Rallies May Not look Like Rallies

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The stock market, as measured by the S&P 1500 Index, has more than doubled from the low March 9, 2009 through March 16, 2012. Yet, as reported by *Strategic Insights,* actively managed U.S. mutual funds experienced progressively larger net annual out flows of $45.4 billion, $67.6 billion and $105.1 billion in 2009, 2010, and 2011, respectively. Such flows, along with anecdotal evidence of high cash levels, suggest many investors are not participating in the market recovery. Why have some investors not been able to recognize the market advance? It appears they are not alone. Research reported in the *Review of Quantitative Finance and Accounting* that examined mutual fund performance stated, “The managers as a group demonstrate superior stock selection skills, but not market timing skills. This result is consistent with previous studies…” Reworded, and poking a little fun, this could mean that managers, in general, may not know whether they are in an up market or a down market until it is over. Perhaps, rallies don’t look and feel like investors want or expect.

The following table shows five rallies from their daily low to their peak over the last nine years. The first one, for example, was from March 11, 2003 through January 26, 2004. The S&P 1500 gained 47.88% over 221 trading days. That index declined 89 of those days, or 40.3% of the time.

RECENT RALLIES AND DOWN DAYS

From	To	S&P 1500	Days	Down Days	% Down Days
3/11/2003	1/26/2004	47.88%	221	89	40.3%
7/17/2006	7/19/2007	28.34%	235	103	43.8%
3/9/2009	4/23/2010	87.62%	284	113	39.8%
8/26/2010	4/29/2011	33.24%	170	65	38.2%
10/3/2011	3/9/2012	26.89%	114	44	38.6%
				Average	*40.1%*

During these five rallies, the percentage of down days ranges from 38.2% to 43.8% of days with the average being 40.1%. We believe investors who were incorrectly bearish may have gotten positive reinforcement for their incorrect views about every two out of every five trading days.

It gets worse. The following table shows the dates and total returns of those same five rallies and looks at the returns of the very best days. For the first rally, for example, the total return was 47.88% but the best 20 days also earned 47.9%.

RECENT RALLIES AND THE BEST DAYS

From	To	S&P 1500	Number of Best Days	Best Days Return	% of Days
3/11/2003	1/26/2004	47.88%	20	47.9%	9.0%
7/17/2006	7/19/2007	28.34%	20	29.2%	8.5%
3/9/2009	4/23/2010	87.62%	20	88.1%	7.0%
8/26/2010	4/29/2011	33.24%	17	33.6%	10.0%
10/3/2011	3/16/2012	29.92%	10	31.9%	8.8%
				Average	*8.7%*

Not only were these rallies difficult to recognize because the market went down about 40% of the time, but according to our calculations only about 8.7% of the days, on average, really mattered in terms of contributing to the total return.

As for the last three years, on a cumulative basis the market advanced approximately 100% over 763 trading days, from March 9, 2009 through March 16, 2012. The market has been down 329 days, or 43.1% of the time, about in line with the shorter rallies. We believe rallies don’t look like rallies and they don’t issue invitations.

ICON has continually stated that we believe the market is in a multi-year recovery from the bear market and crash of 2008-09. Value has been our guide as prices have moved higher but have not been able to catch ICON’s estimate of intrinsic value. As long as prices are below our estimate of intrinsic value, we believe it is prudent to own equities.

Past performance does not guarantee future results.

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. 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. Total returns for the unmanaged indexes include the reinvestment of dividends and capital gain distributions but do not reflect the costs of managing a mutual fund. The Fund's composition may differ significantly from the index. Individuals cannot invest directly in an index.

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