ICON

PORTFOLIO UPDATE

June 2009

CURRENT SECTOR LEADERSHIP

The stock market rally that began during March 2009 continued in May. During the previous market decline, we saw many unusual, even unprecedented events. The rally currently underway, however, is classic and typical of rallies we've historically seen during recovery periods. The sector performance conveys a clear message: investors are behaving as though they do not think the economic and financial situation is as bad as they had feared three months ago. Financials led this rally—a move which makes sense to us as Financials suffered more than any other sector during the most recent overall market decline. The Materials, Industrials, and Consumer Discretionary sectors trail Financials, but also show strong leadership. Each of these three sectors is cyclical and economically sensitive in nature. Investors are sending a clear signal that they expect an economic recovery. Sluggish and lagging sectors, although still generally participating, include Consumer Staples, Utilities and Healthcare. These are often referred to as recession proof.

RALLY INDICATORS

In the ICON April 2009 Portfolio Update, written as March ended with the stock market rally just three weeks underway, we wrote: "[W]e believe there are two keys for the resumption of the market advance that began March 10. The first is a drop in corporate bond yields. The second condition requires investors believing that the economic bottom will take place some time during third quarter."

A survey of economists on *Bloomberg* shows that, on average, they anticipate positive GDP in the third quarter of 2009 with continued positive readings into 2010. If the economists surveyed prove correct, the market bottom of March 9, 2009 would be right in line with the typical historic stock market lead time of six months at economic turning points. Stock prices ordinarily advance while the economic news is still negative. If this familiar pattern holds, then by the time the news improves later this year, we expect stock prices to be even higher than they are today.

The other condition mentioned in the April Update—the "drop in corporate bond yields"—is also now occurring and adds tremendous support for higher equity valuations. Last fall, when Lehman Brothers declared bankruptcy, corporate bond yields surged as investors apparently expected widespread bond defaults. That scenario never came to pass, however, and bond yields are gradually declining. Since a company's bond yield factors into our equity valuation equation, our estimation for intrinsic value for most stocks has risen. In other words, stock prices are chasing an upwardly moving value target.

Finally on the equity side, two measures of the money supply, M1 and M2, have grown 15% and 9% respectively over the last 12 months, through May 18, 2009. These rates are much greater than normal and can be a powerful stimulus to the economy. In addition, the current administration's generous fiscal stimulus package is just now hitting the economy.

All of these forces together should, in our opinion, propel the economy to recovery. The rally underway suggests to us that investors are gradually coming into agreement with the positive outlook shared by the economists surveyed on *Bloomberg*.

BONDS

In the April Update we wrote:

> *"We find corporate bonds to be particularly appealing and U.S. Government bonds to be over-priced. Because of their unusually wide credit spreads, corporate bonds and yields in the two-to-six year maturity range are especially attractive to us. So far, we have found no need to reach for the riskier long term maturities or non-investment grade bonds. We expect a rally in corporate bonds eventually: we just cannot predict when investors will collectively reduce their required risk premiums and view bonds more favorably."*

In retrospect, we called this corporate bond rally accurately. We have not changed our view regarding bonds since our April Update, although we have revised our outlook and we now believe non-investment grade bonds are gradually becoming eligible for purchase. Our system found corporate bonds to be extremely attractive following the recent market decline. Even at these higher prices we still like them.

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INTERNATIONAL

The economies of countries worldwide are thought to be in recession. Like the U.S., many countries have implemented various monetary and/or fiscal stimulus plans in an effort to jumpstart their economies. Since mid-March, most stock markets around the globe have rallied in lock step with our domestic stock market. The rallies have been similar in magnitude to ours, but international returns have received an extra currency boost as the U.S. Dollar has weakened. It appears that worldwide, investors are pricing stocks as though economies internationally will be jolted out of recession later in 2009. We agree with those who believe international stocks may be poised to rally.

SUMMARY

There are two forces coming together to fuel this rally. One is the expectation among investors that the economy will recover and begin to expand later in 2009. The second is the decline in corporate bond yields as the expectation of default risk is reduced. These expectations contribute to our recent, higher stock valuations and suggest to us that this rally is legitimate and, possibly, sustainable.

Prepared by ICON's Investment Committee.

Past performance does not guarantee future results.

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Gross Domestic Product (GDP), also known as Gross National Product (GNP), 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.

M1 is one measure of the money supply that includes all coins, currency held by the public, traveler's checks, checking account balances, NOW accounts, automatic transfer service accounts, and balances in credit unions. M2 is a measure of total money supply. M2 includes everything in M1 and also savings and other time deposits.

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