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By Craig Callahan, DBA | ICON Founder & President

Domestic Equities

Sector	S&P 1500 Sector Index Return: 3/6/09 - 9/1/18	Average Beta vs. S&P 1500 Index (Stocks within ICON database)
Consumer Discretionary	721.2%	1.02
Information Technology	634.6%	1.16
Financials	558.9%	1.09
Industrials	509.1%	1.15
Health Care	434.2%	1.01
S&P 1500 Index	427.1%	1.00
Real Estate	379.2%	0.81
Materials	349.9%	1.15
Consumer Staples	264.3%	0.85
Utilities	255.5%	0.66
Telecommunication Services	173.6%	0.90
Energy	122.0%	1.26
Data quoted represents past performance, which does not guarantee future results.		

Based on weekly data and Friday closing prices, the table shows the rates of returns from the market low March 6, 2009 through September 1, 2018. Over this time period, the S&P 1500 Index gained 427.1%, meaning $1.00 invested at the low would be worth $5.27 on September 1, 2018. Impressive, but far behind the 721.2% return on the S&P 1500 Consumer Discretionary Index over the same time period. Four other S&P 1500 sector indexes beat the broad market: the S&P 1500 Information Technology Index, up 634.6%, the S&P 1500 Financials Index, up 558.9%, the S&P 1500 Industrials Index, up 509.1% and the S&P 1500 Healthcare Index, up 434.2%.

In terms of themes, the first thing that stands out is that the leaders were either cyclical or economically-sensitive, while some of the laggards were the defensive, so-called "recession-proof" sectors: Telecommunication Services, Utilities, and Consumer Staples. The returns in the table suggest that a rewarding strategy during this nine-plus year run was to believe in, and invest in, the economic recovery and expansion through sectors like Consumer Discretionary, Information Technology, and Industrials. Looking back, one of the most frequently touted concerns during this period was that the consumer would stop shopping and buying, a concern that, based on the performance of the Consumer Discretionary sector, appears misguided. In addition, it appears believing that Financials would "right the ship" and recover from the financial crisis of 2008 was rewarded. At the other end, investors who doubted the recovery and expansion and preferred defensive sectors would have missed out on higher returns.

Buying and holding these leading sectors has not been easy. During market declines, or corrections, as some observers call them, the cyclical, economically-sensitive sectors dropped more than the market. The defensive, recession-proof sectors held up better, even gained sometimes, such as during the 38-week, 11.6% market drop from May 22, 2015 to February 12, 2016. The sharp market drops in 2010 and 2011, when investors worried about the "European Debt Crisis", stand out as two of the biggest theme reversals, when sticking with a cyclical sector like Consumer Discretionary would have taken fortitude and long-term vision.

The right column in the table is the average beta for the stocks in each sector in the ICON database vs. the S&P 1500 Index. Beta is defined as the volatility of a stock relative to the broad market. Stocks with betas greater than 1.00 are more volatile than the market, while stocks with betas less than 1.00 are less volatile than the market. As for the recent nine-plus year bull market, the table shows that the top five performing sectors have average betas greater than 1.00 and, generally, the sectors with low betas lagged. (As exceptions, Energy and Materials were two high-beta sectors that lagged, but we believe these sectors have added volatility because of commodity price influences.) Over this time period, investors were rewarded for seeking volatility by buying and holding high-beta stocks in economically-sensitive, cyclical sectors.

We ended August with a market value/price (V/P) ratio of 1.02, meaning stock prices are below our estimate of fair value, on average, and not overpriced, as often seen at market peaks. In addition, we can still find value in sectors that have led over the nine-plus year ascent; Information Technology, Financials, Consumer Discretionary, Industrials, and Health Care. Therefore, we believe the bull market is still intact and so is the sector leadership.

International Equities

In late January, the MSCI ACW ex. U.S. Index fell sharply from a peak just like the domestic market. Since then, however, it has drifted lower and not experienced the march to new highs that many U.S. indexes have enjoyed. It is interesting to note that although prices have declined, the overall ICON international V/P ratio has not increased. Emerging markets have, in general, moved up our V/P ranking, while developed countries have moved down. Interest rates and corporate bond yields have worked to decrease our estimate of value, which in our opinion is temporary and due to new tariffs and international trade-related threats. The stronger domestic market performance recently suggests to us that investors appear to be agreeing with President Trump that foreign countries are being hurt more, and that America can win a trade war. In terms of sectors, Financials have the highest average V/P in our international and domestic databases. Information Technology and Consumer Discretionary are ranked 2 and 3 in ICON's domestic database, but are the bottom two internationally. Therefore, we expect different sector leadership in international markets.

Bonds

The yield on the 10-year Treasury note ended August right about where it was in mid-February. During this period it has only been above 3.00% and below 2.80% a handful of days. Short-term interest rates have increased, but longer rates have moved sideways. This behavior makes sense to us. We don't see the catalyst for long rates to move much higher or much lower the remainder of 2018.

Summary

When indexes hit all-time highs, we often see two totally different reactions. Some investors worry they are missing out and buy in. Others fear such heights and sell. Our valuation readings tell us that we believe this bull market is not done, and we do not see behaviors and conditions which often accompany market peaks. We are content to remain invested.

The data quoted represents past performance, which is no guarantee of 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 inherent risks, including the risk that you can lose the value of your investment. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. 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 risks of investing in international securities are greater for investments in emerging markets. Emerging market countries may experience greater social, economic, regulatory, and potential volatility and uncertainty than more developed countries. 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.

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. According to our methodology, a V/P reading of 1.00 indicates stocks are priced at intrinsic value. We believe stocks with a V/P reading below 1.00 are overvalued while stocks with a V/P reading above 1.00 are undervalued. For example, we interpret a V/P reading of 1.15 to mean that for every $1.00 of market value, there is $1.15 of intrinsic value which has not yet been realized in the market price.

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 Sector Indexes track the performance of sectors that comprise the S&P Composite 1500 Index. The Morgan Stanley Capital International (MSCI) All Country World Index ex-United States (ACWI ex-U.S.) is a leading unmanaged benchmark of international stock performance. The capitalization-weighted index is representative of the performance of securities of companies located in developed and emerging markets outside of the United States.

Total return for the unmanaged indexes include the reinvestment of dividends and capital gain distributions but do not reflect deductions for commissions, management fees, and expenses. The Portfolios' composition may differ significantly from the indexes. Individuals cannot invest directly in an index.

The 10-year yield is the benchmark 10-year yield to maturity reflected by the current issue 10 year U.S. Treasury note.

The beta coefficient is a measure of a portfolio's volatility relative to the market. An index relevant to the portfolio is used as the proxy for the market, and is considered to have a 1.00 beta. Therefore, if the portfolio has a beta of 1.50, it has historically been 50% more volatile than the market for the periods shown.

Source: FactSet

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5299 DTC Boulevard, Suite 1200

Greenwood Village, CO 80111

1-800-828-4881 • InvestwithICON.com

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