

# ICM SMALL COMPANY PORTFOLIO

## THIRD QUARTER 2008

OCTOBER 10, 2008

Small cap stocks got off to a very strong start in the third quarter and by the end of August the Russell 2000 Index had significantly outperformed the S&P 500 Index for the first two thirds of the quarter. September was a weak month for the market as a whole; but, small cap value stocks, as measured by the Russell 2000 Value Index (the Index), were by far the strongest sector of the market and were the only market cap sector that produced positive returns for the entire three month period. The ICM Small Company Portfolio (the Fund or the Portfolio) stumbled getting out of the gate in July and did not finish well down the stretch in September. As a result, the Portfolio experienced its worst quarterly performance relative to the Index since the inception of the Portfolio in April 1989.

TOTAL RETURN (%)												
PERIODS ENDING 9/30/08												
	1st Qtr	2nd Qtr	3rd Quarter 2008				YTD	1 Yr	Periods Ending 9/30/08 Annualized			
			July	Aug	Sept	3rd Qtr			3 Yrs	5 Yrs	10 Yrs	4/19/89 S.I.
ICM Small Co. Portfolio*	-7.73	1.29	-0.65	6.29	-7.73	-2.56	-8.94	-13.12	4.37	9.72	11.04	13.52
Russell 2000 Value Index	-6.53	-3.55	5.13	4.75	-4.69	4.96	-5.37	-12.25	2.00	9.45	10.14	11.31
Russell 2000 Index	-9.90	0.58	3.70	3.61	-7.97	-1.11	-10.38	-14.48	1.83	8.15	7.81	9.18
Russell 2000 Growth Index	-12.83	4.47	2.33	2.48	-11.30	-6.99	-15.29	-17.07	1.45	6.64	4.67	6.47
S&P 500 Index	-9.44	-2.73	-0.84	1.45	-8.91	-8.37	-19.29	-21.98	0.22	5.17	3.06	9.43

<sup>1</sup> The returns shown for the ICM Small Company Portfolio are net of all fees and expenses.

Total annual Fund operating expenses are 0.87%.

Total returns assume reinvestment of all dividends and capital gains.

The performance data quoted represents past performance. Past performance does not guarantee future results.

The investment return and principal value of an investment will fluctuate so that an investor's shares when redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, please call 1-866-234-5426 or visit our website at [www.icomd.com](http://www.icomd.com).

Additional disclosures can be found on page 3.

In our second quarter letter we briefly discussed our plan to move some money into the Financial Services sector. This sector had performed very poorly in the second quarter and valuations had become more reasonable. We began executing this plan early in July; but, the group, especially the Regional Bank stocks, moved so far and so fast that we stopped as valuations became unattractive in our mind. Frankly, we just have a hard time understanding the 38.5% advance in the Regional Bank sub sector of the Russell 2000 Value Index during the quarter and we ended the quarter as net sellers of banks.

We also mentioned that the Russell indexes underwent their annual rebalancing at the end of June. Some sector weightings in the Russell 2000 Value Index increased substantially (Financial Services and Consumer Discretionary) and some decreased substantially with Energy taking the biggest hit. Merrill Lynch estimates that, had the Russell 2000 Value Index not been rebalanced, its return for the quarter would have been approximately 0% or flat rather than the 4.96 % return of the reconstituted index. We believe this is the largest rebalancing effect in the history of the Russell indexes.

The other important point we made in our second quarter letter was that we believed commodity prices had peaked and that their decline would help stabilize the economy. The only commodity exposure of any significance in the Portfolio was in the Energy sector. We sold a substantial portion of our Energy positions at the end of the second quarter and in early July, but we were still overweight in this sector

relative to the newly reconstituted Index (8.1% average weight versus 3.8% average weight for the Index). As the price of oil and natural gas came down, so did energy stocks by a whopping 32.7%. Our stocks did a little bit worse. Unfortunately, we were wrong about the stabilizing impact of falling commodity prices as the outlook for the economy did not improve and has recently become much worse.

In a nutshell, the Portfolio's poor relative performance can be explained by three factors. First, the underweight position in Regional Banks (4.9% average weight versus 10.9% in the Index) explains most of the underperformance in the Financial Services sector (17.1% average weight versus 34.3% in the Index). Second, despite the significant reduction of our energy positions in the second quarter, the Portfolio had too much exposure to the group. Finally, our more economically sensitive positions in the Producer Durables sector (15.9% average weight) and the Technology sector (10.9% average weight) performed poorly after a fairly good showing during the first half.

The very significant decline in the equity market since September 30<sup>th</sup> reflects two things. First, the bond and credit markets are in total disarray. Short-term credit is the life blood of the economy. The economy cannot function unless companies can access credit to finance their day-to-day operations. Even companies with pristine balance sheets use the short-term credit markets to provide financing for themselves and their customers. Who would have imagined that a company such as General Electric would have to raise very expensive long-term capital because its access to the credit market was being threatened? Second, this credit crisis has thrown the U.S. economy into a fairly severe recession. Economic activity has slowed dramatically and very quickly. Companies and consumers are pulling in their horns and cutting spending to essentials and non-deferrable items. Retailers are planning for a very dismal holiday season and their main objective is to enter 2009 with as little inventory as possible. We have already seen significant cutbacks in capital spending plans in industries such as retail, restaurant, and domestic oil and gas producers.

As we exited the third quarter, the consensus estimate for the S&P 500 earnings for next year was in the \$90 - \$100 "per share" range. We had thought for some time that this was too optimistic. As third quarter earnings are reported, we are likely to see significant cuts in fourth quarter and 2009 earnings estimates in virtually every industry sector. We should probably be thinking of S&P 500 earnings in the \$65 - \$70 per share range for next year with the potential for lower earnings if the credit markets do not thaw out.

The question on everyone's mind is whether the extraordinary steps taken by our government and other governments around the world will calm people's fears and restore some measure of confidence to the credit markets. The magnitude of the liquidity infusion, loan guarantees, deposit guarantees, and potential asset purchases by the U.S. Treasury, the Federal Reserve, and other central banks is staggering. The Treasury is now also thinking of making direct equity investments in banks. New plans arrive each day, and, thus far, the credit and equity markets have reacted skeptically to say the least. However, this may turn out to be one problem that is solved by throwing money at it.

We think it is too late to sell stocks. We also think that switching from cyclicals to staples probably does not make much sense either. In the small cap value sector there are very few places to hide. Health Care, Consumer Staples, and Utilities make up about 15% of the Index and a close inspection of these sectors reveals a large number of below average companies. There just are not many Procter & Gamble's or Johnson & Johnson's in the land of small cap value. We also believe it is not very useful to try to base a valuation analysis of most companies, both large and small, on earnings that will be reported over the next twelve months. Rather, we believe we need to try to determine two things. First, does the company in question have the balance sheet and market position to not only survive the downturn but increase its competitive advantage when the economy rebounds? Second, what is the earnings power of the company assuming the economic recovery will be rather subdued due to the weakened condition of the American consumer?

As stated earlier, the consensus estimate for the 2009 S&P 500 earnings had been \$90 - \$100 “per share”. We believe that the S&P 500 may be able to attain that level of earnings in 2011 if the economy begins to grow by next year’s second half. Interest rates may be higher then, so the price to earnings multiple on that \$90 - \$100 might be 13x – 15x. That would translate into an S&P 500 range of 1170 - 1500 versus today’s level of 900. The top of that range presents a significant upside potential while the bottom of that range would provide returns far in excess of cash equivalents or government bonds. The S&P 500 was trading at 1200 only weeks ago and had reached the 1500 level last fall.

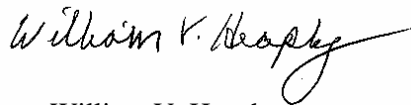
This is the most frightening and risky environment equity investors have faced since the Depression. We think that most of the companies we hold have the financial strength and market position to emerge from this recession in very good position. We are not inclined to lower quality and increase beta. That strategy worked very well for others in 2003 but we do not think it will work as well this time.

Please feel free to call us if you have any questions or comments about the Portfolio.

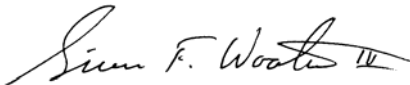
Sincerely,



Robert D. McDorman, Jr.  
Principal



William V. Heaphy  
Principal



Simeon F. Wooten, III  
Principal



Gary J. Merwitz  
Principal

***This material must be preceded or accompanied by a current prospectus. Please read it carefully before you invest or send money.***

*\*The Russell 2000 Index is an unmanaged index composed of the 2,000 smallest stocks in the Russell 3000, a market value weighted index of the 3,000 largest U.S. publicly-traded companies. The Standard & Poor's 500 Stock Index is an unmanaged index composed of 400 industrial, 40 financial, 40 utilities and 20 transportation stocks. The Russell Small-Cap Growth and Value Indexes are created by sorting the universe of Russell 2000 companies by book/price ratio and separately by I/B/E/S growth rate. (Reported book value is adjusted to reflect FAS 106 and 109 write-offs by adding back the unamortized portion of the charge.) Each of the sorted series is normalized and combined to arrive at a composite rank for each company. The composite rank is used to generate the probability that a stock is either growth or value. About 30% of the stocks in the Russell 2000 appear in both the growth and value indexes in different proportions based on the probability calculated; the sum of the shares in each index is the total number of shares floating. The remaining 70% of the companies are in one style index only. Please note that one cannot directly invest into an unmanaged index.*

*The ICM Small Company Portfolio is distributed by SEI Investments Distribution Co., which is not affiliated with Investment Counselors of Maryland (ICM) or its affiliates. The material represents the manager's assessment of the portfolio and market environment at a specific point in time and should not be relied upon by the reader as research or investment advice regarding any stock. Neither this material*

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*There can be no assurance that the portfolio will meet its stated objectives. Portfolio holdings are subject to change and should not be considered investment advice or a recommendation to buy securities.*

*There are risks involved with investing in mutual funds, including loss of principal. In addition to the normal risks involved with investing in mutual funds, including loss of principal, smaller companies and narrowly focused investments typically exhibit higher volatility and REIT investments include illiquidity and interest rate risk. Products of the companies in the technology (or biotech) sector are subject to severe competition and rapid obsolescence.*

*Top Ten Holdings as of September 30, 2008:*

<u> Holding </u>	<u> % of Portfolio </u>
AptarGroup Inc.	2.29
Penn Virginia Corp.	1.94
Ametek Inc.	1.67
Bio-Rad Laboratories Inc. (CI A)	1.63
Kaman Corp.	1.53
CommScope Inc.	1.50
CONMED Corp.	1.41
Oceaneering International Inc.	1.39
Ralcorp Holdings Inc.	1.31
Actuant Corp. (CI A)	1.23