



ICON

PORTFOLIO UPDATE

December 2008

ECONOMIC FORECAST DISPARITY

We generally see a disparity between economic forecasts and the way stocks and bonds are priced. The minutes of the Federal Reserve Open Market Committee meeting on October 28, 2008, the Bloomberg survey of economists in November 2008, and a number of other sources reveal that most economists are predicting negative Gross Domestic Product (GDP) for the 4th quarter of 2008 and the 1st quarter of 2009.

While economists have forecast a recession, bonds and stocks seem to have priced in a depression. In the bond market, yield spreads (the additional yield for riskier categories) are at historic highs. These yield spreads suggest to us that investors expect mass bond defaults, but that expectation is inconsistent with the economists' forecasts of recovery next spring. As of November 21, 2008, ICON's average value/price ratio for domestic stocks was at an all time high of 1.75, suggesting stock prices were about 75% below our estimate of value. Our interpretation is that investors are pricing in a much worse economic scenario than is being forecast by economists.

Why is this happening? Who is right and who is wrong? And, what does it mean? We see this as a case of investor emotion winning out over logic. We believe the economists are correct and we think that frightened investors are pricing in excessive gloom and doom in both stocks and bonds. Perhaps investors are realizing their previous behavior was extreme. Over the last five trading days of November, credit spreads came down slightly and the Standard & Poor's Composite 1500 (S&P 1500) Index gained 19.60% through November 30, 2008.

MARKET BOTTOM FORMATION

In our November Portfolio Update we stated that "we believe a bottom is forming and that a broad-based, robust rally will emerge out of these conditions fairly soon." The question now becomes: "Is the 19.60% gain in five days the beginning of the robust rally we have been expecting?"

Naturally it is too early to know for certain, but money management requires making decisions based on the available data at the time. We described a few conditions that suggested a bottom formation in the November letter. We noted, for example, that days in which 90% or more of the trading volume is in declining issues and 90% or more of the issues decline, usually appear near the end, not the beginning, of a bear market. Historically, while there are, on average, four of those days within 30 to 60 days of major market bottoms, we pointed out that in the 45 trading days prior to October 31, 2008, we had ten of those days (that is, again, days in which 90% or more of the trading volume is in declining issues and 90% or more of the issues decline). We thought additional selling would come from three sources: scared investors, margin calls and hedge funds. Additional selling did occur during the first three weeks of November and explains the disparity between rational economic forecasts and depressed stock prices. We also mentioned other technical indicators, including new highs and new lows which measure market breadth. The technical indicators we examined also suggest a bottom formed as index lows were not accompanied by increasing broad participation.

Last month we wrote that over the next year "we expect corporate bonds to rally. We believe that their move needs to begin before stocks begin any sustainable move." In the six weeks since mid-October, the Dow Jones Corporate Bonds Average has gained 6.46% (through November 30, 2008), with five of those weeks occurring before the rally in stocks began. That bond leadership is a very positive sign for stocks.

Finally, our November portfolio update also addressed the recent growth in the money supply (M1). The continued growth in M1 is another indication that we will soon recover from a market bottom. M1 grew 3.6% the last four weeks and is up 11.07% over the last 26 weeks through November 17, 2008. In our opinion, the recent M1 growth is a powerful stimulus and is very favorable for the economy. We would expect this M1 growth to boost the economy next spring, which is consistent with the economic forecasts that call for just two more quarters of negative GDP before recovery.

CURRENT INDUSTRY AND SECTOR LEADERSHIP

The industry and sector leadership during the advance of the last five days of November, 2008 is consistent with what we would expect in a recovery anticipation rally. Recession proof sectors such as Health Care, Consumer Staples and Utilities lagged and economically sensitive sectors such as Materials and Consumer Discretionary led. The Financial sector was the overall leader during this period of time.

All combined, there is some logic for the case that equities have formed a bottom and elements supportive of a rally are in place.



BONDS

Our case for favoring bonds over the next year is not interest rate driven, but is more credit risk based. The panic that hit markets in late September and October resulted in bonds being priced in anticipation of mass quantities of defaults. Over time, we expect bond investors to realize the sell-off was an over-reaction.

INTERNATIONAL

International stocks participated in the late November surge. In terms of reacting to daily events, global investors seem to be synchronized. If the upward move in the U.S. market continues, we would expect the same for most international markets.

SUMMARY

We believe stocks will be much higher a year from now than they are now. Of course, unpredictable events could set the market back in the short run, but based on a variety of variables mentioned, we think the worst is behind us.

We thank you for your confidence in us and wish you a safe and happy holiday season.

Prepared by ICON's Investment Committee.

Past performance does not guarantee future results.

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Investing in securities involves risks, including the risk that you can lose the value of your investment. 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.

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.

The Dow Jones Corporate Bond Index is an equally weighted basket of 96 recently issued investment-grade corporate bonds with laddered maturities. The objective of the Index is to capture the return of readily tradable, high-grade U. S. corporate bonds.

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.

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

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

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