

Portfolio Update

November 2004

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Domestic Market Commentary

This year, the equity market has been characterized by short-term moves and rapid theme reversals. Stock prices have moved higher at times led by consumer, industrial and cyclical issues, suggesting investors may have a favorable view of the economy. Then over the subsequent few weeks, stock prices have dropped with exceptional weakness in the consumer, industrial, and cyclical industries, indicating investors adopted a completely opposite view of the economy than they held the previous few weeks.

October was a continuation of that behavior. The market moved higher the first few days of the month, extending the advance that dated back to August 12. The leadership throughout October was in economically sensitive industries. Then, the market retreated during the middle of the month but moved higher the last week. The market was characterized by volatility, theme reversals and little change from start to finish. It was just more of what we have seen all year.

Influence of Oil Prices

Similar to most of the year, the price of oil influenced stock prices. The price of a barrel of West Texas Intermediate Crude rose to a high of \$56.17 on October 22, 2004. Stock prices dropped as the price of oil rose. Then, oil declined to \$50.13 on November 1, and stock prices moved higher. Investors are behaving as though oil is the only variable that influences spending and interest rates. They appear to believe that oil is an extremely powerful determinant of other economic variables. They are selling stocks on a daily basis if the price of oil rises because they reason that higher oil prices will slow down consumer and business spending and will also cause higher inflation. Without debating economic models, the world is not that simple. There are many variables

that influence the levels of spending and inflation, making oil a very minor factor.

At ICON, we do not base our investment decisions on the changing price of oil or guess on its future price. We have invested in the industries that we expect to lead when the market breaks out of its trading range. We have endured the volatility and theme reversals caused by speculators who have reacted to short-term events. With a value/price ratio for our universe of stocks at 1.19, we see stock prices at about a 19% discount to our estimate of fair value. We expect a break out to the upside. It is too early to tell whether the advance dating back to August 12 is sustainable or whether the market will move lower. We believe it is prudent to be invested based on valuation and ride through short-term volatility.

Industry Replacement

A minor industry replacement was performed in October primarily to increase exposure to industries in the Information Technology sector. This sector has been among the best-performing sectors from the market low on August 12, 2004. Industries that are not economically sensitive in the Healthcare and Leisure and Consumer Staples sectors were sold. Industrials, which had been our largest sector position, was slightly reduced. A small position in Energy was added, primarily to include our favorite industry in that sector, oil & gas drilling & production.

Bond Market Commentary

The rally in bond prices that began June 14, 2004 continued through October. The yield on the 10-year Government Bond closed October at 4.025%, down from its 4.121% yield on September 30. In May and June, some analysts had worried that higher oil prices and a strong economy would rekindle inflation, an obviously bad condition for bonds. The last three monthly readings of the Consumer Price Index (CPI) show no indication of

high inflation. July's CPI was -0.1%, August was +0.1% and September was +0.2%. Seeing that higher oil prices have not translated into inflation, investors are gradually buying bonds, driving prices higher and yields lower. Bond investors also appear to be finding comfort in the gradual monetary tightening by the Federal Reserve. Short-term interest rates have moved higher, but that gives bond investors comfort that inflation will not be a concern.

We continue to lean toward middle maturity and long-term bonds based on valuation and relative strength.

International Market Commentary

Over the last few years, we have commented on the high degree of correlation among various country markets. They have reached bottoms and peaks together and generally moved together. We also have observed similar global industry and sector themes. Lately though, we have seen a disconnection, particularly in Asia. European markets have moved higher in tandem with the U.S. since mid-August, but Japan has not participated. From a sector perspective, Information Technology stocks have been leading the U.S. market higher the last two months, but in Japan that sector is generally in decline. As Japan imports 100% of its oil, we can only guess that investors believe higher oil prices will be more negative for Japan than for other countries.

Summary

There have been a lot of distractions for investors this year that have resulted in rapid theme reversal and short-term volatility. At the company stock level we find the fundamentals to be quite healthy. In time, we expect investors to acknowledge the fundamentals. It is normal for distractions to rule in the short run, but for fundamentals to win out in the long run.

Yours truly,



Craig T. Callahan, DBA
President and Chief Investment Officer

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 volatility than a more diversified investment, 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. 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.

The Bloomberg West Texas Intermediate Cushing Crude Oil Spot Price Index is an index which represents the price of crude oil per barrel in U.S. dollars. 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.

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.

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.

Data Source: Bloomberg

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