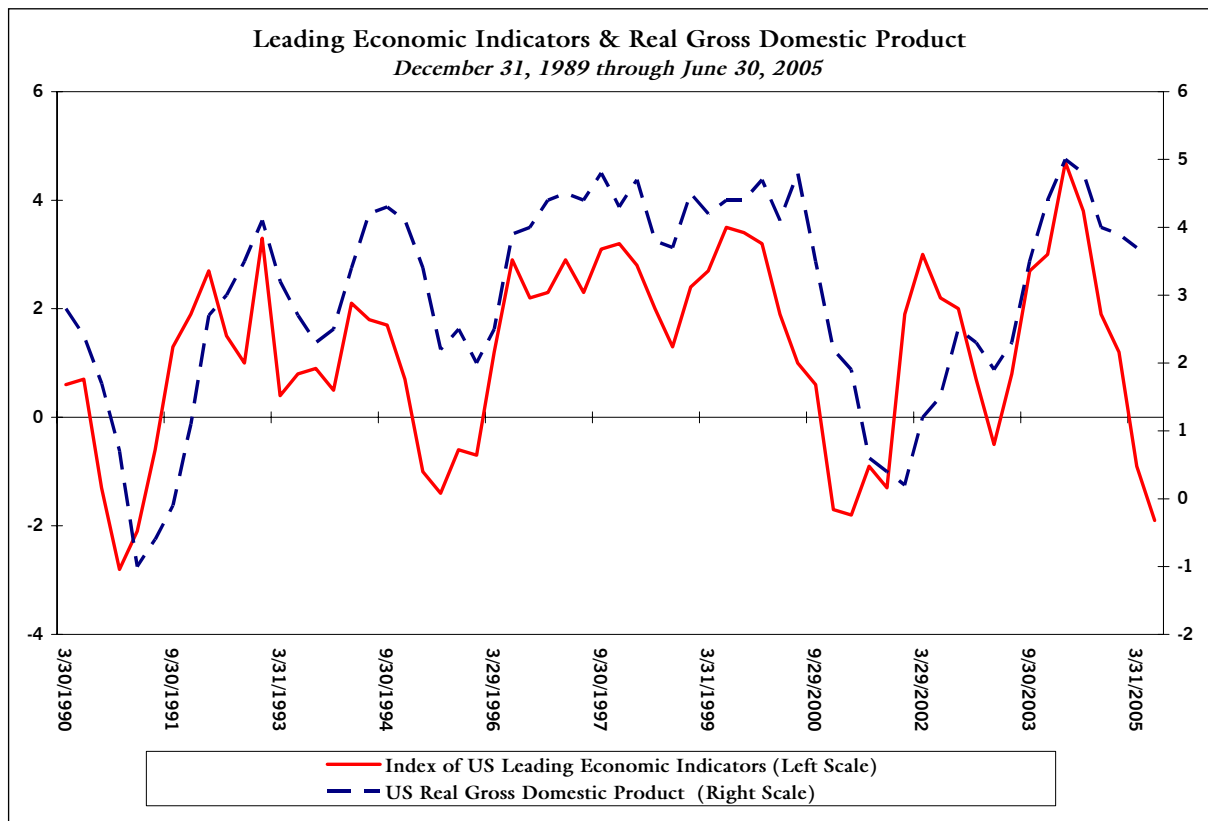


LARGE-CAP CORE GROWTH COMMENTARY LETTER SECOND QUARTER 2005

Current Market Environment

Over the past three years, the U.S. has been drenched in economic stimulus. From increased government spending and tax cuts, to historically low interest rates, the stimulus pumps have been working overtime—the good news is that economic growth over this period has been strong (stronger than we had estimated) with the engine of growth being the U.S. consumer and the primary fuel being rising home prices. The wealth effect of higher home values and equity cash-outs has driven consumption at the margin and thus, the U.S. economy as a whole. According to *The Economist*, “Two-fifths of all American jobs created since 2001 have been in housing-related sectors.”

Unfortunately, the economy remains reliant upon these imbalances to fuel future economic growth. Consequently, all arguments for continued strong growth are defensive; market bulls are using a higher, longer argument generally based upon lagging economic indicators (i.e.; GDP growth and corporate earnings). However, the index of leading economic indicators (see chart below) has been flat or down for five straight months, and currently stands at -1.9 percent trailing one year from May. This trend is significant. According to Merrill Lynch, “Fully 90% of the time in the past, year-on-year declines in LEI spelt an upcoming slowdown or outright downturn.”



Source: Bloomberg

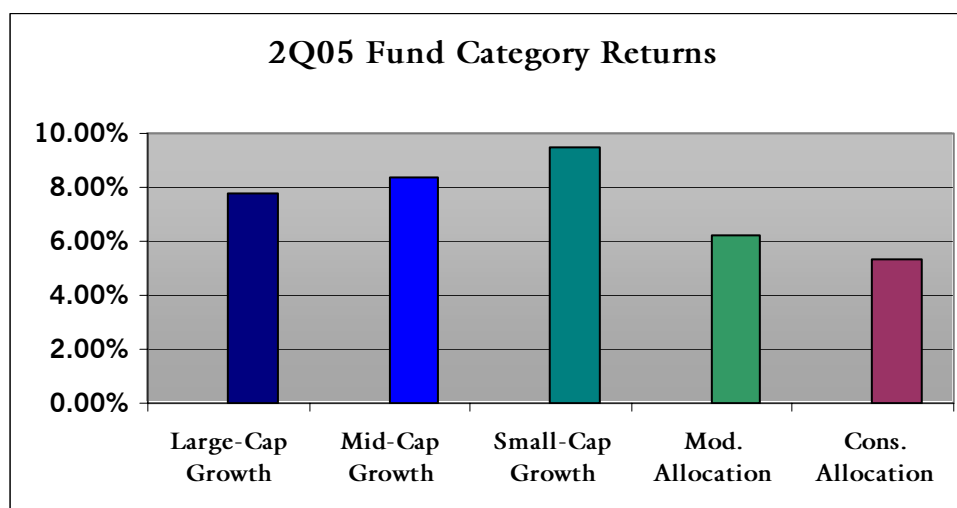
However doubtful we at ICM are, consumer spending has remained resilient. During the first five months of the year, personal spending exceeded personal income growth in four of the five months. Bullish market commentators continually point to the low unemployment rate and the rate of hiring as the drivers of sustained growth going forward. Viewed separately, these statistics are quite impressive with the unemployment rate at five percent—about the level prior to September 11, 2001. However, wage growth (net of inflation) is currently growing at its slowest rate in 14 years and is well behind the wage growth of previous economic expansions. In fact, the inflation-adjusted hourly wage is lower today than the prevailing rate during the recession trough of November 2001. The trend of saving less to fund consumption will ultimately end as the cushion of personal savings currently stands at a lowly 0.4 percent. This reality has only been postponed as a result of higher home values, which have improved consumer balance sheets.

While these trends are disconcerting, we do not anticipate an abrupt correction or downturn in the equity markets. In fact, the most likely scenario is continued drift in both economic and equity market performance.

Market Performance

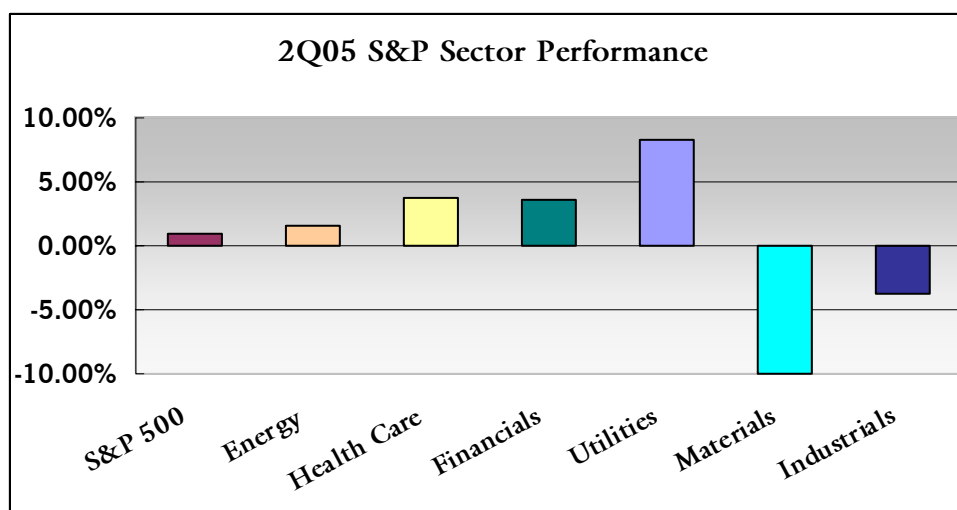
The market climbed in and out of positive ground, but eventually closed with most stock market indices in plus territory. The S&P 500 gained 1.37 percent in the second quarter and the NASDAQ composite increased 3.03 percent. The Dow Jones Industrial Average (DJIA) failed to join the party and declined 1.62% for the period. On a year-to-date basis, all three indices are in negative ground, with the S&P 500 down -0.81 percent, the DJIA off -3.65 percent, and the NASDAQ down -5.21 percent.

As represented in mutual fund categories, small-capitalization stocks and growth funds won the race, yet moderate and conservative, income-oriented stock funds enjoyed positive returns as well.



Source: *The New York Times*

Within the market as a whole, individual sectors posted a wide range of returns as shown in the sector performance graph below. The equity markets were led by utilities returning 8.35 percent, health care returning 3.75 percent, and financial services returning 3.65 percent. The solid performance of utilities and health care companies did not surprise us given our sluggish economic outlook—these sectors are generally considered more defensive in nature. Additionally, defensive sectors tend to perform well as the profit cycle decelerates, which is evident from the dramatically lower year-over-year earnings growth of the S&P 500 (see the earnings-per-share table). Weaker performance was experienced in the most economically-sensitive sectors: materials were down -9.97 percent, industrials were down -3.79 percent, and consumer discretionary was down -1.20 percent. These sectors have suffered from downward earnings revisions as the market adjusts to the reality of slower economic growth.



Looking Forward

We believe that it will be a slow summer with minimal market volatility. We are beginning to hear the CNBC pundits speak of a summer rally (especially since both the winter and spring rallies failed to materialize). Unfortunately, when we look back on the historical pattern of summer returns, summer is the weakest recovery point of the four seasons. And, without any upside catalysts, we are most likely stuck in a trendless market. Additionally, Wall Street's earnings growth expectations for the S&P 500 are decreasing. As evidenced from the table below, corporate earnings growth is slowing while year-over-year earnings comparisons become more difficult.

	S&P 500 Earnings Per Share*	Year-Over-Year Growth
June 30, 2003	\$13.39	5.60%
December 31, 2003	\$15.17	25.68%
June 30, 2004	\$16.66	24.42%
December 31, 2004	\$17.63	16.22%
June 30, 2005*	\$18.23	9.42%
December 31, 2005*	\$18.53	5.10%

*Mean earnings estimate of S&P 500 reported earnings.

Additionally, we expect little from the broad market. Within our portfolios, we continue to focus on managing downside risk by avoiding over-exposure to any particular sector and by investing in high-quality, established companies with relatively long track records. As always, we continue to look for opportunities to buy great companies at good prices, which should enhance the potential for success despite a slowing economy.

We request that clients advise ICM in the event that there are any changes in their investment objectives, financial situation, or whether they wish to impose or modify restrictions on the management of their account. Please call ICM at (800) 488-4075 or visit our Web site, www.icmasset.com, if you have any questions or need additional information.

