



Portfolio Update

December 2007

Domestic Market Commentary

The rally off the mid-August 2007 market low has fizzled, with some indexes retreating to previous levels or even lower. The dip in August was due to the first signs of the sub-prime mortgage problem. The recent retreat has been triggered by announcements from investment bankers and hedge funds of mortgage-related losses. These announcements have spawned speculation regarding the ultimate magnitude of potential economic problems. Fueled by those concerns, stocks have retreated again.

Many of the conditions typical of market bottoms as well as outstanding buying opportunities existed in August. While a sustainable rally could have emerged from those conditions, in our experience, a second retreat is not unusual. With a current domestic value-to-price (V/P) reading of 1.32 and the Federal Reserve having eased monetary policy, we expect the ultimate break-out to be to the upside.

We are seeing conditions that we believe are characteristic of industry theme changes, especially volatility. Some theme changes take many months to develop and are characterized by spikes of volatility. Often it is a tug-of-war between the old fading theme and the new emerging one. A theme change can be a confusing time for investors, and volatility may arise as investors change their minds daily.

Generally, from 2003 through early 2007, leadership came from the Energy, Industrials, and Materials sectors. Off the recent August low, however, industries in the Technology sector were part of the leadership. Because ICON viewed the Technology sector as underpriced relative to our estimate of fair value, that leadership made sense to us.

It is interesting to note that the two sectors with the highest V/P ratios, Consumer Discretionary and Financials, have not been part of the leadership. They were in a position to lead but did not participate. It is too early to tell, but the market may not rally until industries in those two sectors are ready to participate. We will rely on our valuation and relative strength metrics to tell us whether that is the case.

Looking at the landscape, ICON has calculated a V/P of 1.32 for the U.S. market. The Federal Reserve has eased. There is market volatility typical of theme changes, and long-term interest rates have dropped, a condition that ICON has observed as being favorable for stocks. We expect there will be some negative economic implications from the sub-prime mortgage mistakes. Based on valuation, it appears to us that investors have overreacted and priced stocks for an extremely negative, even bleak, outlook.

After losses in technology stocks in 2000, corporate governance issues in 2001, and pre-Iraq invasion deterioration in 2002, many investors gave up on the stock market. They looked for alternatives such as sub-prime mortgages and hedge funds. That shift may not have been prudent as stocks have enjoyed generally positive returns over the last five years. At ICON, we have relied on our valuation methodology to tell us to own equities and have resisted the temptation to chase alternatives. We will continue to stick to our discipline.

Bond Market Commentary

We believe the primary determinant of long-term interest rates is expected inflation. Recent CPI reports show inflation to be quite moderate. It seems industries can raise prices once, but not repeatedly as would be required to fuel inflation. The bond market has picked up on this, and bond yields have dropped the last few months. Our bond valuation readings continue to give us the confidence to own bonds.



International Market Commentary

Over the years, we have pointed out times when international markets synchronize with the U.S. We view that as evidence that the sell-off is emotional and likely not rational.

It would seem logical that each country should have its own unique reaction to a situation. Lately, most country markets are reacting to the sub-prime mortgage problem quite similarly to the U.S. market. To us, that is evidence that the reaction is emotional and irrational. Just like in the U.S., there is attractive valuation overseas, and we think riding through the current volatility will be rewarded. Similarly, a theme change may be occurring.

Summary

The market was not lucky enough to have a one-dip bottom to the sub-prime mortgage problem. It appears we need the patience to ride out at least one more decline. We think a theme change is underway, and in our experience, it is common for major theme changes to take many months and to involve volatility.

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. Investment return and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. Investing in securities involves inherent risks, including the risk that you can lose the value of your investment.

Opinions and forecasts regarding 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.

An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment, and the Technology sector has been among the most volatile sectors in the market. 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 tend to 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 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.

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 Advisers, Inc., 5299 DTC Boulevard, 12th Floor, Greenwood Village, CO 80111. If your financial situation or investment objectives have changed, please notify your financial professional or ICON immediately.

© 2007 ICON AdvisersSM All rights reserved.

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

