Investor Insights & Outlook

July 2017 2nd 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 Second Quarter of 2017, as well as other articles of interest.

"A Goldilocks economy". This term is being used by newscasters and writers to describe what is going on with the domestic economy. Not too hot and not too cold. We have low inflation (in part due to oil prices declining on the year) along with moderate real growth which is giving central bankers the green light for rate rising and/or a shrinking of their balance sheet. Concerns about the capital markets and the economy's responses to those actions are warranted. Expectations, in spite of those central bank activity concerns, are for continued growth. If we get any type of tax reform out of Washington, expectations for continued economic expansion will become more robust. There still have been no real legislative accomplishments, the same as we wrote in the Q1 letter. It seems as if the Grand Old Party cannot get on the same page and have gotten stuck in the quagmire that is healthcare reform. The inability to get anything done on healthcare continues to undermine possible easy legislative wins such as tax cuts or infrastructure spending. Regardless, there are no major business hurdles on the horizon that people expect to trip up the economy and the Administration has been reducing the regulatory burden on business, even if we don't read about it. We have been in an expanding economy for 97 months, the 3rd longest expansion going back to 1854. The 2nd longest was 106 months in the 60's and the longest was 1991-2001. Growth rates in those recoveries were 4.9% and 3.6% respectively, well above the 2% rate of this recovery. With full employment numbers and rising wages, a recession is possible but we do not feel it is likely any time soon.

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Domestic Economic Overview (continued)

A survey of economists published in June by the National Association for Business Economists forecasted strong pickup in growth for Q2. "The weakness in the first quarter is expected to be temporary." Real gross domestic product growth bounced back to an annualized rate of 2.6% in the second quarter of 2017, and is expected to be on a 2.5% pace in the second half of the year. Of the 8 estimates from Wall Street economists, the range is somewhere between 2.5% and 3.8%. Early earnings reports from public companies are showing better than expected revenues and profits. All depends on behavior of the consumer post the weak Q1 report. We do know that vehicle sales were lower in Q2 vs. Q1 (and they were lower in Q1 than in Q4), but that housing starts beat expectations. Other economic drivers such as consumer spending on discretionary items, business related investments, and government expenditures accelerated vs. Q1 of 2017.

International Economic Overview

Here is what has happened since our last letter that our readers may or may not be aware of: UK held snap elections in which the majority and conservative party lost seats, France elected a new President from a political party that did not exist in 2015, Saudi Arabia attempted to strong arm Qatar into abandoning their support from Iran, China has not moved on any actions related to the North Koreans and their continued missile launches (which are now threatening the U.S.), the European Central Bank (or "ECB") shifted its stance regarding bond purchases, and Venezuela is collapsing….again. What has that done for international economic activity? Overall, global economic growth is forecast to grow by 3.5% according to the International Monetary Fund, which would be the fastest rate of growth in the past 5 years. This is, however, below pre-crisis averages and is especially below the more advanced economies and any commodity-exporting economies. These numbers are also still being supported by massive central bank interventions. Rather than economies responding to a single event, multiple events get jumbled together and they become white noise. Without anything extraordinary happening, all items become non-material.

The ECB news was the most significant for an economic activity perspective. They are currently buying, on average, €60 billion of both public and private sector securities per month. The ECB expects those purchases to remain at that amount through December and they have not adjusted any of their borrowing rates (0% for 17 consecutive months). At a news conference in July Mario Draghi, the head of the ECB, announced that with the improving European economy the board would debate the bond purchases in September. Market participants have expected the ultra-loose monetary policy to stay in place and these comments spooked the market. Immediately, Draghi attempted to reiterate that the ECB could step in to increase and extend its bond buying program if necessary. For some time in the U.S., markets would react positively to negative economic news because that meant the Federal Reserve was going to stay the course on quantitative easing. It seems Europe will now go through their tantrums when trying to judge economic activity versus central bank activity. We encourage our clients to understand that any economic news out of Europe (or China for this matter) is still being clouded by the respective central banks. These are not normal times and economic risks have not abated.

Equity Markets

The U.S. stock market posted additional gains in the second quarter although at a slower pace than Q1. Growth indices continue to outperform and have exceeded value indices by a significant 7 – 9% over only six months. Although a limited number of well-known large cap growth stocks have an oversized impact on index performance, this relationship is also observed in small and mid-cap stocks. International markets also continue to surpass the domestic markets YTD by a significant margin. As we have commented over the last 2 quarters, many developed and emerging market economies are exhibiting their best strength since the global recession. Current valuations in all global markets may be supported to a small degree by improved confidence and anticipation of the continuation of current trends, but a large portion of the recent equity performance is supported by reported economic results. The strength of growth over value equities in the U.S. is reflecting a market sentiment that confidence is improving, however we believe many sectors that have lagged recently have greater upside going forward and we are focusing in those areas. These segments include financials, energy and some core technology groups that have stable growth characteristics. A potential risk to higher growth equities would be a rise in bond yields greater than current expectations. In conclusion, prospects continue to look good going forward, particularly on the international front, but at current valuations it seems prudent to increase selectivity and emphasize stocks and sectors that have lagged recently.

Large Cap	**6/30/17 YTD**
Russell 1000 Growth	14.0%
Russell 1000 Value	4.7%
Small Cap	
Russell 2000 Growth	10.0%
Russell 2000 Value	0.5%
International	
MSCI EAFE (Developed)	14.2%
MSCI EM (Emerging)	18.5%
Source: Morgan Stanley; JP Morgan Asset Management	

WEB PRESENCE AND CLIENT LOGIN

Last year we launched our website www.concordeco.com. If you have not already done so, please take a few minutes to explore the website. On the site you will find information about our firm, services, certain literature, and access to client portals. Notice that our "Client Access" tab has a pathway to a "Concorde Login". To obtain your personal login information, please contact Greg Wood at gregwood@concordeco.com or 972-701-5412 and he will work with you to get your account set up.

Fixed Income

Despite the continued march toward short term rate normalization by the Federal Reserve, illustrated by two 25 basis point increases in the first half of the year, Treasury Note yields in issues with 5 year or greater maturities actually dropped modestly as of June 30 versus year end. Part of this phenomenon reflects a retreat from the surge in yields after the November elections caused by growth expectations exuberance. In addition, inflation and wage trends, although still positive, have moderated recently. We believe there is a good probability that wage trends along with energy costs could accelerate higher in the second half which would increase future inflation expectations. These conditions, along with another 1 or 2 Fed Funds increases in the second half will likely lead to higher bond yields. The start of the unwinding of the Fed balance sheet (initially not reinvesting funds from maturing bonds), which is now being discussed publicly by the Governors, will also add pressure on rates. In this rising yield scenario, certain corporate issues, mortgage back securities and select international exposure will represent good value, diversification and less duration risk. We are including significant exposure in these sectors in our fixed income portfolios to provide good income and defensive support under this scenario. A continued slow but positive domestic growth outlook will lend credit support to the corporate and mortgage markets yet the slow growth should keep inflation from accelerating too quickly.

	6/30/17	12/31/06	Change
FF Rate	1.00 - 1.16	0.50 - 0.66	+0.50
3 month TBill	1.01	0.50	+0.51
2 year USTN	1.38	1.19	+0.19
5 year USTN	1.89	1.93	-0.04
10 year USTN	2.30	2.44	-0.14

How Political Climates Affect the Financial Markets

If you're a fan of political dramas on televisions, you'll know that the turbulent world of politics has an effect on the global financial markets. But what about in real life? How much does art - if you can call shows like Scandal, Veep, and House of Cards art - imitate life, and vice versa?

The truth of the matter is that 2017 is turning out to be a bit of an unpredictable political year, and a lot of that can be boiled down to the win in November 2016, when Trump was elected President of the United States. And whether you are a pro or anti of his presidency, I think we all can agree that the political climate is ever changing. The truth of the matter is that surprisingly politics don't have as much of an influence over markets as much as TV would like us to believe - *in the long term*.

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How Political Climates Affect the Financial Markets (continued)

Financial markets are resilient, but are not immune to the big events happening in the world. For example, when the United Kingdom voted to leave the European Union, aka Brexit, the markets took a hit. However, within a week or so, global markets managed to bounce back[1]. Elections are also credited with contributing to the ebbs and flows of markets. "Elections can be viewed by traders as an isolated case of potential political instability and uncertainty, which typically equates to greater volatility in the value of a country's currency," Investopedia explains. "A change in government often means a change in ideology for the country's citizens, which usually means a different approach to monetary or fiscal policy, both of which, especially the former, are big drivers of a currency's value.[2]"

On a global scale, politics affect currency when a country's trust is lost or challenged. The opposite can be said in the lead up to a major political event, when the change in power can be perceived as positive. "The hope is that a new leader might make changes that boost a country's economic growth potential or improve its financial outlook," according to a very interesting study from Charles Schwab. The article examines some of the global market changes of when a major political reform may occur. But just as when a so called 'negative' political event occurs, and the markets are hit but bounce back, the positive happens. "The effect of an initial burst of political enthusiasm may not be durable. Stock markets tend to be disappointed as the honeymoon vibe wears off.[3]"

So at the end of the day, it's important to not take speculation of the effect of political change on financial markets to heart. Instead trust the advice of people who are in the industry through all climates.

Resources

https://www.forbes.com/sites/lawrencelight/2016/08/03/how-politics-will-affect-your-investments/#393c8eec7fe8
http://www.investopedia.com/articles/forex/11/international-events-affect-forex.asp
http://www.schwab.com/public/schwab/nn/articles/Performing-Reformers-How-Political-Change-Can-Affect-Stocks

Beneficiary Benefits – Keeping Designees Updated Matters Big Time

The term beneficiary crops up every now and again. Usually you'll see it on an insurance form or hear about it in relation to a will, but despite the nonchalance we toss the term around with, beneficiaries are incredibly important. Let's break down the details on how and why beneficiaries matter.

What's a beneficiary actually mean?
A beneficiary can be anyone—a person or a nonprofit organization like your church or the local homeless shelter—who you designate to receive property or assets in the event of your death. This could mean specific items are intended for specific people like a necklace for your daughter or a book collection for your business partner. This could also mean you could elect to leave all

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Beneficiary Benefits (continued)

your property to your spouse or divided equally amongst your children. You can have primary beneficiaries and then secondary and tertiary beneficiaries to make a kind of succession plan. Beneficiaries are sometimes referred to as PODs or TODs.

Like a will, it can be hard to talk about beneficiary designations because it forces you to consider your own mortality—that yes, someday you too shall become a memory.

How do you set-up your beneficiaries?
Beneficiaries are generally defined in two places—special forms and your will. When you purchase property or set-up a bank account or take out an insurance policy there's typically an accompanying form where you name the beneficiaries of each account, property, policy, etc. You'll typically need to set a beneficiary for your 401k, checking and savings bank accounts, life insurance, pension, IRAs, and any annuities.

Keep it Updated
Making the beneficiaries the first time tends to be the easy part. It's the remembering to update them that's the problem that comes back to bite your family after you've passed. Say you took out an insurance policy 15 years ago and designated your then spouse as the primary beneficiary. Since that time you divorced that spouse and would prefer your children, not the ex-spouse, to collect the insurance money at your time of your death. Unfortunately, even if you name your children as the account's beneficiaries in your estate plan (will) the beneficiary designation on the policy forms overrides whatever is written in the estate plan. Embolden that in your memory—financial and other account beneficiary designations take precedent over what's stated in a will, in the eyes of the law. Yes, you'll be gone, but you still want your hard earned cash and non-cash assets to go to the people and charities you want.

Don't Delay: Define Designees
So, now's a great time to take stock of your financial-related accounts, review the beneficiary designations, and ensure all the forms are filled out correctly. While you're at it, it doesn't hurt to revisit your will, especially if a big life change has occurred recently that could inspire a change in beneficiary designations such as, for example, your new marriage, a child's divorce, disability of an immediate family member, and birth of a new grandchild. Keep a copy of all IRA beneficiary forms and give copy or access to your trusted financial advisor and attorney (if you have one).

Resources

http://www.investorwords.com/460/beneficiary.html
http://www.huffingtonpost.com/david-a-dedman/why-your-beneficiaries-ar_b_6652142.html
https://knowhownonprofit.org/organisation/strategy/beneficiaries/bibasics
https://www.legalzoom.com/articles/updating-beneficiary-designations-why-its-so-important
https://www.deltacommunitycu.com/home/forms/beneficiary-information.aspx
http://www.richmondbrothers.com/blog/post/why-ira-beneficiaries-are-so-important