



PORTFOLIO UPDATE

June 2008

Domestic Market Commentary

We remain confident that March 10, 2008 will prove to be the market bottom for most domestic indexes. During the first half of May, a market rally that began after the March 10 low continued, but during the second half of the month, stock prices retreated. Overall, most domestic equity indexes ended the month up slightly.

We believe the retreat in late May was due to a global investment theme that was seen earlier in 2008. The price of oil rose, and the dollar weakened. Given those events, investors sold stocks and bought commodities in fear of increased inflation. While predicting commodity and currency prices is not part of our investment process, we think it is encouraging that gold, silver, oil, and the Euro have all backed off their recent highs.

We believe that any sustained market advance will likely involve setbacks related to fears about oil prices, the price of gold, the weak dollar, and inflation. However, when we look at our calculations of value and estimates for corporate earnings, we are encouraged to own stocks.

Prices and Value

We include projected earnings in our valuation equation. In general, Wall Street analysts are forecasting earnings to grow in 2008 and 2009. As of May 30, 2008, we saw the average stock in our domestic database to be priced about 15% below our estimate of fair value. The ICON value-to-price ratio for the broad market has been slightly above this level throughout 2008, which we interpret as a longer-than-normal disconnection between value and price.

Our calculations of value suggest to us that stock prices should be higher. Yet, many investors seem worried about a slowing economy and increased inflation and have been unwilling to take stock prices higher.

It is interesting to note that the revised first-quarter GDP announced on May 29 was an upward revision and showed the economy growing at 0.9%. Inflation as measured by year-over-year comparisons of the Consumer Price Index (CPI) was a little above 4% briefly last year but has been trending downward this year and most recently was at only 3.9%.

In summary, we see the dip in stock prices earlier this year as an overreaction. With stocks priced at a discount to the ICON estimate of intrinsic value and a healthy earnings outlook, we favor patience and being invested. Ultimately, we expect a reconnection of prices and value, accomplished through a decrease in investor fears and stock prices rising to our estimate of intrinsic value.

We believe the industry and sector theme during the advance from March 10, 2008 through the end of May offers a picture of what investors may be anticipating: an economic recovery and a better economic setting than had been feared in March.

Leading industry indexes during this March-May timeframe include coal, railroads, steel, construction & engineering, trading companies, electric equipment manufacturers, apparel & accessories, and industrial machinery, all posting returns greater than 20% during this period. In our experience, these industries are economically sensitive and tend to do well in a healthy economy.

Industries lagging the market with negative or poor returns from March 10 to May 30, 2008 include managed healthcare, reinsurance, water utilities, gold mining, agricultural products, soft drinks, tobacco, household products, pharmaceuticals, and healthcare distributors. Our experience suggests that these lagging industries represent a recession-proof, non-cyclical theme, while the poor performance of gold mining represents reversal of the commodity rally seen earlier this year.

Bond Market Commentary

The gradual rise in the yield for the 10-year government bond continued in May, taking it to slightly above 4%. In mid-March, investors seemed to price bonds as though there was going to be a severe economic slowdown. In our opinion, the continuing increase in yields reflects that investors do not expect the economy to be as bad as previously feared.

Our valuation readings show long-term bonds to be underpriced, so we do not expect a prolonged rise in yields. Instead, we expect a trading range as investors may frequently change their outlook for the economy. Lately, consensus forecasts appear to be unstable as analysts frequently change their opinions based on conflicting and oscillating data.

International Market Commentary

During May, most major country markets experienced a pattern similar to U.S. indexes. The advance off the mid-March lows continued into early May but reversed in late May, when oil, gold, and currencies showed some strength.

Even with the setback in late May, most foreign country indexes have outpaced domestic indexes

off the March lows. Our reading of the average value-to-price ratio for international stocks in the ICON database has been similar lately to our domestic reading. It ended May at 1.19, suggesting prices are about 19% below our estimate of intrinsic value. On a regional basis, we see Europe as offering slightly better value than Asia.

Summary

In our experience, we've seen some past market rallies begin when investors gradually realized that the economic outlook was not as terrible as they had previously feared. In other words, we think rallies have a better chance of starting when investors change their outlook from "terrible" to just "bad."

We believe the next step in a sustained rally is for investors' outlook to change from "bad" to "mediocre," and so on. Since mid-March, stocks have moved higher as we believe we have been in the "terrible-to-bad" phase. It remains to be seen whether the market continues through more favorable phases, but our valuation readings suggest staying invested.

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 securities involves inherent risks, including the risk that you can lose the value of your investment. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. Investments in international securities may entail unique risks, including political, market, regulatory and currency risks. Financial statements of foreign companies are governed by different accounting, auditing, and financial standards than U.S. companies and may be less transparent and uniform than in the United States. Many corporate governance standards, which help ensure the integrity of public information in the United States, do not exist in foreign countries. In general, there is less governmental supervision of foreign stock exchanges and securities brokers and issuers.

There are risks associated with small- and mid-cap investing such as less liquidity, limited product lines, and small market share. 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.

ICON's value-to-price ratio is a ratio of the intrinsic value, as calculated using ICON's valuation methodology, of a broad range of domestic and international equities within ICON's system as compared to the current market price of those equities. To analyze intrinsic value, the ICON valuation methodology relies on the integrity of publicly released financial statements.

According to ICON, value investing 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.

The unmanaged Standard & Poor's (S&P) Composite 1500 Industry Indexes track the performance of companies in industries that comprise the S&P Composite 1500 Index. Total return figures for the unmanaged industry indexes do not include the reinvestment of dividends and capital gain distributions nor do they reflect deductions for commissions, management fees, and expenses.

Gross Domestic Product (GDP) is the total value of goods and services produced in the national economy in a given year. It is the primary indicator of economic growth. The Consumer Price Index (CPI) is the primary indicator of U.S. inflation and is used to make cost-of-living adjustments to billions of dollars in benefit payments. The Portfolios' composition may differ significantly from the indexes. Individuals cannot invest directly in an index.

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

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

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