



Portfolio Update

January 2008

Domestic Market Commentary

We believe investors who entered the stock market on December 31, 2002 and held for the last five years should be pleased and congratulated. Most market indexes (the Dow, S&P 500, Russell 3000 and Dow Jones Wilshire 5000) have posted above-average annualized rates of returns for the five years ended December 31, 2007.

In some aspects, our experience tells us this has been a classic advance and has validated the adage that “stocks climb a wall of worry.” There have been plenty of distractions and concerns along the way. Some investors worried that rising oil prices would slow the economy. Others were concerned that geopolitical events around the world would hurt prosperity. For these and other reasons, the market paused and dipped over this five-year period.

During the same five years, in our view and utilizing our methodology, stocks have been generally underpriced relative to our estimate of intrinsic value. In general, valuation has guided us to own stocks. Our message has been consistent: we expected that stock prices would rise to our calculation of value.

Now, here we are again, proud of our steadfastness the last five years, but as ever, needing to go forward. Some investors worry that sub-prime mortgage problems will lead to a recession. Others focus their concerns on potential inflation. Amid this conjecture, we have a value-to-price ratio (V/P) for the broad U.S. market of 1.21 as of December 31, 2007. That is an attractive reading often associated, in our experience, with times of uncertainty and suggests prices have quite a climb to catch up to our estimate of fair value.

We find that stocks often begin a rally in the midst of bad news. As the rally proceeds, news can continue to worsen for many months. Then, finally, the news begins to improve. That often means, at major turning points, successful investors buy stocks fully expecting that the news will deteriorate, but confident about being invested. Under this analysis, investors who wait for good news usually miss the rally.

While we expect a broad market move higher, the industry and sector leadership outlook is less clear based on our V/P ratio. The market is showing some leadership that is different than the last few years. Industries in the Information Technology sector have come alive in terms of relative strength. We believe this may be part of a leadership rotation.

We think the next six to 12 months may be a time for stocks of fundamentally sound companies to catch up with intrinsic value after lagging the last few years. In our opinion, the volatility we have seen the last five months is typical of an industry theme change. We view it as a tug-of-war between the old theme and an emerging one.

On a sector basis, as of December 31, 2007, the two most underpriced sectors according to our methodology are Consumer Discretionary and Financials. When the market advanced off the short-term lows of August and November 2007, those two sectors failed to show leadership. Going forward, if they do not lead initially, based on our V/P metrics, we would expect them to emerge as leaders sometime in the near future. If and when industries meet our standards with regard to value and strength, we will likely buy them.

Bond Market Commentary

The yield on the 10-year government bond has dropped to around 4% from over 5% in June 2007. That impressive decline is due to the potential for a slowing economy and the lack of greater inflation. At just 4%, it is 200 basis points below the 6% level seen at the beginning of this decade. Short-term rates, the 6-month T-bill, for example, have dropped even more the second half of 2007. Short-term yields have fallen from around 5% to around 3.3%, directly influenced by easing monetary policy. We are comfortable holding bonds in this setting.

International Market Commentary

It has been a great run for international stocks the last five years, even a bit better than in the U.S. Valuation has been a useful guide to markets outside the U.S. Just as in the domestic market, stocks have been generally priced below our estimate of intrinsic value.

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Based on valuation, we have consistently stated that riding through short-term turbulence appeared to be the prudent strategy. Once again, we take that same position.

During the second half of 2007, we implemented an international rotation. In rotating toward the Telecommunications, Healthcare and Consumer Staples sectors, our exposure has moved toward Europe and away from Asia. We are comfortable with those tilts as we enter 2008.

Summary

Many investors worry when they see “crisis” or “credit crunch” in the news headlines. We hear and read those headlines, but based on ICON’s valuation, this appears to be another good buying opportunity. But, we are not buying news, we are buying stocks, which we believe ultimately respond to value.

Prepared by ICON’s Investment Committee.

Past performance does not guarantee future results. Investment return and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. Total returns for the unmanaged indexes include the reinvestment of dividends and capital gain distributions but do not reflect deductions for commissions, management fees, and expenses.

Opinions and forecasts regarding 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, and the Technology sector has been among the most volatile sectors in the market. Investments in international securities may entail unique risks, including political, market, regulatory and currency risks. Financial statements of foreign companies are governed by different accounting, auditing, and financial standards than U.S. companies and tend to be less transparent and uniform than in the United States. Many corporate governance standards, which help ensure the integrity of public information in the United States, do not exist in foreign countries. In general, there is less governmental supervision of foreign stock exchanges and securities brokers and issuers.

There are risks associated with small- and mid-cap investing such as less liquidity, limited product lines, and small market share. 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 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. ICON’s relative strength ratio is a ratio of the performance for the preceding six months of a group of securities within ICON’s universe as compared to the preceding six-month performance of the broad market.

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.

The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks, primarily industrials. The unmanaged Standard & Poor’s (S&P) 500 Index is a market value-weighted index of large-cap common stocks considered representative of the broad market. The unmanaged Russell 3000 Index measures the performance of the largest 3,000 publicly traded U.S. companies. The Dow Jones Wilshire 5000 Composite Index measures the performance of all U.S.-headquartered equity securities with readily available price data. The Portfolios’ composition may differ significantly from the indexes. Individuals cannot invest directly in an index.

If you would like to receive, at no charge, the most recent copy of ICON’s disclosure document, Form ADV Part II, please send your request in writing to: Attention: Compliance, ICON Advisers, Inc., 5299 DTC Boulevard, 12th Floor, Greenwood Village, CO 80111. If your financial situation or investment objectives have changed, please notify your financial professional or ICON immediately.

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