



## **Reallocation Summary August 1, 2006**

### **Potential Theme Change**

We have reduced our exposure in the Tactical Portfolio to both the Consumer Discretionary and Industrials sectors. The Consumer Discretionary sector was pared back due to what we believe to be its lack of broad, persistent relative strength. While the sector remains the most undervalued of the nine we track, our quantitative, systematic investment process directs us to allocate capital to industries from other economic sectors where we feel we can obtain comparable valuations, but with consistent relative strength. The Industrials sector will be trimmed for similar reasons. In general, the declining relative strength of these economically sensitive sectors may be the first indication since this bull market began in March of 2003, that we are in the midst of a broad leadership theme change.

For more than three years, under-priced, cyclically oriented industries have led the market higher. However, since early May of this year we have begun to see a slight change in broad leadership, with less economically sensitive industries gradually taking the leadership role in the market. As a result, our methodology is directing us to attractive combinations of value and relative strength from industries within the Financials, Healthcare, Telecommunications & Utilities, and Leisure & Consumer Staples sectors. Accordingly, this rotation is our initial move away from the leadership sectors of the past three and half years and toward what appears to be the emerging, potentially new leadership sectors.

### **Domestic Portfolio Moves**

Within the Tactical Portfolio, the Financials sector was targeted most heavily in this rotation. Notably, we purchased diversified banks and other large diversified financial services firms. In the Healthcare sector, exposure to stocks in the pharmaceuticals industry was increased with a particular emphasis on the large-cap companies. In the Telecommunications & Utilities space, we increased our positions in integrated telecom and electric utility companies were increased. While our position in the Leisure & Consumer Staples sector was not increased in Tactical, we did initiate a position in the sector in our Balanced Portfolio. We increased exposure to stocks within the soft drinks group. A majority of stocks within this industry have been among the top performers during the past six months based on our relative strength metric and still trade at about a 20 percent discount to our calculation of their intrinsic worth.

### **Global Portfolio Moves**

Within our Frontier Allocation Portfolios, we made similar initial adjustments away from the cyclical leadership of the past three and half years and toward the less economically sensitive sectors. These moves have not changed our target international weights in these Portfolios. We continue to be tilted slightly toward the Asia-Pacific region as dictated by our value and relative strength metrics. When considering our current tilt toward the Asia-Pacific region, it is important to keep in mind that we arrived at our regional tilts via our bottom-up, industry

driven quantitative process. Similar to the situation in the U.S., we have gradually begun tilting toward more recession resistant sectors internationally, and, thus far, these moves have not caused a significant shift in our country and regional exposures.

***Past performance does not guarantee future results.*** *Opinions and forecasts regarding industries, companies, 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. Investing in securities involves risk. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. There are risks associated with small- and mid-cap investing such as less liquidity, limited product lines, and small market share. There is no assurance that a diversified portfolio will perform better than an undiversified portfolio, nor does diversification assure against market loss.*

*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.*

*Management of the Portfolios involves sector allocation overlays using sector and diversified mutual funds as the investment vehicle. ICON is also the investment adviser to the mutual funds in which the Portfolios invest and receives a management fee from the Funds for its advisory services. Consider the investment objectives, risks, charges, expenses, and share classes of each ICON Fund carefully before investing. The prospectus contains this and other information about the Funds and is available by visiting [www.iconadvisers.com](http://www.iconadvisers.com) or calling 1-800-764-0442. Please read the prospectus carefully before investing.*

*ICON's Value/Price ratio is a ratio of the intrinsic value, as calculated using ICON's valuation methodology, of a broad range of U.S. 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 equities within ICON's universe as compared to the preceding six-month performance of the broad market.*