



ICON

PORTFOLIO UPDATE

September 2009

THE RALLY CONTINUES

The rally off the March 9 low continued in August. The upside rebound in 2009 is just as dramatic to us as the downside slide was in 2008. The S&P 1500 Index – one measure of the broad domestic stock market – has gained 54% in the 122 trading days since the March 9 low through the end of August. While the pace of the rally has averaged almost 0.4% per day, it has been anything but steady. The advance has featured upward surges and occasional jolts to the downside – behaviors typical of rallies – but the magnitude of the moves each way has been more extreme than normal.

We believe it is a sensible and proper rally and the beginning of a recovery that will take a couple of years. Of course many (if not most) investors question whether we're even in the midst of a rally. Fear and apprehension still linger in their rearview mirrors. It is easy to scan the financial news and find observers doubting the rally and calling for a retreat to the downside. Such doubt, too, is typical of rallies and appears to us to be just wishful thinking by those who remain invested in cash. As measured by more recent gains, however, you have to go back to October 6, 2008 for cash to have performed better than stocks on an absolute basis. From the close of October 7, 2008 through August 26, 2009, the S&P 1500 Index has gained 6.16%. Anyone invested in cash instead of stocks (at least as represented by the broad S&P 1500 Index) from any date since October 7, 2008 is worse off than if they have been in the market over the entire time period. Naturally, there has been anxiety with stocks, but in terms of absolute returns, stocks have beaten cash since October 7, 2008.

INDUSTRY AND SECTOR LEADERSHIP

The industry and sector leadership makes sense to our system. As a sector, Financials is leading and is undergoing a rebound from the thrashing it experienced last year and earlier this year. The remainder of the leadership is in cyclical, economically sensitive industries and sectors. Materials, Consumer Discretionary, Industrials, and Information Technology are leading. Recession-proof sectors such as Consumer Staples, Utilities, and Health Care are lagging. We interpret the market advance as anticipating an economic recovery.

Stock prices have moved higher, but so has their target: intrinsic value. As new earnings have been brought into our valuation equation, they have generally increased intrinsic value for individual stocks. However, the most significant boost to value has been through the decline in corporate bond yields. Their decline appears to be an unwinding of the extreme upward jolt they experienced last fall when Lehman Brothers declared bankruptcy. To us, corporate bond yields do not appear to have reached normal levels yet. If they continue to drop, it would send our equity intrinsic values higher.

Our recent overall market value-to-price ratio of 1.13 leads us to expect higher stock prices over the next year. Other supportive elements such as earnings and corporate bond yields suggest to us that this rally is sustainable.

BONDS

Our valuation readings on bonds suggest short-term treasury notes are overpriced. It appears investors are still extremely cautious, clinging to the perceived safety of those debt instruments and willing to pay too much for the security they provide. However, as we explore other bond categories, including corporate and even high-yield bonds, we find some attractive bargains. Based on the combination of value and relative strength in corporate bonds of most maturities, we believe the impressive corporate bond rally is sustainable. This is good news for bonds of course, but as mentioned above, the decline in corporate bond yields is also good news for stocks.

INTERNATIONAL

Broad measures of the international market have advanced even more than their U.S. counterparts, confirming the existence of what we see as a widespread, sustainable rally. The sector theme is almost identical. Financials is leading, followed by cyclical and economically sensitive sectors – Materials, Consumer Discretionary, Industrials, and Information Technology. This kind of sector leadership suggests to us that investors are anticipating a global economic recovery. Health Care, Utilities, and Consumer Staples – generally referred to as recession-proof sectors – are participating in the rally, but lag behind their cyclical and more economically sensitive counterparts. Although international stocks are closer to fair value than



their U.S. counterparts, in our opinion they have not yet reached their potential. We anticipate seeing some upside to international stocks, as prices move to reach value.

SUMMARY

The severe events and market decline of late 2008 and early 2009 put extreme pressure on investors. Many moved to cash and remain there, not participating in this first step of what we contend is a sustainable recovery. Based on value and many supportive elements, we believe staying invested remains the prudent course.

Prepared by ICON's Investment Committee.

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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.

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

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.

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