

Strategy Based Investing Portfolios

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SBI Fund Rotation

From a strategy perspective, the last year in the stock market was very unusual. Market Conditions, which historically has been the second worst performing and second riskiest* strategy, became the best performing strategy. One method of investing within that strategy is momentum investing, in which investors buy stocks that have been moving higher, often without even caring what business the company is in and hope that the stock price keeps moving higher. Just the opposite, one of the historic best performing and second lowest risk strategies, Valuation, was the worst performing strategy over the last year. In that setting, market capitalization weighted indexes moved higher, led by large cap technology related companies, but most stocks did not participate in the advance.

There is an old quip that momentum investing works...until it doesn't. July 2024 saw a complete reversal as Market Conditions was the second worst performing strategy and Valuation was the best. Many momentum investors suffered sudden losses that in some cases wiped out their previous gains.

The strategy-based market barometer and the ICON market V/P ratio had been predicting average to below average returns for the broad stock market over the last year. Given that outlook, we had bonds in the tactical portion of SBI Growth. For this rotation we have removed the bond fund from the Growth portfolio. In its place, we have added a Valuation fund. We believe that the reversal in July was meaningful and that the market is going through a theme change, which may take a few months. We expect the new theme that emerges will have broader participation and be favorable for a Valuation manager.

***Risk is defined as the standard deviation of month returns.**

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 inherent risks, including the risk that you can lose the value of your investment. There is no assurance that the investment process will consistently lead to successful results. Strategy Based 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.

ICON is the investment adviser to mutual funds in which the Portfolios invest and receives a management fee from the Funds for its advisory services.

Standard deviation is a measure of a portfolio's volatility, or variability, in expected return. As such, it is a measure of risk since risk can be defined as the uncertainty of the expected return. Higher numbers indicated higher historical volatility. Standard deviation is most often used as a measure of risk relative to other portfolios or indexes, although it does not measure all aspects of investment risk.

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