q1 GDP to be anywhere from 2.1% (CNBC median) to 3.6% (St. Louis Fed). Actual reported GDP was 2.3%. The tax reform package passed at the end of Q4 did not fully make its way to individuals' paychecks until mid-February when the IRS adjusted withholding tables. The drag on the GDP growth from consumer spending which rose at just a 1.1% quarter over quarter rate should be lifted in Q2. In any event, overall growth in the U.S. remains strong and synchronized with global growth.

Job growth averaged 202k during the first quarter of 2018. That number would've been much higher outside of a 103k job addition number in March. A lot of the growth during the quarter was pulled forward by hiring in February due to warmer weather. That was also the reason for the dip in March. Regardless, late business cycle job growth of around 200k per month is nothing to trivialize. Especially with the low unemployment rate, hiring appropriate and qualified workers tends to get difficult. This low rate plus the January jobs report indicating wage gains higher than expected, support the growing concerns of higher core inflation. One response to the January jobs report was the resulting volatility in the equity markets mentioned in the following equity section (along with the other macroeconomic factors discussed). While the economy continues to chug along, and the consensus expects that to continue for multiple quarters, there is a real concern that higher wages

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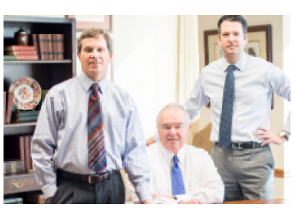
The Concorde Team



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Domestic Economic Overview (continued)

will cause the Federal Reserve to raise rates faster than expected, which in turn could slow the economy down. We will be watching union negotiations on new contracts over the summer for implications across the broader economy for wage acceleration. One data point recently announced were $25k cash bonuses for new hires in the rail business. As competition for workers increases, wages are the main lever companies will use.

A recent opinion piece in the Wall Street Journal discussed a metric known as Gross Output. The metaphor used in the article likens GDP to profits of a company and Gross Output as the revenue. The author argues that Gross Output is a better way to look at the economic activity of the U.S. because it is less dependent on the consumer and more dependent on businesses and their activity. 70% of GDP is driven by consumer spending vs. 39% of Gross Output. Only 17% of GDP is driven by business spending vs. 52% of Gross Output. Gross Output rose at 4.7% in the 4th Quarter (vs. 2.9% for GDP) and is a leading indicator of what to expect for the year, and that didn't have the full weight of the corporate tax reduction or the immediate expensing of equipment for tax purposes. While we won't know the Gross Output number for Q1 until late July, the indication from Q4 is that we are teeing up to accelerate growth, outside tighter than expected monetary policy or trade wars.

International Economic Overview

TRADE WAR!? Or just bluster? Anything that you read, depending on the source and their motives, can spin the discussion around Trade policies with the Chinese as good for Americans or bad and good for the global economy or awful. First off, the U.S. has been getting decimated by the Chinese for a long period of time in relation to trade. The offset has been their willingness to buy and hold U.S. Treasuries. This is not new, it's just been the unspoken understanding. In 2017, the US goods deficit with China was $375 Billion (they sold us $505 Billion worth and we sold them $130 Billion). President Trump has threatened to apply tariffs on Chinese goods worth up to $150 Billion in an effort to reduce the trade deficit and protect our technology from continuing theft. In March, the U.S. imposed a 25% tariff on steel imports while the Chinese imposed $3 billion worth of U.S. imports. Relative to the economies of the two countries, these numbers are not quite as meaningful as they seem, although more significant to China. The pain will be more economically impactful to the Chinese and politically painful to the U.S. Given that, China has already signaled it wants to avoid any sort of significant escalation,

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International Economic Overview (continued)

they've offered concessions and the threat of retaliation has been measured. The U.S. has also decided to bring its case to the WTO which signals that we are willing to go through normal trade-dispute channels. If Europe joins the U.S. via the WTO, then China will have to give in without a major fight. Anything else is, for the most part, just bluster and distraction…usually via twitter.

We discussed the Global Purchasing Mangers' Index for manufacturing, a leading indicator of growth prospects, in our Q3 and Q4 letters showing positive numbers for both the Developed and Emerging Markets. Short-term real GDP growth in the major countries continue to rise in line with the elevated purchasing managers index. The only exception is the UK where Brexit negotiations take a toll. Some measures of global activity related to capital spending have softened, however, the aggregate for capital goods orders remains in an uptrend. While there has been much discussion about global growth peaking, the rate may slow but there is still synchronized global growth. The above discussed trade skirmishes may make businesses skittish however, it should not meaningfully slow the international economy. Global growth will remain positive for at least the next year, with Japanese and Eurozone markets leading the way.

Fixed Income

Fixed income markets absorbed many potentially significant economic and geopolitical changes in the quarter with relatively modest damage. Domestically, Treasury bond yields dropped slightly for the quarter, after rising to multi-year highs in January. A mix of primarily positive economic news was offset by concerns over rising inflation and budget deficits, resulting in some widening in spreads of corporate issues, which have become quite narrow. The best performing sectors were non-agency residential and commercial mortgage securities, which continue to be attractive at current levels. Short term rates (3 month – 2 year maturities) continued to move higher as the normalization process that began 2-3 years ago continues to move forward, urged on by the anticipation of additional federal funds target rate increases in 2018. Looking forward regarding allocations in fixed income portfolios, we continue to believe a strategy emphasizing diversity with a core of short to medium maturity holdings in Treasuries and Agencies is warranted as we are not likely at the end of the normalization process, thus limiting principal risk. In addition, exposure to select investment and below investment grade corporate bonds along with short-term revenue backed municipal issues add income and diversity with minimal rate risk. Finally, a modest allocation to select, high quality international sovereign and corporate issues provide additional diversification of both credit and currency. The global bond aggregate index, excluding U.S. bonds, generated a positive total return in Q1 while most U.S. sectors provided small total return losses, confirming the benefit of variety in the short term.

Equity Markets

Volatility has returned to the equity markets in a significant way during the first quarter. Despite the media commentary tying this change to domestic political and geopolitical friction, the likely fundamental causes of this change are the gradual reduction in global monetary accommodation (starting with the U.S.) and the fiscal stimulus in the U.S. resulting from tax reform and increased government spending. All domestic and international equity indices except for EM were down for the quarter, but most were in the range of -1% to -3%. The volatility and maximum drawdown from highs reached in late January have many investors believing that actual equity performance was worse than this. Fundamental support is still good for calendar 2018, consisting primarily of earnings growth, assisted by tax reform and increased capital spending. Wage increases and a firm housing market are the key for enhanced consumer spending. Although growth style equities continued to outpace value for the quarter, we began to see a shift to more support for some sectors and individual stocks that have lagged in recent years despite relatively good operating results.

International equities in developed markets, which outperformed significantly during 2017, pulled back in the quarter but only about -1% to -2% on average. Fundamentals, particularly in most of western Europe, continue to be good and valuations are still attractive compared to the U.S. market and historical benchmarks. We have a meaningful commitment to these developed markets through both revenue exposure of larger domestic based companies and managed money and may consider an increased allocation.

As many individual stocks and segments domestically have outperformed over the last year or two, several sectors including energy, consumer staples, real estate and telecom contain what we believe are favorable valuations at this point in the cycle. It can certainly be observed that there are many individual equities that are nowhere near their recent highs as are the major indices. Some of these warrant additional investment scrutiny and we are constantly reviewing this universe for potential superior investments.

An Estate Planning Primer for Business Owners

As if business owners didn't have enough to contend in managing their business and personal finances, there is one particular aspect of their financial lives that is often neglected until it's too late, and that is the management of their estate. Yet, it is the one area of their financial picture that, if not thoroughly planned and managed, could have the most devastating consequences for their family and their business.

After spending their lives building a successful business, it's not at all uncommon for the value of the business to comprise the vast majority of a business owner's estate. Many business owners would like to see their business remain in the family after their death, or, at the very least, have their family be able to benefit financially if the business is to be sold. Without a well-conceived estate plan, with full consideration of the business as an estate asset, there is a high likelihood that the business will not survive an estate liquidation to cover settlement costs and taxes.

It takes a well-conceived estate plan, with special consideration for a business owner's intent for the business, either as an ongoing concern or as a source of capital for his or her family, to ensure it remains intact upon the business owner's death. In addition, a sound estate plan will ensure a smooth transition and maximum benefits for the family.

An Estate Planning Primer for Business Owners (Continued)

A proper estate plan will:

- Ensure that your wishes are honored when you are unable to manage your own affairs.
- Communicate your wishes and expectations precisely to your family and heirs
- Ensure a continuous stream of income for the family
- Provide capital to meet the immediate cash needs of the family
- Provide the capital needed to keep the business operating
- Facilitate the timely distribution of assets by avoiding probate proceedings
- Minimize estate taxes and other costs
- Eliminate family tensions in the ongoing operation of the business
- Keep the settlement of the estate private by avoiding probate
- Preserve estate assets for the benefit of future generations.

Estate Planning Solutions for Business Owners

Depending on the value of the business and the owner's intent for its disposition, estate planning for business owners can require much more than a simple will. Every situation is different; however, most business owners can benefit from several of these additional estate planning tools:

Revocable Living Trust: When business ownership is transferred to a revocable living trust, the business asset is not included in the probate estate, thereby eliminating the cost, delay and publicity of probate proceedings.

Irrevocable Life Insurance Trust: When a business comprises a large portion of the estate, the estate will need capital in order to pay the estate settlement costs and taxes to prevent the liquidation of the business. Life insurance is the most efficient way to accomplish this; and when it is held in an irrevocable life insurance trust, the proceeds will not be included in the estate.

Unified Credit Trust: Sometimes referred to as a Marital Trust, a Unified Credit Trust ensures that each spouse maximizes the unlimited marital deduction allowed under the tax code. In addition, a business held in the trust is protected from creditors.

Business Continuation Plan: Businesses need a plan in place to ensure the business can continue in the event of the death of a partner or shareholder. A business continuation plan is typically funded by life insurance on each of the partners, so that, at their death, funds are available to buy out their surviving family members.

Business Succession Plan: All business owners who intend to transition out of their business should have a business succession plan which should be coordinated with their estate plan to ensure continuity of the business and financial security for the family.

Business owners spend a lifetime investing sweat equity and money in their enterprise, many with the hope of having their family and future generations benefit after they're gone. The only way to ensure that happens is with an estate plan specifically designed for business owners.