

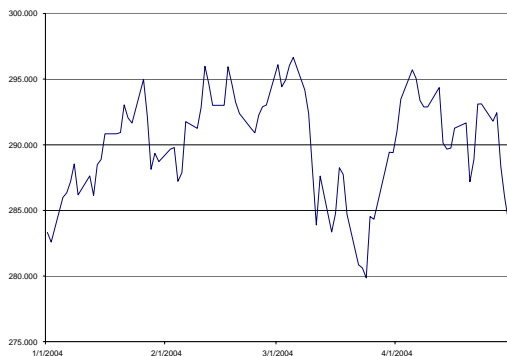
# Portfolio Update

May 2004

Powered by a Disciplined Investment System

## Domestic Market

After a rally in 2003, the broad market has been in a messy, sideways trading range this year. The industry leadership of last year has been interrupted and replaced with rapidly alternating leadership. Below is a year-to-date performance graph of the S&P SuperComposite 1500 Index, a market capitalization-weighted index of 1500 stocks. You can see that it advances but then retreats.



All of the retreats have been accompanied by concerns and jitters as investors were influenced by various events. Sometimes, the market dips were driven by terrorist concerns. Others were related to activities in Iraq. In March, investors were convinced, incorrectly we believe, that disappointing employment growth would curtail consumer spending. Lately, the belief that interest rates will rise has contributed to the latest pull-back.

Each dip and each advance has had its own industry theme. Investors have fled toward energy stocks, then favored recession-proof, non-cyclical stocks. Occasionally, the industry leadership from 2003 has returned. Themes have been short and rapidly changing.

I recall this pattern from the 1980s. The market would advance and then pause for a few months. During the pause, stocks would be in a trading range and industry themes would rapidly appear and disappear as investors rotated from one

concern to the next. Then, when negative (bearish) sentiment reached a short-term peak, the market would break out to the upside with a rally. Each of those subsequent rallies had identifiable industry leadership. The ICON system is not able to discern new industry leadership during the sideways pause. Near the upswing, the potential industry leadership has become more clear.

Naturally, there can be no assurance that the pattern seen in the 1980s will repeat itself this year with a move to the upside. There are some similarities, however. Valuation readings during the moves in the '80s were similar to what we've observed recently. The ICON market Value/Price (V/P) ratio is about 1.09, meaning stocks prices, on average, are about 9% below our estimate of intrinsic value. The chief concern, interest rates, was the same then as now. In the 1980s, investors were incorrectly convinced that interest rates had to rise. That consensus regularly bogged down the market and contributed to sideways moves.

In this setting of prices generally 9% below our estimate of fair value and a clouded view of industry leadership, we have performed a few trades to broaden portfolio diversification. With a V/P of 1.09 and a theme-less market for an undetermined period, we sold some overpriced and fairly priced issues. After being the leading sector in 2003, Information Technology has many securities with prices at or above our estimate of fair value. Sticking to our sell discipline, that sector was reduced last fall and again the last few days of April. Depending upon the portfolio objective, the proceeds have been sent to a variety of ICON Funds. In the Tactical Portfolio, proceeds were invested in Healthcare and Materials. In other portfolios, the proceeds went to select diversified funds. In the Balanced and Frontier Moderate Growth Portfolios, the proceeds from the reduction in Information Technology went to the ICON Covered Call Fund. In the Frontier Global Equity

and Frontier Growth Portfolios, the ICON Long/Short Fund position was increased. *Call options involve certain risks, such as limited gains and lack of liquidity of the underlying securities, and are not suitable for all investors. There are risks associated with selling short, including the risk that the Long/Short Fund may have to cover its short position at a higher price than the short price, resulting in a loss. The Fund's loss on a short sale is potentially unlimited as a loss occurs when the value of a security sold short increases.*

If we are correct that this trading range will end with a breakout to the upside, we may become more concentrated in our system's favored industries once again.

### **Bonds**

After surprising investors by declining in the second half of 2003, the yield on the 10-year Government note has risen back to its late summer 2003 level. T-Bills have moved back up to the 1.15% yield seen in May 2003. This recent rise looks like too much, too quick to us. Long-term bonds remain the best values by our measurement, but it may be premature to tilt heavily toward that end of the yield curve.

### **International Markets**

Most country markets have stalled like the U.S. Japan is the most obvious exception, as it has continued to march higher. Italy rebounded from a recent decline. Hong Kong on the other end of the spectrum has dropped more than most. After a few years of exceptionally high correlation, it is interesting to see independent country moves. We do not see valuation evidence of overpricing in foreign markets.

### **Summary**

It is unpleasant to ride through rough times, but as the timing of the upward advance our system expects cannot be known, we think it is best to own industries that are priced below fair value. If a breakout indeed occurs, we can participate and quickly rotate into our favored industries.

**Past performance does not guarantee future results.** Investment return and principal value will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost.

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 and diversified mutual funds as the investment vehicle. ICON is also the investment adviser to the mutual funds in which the Portfolios invest and receives a management fee from the Funds for its advisory services. There are risks associated with mutual fund investing, including the risk of loss of principal. There is no assurance that the investment process will consistently lead to successful results. An investment concentrated in sectors and industries may involve greater risk and more volatility than a more diversified investment. An investment in a sector fund may involve greater risk and volatility than a diversified fund, and the technology sector has been among the most volatile sectors in the market. 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 Index 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. Portfolio composition may differ significantly from the index. Individuals cannot invest directly in an index.

ICON's Value/Price (V/P) ratio is a ratio of the intrinsic value, as calculated using ICON's valuation methodology, of a broad range of equities within ICON's system as compared to the current market price of those equities.

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.

Consider the investment objectives, risks, charges, expenses, and share classes of each ICON Fund carefully before investing. The prospectus contains this and other information about the Funds and is available by visiting [www.iconfunds.com](http://www.iconfunds.com) or calling 1-800-764-0442. Please read the prospectus carefully before investing. ICON Distributors, Inc., Distributor

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