

## Quarterly Client Update

Q1 2020

March 31, 2020

## Navigating Through Historical Levels of Uncertainty



In what was an incredibly tragic quarter in global history, it's impossible to quantify the cost of the medical crisis. We have, however, been doing our best to keep clients fully informed about economic events arising during this time, along with our strategic approaches during each development. I hope these commentaries have been helpful in this time of global uncertainty.

At the end of February, before havoc was unleashed, I shared some information on how we manage our tactical portfolios during volatility and downturns, which included a fact sheet on our [Cash Scaling Strategy](#). Central to how we manage these portfolios is discerning whether a downturn is a correction or the start of a bear market, and ensuring decisions are made using data from diverse and complementary factors. This strategy would turn out to be critical in managing the economic events to come from the oncoming pandemic crisis. (Note: all commentaries can be found on our site here: <https://www.northcoastam.com/q1-2020-supplement/>)

In early March, just before the markets went into free-fall I shared [Fear is Contagious](#), providing additional context for our tactical strategy management. At the time, broken long-term technical indicators were offset by improving valuation indicators, and our portfolios remained 20-25% in cash. We had our eye on the ongoing news flow, anticipating a surge in cases would cause further deterioration of the markets.

As the market turmoil began, I provided some detail on the evolving [Fixed Income ETF Dislocation](#) caused by fear-generated selling, and the significant discounts seen by sellers trying to unload ETF positions during that time. In that period, our Tactical Income strategy was trading at 3% below NAV, and we anticipated the discounts to properly revert back to NAV within 11-14 days. As predicted, those discounts have since righted themselves and the market is once again aligned.

On March 16, as the true extent of the medical crisis raged on I [shared a letter](#) about the unsettled ground we found ourselves sharing, along with the basic tenets that NorthCoast operates under during these times. Technical indicators were still negative with positive valuations. Our biggest takeaway during this time period was the futility of selling and

rotating into new stocks given +/- 25% intra-day moves and the mismatch problems that would cause. We remained 25% in cash and bonds in our tactical strategies, and looked forward to the upcoming Federal stimulus measures.

Despite the stimulus announcements, we started settling in for what we recognized could be a long haul. [NorthCoast uses 30+ years of experience](#) through several significant downturns, along with sophisticated data research, to manage through uncertain market conditions like these. We recognized the three facets of this crisis as the medical tragedy, the economic effects and liquidity issues – the path of the former being unknown and the two latter being buoyed by Fed action early and often. Our models continued to be optimistic, despite extreme levels of fear and valuation. Our recommendations remained to hit pause on any aggressive actions pending some sense of market stability.

By March 30, conditions became a bit clearer, and I [shared my thoughts on the dichotomy](#) between my right-brain/left-brain thinking during this time. The speed at which milestones have occurred during this downturn mark this as a singularly unique circumstance, and in the span of a week the market panic of seven days prior became a memory. We warned however, of ongoing volatility until new virus cases declined despite capital market improvements brought on by government action.

Most recently, I shared my thoughts on [portfolio spring cleaning](#), while we wait for the rolling peaks of the pandemic to move through the country. Though we could not rule out further declines, we have seen some evidence of the beginning of a market bottoming out process.

As I'm writing this, the S&P 500 just closed out its best week since 1974, after the Fed stunned markets into action with an additional \$2.3 trillion of aid to small and mid-sized businesses and sweeping measures to support the U.S. municipal bond market. There is general consensus that the government will provide as much capital as is necessary to shore up both Main Street and Wall Street, with a lifeline for any sector in existential crisis. We continue to believe that while there are opportunities in this market, aggressive moves should be tabled until volatility has declined.

## Navigating Through Historical Levels of Uncertainty

That is a lot of commentary from me for one quarter. My hope is that these pieces along with speaking to our advisors help provide you with support, context and depth in your investment matters. This has been a quarter in which going it alone has been truly grinding. Never in my lifetime has it been so easy for investors to make terrible decisions as daily emotional shifts took hold. The stories coming in about margin calls, MLPs, and panic selling are so unsettling due to their lifetime impact. We have outstanding advisors – please use them. They work for you, and only in a fiduciary capacity.

In conclusion, I'd like to share a new strategy idea we've been working on for the last year. We have a long history of researching new strategies to help our clients regardless of market conditions, and for clients looking for new entry points in this market, I really like this portfolio. We are now rolling out our new [Defined Outcome SMAs](#). These two strategies provide defined exposure to the S&P 500 for the next twelve months. For example, you can own the S&P 500 index for the next 12 months and be capped at a 20% gain and simultaneously protect yourself from -10% of a decline by using options contracts. It really helps to add certainty during an uncertain time.

Thank you for your trust. I hope you've found our ongoing market commentary useful within these challenging times. We continue to be available to discuss your account and strategies at any time. Do not hesitate to contact us.

Stay safe and healthy.

Sincerely,



**Dan Kraninger**  
President & CEO

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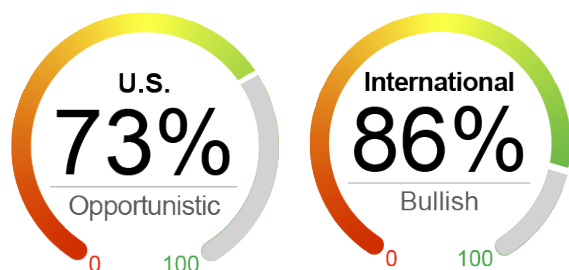
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The NorthCoast Navigator is a market barometer displaying current equity outlook. The aggregate metric is determined by multiple data points across four broad dimensions including macroeconomic, sentiment, technical and valuation indicators. The daily result determines equity exposure in our tactical strategies. As of 3/31/2020. Data provided by Bloomberg, NorthCoast Asset Management.



## Bracing through the Pandemic's Peak

During the month of March 2020 the Coronavirus pandemic and its immense economic impacts have brought about some of the most volatile market trading in history. The S&P 500 came down almost 34% at the close of March 23 from its high on February 19. What's most notable about this drop is the unprecedented speed at which it occurred: just 23 trading days. The average daily move during this 23-day period was 4.2%, with an average of 4.9% during the entire month of March. There is little if not zero modern historical context for this event. However, data from previous market declines such as occurred in 2000-2001, 2008 and even from the last pandemic in 1918 will still be able to provide valuable insight to our management team.

As we have stated in our communications throughout this period (links below for reference), this unconventional crisis continues to cause unconventional market action. Not merely an isolated cause/effect, the health emergency has caused an economic slowdown and liquidity crisis that ripples across global markets. JNJ and several other pharma companies are fast-tracking vaccines and treatments that have the potential to alleviate pressures on our healthcare system. The passage of the \$2.2 trillion stimulus bill for businesses and individuals has improved the economic outlook. Additional spending bills may follow. Market indicators are generally lagging, but the Federal Reserve is attempting to bolster the economy as quickly as possible with new, more frequent measurements and actions. This will help us incorporate data more quickly into our models moving forward. Regarding liquidity, the Fed has pledged essentially unlimited buying of assets normally on its balance sheet as well as expanded purchases of other asset classes. These moves and the relative easing of the selling have significantly improved liquidity issues.

At NorthCoast, we continue to use volatility to exit certain positions and refresh some allocations in both our domestic and international equity strategies. The U.S. equities rally at the end of the month was encouraging and we are comfortable that with our current 73% exposure we are positioned well for whatever is to come. Upcoming earnings and economics reports will continue to cause market volatility. These figures may cause more sector-specific moves, or may drive market-wide action. We are adapting to this situation as quickly as it is evolving.

We want you to know that we are here to help in any way possible and that we are keeping all of you and your families in our thoughts. The fight against Covid-19 continues and we at NorthCoast hope that you and your families are safe and healthy.

### Macroeconomic

Weekly jobless claims gained a lot of attention towards the end of month and for the moment, joblessness is going to increase. GDP growth projections have been lowered. Fast action from the U.S. and international governments will hopefully buoy parts of the economy.

### Sentiment

Sentiment indicators have worsened as is to be expected. Rates of consumers saving is likely to increase and the University of Michigan Consumer Sentiment Survey dropped to 89 from roughly 100.

### Technical

The speed and severity of the downturn caused for deterioration of technical indicators. The volatility index, VIX, spiked to all-time highs and settled down to just above 50 at end of month. Momentum indicators have softened and the S&P 500 sits below its moving averages.

### Valuation

With the market downturn, valuation indicators have improved. P/E ratios have come down for S&P 500 companies, but new earnings data forecasts to come for Q1 2020 will yield more accurate multiples..



## Strategy Composite Performance

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NorthCoast offers a suite of active investment strategies designed to meet the individual goals and objectives of the investor. Your dedicated advisor will work with you to construct a portfolio catered to your goals & objectives.

		Strategy	Overview	Q1 2020	2020 YTD
Risk-Adjusted (Tactical) Growth	Designed to first analyze market risk then determine the desired asset allocation and security selection	U.S. Sector Select Hedged	U.S. Sector Rotation	-9.8%	-9.8%
		International Select Hedged	International Country Rotation	-11.2%	-11.2%
		Tax-Managed	Tax-Efficiency	-18.2%	-18.2%
		Tactical Growth	Global Asset Allocation	-22.1%	-22.1%
		CAN SLIM®	All-Cap Growth	-19.7%	-19.7%
		CAN SLIM® International	All-Cap International Growth	-25.4%	-25.4%
Growth	Seek to generate growth returns greater than the respective market benchmark	Global Select	Global Country Rotation	-24.5%	-24.5%
		U.S. Sector Select	U.S. Sector Rotation	-20.9%	-20.9%
		International Select	International Country Rotation	-30.1%	-30.1%
		Emerging Market Select	Emerging Market Country Rotation	-35.9%	-35.9%
		Legends Value	All-Cap Value	-24.2%	-24.2%
		Vista	All-Cap Growth	-35.9%	-35.9%
Core	Designed to meet the broad goals of growth and income and serve as the 'core' of a portfolio	Diversified Core	Global Asset Allocation	-15.8%	-15.8%
		Diversified Growth	Global Asset Allocation	-19.4%	-19.4%
Income	Designed to generate yield and returns through traditional and non-traditional income sources	Core Fixed Income	Conservative Income Generation	-1.4%	-1.4%
		Tactical Income	Dynamic Income Generation	-13.8%	-13.8%
		Aggressive Income	Aggressive Income Generation	-13.1%	-13.1%
Alternative	Aim to generate returns that are independent of the equity and fixed income markets	Zero Beta	Liquid Alternative	-10.3%	-10.3%
		Concentrated Stock	Concentrated Stock	N/A	N/A

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