ICON OUTLOOK
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Stock Prices & The Economy: Emotions vs. Facts

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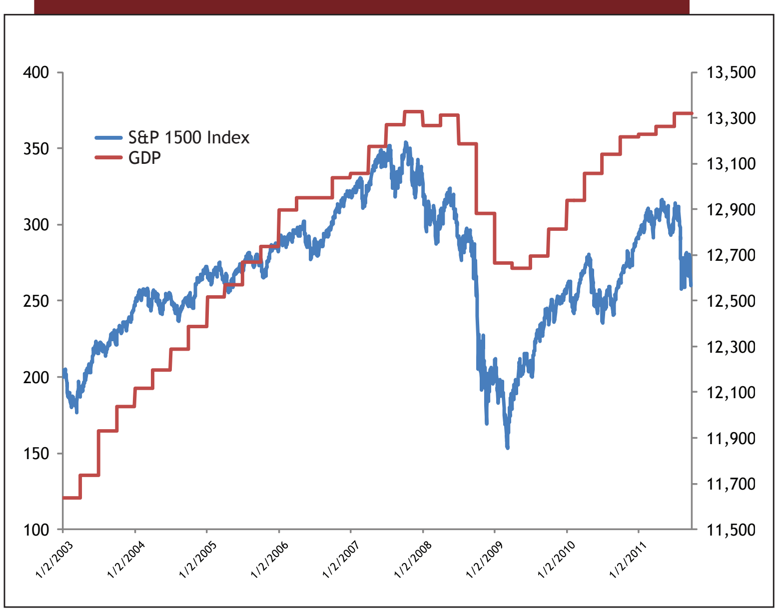
The relationship between stock prices and the economy has been studied for decades over many economic cycles. Historically, stock prices have led the economy by about six months at major turning points. In between those turning points, stock prices and the economy may experience a disconnect as the economy is determined by a wide variety of factors and stock prices are influenced by human emotions. An understanding of the relationship between the two may help interpret recent market behavior.

The graph below shows daily returns of the S&P 1500 Index and Real Gross Domestic Product (GDP) for the U.S. (released quarterly) from January 1, 2003 through September 30, 2011. Last decade, stock prices peaked in October 2007, and the Real GDP began its multi-quarter decline about nine months later (in the third quarter of 2008), so the lead time was a bit longer than the six-month average we've generally seen in the past. Stocks hit a bottom in mid-March 2009 and again, in classic form, led the economic upturn which began in the third quarter of 2009. Back then, the lead time was a bit shorter than the six-month average, a scenario we contend was due to the extreme bad news and troubling events that scared investors and kept stock prices depressed longer than we feel they should have been.

S&P 1500 Index & Gross Domestic Product
1/2/2003 -1/2/2011



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

It can also be noticed that changes in quarterly Real GDP are not steady during these two economic recoveries, as some quarters surge while others advance only slightly. This imperfect behavior seems to trouble investors. There are many market dips driven by economic concerns that prove to be unjustified by continued Real GDP expansion. Every year from 2003 through 2006, the market experienced dips, but Real GDP continued to grow. A recent "false alarm" was in 2010 when the market dropped, but GDP advanced in late 2010 and through 2011. It should be noted that Real GDP for the first quarter of 2011 rose a disappointing (but still positive) 0.4%, suggesting the anticipatory S&P 1500 drop months earlier in 2010 was excessive.

Which brings us to the market drop in the third quarter of 2011 — is it a false alarm similar to the one we saw in 2010 and at other times during the last decade? Or does the third quarter decline presage a recession six to nine months from now as it did in 2007? We believe it will prove to be a false alarm and the economy will continue to grow because one critical condition is very different today than it was in 2007 — the money supply.

It is our belief — along with the economists who subscribe to the monetarists' view of economics — that the money supply and its rate of growth is a powerful determinant of future economic activity. The money supply (as measured by M1) had been virtually flat between the end of 2004 and through late 2006 due to the Federal Reserve's tight monetary policy. We believe the lack of growth in M1 between 2004 and 2008 contributed to the subsequent recession. By contrast, in both August and September 2011, M1 has been up in the 20% range from just a year earlier. We expect this increase to act as an economic stimulus.

While the stock market is usually right in predicting recessions and recoveries at major economic turning points, it also issues many false alarms when investors overreact to negative events. In retrospect, the overreactions seemed mild last decade relative to the reaction in 2010. We think the bear market of 2007-2009 and the financial crisis in general have increased investors' tendency to overreact negatively. Investors are simply, for lack of a better word, more "jittery." Predictably, this anxiety has contributed to market volatility and made it more difficult for long-term investors to stay focused on their ultimate goals. We still believe there are opportunities in today's market based not only on ICON's valuations, but also on M1 and the market's tendency to deliver false alarms. Accordingly, we remain invested at this time and intend to ride through this most recent turmoil.

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.

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.

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.

Gross Domestic Product (GDP) 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.

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