Portfolio Update

November 2005

Domestic Market Commentary

The stock market dropped in early October, with most indexes hitting their lows on October 13, 2005. Investor reasoning behind the sell-off was based on conjecture that higher fuel costs in the wake of Hurricanes Katrina and Rita would crimp profit growth, spark inflation, and spur the Federal Reserve to keep raising interest rates. The relationships between hurricanes, oil prices, profits, inflation and Federal Reserve policy may seem logical and intuitive to amateur economists, but in an econometric model, they are quite weak. We mentioned in last month's Update that "We have not participated in that guessing game. Instead, we have stayed with our valuation approach."

From the low on October 13th, the market came back some, but experienced unpleasant daily volatility as investors reacted to news events and economic data. Days with greater than 1% moves were not uncommon. After October 13th, there were seven trading days when the S&P SuperComposite 1500 Index moved greater than 1% in either direction. For example, on October 27, it dropped 1.14% as disappointing spending on durable goods was reported. The next day, that index gained 1.68% as gross domestic product (GDP) showed good growth and absolutely no effects from hurricanes. The implicit price deflator measured only moderate inflation. Many investors have no conviction, and apparently try to predict the economy, and invest, based on news that appears in their rear view mirror.

The sector and industry leadership picture during October was unclear. Energy was the worst-performing sector during the decline and was sluggish (third worst) on the rebound later in the month. At the industry level, the leadership during the second half of the month had a mixed theme. Naturally, there were some economically sensitive, cyclical industries among the leaders, such as metal & glass containers, steel, diversified chemicals, air freight & logistics, paper packaging, household appliances, and tire & rubber. At this point, it is too early to know whether this is the beginning of sustainable leadership or just a rebound from the early October sell-off.

We remain bullish based on our overall valuation readings. Our analysis of average value/price ratio for the approximately 1,800 domestic stocks in our database is slightly above 1.20. That suggests stocks, on average, are priced about 20% below our estimate of fair value. It has been a struggle for stock prices to attain and keep up with our estimate of fair value the last couple of years. Events and news keep nudging investors toward worrisome speculation. Yet our corporate valuations, based mostly on profits, have demonstrated a steady ascent. By filtering out macroeconomic conjecture and news events, there is a bullish case to be made for stocks at the individual stock and valuation level.

Bond Commentary

Bond prices dropped during the month of October and did not experience a recovery in the second half of the month as did stocks. The yield on the 10-year government note inched above 4.5% as of Oct. 31, 2005. It is still a bit lower than its recent highs seen in June 2004 and March 2005. A lot of this rise is based on investors guessing that the Federal Reserve will keep tightening monetary policy in its fight against inflation. The 10-year yield has been in a sideways trading range the last three years. This recent upward move appears to be another upward drift, not the beginning of a breakout to new higher yields. At 4.5%, the yield seems high enough to us considering current inflation levels.

International Market Commentary

Most international markets dropped in October. Into that weakness, we increased the international equity exposure in Frontier Portfolios, primarily shifting toward Asia. Japan and South Korea stand out as two leading country markets going back to last spring. Company by company, valuation is a little better overseas than in the U.S. There are additional risks, but the combination of value and strength looks potentially rewarding enough to make international positions a bigger part of our diversification objective.

Summary

As seen in the release October 28, the U.S. GDP keeps rolling along. The rise in oil prices has caused some one-time price increases in some goods and services, but has not slowed the economy or ignited sustainable, repeated inflation. From a profit and business perspective, companies look quite healthy, according to ICON's analysis. We try to own those stocks that we can buy at below our estimate of intrinsic value. In today's setting, with investors worried about various events, it is easy to find high quality companies on sale.

Prepared by ICON's Investment Committee.

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.

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. The Portfolios' composition may differ significantly from the index. Individuals cannot invest directly in an index.

There are inherent risks investing in securities. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. 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 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 high-quality bonds.

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. Gross Domestic Product (GDP), also known as Gross National Product (GNP), is the total value of goods and services produced in the national economy in a given year. It is the primary indicator of economic growth.

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

Index Data Source: Bloomberg and FactSet Research Systems

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

102285 (11/05)