

Portfolio Update

November 2006

■ Domestic Market Commentary

We believe we are in a new bull, or rising, market. It is “new” in that it has different industry and sector leadership than we have seen over the last three years. We expect it will have a different personality than it had in the previous bull market.

From March 2003 through early May 2006, there was tremendous opportunity for gains, with the leadership coming from industrial, cyclical, economically sensitive industries and sectors. Leading industries included steel, metals & mining, construction equipment and oil & gas exploration. These and other leading industries are generally composed of small- and mid-size companies that tend to be inherently volatile. The new leadership is in industries with companies whose revenues are not economically sensitive, including household products, banks, and pharmaceuticals, for example. Their revenues tend to be steadier through time and not as dependent on the ups and downs of the economy. There are also industries in the Information Technology sector such as systems software that appear to be part of the new leadership. When viewed as steady growth industries and not cyclical, it is sensible that they should be part of the current, non-cyclical theme.

The New Bull Market is Clear to Us

Many market observers doubt the emergence of a new bull market. We think their skepticism is caused by an inability either to see change or to adapt to a new market setting. Similar investor behavior and inability to recognize change occurred in 2000. Well after technology stocks had peaked and were heading downward, investors kept asking the question, “When will tech stocks rally again?” Mentally stuck in the old, previous technology rally, they were unable to recognize the new rally we saw in the Consumer Staples, Healthcare and Financials sectors. We believe investor behavior is repeating itself and that doubters of the new bull market are still living in the bull market of 2003 through early 2006. In our opinion, however, this is a new bull market.

Here is an example to illustrate some investors’ inability to adapt. Over the last three years, some investors would pay very close attention to economic data because they needed support and proof of economic strength in order to own the cyclical, industrial stocks. Strong economic data would encourage them to buy economically sensitive stocks. Weak data would give them reason to sell those stocks. Now, still stuck in that approach, many investors sell stocks when weak economic data is reported, but they are missing the fact that the economy does not matter to the new leadership. Consumers buy soap, toilet paper and pharmaceuticals independent of whether the economy is weak or strong. In this setting it appears prudent to pass up the stocks that are economically sensitive and, therefore, to ignore the economy. Worded differently, when you don’t own cyclical stocks, the economy should not matter. The Federal Reserve reduced the rate of growth of the money supply with the objective of slowing the economy. They have succeeded, but to our investment approach, the Fed moves do not matter if you do not own economically sensitive stocks.

Portfolio Rotations Capture the New Theme

We conducted major industry and sector rotations during the third quarter. The move was deliberate and systematic as new industries gradually met our standards of value and relative strength. Many of the stocks we recently purchased have not been owned in ICON Portfolios since late 1999 or early 2000. The stocks of IBM, General Electric, Microsoft, Intel, Merck, Johnson & Johnson, Bank of America, Citigroup, Procter & Gamble were all sluggish from early 2003 through early 2006, but now they have come alive.

At ICON, we are market capitalization indifferent. We do not think in terms of small-cap or large-cap companies, we follow industries and themes. It is clear, however, that from early 2003 through early 2006, the leading industries were composed of small and mid-size companies. Now, the industry leadership is comprised of industries made up of large, mature companies. While their stocks were not in favor the last three years they were growing profits and the intrinsic value of their firms. Stock prices did not move in tandem with value because investors were chasing other industries. Over the next one to two years, we believe time for prices of these new leaders will try to catch up with value.

Indexes such as the S&P Composite 1500, or the more narrow S&P 500, are market capitalization weighted. The largest five stocks make up 10.90% and 12.38% of those two indexes respectively as of 9/30/06. Continuing to show how concentrated they are, the largest 15 stocks comprised 22.79% and 25.88% of those same two indexes as of 9/30/06. In

addition to being highly concentrated, they do not have a neutral sector tilt. For those two reasons, we do not like the indexes as portfolios for the long-term buy and hold strategy. When large, mature companies in certain sectors suddenly came alive in late July, the indexes they heavily influence surged. Systematically during August and September, our value and relative strength metrics pulled to industries that make our Portfolios look more like these indexes than they have been this entire decade. However, we do not consider this to be a neutral tilt with regard to concentration or sector.

Bond Market Commentary

Bonds had been rallying from late June through late September, but yields inched higher in October. We do not fear higher rates and are comfortable owning bonds. Over the last 26 years, slowing the growth of the money supply, as the Federal Reserve has just done, has proven to be a very effective tool at squelching slight spurts of inflation. We expect the same result will happen this time. Valuation suggests bonds are not overpriced.

International Market Commentary

The same sudden industry and sector theme shift occurred outside the U.S. Mature companies in non-cyclical industries are leading and, based on valuation, this leadership appears sustainable. That theme heavily favors Europe with the Information Technology portion of the leadership coming from Asia.

Summary

In general, domestically and internationally, ICON's position is: (1) own stocks that are not economically sensitive and (2) do not worry about the slowing economy. There is a clear theme and industry tilt to our portfolios that favors large, mature companies in growth and non-cyclical industries.

Prepared by ICON's Investment Committee.

***Past performance does not guarantee future results.** Investing in securities involves inherent risks, including the risk that you can lose the value of your investment. Investment return and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. 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. 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.

The unmanaged Standard & Poor's (S&P) Composite 1500 Index is a broad-based, capitalization-weighted index comprising 1,500 large-cap, mid-cap, and small-cap U.S. companies. The unmanaged S&P 500 Index is a market value-weighted index of large-cap common stocks considered representative of the broad market.

To analyze intrinsic value, the ICON valuation methodology relies on the integrity of publicly released financial statements. ICON's Value/Price ratio is a ratio of the intrinsic value, as calculated using ICON's valuation methodology, of a broad range of U.S. equities within ICON's system as compared to the current market price of those equities.

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Sources: FactSet Research Systems, Inc.

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