



## Reallocation Commentary November 17, 2006

Our analysis indicates that after a brief interruption in the spring, stocks appear to be continuing the upward trend. We have watched market developments closely since May 2006, trying to discern clear sector and industry leadership.

Since the market low on July 21, 2006, we have seen the establishment of new market leadership in the Information Technology and Consumer Discretionary sectors, which have been the No. 1 and 2 performing sectors respectively. Our model shows that both sectors remain undervalued despite their strong performance over the past four months, indicating the key characteristics we seek in identifying a potential market theme: they are undervalued and are beginning to be discovered in the marketplace. In response, we have made adjustments in some of the ICON Portfolios to decrease positions in the Healthcare and Telecommunication & Utilities sectors and reallocate into Technology and Consumer Discretionary.

Over the past five months, we have seen an increasingly diverse number of industries lead the market. What began as a theme dominated by more recession-proof industries has steadily broadened. While Consumer Staples-related industries led in the early stages of the continuation of this bull market, our system has recently seen leadership emerge from various industries that do not necessarily fit into a single economic cycle category:

- **Homebuilding.** The weakened homebuilding industry within the Consumer Discretionary sector, which tends to be an early cycle industry, has recently shown strength.
- **Footwear.** We are also seeing leadership from footwear issues, which while having some sensitivity to the economic cycle, are much less economically sensitive than homebuilders.
- **Computer Hardware.** We are also seeing leadership emerge from the computer hardware industry within the Information Technology sector. While this industry certainly benefits from a growing economy, it is not nearly as economically sensitive as industries such as steel and oil & gas drilling that dominated the market from March 2003 to May of this year.

We continue to maintain an overweight position in the Financials sector. Within this sector our system is showing leadership from diversified banks and investment banking & brokerage firms, all of which have been buoyed by the strong underlying equity market and the potential for lower short-term interest rates.

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