PORTFOLIO UPDATE

December 2009

Skeptics continue to doubt this rally. They worry about events that are either irrelevant to the stock market or so far off into the future as to be of no legitimate concern for many years. This doubt is something we believe typically pervades rallies. Meanwhile, while the naysayers doubt, the stock and bond markets continued their upward marches through the month of November. Our valuations suggest these rallies are sustainable and part of an approximately two-year-long recovery.

Admittedly, all the news is not good yet. Like you, we continue to hear disappointing and negative stories, but the news does not have to be good to support this rally. In our opinion, the news just has to exceed the horrible expectations investors had in early 2009, which included a national depression (economic and otherwise), a seemingly endless recession, bankruptcies, bond defaults, and a whole host of financial and economic disasters. We believe stock and bond prices in early 2009 reflected the imagined worst case scenario. Prices today are rallying as investors realize those horrible expectations are less and less likely to materialize. So while economic conditions, admittedly, are not great yet, they do not have to be. They just have to be better than what was once anticipated. In part because we believe economic conditions are better than anticipated earlier this year, we feel this rally is sensible.

In early March we stated that stocks were priced extremely low relative to our estimate of intrinsic value. Since then prices have moved higher, but so has value. As we've said in the past, prices off the March low have not been able to catch our upwardly moving estimate of intrinsic value. By way of example, let's look at a company you may recall hearing about in the news in early November 2009. Based on monthly closing prices, Burlington Northern (a railroad) hit a low of $58.77 at the end of February. The ICON estimate of fair value at that time was $64.10, as we had a value-to-price (V/P) ratio of 1.09.

On Nov. 2, the stock closed at $76.07, but under ICON's methodology, intrinsic value had grown to $114.33, resulting in a V/P ratio of 1.50. On the morning of Nov. 3, Berkshire Hathaway, under the leadership of Warren Buffet, announced a bid to acquire all shares that they did not already own for $100 per share. ICON benefited by owning the railroad and selling our positions into the price surge that day. (As of Dec. 4, 2009, ICON does not own any shares in Burlington Northern and has not since Nov. 3, 2009.) In our view, the takeover was sensible, as Mr. Buffett's bid of $100 still represented a bargain (below our intrinsic value estimate of $114). More importantly — and typical of the market in general — from March to November, the stock price moved from $58.77 to $76.07 but was not overpriced under the ICON system because value increased from $64.10 to $114.33.

In the past we have used these monthly Portfolio Updates to explain how our estimate of intrinsic value has grown over the last nine months and made the stock rally sustainable. Two variables have contributed to the increase in value. The first is earnings — generally, the new earnings estimates we bring into our equation are higher than the old, stale earnings being dropped off. The second (and more significant) contributor is the drop in corporate bond yields. Combined, the higher earnings estimates and lower bond yields have helped boost value for most stocks in ICON's investable database.

We have seen a shift in industry and sector leadership over the last month. For the first few months off the March low, many industries in the Financials sector were the best performers. All other above-average sectors were, in our opinion, economically sensitive and cyclical in nature. Lagging sectors were the so-called "recession-proof" sectors that are generally not economically sensitive. After many months of this cyclical/economically-sensitive theme, the prices in some leading industries reached or exceeded our estimate of fair value. Lagging industries moved up our V/P rankings and have recently become eligible for purchase under the ICON system. In response to what appears to be a theme shift, we traded out of the fully priced previous leaders and rotated toward some previous laggards that now represent better value. Some of the newly acquired industries are in the Health Care and Consumer Staples sectors.

INTERNATIONAL STOCKS

Rallies in international markets seem to have mirrored the rallies in the U.S. Specifically, prices have rallied, but our estimates of intrinsic value have moved higher as well. So far, in general, prices have not caught our upwardly moving valuations. Like our domestic portfolios, we recently shifted our international portfolios from our early sector and industry tilts of March and April. Based mostly on industry shifts, we have reduced our exposure in Asia and increased our exposure to European markets. With a market V/P of 1.19 for the approximately 2,300 international stocks in the ICON database, we still see significant value overseas.

BONDS

In early 2009, our calculations suggested Treasury notes and bonds were overpriced. The combination of value and relative strength pulled us to short-term, high-quality corporate bonds. As the year has progressed, our metrics continue to pull us toward mid-range maturities and the mid- and lower-rated, higher yielding corporate bonds. As of now, we favor the very center of the corporate bond grid in terms of quality and maturity. We think the rally in corporate bonds is sustainable. In our opinion, Treasury issues remain overpriced and should be avoided.

SUMMARY

Here is a lead paragraph from the Nov. 30, 2009, issues of *Barron's*, *Dow Jones Business News* and *Financial Weekly*:

> *Investors have been punished since March for flinching at what looked like threats. Anyone who cringed at any number of worrisome headlines along the way from Dow 6500 to Dow 10,000 got stung, at least by foregone profits. Now global markets are flinching at the inability of Dubai World to service its towering debt. At some point, those who fail to flinch will take the pain. But are we there yet?*

Guided by our market V/P ratio, ICON has not flinched, and with a current reading of 1.15, we believe now is not the time to start flinching or move to cash. Our V/P has guided us during this rally through the "worrisome headlines" mentioned by *Barron's*. We still believe our V/P will prove to be a good guide, and we expect the market to move higher as we head into 2010.

Prepared by ICON's Investment Committee.

Past performance does not guarantee future results.

Investing in securities involves risks, including the risk that you can lose the value of your investment.

Opinions and forecasts regarding sectors, 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, industry, or sector. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment.

ICON's value-based investing model is an analytical, quantitative approach to investing that employs various factors, including projected earnings growth estimates and bond yields, in an effort to determine whether securities are over- or underpriced relative to ICON's estimates of their intrinsic value. ICON's value approach involves forward-looking statements and assumptions based on judgments and projections that are neither predictive nor guarantees of future results. Value readings are contingent on several variables including, without limitation, earnings, growth estimates, interest rates and overall market conditions. Although valuation readings serve as guidelines for our investment decisions, we retain the discretion to buy and sell securities that fall beyond these guidelines as needed. Value investing involves risks and uncertainties and does not guarantee better performance or lower costs than other investment methodologies.

ICON's value-to-price ratio is a ratio of the intrinsic value, as calculated using ICON's proprietary valuation methodology, of a broad range of domestic and international securities within ICON's system as compared to the current market price of those securities. To analyze intrinsic value, the ICON valuation methodology relies on the integrity of publicly released financial statements.

Investments in international securities may entail unique risks, including political, market, regulatory and currency risks. In general, there is less governmental supervision of foreign stock exchanges and securities brokers and issuers. 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.

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

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