ICON OUTLOOK
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# The Art of Camouflage:

## *An Outstanding Stock Market Unrecognized and Unappreciated*

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The art of camouflage has been used throughout history by animals, the military, and even some rare plants. But is it possible that this age-old form of visual deception is also used by the stock market?

*Consider this:* Investors are shying away from the market because of concerns about the economy, political uncertainties, and unnerving volatility. Actively managed U.S. equity mutual funds have seen increasing net outflows in the past three years. In fact, *Strategic Insight* reports annual outflows between 2009 and 2011 of $45.4 billion, $67.6 billion, and $105.1 billion, respectively. At first glance, it doesn't look good, yet over the last three years the stock market has delivered good returns by historic standards.

But perhaps this is just a form of camouflage. Let's borrow Benjamin Graham's personification of the stock market by referring to it as Mr. Market. Ask any species that evolves to survive and it will tell you it's not going down without a fight. Likewise, Mr. Market isn't about to make it easy for investors to capture the returns he has to offer occasionally. Like the safe hidden behind a nondescript painting, Mr. Market may disguise his gains behind inconsistent market performance.

To wit, as of March 9, 2012, there have been 758 trading days since the market low of March 9, 2009. Of those days, the S&P 1500 Index has gone down 43.1% of the time. That's two out of every five days. To the bears calling for a down market, forecasters predicting a low-growth "new normal" or others who contend the stock market is in some kind of net-sideways cycle, these down days seem to reinforce their negative outlook.

But while the market has been down 43.1% of the time during the past 758 trading days, then it's been up 56.9% of that same time. This means that while Mr. Market may appear to be appeasing the naysayers with volatility, he may in fact be disguising some of the market's greatest historic returns.

It has been approximately three years—157 weeks—from the market low of March 9, 2009. Compare this 157-week period to others back to 1930. For the 157-week period between March 6, 2009 and March 9, 2012, the S&P 500 Index gained 100.6% (excluding dividends, which are not available weekly back to 1930, the entire period of this comparison study).

In the past 82 years—from December 12, 1930 to March 12, 2012—there have been 4,236 157-week periods. If we look at these blocks of three-year returns, we find:

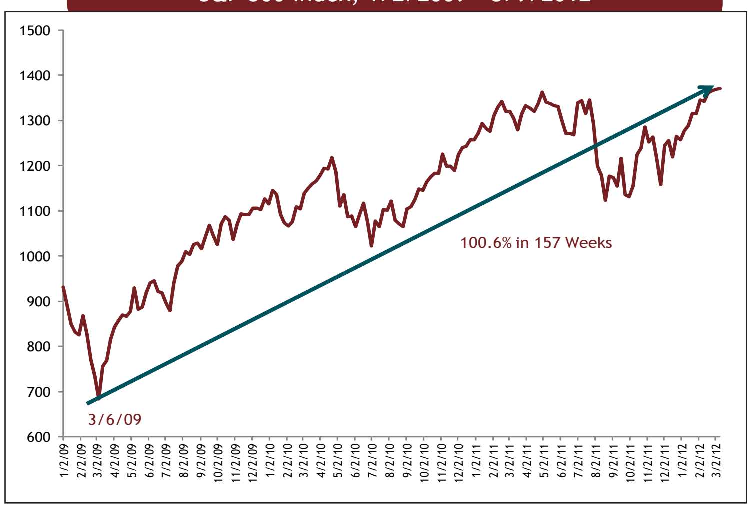
» The top return of any 157-week period during the last 82 years was 161.0% for the period ending April 3, 1936.

» The average 157-week return for the entire period was 22.0%.

» The return for the 157-week period ending March 9, 2009 through March 12, 2012, was 100.6%, which falls in the top 2.5% of all the 157-week returns.

Therefore, the most recent period is as good as—or better than—97% of the three-year periods we have experienced back to 1930. Most of the time periods appearing near the top 100 were in the 1930s or late 1990s. The previous last period to rank near the top 100 ended April 7, 2000, when the index gained 100.1%, so it has been 12 years since we have experienced a market similar to what we have seen the last three years.

S&P 500 Index, 1/2/2009 – 3/9/2012




***Past performance is no guarantee of future results.*** *Source: Bloomberg*

ICON has consistently stated that we believe the market is in a multi-year recovery and that the upward path would be interrupted by unpleasant setbacks. Guided by valuation rather than so-called forecasts or predictions, we believe it is sensible to hold stocks if prices are below our estimate of intrinsic value. We believe the randomness of news events has been unpredictable, ruling out any precise market timing.

So perhaps the notion of camouflage with the marketplace isn't as far-fetched at it may sound. Sure, there are ways to reduce volatility, but they are expensive. The more you reduce volatility, the more you sacrifice upside. Instead, we focus on returns. We believe it is not sensible, given our current market view, to emphasize volatility reduction and sacrifice upside during a three-year period that saw the market almost double.

Based on ICON's valuation readings, we believe the multi-year recovery is not over and has farther to go. While prices have moved up the last three years, underlying intrinsic value has grown due to fundamentals such as earnings and interest rates. We continue to believe that it makes sense to own stocks priced below our measure of intrinsic value. When—and if—prices move to excessive levels and exceed fair value, a different strategy may be appropriate. Until then, holding and participating in the market, no matter what disguise it is using, seems prudent.

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***The performance data shown represents past performance and current performance may be higher or lower. Past performance does not guarantee future results.***

*Investing in securities involves risks, including the risk that you can lose the value of your investment. 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.*

*ICON's value-based investing model is an analytical, quantitative approach to investing that employs various factors, including projected earnings growth estimates and bond yields, 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 neither predictive nor guarantees of future results. Value readings are contingent on several variables including, without limitation, earnings, growth estimates, interest rates and overall market conditions. Although valuation readings serve as guidelines for our investment decisions, we retain the discretion to buy and sell securities that fall beyond these guidelines as needed. 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.*

*ICON's "relative strength" estimate reflects ICON's calculation of how an individual stock has performed compared to the broad stock market over a specified period of time.*

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