



PORTFOLIO UPDATE

August 2008

Domestic Market Commentary

Many investment advisers have asked whether we have seen a stock market like this before. We believe the current market conditions are the most similar to the second half of 2002 and early 2003. That market lasted for approximately 10 and a half months – from June 2002 through April 2003. The market conditions we are currently experiencing have been going on for six and a half months – from early March to present.

Given our valued-based methodology, we approach any market comparison from a value perspective. In April 2002, we calculated that stock prices for the approximately 2,000 stocks in our domestic data base were, on average, below our estimate of intrinsic value. At ICON, we believe such a situation dictates being invested in anticipation of prices moving up to our estimate of value. Sometimes, however, events interrupt that ascent.

As May 2002 began, investors focused on the potential invasion of Iraq. Stock prices, as measured by most indexes, drifted lower, independent of intrinsic value until March 10, 2003. Looking back, the price decline was driven by fear rather than reality, as the war had no affect on the economy or corporate earnings. In other words, while investors focused on an event (the potential war), value continued to grow and prices were just temporarily disconnected. We view the rally that began in May of 2003, and the long- term advance over the next four years, as prices just catching up to value from the deep discount we calculated in early 2003.

Recent Market Conditions Similar to 2002-2003

As 2007 came to a close, we felt value had been a good guide for us not only in 2007, but over the previous five-year market advance. At the beginning of 2008, as in 2002 and early 2003, stock prices in our domestic data base were, on average, below our estimate of intrinsic value. Instead of prices moving up to our estimate of value, they have drifted lower as a result of the sub-prime mortgage problems and rising oil prices. Prices are drifting but our estimate of intrinsic value, based on the fundamentals of our methodology, is not dropping. We are handling these current market conditions just as we did in 2002 and 2003. As long as prices are below our estimate of value, we are remaining invested.

When we calculate stocks are underpriced, we work to identify leadership for the potential recovery rally we anticipate. Based on our research, we expect Financials, Consumer Discretionary, Industrials and Information Technology to be the leading sectors. Not only are these sectors currently good bargains, but they have demonstrated strength off the recent July 15 low.

Identifying Industry and Sector Leadership

Our system is designed to help us identify industry and sector leadership in market advances. As the low in March had many of the characteristics we see as indicating market bottoms, we put on a strong industry and sector tilt. Until May that tilt was favorable, but the market rolled over and retreated, rendering that sector tilt vulnerable. We find the market situation surrounding the July 15 low to be typical of market bottoms, so again we have behaved in our usual fashion and put on an industry and sector tilt toward our favorite industries and sectors.

Given the random nature of news events bombarding investors, we don't know when a market rally will occur. We see some encouraging signs that indicate July 15 could be the market low. Some of the conditions weighing on the market earlier this year have abated:

- The prices of oil and gold have dropped from their highs (oil moved from about \$147 per barrel at the beginning of July to the \$125 range by the end of July, and gold moved from over \$1,000 per ounce in mid-March to about \$920 per ounce by the end of July).
- The Euro has backed off its highs.
- Both short-term and long-term yields have dropped slightly from their mid-June peaks.

In our opinion, all of these reflect a changed outlook by investors which could be favorable for stocks.



Bonds

From mid-March through mid-June interest rates rose, primarily, in our opinion, out of inflation concerns. Perhaps due to the expectation of a slower economy, these concerns seem to be fading and interest rates have dropped slightly since the mid-June peak. Our valuation readings in the bond markets are currently fairly neutral. We are not being pulled to long-term maturities for a bond rally. Nor are we being pulled to a short-term, defensive stance. Our readings suggest a sideways move in interest rates within a modest trading range.

International

According to our system, rising interest rates in Asia have decreased overall value. As a result, relative valuation readings appear different than they have the last few years. Instead of Asian stocks appearing cheaper than European stocks, the reverse is actually true. Despite this broad generalization, we are still finding some attractive bargains in Asia, particularly in the Industrials and Information Technology sectors. Lately, we have seen most international markets move in tandem with the U.S., reflecting universal global concerns. We are approaching the international market the same way we have been approaching the U.S. market, thus we are behaving as though mid-July will be the bottom and we have put on our usual sector tilt.

Summary

The stock market has been jolted by news events which have prompted economic and financial concerns this decade. Notwithstanding this volatility, when stock prices drop but our calculation of intrinsic value holds up, we ride through the turbulence and tilt toward what appears to be the potential leading theme. Overall, we believe it has been a successful strategy. Although there are multiple events contributing to this current market cycle, we continue to behave just as we have during previous volatile markets. We concentrate on value and the potential leadership that could emerge out of this down market.

Prepared by ICON's Investment Committee

Past performance does not guarantee future results.

Opinions and forecasts regarding sectors, industries, companies, countries and/or themes, and portfolio composition and holdings, are all subject to change at any time, based on market and other conditions, and should not be construed as a recommendation of any specific security, industry, or sector.

Investing in fixed income securities such as bonds involves interest rate risk. When interest rates rise, the value of fixed income securities generally decreases. High-yield bonds involve a greater risk of default and price volatility than U.S. Government and other higher-quality bonds.

Investments in international securities may entail unique risks, including political, market, regulatory and currency risks. In general, there is less governmental supervision of foreign stock exchanges and securities brokers and issuers.

ICON's value-based investing model is an analytical, quantitative approach to investing that employs various factors, including projected earnings growth estimates, in an effort to determine whether securities are over- or underpriced relative to ICON's estimates of their intrinsic value. ICON's value approach involves forward-looking statements and assumptions based on judgments and projections that are not guarantees of future results. Value investing involves risks and uncertainties and does not guarantee better performance or lower costs than other investment methodologies.

If you would like to receive, at no charge, the most recent copy of ICON's disclosure document, Form ADV Part II, please send your request in writing to: Attention: Compliance, ICON AdvisersSM, 5299 DTC Boulevard, 12th Floor, Greenwood Village, CO 80111.

Sources: Bloomberg Finance, L.P., FactSet Research Systems, Inc.

ICON AdvisersSM
5299 DTC Boulevard, 12th Floor
Greenwood Village, Colorado 80111
1-800-828-4881
www.iconadvisers.com

