



ICON

PORTFOLIO UPDATE

November 2008

FORMATION OF A MARKET BOTTOM

Worldwide last month, investors lost faith in corporations' and banks' abilities to repay loans. The result was an extremely steep and sudden drop in stock prices in early October that resembles the notorious "crash" of 1987. We thought the declines in stock prices earlier in 2008 were over-reactions. We think these earlier declines discounted, more than necessary, any potential financial and economic problems. But once the credit fears spread, stock prices plummeted, giving us unusual market conditions which in some ways resemble those of 1932, 1962, 1974 and 1987. Like most investment professionals, we were unfortunately caught in the swift drop. We've studied similar market declines in an effort to learn from the events of the last several months. Declines notwithstanding, the outlook is generally encouraging. We believe the swift drop and the recent volatility is part of the formation of a bottom. We believe also that a very broad-based, robust rally will follow. If historical patterns are any indication, the bottom could take a few weeks to form, with our best guess being sometime in November.

After a sharp drop in stock prices there is typically more selling from a few different groups of investors. Generally you see selling from the scared investor who just wants to get out. You also see margin calls for investors who borrowed to buy stocks. These investors are forced to sell to cover borrowed funds. And this most recent financial sell-off includes a third group: hedge funds that are forced to sell stocks because of redemptions and to cover the money they borrowed. The market has to absorb and "eat through" these sources of stocks before it can move higher. Potential buyers of stocks are waiting for this expected selling to dry up. Light volume of less than 1.5 billion shares on some down days suggests to us that potential buyers are just waiting out the desperate sellers.

From a technical perspective, meaning up volume and down volume, advancing and declining issues and new highs and new lows, we see behavior typical of late stage declines and bottom formation. For example, days in which 90% or more of the trading volume is in declining issues and 90% or more of the issues decline usually appear near the end, not the beginning, of a bear market. At major market bottoms, there are, on average, four of those days within 30 to 60 days of a bottom. We have had ten of those days (that is, again, days in which 90% or more of the trading volume is in declining issues and 90% or more of the issues decline) in the last 45 trading days. We are encouraged also by the fact that even though indexes headed lower in late October, measures of market breadth that consider advancing and declining issues and new highs and new lows suggested the dips were not as broad-based as earlier.

INCREASING MONEY SUPPLY

There is also encouragement on the monetary front, where M1, the money supply, has been flat since the end of 2004 through mid-year 2008. Since May 2008, however, M1 has grown 7.2% (an exceptional pace) over the last 22 weeks. Monetary theory states that if M1 contracts, the economy will slow many months later and if M1 increases the economy will pick up many months later. Because the economy was so strong and the T-Bill rate was below the inflation rate, the lack of M1 growth did not immediately slow the economy. Ultimately, however, we believe a stagnant money supply caught up to and impacted the economy sometime in late 2007. We contend it is the lack of growth in M1, rather than the sub-prime mortgage situation, that has caused the slowdown in the economy. In August 2007, the Federal Reserve began injecting reserves into the banking system, but M1 did not grow because banks were not making new loans. The sub-prime mortgage situation simply rendered monetary policy temporarily helpless in late 2007 and early 2008. The increase in M1 since May 2008 suggests to us that banks are lending again and thereby creating M1. Subscribing to the monetarist view, we would expect M1 growth to fuel the economy and spark a recovery in a few quarters, although it must be noted that the growth in M1 has been underway only five months.

As you would expect after a sharp decline in prices, the average value/price ratio for the domestic stocks in our database is at an all time high: 1.67 as of October 27, 2008. Of course, our data reflects all current earnings forecasts, which includes some downward revisions. It appears that stocks are priced in anticipation of a depression and many quarters of poor earnings. We think investors are wrong. Not only was the sudden drop in stock prices in October an extremely rare event, but the resulting bargains are equally rare. For example, some stocks are priced such that the company has more cash than the entire market value of the company. These extreme valuations are the basis for our belief in a potential broad-based, robust rally.



BONDS

There is still one ingredient missing for a stock rally to begin and it involves the bond market and credit risk. Not only did stock prices slide but so did corporate bonds, as investors became concerned about potential defaults. We would like to see some relief there in the coming weeks before we would expect a rally in stocks to begin. Over the next year, we will be looking for corporate bonds to rally. We believe that a bond rally must be underway before stocks begin any sustainable move. So far, there are some preliminary, encouraging signs. For example, the Dow Jones Corporate Bond Index, reflecting corporate bond prices, increased 1.8% during the week ending October 24, 2008.

INTERNATIONAL

International stocks suffered the same sharp decline in October, all related in our opinion to the credit risk theme. The average value/price ratio for the international stocks in our database is 1.65 as of October 27, 2008, reflecting outstanding value.

SUMMARY

We are experiencing a rare combination of volatility, value, fear and lack of confidence. We believe the recent growth in M1, technical factors, valuations and global monetary policy shifts suggest a bottom is forming and that a broad-based, robust rally will emerge out of these conditions fairly soon.

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 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.

The Dow Jones Corporate Bond Index is an equally weighted basket of 96 recently issued investment-grade corporate bonds with laddered maturities. The objective of the Index is to capture the return of readily tradable, high-grade U. S. corporate bonds.

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.

ICON's value-based investing model 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.

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.

Please visit ICON online at www.iconadvisers.com or call 1-800-828-4881 for the most recent copy of ICON's Form ADV, Part II.

©2008 ICON AdvisersSM All rights reserved.

ICON AdvisersSM
5299 DTC Boulevard, 12th Floor
Greenwood Village, CO 80111
1-800-828-4881
www.iconadvisers.com

© 2008 ICON DistributorsSM

XPORTUP (11/08)

