

Portfolio Update

October 2004

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Domestic Market Commentary

Like the second quarter, the third quarter began with a drop in the market during the first few weeks and then finished with a rebound, which began August 12.

Among a variety of economic data, investors seem most interested in oil prices. While up for the quarter, oil prices backed off their highs reached in mid-August. For those who feared higher oil prices would translate into higher inflation, we see no evidence to support that hypothesis. The Consumer Price Index was -0.1% in July and only +0.1% in August. Long-term interest rates, as measured by the 10-year Government Bond for example, declined in the third quarter, obviously surprising skeptics who expected rates to go higher. The overall economy is growing, and we like the growth in corporate earnings we have seen. From earnings to interest rates to inflation, we believe it looks like a fine economic setting for the stock market.

Given the favorable setting for stocks, we ponder the same question we did at the end of the second quarter: is the advance in the market off the low on August 12 sustainable? In late May and through June, the market moved up, but retreated in July. Similarly, the market has moved higher from August 12 to September 30. It has been a very broad move in terms of the number of stocks and industries participating. That is a healthy sign for technical analysts and could encourage some buyers to enter. Otherwise, this recent move has been dull and steady, in a sense, very quiet.

At this point we don't know whether this will be the beginning of the breakout to the upside we ultimately expect. With ICON's value/price ratio for the broad market being 1.20, we expect a move higher but do not expect it to be triggered by an event or accompanied by any fanfare. If it happens as we expect, it will leave most investors behind.

No Election Guessing

You have noted, no doubt, that guessing about the election is absent in our market commentary. The ICON system performs value-based, bottom-up industry rotation. Placing bets on the market based on election guessing may be popular with some investors, but that looks to us more like speculating or gambling than investing. In addition, any laws that get passed under a president must go through many phases of compromise, and it would be many years before new laws would actually affect earnings of companies. The economic futures of pharmaceutical companies, for example, are much more dependent on the aging population and the need for various disease treatments than they are legislation. So, we stick to our system and avoid the guessing game.

Sector Reallocation

There was one sector rotation in mid-September: holdings in the Leisure and Consumer Staples sector were reduced and the Information Technology position was increased in Tactical and Balanced Portfolios. In March 2003, Information Technology was our largest sector position. Late in 2003 and in early 2004, it was reduced as a few industries were sold, including semiconductors, semiconductor equipment and Internet software. Based on Standard & Poor's sector indexes, Information Technology has been the worst-performing sector to date in 2004. With stock prices in that sector generally declining and corporate earnings (which affect value) growing, our value/price ratios are attractive again. It now appears to us that more industries in the Information Technology sector have the potential to lead the market when it breaks out of its recent trading range.

Bond Market Commentary

The rally in bond prices that began on June 14 continued through September. There were many

investors convinced last spring that long-term rates had to go higher. Just the opposite has happened. While the Federal Reserve raised its target on the Federal Funds rate, and may do it again, investors appear to find comfort in that the tightening may keep inflation muted. After all, inflation is one of a bondholder's worst enemies. With the perceived comfort of benign inflation, investors have been buying bonds lately. We have added to our long-term Government and Agency bond positions since June as our valuation readings continue to favor that sector of the bond market.

International Market Commentary

Currencies have generally moved sideways in a trading range last quarter. Most country stock markets have moved modestly higher from mid-August, just like the U.S. market. The percentage gains have been very similar to the U.S. market, as has the industry and sector leadership. Based on value, just like in the U.S., we expect a breakout to the upside, but it is too early to know whether the recent advance is the beginning of that anticipated move.

Summary

Investors often wait for a significant event to trigger a market move in either direction. We think that is a flawed strategy and believe it is rare for an event to initiate a market move. To the contrary, the market often moves with no drastic change in the news setting. We have always stayed positioned based on value rather than waiting and guessing.

As I have since June, I would like to remind you to visit our new website at www.iconadvisers.com and experience its impressive capabilities.

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. 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 Sector Indexes track the performance of sectors that comprise the S&P SuperComposite 1500 Index. The Consumer Price Index is the primary indicator of U.S. inflation and is used to make cost-of-living adjustments to billions of dollars in benefit payments.

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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