PORTFOLIO UPDATE
September 2008

Domestic Market Commentary

Most indexes were moving higher off the July 15 low but ran into a setback the last two weeks of August. We do not read much into that brief setback. We believe the last two weeks of August, like the last two weeks of every December, have failed to provide any useful information regarding predictive or interpretive market content. In the last two weeks of August, the average daily volume on the NYSE dropped almost in half from about 1.5 billion shares per day to the 800 million share range, suggesting it is vacation time for many investors and otherwise revealing no clear or consistent theme.

We see some encouraging signs to support the case for July 15 proving to be the bottom. Earlier in the year there was a multi-variable scenario in place that was terrible for stocks. The dollar was sliding and oil and many commodities were rising rapidly. Investors evidently projected those conditions into increased inflation. Over the last two months, however, the speculative spirals of those moves have been completely reversed. The dollar and some commodities have moved back to their late 2007/early 2008 pricing levels. Gold, for example, has dropped from $1,010 per ounce to around $780 an ounce. Oil prices have retreated to approximately $105 per barrel, which is down from a high of around $145 per barrel. The U.S. Dollar has regained strength and is back to levels seen eight months ago.

Another supportive element for higher stock prices is the money supply, defined as M1. M1 has been in a sideways range for 2005, 2006, 2007 and the first half of 2008. According to monetary theory, this lack of growth would slow the economy. Last fall, the FED eased monetary policy and injected reserves into the banking system, but M1 did not grow because banks were not making new loans. With no M1 growth, investors worried about the economy and stock prices drifted lower in 2008. Lately, M1 has grown by 2.9% over the last 13 weeks, which equates to a brisk 12% annual expansion. We can only infer that banks are lending again. Historically, investors have responded favorably to M1 growth and viewed it as a leader of economic expansion. If the M1 expansion continues, we would expect it to be a very supportive condition for higher stock prices.

The ICON value-to-price (V/P) and relative strength readings for industries are designed to capture industry leadership over moves lasting one to two years or more — not the four- to six-week rapid reversals seen this year. Whether or not July 15 proves to be the bottom, we believe we know what the longer term leadership will look like. We anticipate that industries in the Consumer Discretionary, Industrials, and Information Technology sectors will lead. Leadership may also come from selected industries in the Financials sector. We believe we will find bargains in those sectors as determined by our valuation methodology. In addition, these sectors have been leading off the July 15 low. Furthermore, in July we brought select Health Care industries back into our portfolio.

Bond Market Commentary

It is our opinion that inflation expectation is the most important consideration for bond investors, as fixed income investors should be concerned with purchasing power erosion. While inflation readings have picked up the last two months, behavior in the bond market suggests to us that bond investors expect it to subside. In July the CPI was up 5.6% from a year earlier, yet the yield on the ten-year Government bond was only 3.8%. We think it would be irrational for investors to lock into 3.8% if they expected their purchasing power to erode at 5.6% per year. We believe the monthly upticks in the CPI are temporary. Based on valuation, our outlook for bonds is neutral. We do not expect an extreme move in yields in either direction.

International Market Commentary

European markets are behaving like the U.S. market in terms of moving higher off a mid-July low. Asian markets, however, like Hong Kong and Japan, are more sluggish. Rising interest rates in Asia earlier this year cut into valuation readings. Therefore, we have lowered our exposure to the Asian markets relative to Europe over the last couple of months. In the past, we had favored international stocks over domestic stocks in global portfolios. Over the last two months, however, we have trimmed the international advantage getting closer to an equal weighting between domestic and international stocks. We expect international stocks to rally from their current levels. We just do not expect them to outpace their domestic counterparts.

Summary

The National Bureau of Economic Research has not yet declared a recession by two consecutive quarters of negative GDP. The rate of growth of GDP increased during the second quarter of 2008 and now there is evidence that exports are increasing, such as in the durable goods data for July. At the company level, we generally find healthy earnings. We think investors will come to realize they overreacted during the first six months of the year, and we anticipate a broad-based rally when that happens.

Prepared by ICON's Investment Committee.

Past performance does not guarantee future results. *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 inherent risks, including the risk that you can lose the value of your investment. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. 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.

ICON's "relative strength" estimate reflects ICON's calculation of how an individual stock has performed compared to the broad stock market over a six-month period.

ICON's value-to-price ratio is a ratio of the intrinsic value, as calculated using ICON's valuation methodology, of a broad range of domestic and international equities within ICON's system as compared to the current market price of those equities. To analyze intrinsic value, the ICON valuation methodology relies on the integrity of publicly released financial statements. According to ICON, value investing is an analytical, quantitative approach to investing that employs various factors, including projected earnings growth estimates, 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 not guarantees of future results. Value investing involves risks and uncertainties and does not guarantee better performance or lower costs than other investment methodologies.

Gross Domestic Product (GDP) is the total value of goods and services produced in the national economy in a given year. It is the primary indicator of economic growth. 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. The Portfolios' composition may differ significantly from the indexes. Individuals cannot invest directly in an index.

M1 is one measure of the money supply that includes all coins, currency held by the public, traveler's checks, checking account balances, NOW accounts, automatic transfer service accounts, and balances in credit unions.

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Sources: Bloomberg Finance, L.P., FactSet Research Systems, Inc.

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