



ICON PORTFOLIO UPDATE

May 2009

From March 9 through May 6, 2009, the S&P Composite 1500 Index, a broad measure of the market, has gained 37.4%. Historically, a rally of that magnitude would generally take nine to 12 months and would still be regarded as impressive. This recent move, however, has been unusually fast, taking just 41 trading days. The rally may suggest that investors believe the economic and financial situation is not as bad as they had feared a few months ago. Recent economic data supports the investors' perspective. Although the data may not yet be indicative of an advanced recovery, the data does seem to reveal that the economic and financial setting is far less gloomy than investors believed when they took stock prices lower earlier this year. As additional support, companies have generally been reporting earnings that are beating analysts' expectations – a condition known as “positive earnings surprises.”

CURRENT SECTOR LEADERSHIP

As seen in the S&P Sector Index returns table below, the sector theme is very clear. Financials are the undisputed leaders followed by sectors that are economically sensitive or cyclical in nature – Materials, Consumer Discretionary and Industrials. At the bottom are recession-proof sectors that are not generally affected by fluctuations in the economy, including Healthcare, Consumer Staples, and Utilities.

The sector theme suggests the market is anticipating an economic recovery. As we have stated many times, the stock market has a history of leading the economy by about six months at turning points. The market's behavior this time is consistent with the results of a recent *Bloomberg News* survey of 81 economists. The economists surveyed are forecasting positive Gross Domestic Product (“GDP”) in the third quarter of 2009. A rally off the mid-March bottom, and a move from negative to positive GDP sometime between July and September, would be consistent with the historic relationship between stocks and the economy.

In March, the ICON portfolios were overweight in the Consumer Discretionary sector on a market capitalization basis. We have been gradually reducing the portfolios' Consumer Discretionary position as prices in some industries have moved upward faster than we feel their underlying value would support. Concurrently, we are moving assets into the Materials and Information Technology sectors. Like Consumer Discretionary, the Materials and Information Technology sectors are part of the cyclical theme. Unlike Consumer Discretionary, however, these sectors have what we believe are better valuation readings. In the ICON Frontier Global Portfolios, we reduced exposure to Healthcare. The ICON system often requires that we shift our industry and sector positions during the first couple of months of a market advance, as we attempt to move toward the likely market leadership over the next year and beyond.

SUPPORTIVE ELEMENTS FOR HIGHER VALUATION READINGS

Prices of stocks have moved sharply higher but value has remained almost constant. If this scenario continues, prices will soon exceed value, which could, in turn, persuade us to temporarily hold additional cash. If value increases, however, value becomes an upwardly moving target for stock prices and the rally could continue. In our experience, the support for higher valuation readings comes from four sources. First, as we calculate value, we bring in new earnings estimates and drop old earnings from our equation. Because new earnings are often greater than old earnings, the revised calculation will often reflect increased value.

Second, sometimes analysts raise their growth estimates for companies as economic recovery becomes apparent. Third, yields on Government bonds can drop, which would raise value. Fourth, corporate bond yields can drop. Any of these can increase value and give prices a loftier, upward target.

In our opinion, at least two of the four supportive elements for higher valuation readings and an extended rally are likely. For one thing, we have seen yields on corporate bonds drop recently. We believe there is plenty of room to go as rates continue to rebound from a huge

S&P 1500 INDEX	3/9/09 - 5/6/09
Financials	92.18%
Materials	52.63%
Industrials	52.37%
Consumer Discretionary	52.06%
Information Technology	39.09%
S&P 1500 Index	37.40%
Energy	26.24%
Telecommunication Services	25.59%
Utilities	19.94%
Consumer Staples	16.21%
Healthcare	14.45%



shock last fall. The next likely support for higher valuation would come from earnings as we bring in new earnings and drop old earnings, but that happens slowly over many months.

BONDS

We are getting favorable readings on a certain sector of the bond market. Specifically, at the moment we like high to medium grade corporate bonds with maturities of two to six years. Not only do these bonds impress us as great values, but their yields are attractive as well. Furthermore, lower grade junk bonds have also struck us as bargains since last fall, but we feel they lacked the required relative strength. These bonds are just now becoming eligible for purchase, however, having gained strength over the last few weeks.

INTERNATIONAL

International markets are rallying in step with the domestic market. In fact, the sector leadership is quite similar with cyclical sectors leading and recession-proof sectors lagging. Financials is the best performing sector off the mid-March low, with Consumer Discretionary, Materials, Industrials, and Information Technology all beating the average. Utilities, Healthcare, and Consumer Staples are lagging, but still participating. The rallies in these markets seem sustainable, but, as required for a sustainable rally in the U.S., additional elements will need to appear to support higher valuations.

SUMMARY

After months of unusual events which included bank failures, a frozen banking system, bankruptcies, and a recession (along with an unhealthy dose of fear and panic), we feel the market may have formed a classic bottom and begun a subsequent rally. Further, we think stock prices are behaving sensibly and, as is typical of such rallies, we believe an advance in stock prices will presage an improvement in the economy by several months.

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.

An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment.

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.

Gross Domestic Product (GDP), also known as Gross National Product (GNP), 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 unmanaged Standard & Poor's Composite 1500 (S&P 1500) Index is a broad-based capitalization-weighted index comprising 1,500 stocks of Large-cap, Mid-cap, and Small-cap U.S. companies. The unmanaged Standard & Poor's (S&P) Composite 1500 Industry Indexes track the performance of companies in industries that comprise the S&P Composite 1500 Index. Total return figures for the unmanaged industry indexes do not include the reinvestment of dividends and capital gain distributions nor do they reflect deductions for commissions, management fees, and expenses. Individuals cannot invest directly in an index.

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.

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