



Portfolio Update

April 2008

Domestic Market Commentary

In August 2007, the stock market dipped as news of the sub-prime mortgage problem emerged. It recovered a bit only to drop again in October and November 2007. As stock prices moved slightly higher in December, we measured a value-to-price (V/P) ratio of 1.21 for the approximately 2,000 domestic stocks in our database, meaning, based on our methodology, prices were about 21% below our estimate of fair value.

Rather than prices moving up toward fair value as we expected during the first quarter of 2008, we were surprised to see stock prices continue to fall. The steepest two declines, in January and March, occurred despite the fact that many of the conditions that we consider typical of market bottoms and buying opportunities existed at various times in late 2007: value in the market as measured by V/P, Federal Reserve (Fed) easing, declining long-term interest rates, and equities experiencing sharp downturns in a short period of time.

While historical performance may not be indicative of future results, we have observed over the last few decades that the stock market has typically responded favorably to Federal Reserve easing. Even though the economic news has been negative when the Fed previously eased, the market has anticipated that the Fed's easing would stimulate the economy. We believe that has not happened with this easing because the money supply, as measured by M1, has not grown since the easing began last August.

The Fed has injected reserves into the system, but banks have not increased their lending. Investors have seemingly picked up on this, reasoning that without the normal growth in M1, there might be further economic deterioration and further delays to recovery. Lately, the Fed has made headlines with some innovative moves designed to stimulate banks to make loans, which may in turn grow the money supply.

Along with the moves by the Fed, we believe there are other encouraging signs. The stock market has been just one part of a scenario involving many financial markets. Through mid-March 2008, stock prices and interest rates have drifted lower, while gold, oil, and many other commodities have raced higher. In the currency market, the U.S. dollar fell sharply.

The commodity and currency moves resemble what we believe is a pre-peak setting when speculators rush to bet on continued momentum. Commodities and the dollar experienced a sharp and sudden reversal in late March. Gold, for example, dropped from \$1,002.95 per ounce to \$910.53 in only four trading days. We believe it could be beneficial for the stock market if these reversals proved to be the end of those commodity and currencies moves.

Since last fall, the two most undervalued sectors according to ICON's system have been Consumer Discretionary and Financials. Yet, since last September, the three times the market advanced following a decline, these two sectors did not lead. Off the January low, for example, the Energy and Materials sectors led the short advance, tagging along with the rally in commodity prices.

The upward move following the low on March 10, 2008 appeared sensible relative to ICON valuations. Financials and Consumer Discretionary were the two best-performing sectors, which is consistent with our valuation readings. Also among the leaders was the Industrials sector. Energy was at the bottom and Materials was in the middle of the pack. It is too early to tell whether this is the beginning of the rally we have been expecting, but industry and sector performance are consistent with the leadership our methodology is indicating.

ICON portfolios finished 2007 with a tilt toward industries that are not economically sensitive, such as food and some in the Health Care sector. Early in 2008, we increased positions in the Financials and Consumer Discretionary sectors. Late in March, we reduced Health Care and increased industries in sectors that our calculations indicate are on sale and leading off the March 10 low. We are finding attractive industries in the Consumer Discretionary, Financials, and Industrials sectors.

Bond Market Commentary

The yield on the 10-year Government bond dropped to a low of around 3.4% in mid-March after beginning the year at approximately 4%. This decline is a continuation of the drop from the 5% range in December 2006. Bonds received a boost when the Consumer Price Index was reported unchanged in February. We continue to have favorable valuation readings on bonds, and we therefore do not expect a significant rise in long-term interest rates.



International Market Commentary

During the first quarter, most international market indexes moved in tandem with the U.S. market, although the declines in the international indexes were greater through the March lows than seen in the U.S. market. Although sluggish at first, most international markets have moved higher off their mid-March lows.

We find valuation readings between the domestic and overseas markets to be quite similar not only in magnitude but also in sector ranking. The Consumer Discretionary and Financials sectors have the highest V/P ratios, according to our methodology, followed by Industrials. As in the domestic market, we see the conditions associated with market bottoms beginning to form. With the current valuation readings, we favor being invested and riding through the current turbulence.

Summary

We believe investor confidence is a lagging variable. It lags stock prices and improves after stock prices move higher. Many investors hope confidence returns so a rally can begin. The low on March 10, 2008 was accompanied by many of the characteristics our research says are typical of bottoms and buying opportunities. Weak investor confidence was one of those characteristics.

Prepared by ICON's Investment Committee.

Past performance is no guarantee of future results. Opinions and forecasts regarding industries, companies, countries, and/or themes 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. 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.

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 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. Individuals cannot invest directly in an index.

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