

Portfolio Update

September 2004

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Domestic Market Commentary

During the first two weeks of August, stock prices continued their downward trend from July, but reversed and headed higher the last two weeks. Major indexes ended the month mixed. While over the last few months, turning points in the price of oil and stock prices were nearly perfectly synchronized; this time stock prices began their move higher a week before the peak in oil prices. Most stock indexes began their move higher on August 12 while oil prices, as measured by the West Texas Intermediate Cushing Crude Oil Spot Price Index, peaked on August 19 at \$48.70 per barrel. Its drop was a virtual free-fall, closing at \$42.12 per barrel on August 31, a 13.5% decline in eight trading days.

The stock market move in late August was very broad, with many stocks participating, but it was quite muted in magnitude. Stocks did not get a big boost from the drop in oil prices.

A Different Economic Setting

It appears that investors were disappointed in some economic statistics. They were getting relief from oil increases, but were seeing the economy and earnings growing less than they had hoped. Many investors seem to view moderate growth as inadequate, desiring a return to the 1990s' economic setting. Yet, the goals of the Federal Reserve ("the Fed") have been obvious. The Fed determined that the growth of the late 1990s could not continue with increased inflation. The Fed tightened to slow the economy and pursue a setting of moderate growth with minimal inflation pressures. The Fed has succeeded, but investors have not embraced these new conditions.

In valuing companies, we are using greatly reduced growth rates from what we used in the 1990s. Currently, on average, we measure U.S. stocks to be trading about 22% below our estimate of fair

value. That fair value is not dependent upon the more rapid growth of the late 1990s, but rather is based on the moderate growth that the Fed has targeted. Of course, along with that moderate growth have come lower interest rates. As lower interest rates have a positive affect on valuation, they have offset the lower growth rates for earnings in our equation.

The Disconnect of Oil and Energy Prices

On a sector level, there was an interesting development in July and August in Energy. From June 29 through August 19, 2004, the price of West Texas Intermediate Crude Oil increased 36.57%. Over that time, the Standard & Poor's (S&P) 1500 Energy Index dropped -0.017%. We examined the relationship between oil prices and energy stock prices dating back to when the S&P 1500 Energy Index was introduced. We found that about 60% of the movements in the index were explained by movements in the price of oil, meaning that about 40% of the movements were explained by other factors. So the disconnect between oil prices and energy stocks prices is not unusual.

Bond Market Commentary

The rally in bond prices that began on June 14, 2004 has continued through August. The yield on the 10-year Government bond has dropped from 4.872% on June 14 to 4.119% on August 31. Based on our interviews with the media and feedback from investors, we believe investors were convinced interest rates were going higher in May and June, but they were wrong. In that timeframe, the best bargains in the bond grid were the longer term bonds, which is consistent with investors avoiding them based on higher rate expectations. Even after the recent rally, they remain priced below our estimate of intrinsic value, suggesting this rally is sustainable. Unlike in 2003, our system favors Government and Agency bonds rather than high-yield corporate bonds.

On June 30, the Fed raised the target for the Federal Funds rate. We have been stating for a few months that it is necessary to distinguish between short-term and long-term interest rates. We have said it is possible for higher short-term rates because of Fed policy, but lower long-term rates. At least over the last two months, that has been the scenario.

International Market Commentary

In recent months, we have commented on the high correlation between various international markets, and how those markets have reacted to the price of oil. That correlation continued through August. As in the U.S., most international markets showed weakness in early August, and strengthened the second half of the month when the price of oil declined.

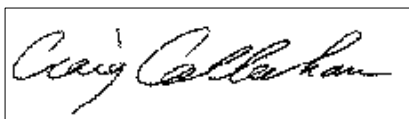
Hong Kong continues to stand out as exhibiting a steadier up trend than most other markets. Our valuation readings in the international markets have led us to the same strategy as in the U.S. We remain invested with the expectation that the breakout from the current situation will be to the upside. Then, industry leadership and theme identification become important.

Summary

Periods when the market just drifts and investors get concerned with various events are just normal for the stock market. As long as we identify value, we believe it is best to just ride through and be invested when the market breaks out. We do not expect a breakout will be initiated by an event. To the contrary, we expect it to catch most investors off guard.

I would like to remind you of our new website at www.iconadvisers.com and invite you to visit it and discover some of its 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 more 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 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 Standard and Poor's (S&P) 1500 Energy Index is an unmanaged capitalization-weighted index comprising companies in the energy sector as determined by S&P. 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. 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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