

Portfolio Update

March 2004

“ICON. Powered by a Disciplined Investment System.”

Domestic Market Commentary

On November 20, 2003, I was in the Bloomberg News TV studio in New York City and had a debate with another money manager live on the air. I was bullish and made the case for higher stock prices. He was bearish and believed the market would decline.

From that day, in a little more than three months through the end of February, the S&P 1500 SuperComposite Index has gained 11.19%. Knowing that, it would appear that I won the debate. At the time, however, a debating expert would have most likely assumed my opponent had won with his convincing bearish position. All I could say was that prices were still below ICON’s estimate of fair value and that we expected them to continue their march up toward fair value. He, on the other hand, was armed with all the economic and political fear-based objections that make sense to investors and frequently keep them on the sidelines during rallies. Here are a few of them:

- **“P/E ratios are too high.”** That topic has been addressed a few times in recent Portfolio Updates. Price/earnings ratio ignores the fundamentals of valuation because that simple ratio does not consider interest rates. In times of lower interest rates, we believe it is proper to have prices higher relative to earnings than in a higher interest rate environment.
- **“Interest rates are going to increase.”** That has been a belief of many observers since the spring of

2003 but it has not happened. Interest rates have actually dropped since that time.

The list continues, including fallout from the weak U.S. dollar, 2004 election uncertainty, potential inflation, the trade deficit, U.S. Government budget deficits, slower-than-hoped-for creation of new jobs, and so on. It is interesting to note that many of these conditions existed and these concerns appeared at various times from 1982 through 1999 when the market generally experienced significantly higher-than-normal returns. To us, the reason stock prices have advanced through these concerns and uncertainty was value. Intrinsic value increased during those years because earnings grew and interest rates declined. Prices just tried to keep up with rising value.

To our system, the recent market advance appears very similar to that period. Prices have simply been moving up toward intrinsic value after being far below intrinsic value due to the extreme uncertainty investors faced in 2002 and early 2003. The earnings outlook, a key contributor to valuation, appears very healthy. If a favorable earnings outlook materializes, fair value as measured by our system will move even higher. We would expect prices to chase value, although surprise news events could interrupt that advance and cause setbacks and volatility.

During the debate in November, I introduced the topic of corporate takeovers as related to valuation. I said that if investors are not willing to take prices higher toward fair value, corporations, through takeover bids, may. We

presume corporate financial analysts go beyond a simple P/E ratio and estimate intrinsic value of a potential takeover target. It is logical to think they would want to estimate the present value of the future earnings of a company. As we suggested months ago, takeover activity has increased.

Bond Commentary

On a financial news television station last week, a reporter, as a lead-in to a question, stated that everybody knows interest rates are going higher. Hearing a statement like that from that source sure promotes skepticism. The ICON bond model is in strong disagreement. Short-term bonds appear overpriced to our estimate of intrinsic value while long-term bonds appear underpriced. Our bond positions are tilted toward the longer end of the maturity spectrum.

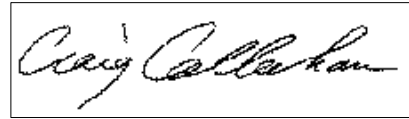
International Market Commentary

The high correlation among international markets has remained in effect. While there have been a few unique moves for some country markets, most remained quite synchronized.

Summary

With stocks still trading at about a 15 percent discount to intrinsic value according to our system, we remain bullish on global equity markets. The combination of value in stocks, steadily improving economic conditions, and a generally robust corporate earnings outlook, provides a strong impetus for equities to continue their march toward fair value. The extreme fear and pessimism that was pervasive in the market in 2002 and early 2003, is gradually subsiding, as the sharp rise in stocks has caused investors to look more closely at economic reality. The prevailing positive economic conditions, in turn, have enabled investors to replace fear with reason and continue the process of moving discounted stock prices steadily higher toward their intrinsic value.

Yours truly,



Craig T. Callahan
Chief Investment Officer

Past performance does not guarantee future results. Opinions and forecasts regarding sectors, industries and themes and portfolio holdings and composition 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.

Management of the Portfolios involves sector allocation overlays using sector mutual funds and other specialty funds as the investment vehicle. There are risks associated with mutual fund investing, including the risk of loss of principal. Investing in these funds involves certain risks such as the risk that the funds' performance may be more susceptible to economic, business or other developments affecting a sector. Investments in foreign securities may entail unique risks, including political, market and currency risks. There are risks associated with small- and mid-cap investing such as increased volatility, less liquidity, limited product lines, and small market share. High-yield bonds involve a greater risk of default and price volatility than U.S. Government and other high-quality bonds. High-yield/high-risk bonds can experience sudden and sharp price swings which will affect net asset value.

The unmanaged Standard & Poor's (S&P) SuperComposite 1500 is a broad-based, capitalization-weighted index comprising 1,500 large-cap, mid-cap, and small-cap U.S. companies. Total returns for the unmanaged index include the reinvestment of dividends and capital gain distributions, but do not reflect deductions for commissions, management fees, and expenses. Individuals cannot invest directly in the index. The S&P 1500's average annual total returns for the one-, five-, and 10-year periods as of 12/31/03 were 29.58%, 0.39%, and 11.09%, respectively.

Please contact us in writing if you would like to receive, at no charge, the most recent copy of our disclosure document, Form ADV, Part II.

© 2004 ICON Advisers, Inc.