



RESEARCH REPORT

August, 2009

Market Overview & Strategy Comments: *What Corporate America Is Telling Us About Today's Economy and the Outlook.*

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<u>Key Statistics</u>	<u>Current</u>	<u>Change Since Previous Month</u>	<u>2009 Change</u>
Dow Jones Industrial Average *	9171.61	+8.6%	+4.5%
S&P 500 Index *	987.48	+7.4%	+9.3%
S&P 500 Ave. P/E Ratio **	18.0x	+1.3x	+4.1x
NASDAQ *	1978.50	+7.8%	+25.5%
1 Year Treasury Bill Yield	0.48%	-8 bps	+11 bps
10 Year Treasury Bond Yield	3.52%	-1 bps	+127 bps
30 Year Treasury Bond Yield	4.31%	-1 bps	+162 bps
Municipal Notes - 1 Year Yield	0.70%	0 bps	-45 bps
Municipal Bonds - 10 Year Yield	3.60%	-30 bps	-50 bps
Reuters/Jefferies CRB Futures	\$257.45	+3.0%	+12.2%
Gasoline NY RBOB (\$ per gal.)	\$2.04	+7.8%	+102.8%
Natural Gas (\$ per MMBtu)	\$3.65	-4.7%	-35.0%
Gold (\$ per troy oz.)	\$953.7	+2.9%	+7.9%

* price only ** based on 2009 earnings estimates.

The Reuters/Jefferies CRB Futures Price Index is an arithmetic average of commodity futures prices with monthly rebalancing.

Gasoline NY RBOB price excludes local, state and federal taxes (the "wholesale price").

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Securities are identified for illustrative purposes only. This should not be construed as a recommendation to purchase or sell any securities.



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Government statistics, although far from perfect, provide the big picture about the economy but for the “inside track” on micro-economic trends, corporate earnings reports are more revealing. Earnings releases keep us current on what corporate America is dealing with and helps us gauge how different industries and individual companies are doing. For investors, these figures can be far more practical than the government issued reports. Right now we are full swing into earnings season, and they seem to indicate that for the second quarter, while weak by historic standards, are still better than expected – a description that applies to the overall economy as well.

The many upside surprises this earnings season seem to indicate that the extreme levels of pessimism in place earlier in the year regarding both the economy and investment markets have proven unwarranted. “There’s a sea change of opinion and it all goes back to the improving economic data,” said **Fritz Meyer**, senior market strategist for Invesco. “Expectations got pushed too low in the depths of the recessionary mentality. That translates into upward revisions in earnings estimates and drives stock prices.” Of the 200+ companies in the S&P 500 that have reported results by late July, 75% have **beaten** consensus estimates (from Bloomberg) – the best showing in fifteen years!

Even beyond these better than expected results, here are a few things we are seeing:

- Increased infrastructure spending is already having a positive impact on the bottom line.
- Strong companies are gaining market share due to the downsizing or demise of weak competitors.
- Cost cutting has been significant, with many companies reporting expenses that are more than 20% below last year’s. This shows companies are making the hard choices necessary to ensure continued profitability.
- Foreign demand, as often mentioned, has been a valuable support to earnings during a time when domestic demand has been weak.
- Inventories are now lean; as demand stabilizes, production should rebuild exponentially.
- Tech spending is seeing some signs of improvement as companies focus their spending on areas which can boost productivity.

From these earnings reports, what can we glean about the economy as a whole?

- Growth remains dependent upon stimulus spending here and abroad.
- Strength through inventory building is possible in the second half of this year, which should lead to positive GDP reports.
- International growth is key. Since January, exports to Asia are up over 20%, and thus improvement in the trade deficit added almost 1% to second quarter GDP, a trend that should continue for the foreseeable future.
- Employment is unlikely to improve for some time as cost cutting continues; many companies announced new layoffs in their earnings reports.



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Overall, we are seeing two main trends, one positive and one negative. The positive is that international earnings, especially those related to emerging markets, have been a source of upside surprise for many companies. Companies such as Coca Cola, ABB Ltd., and MasterCard, which earn a significant if not majority share of their profits overseas, have reported better than expected quarterly results.

At the same time, the key negative is that sales are weak. The typical company is seeing about a 10% sales drop from a year ago, according to Bloomberg, and for many companies sales are down 30% or more. Even Microsoft saw its sales drop for the first time in almost 25 years as a public company. The weakness in sales is across the board, with sales falling in eight of the ten S&P 500 sectors. The drop in sales tells us that “the economy is coming back but it is not going to come roaring back,” said Mark Zandi, Chief Economist at Moody’s. Companies “are going to be reluctant to add investment and jobs until they get better sales,” which may lead to a weak economic rebound (including perhaps further increases in unemployment) outside of inventory rebuilding and export growth.

Still, there’s no underestimating the psychological boost created by the fact that while the economy remains weak, earning reports have still been better than expected. One benefit has been that it has caused corporate and municipal bonds to outperform Treasury bonds by a significant margin this year. Our bond strategies were positioned to benefit from this trend and we have seen good returns in bond portfolios.

In stock portfolios, the data we are seeing from both the government and corporate America fit our strategy of focusing on multinationals, foreign companies, and those with leading market positions and strong balance sheets, companies which have the best chance of expanding in this challenging environment. We have seen strong earnings reports at quite a few of our client’s holdings, including *America Movil, 3M, Apache, Google, Femsal* and *EMC*. Many of these companies, as well as those in the health care sector, are some of the few to report sales growth. With lower cost bases and strong balance sheets, many of our selected companies are well positioned to see a sharp jump in profits on any recovery in sales growth, and with stable U.S. and good overseas demand in 2010, profits could surprise to the upside.

In summary, stocks have rallied sharply since their March lows as companies have reacted quickly to the downturn, cut costs, and maintain better than expected levels of profits. Going forward, sales growth will be more important to sustain profit growth, but with international demand on the rise, we are optimistic about continued good earnings and economic prospects as the year progresses. And with stocks as a whole attractively valued at about 13x estimated 2010 profits, 20% below their five-decade average valuation, we remain constructive on the market’s potential.

Securities identified are for illustrative purposes only. This should not be construed as a recommendation to purchase or sell any securities. The securities mentioned may or may not be held in all client portfolios. For a list of current recommendations, please see the back page of this report and/or contact your portfolio manager.

CORE HOLDINGS LIST FOR 2009

Source: FactSet, First Call, Value Line, Bloomberg & CAM Estimates.

			Recent	2009	2010	2009	2010	Est EPS	P/E to	Market		Div
August 1, 2009	<u>Company Name</u>	<u>Ticker</u>	<u>Close</u>	<u>EPS</u>	<u>EPS</u>	<u>P/E</u>	<u>P/E</u>	<u>Growth</u>	<u>Growth</u>	<u>Cap(\$mm)</u>	<u>ROE</u>	<u>Yield</u>
	Standard & Poors 500	SPX	987.48	\$55.00	\$70.41	18.0x	14.0x	8%	1.8x	8,659,741	13%	2.2%
Financials:	Berkshire Hathaway Cl "B"	BRK/B	3,180.50	\$164.36	\$189.90	19.4x	16.7x	5%	-	47,164	4%	0.0%
	MasterCard	MA	194.03	\$10.95	\$12.84	17.7x	15.1x	17%	0.9x	21,282	10%	0.3%
Consumer Staples:	Coca Cola	KO	49.84	\$3.03	\$3.33	16.4x	15.0x	5%	3.1x	115,501	28%	3.3%
	Colgate Palmolive	CL	72.44	\$4.28	\$4.77	16.9x	15.2x	10%	1.5x	36,106	93%	2.4%
	Diageo Plc ADR	DEO	62.38	\$4.45	\$4.93	14.0x	12.7x	8%	1.7x	38,981	40%	3.7%
	Fomento Economico Mexico	FMX	38.60	\$1.93	\$2.49	20.0x	15.5x	23%	0.7x	8,342	8%	0.5%
	H.J. Heinz	HNZ	38.46	\$2.76	\$2.82	13.9x	13.6x	9%	1.5x	12,119	59%	4.4%
	Walgreen Co.	WAG	31.05	\$2.09	\$2.37	14.9x	13.1x	13%	1.0x	30,813	18%	1.8%
Health Care:	Becton Dickinson	BDX	65.15	\$5.01	\$5.33	13.0x	12.2x	12%	1.0x	15,606	24%	2.0%
	Johnson & Johnson	JNJ	60.89	\$4.52	\$4.90	13.5x	12.4x	7%	1.9x	167,786	30%	3.2%
	Medtronic, Inc.	MDT	35.42	\$3.06	\$3.34	11.6x	10.6x	10%	1.0x	39,309	18%	2.3%
	Novartis AG	NVS	45.62	\$3.87	\$4.34	11.8x	10.5x	7%	1.4x	120,328	16%	3.2%
	Zimmer Holdings	ZMH	46.60	\$3.87	\$4.28	12.0x	10.9x	10%	1.1x	10,024	15%	0.0%
Consumer Discretionary:	Staples, Inc	SPLS	21.02	\$1.15	\$1.35	18.3x	15.6x	15%	1.1x	15,036	14%	1.6%
	Target Corp.	TGT	43.62	\$2.87	\$3.17	15.2x	13.8x	13%	1.1x	32,814	15%	1.6%
	Toyota Motor Co. ADR	TM	84.18	NMF	\$1.75	NMF	48.2x	3%	16.1x	145,126	14%	2.3%
Technology:	Cisco Systems	CSCO	22.01	\$1.29	\$1.36	17.0x	16.2x	13%	1.2x	126,951	24%	0.0%
	EMC Corp.	EMC	15.06	\$0.82	\$1.04	18.4x	14.5x	12%	1.2x	30,327	11%	0.0%
	Fiserv, Inc.	FISV	47.41	\$3.59	\$4.03	13.2x	11.8x	13%	0.9x	7,377	14%	0.0%
	Google	GOOG	443.05	\$21.67	\$24.65	20.4x	18.0x	19%	0.9x	107,095	17%	0.0%
Industrials:	3M Co.	MMM	70.52	\$4.24	\$4.53	16.6x	15.6x	12%	1.3x	49,246	32%	2.9%
	ABB Ltd. ADR	ABB	18.28	\$1.11	\$0.99	16.5x	18.5x	10%	1.8x	42,461	28%	0.0%
	Danaher Corp.	DHR	61.24	\$3.38	\$3.60	18.1x	17.0x	11%	1.5x	19,581	14%	0.2%
	General Electric	GE	13.40	\$0.98	\$0.88	13.6x	15.2x	9%	1.7x	141,900	16%	3.0%
	United Parcel Service	UPS	53.73	\$2.14	\$2.61	25.1x	20.5x	12%	1.7x	37,571	32%	3.4%
	United Technologies	UTX	54.47	\$4.07	\$4.42	13.4x	12.3x	10%	1.2x	51,271	25%	2.8%
Energy:	Apache Corp.	APA	83.95	\$4.70	\$8.20	17.8x	10.2x	10%	1.0x	28,186	4%	0.7%
	Petroleo Brasileiro S.A. ADR	PBRA	33.70	\$2.56	\$3.36	13.2x	10.0x	8%	1.3x	62,357	30%	0.9%
	Sasol LTD ADR	SSL	35.72	\$3.28	\$4.34	10.9x	8.2x	5%	1.6x	22,774	35%	3.5%
	Schlumberger, Ltd.	SLB	53.50	\$2.66	\$2.63	20.1x	20.3x	8%	2.5x	64,084	34%	1.6%
Telecom Services:	America Movil ADR	AMX	43.01	\$3.16	\$3.56	13.6x	12.1x	12%	1.0x	44,099	40%	1.1%
	China Mobile Hong Kong	CHL	52.47	\$4.17	\$4.32	12.6x	12.2x	15%	0.8x	210,491	28%	3.2%
Transportation:	Kansas City Southern	KSU	20.31	\$0.54	\$1.11	37.6x	18.3x	20%	0.9x	1,927	10%	0.0%
Exchange Traded Funds:	iShares MSCI EAFE Index	EFA	50.41	-	-	-	-	-	-	32,242	-	3.7%
	iShares MSCI Emerging Mkts	EEM	35.78	-	-	-	-	-	-	31,606	-	1.4%

0% weighting in utilities and materials.

The above is a list of common stocks currently held in clients' portfolios. Not all stocks are held in all portfolios for various reasons. Upon request we will furnish a list of all equity recommendations made within the past twelve months. This list includes the name of the security, date and nature of the recommendation, price at which the recommendation was acted upon, and the current market price of the security. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this list.

Please contact Mickey Herst for a copy of the list.

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