

Quarterly Client Update

2017 Q3

September 30, 2017



NorthCoast 
Asset Management

President's Post

“Headlines, in a way, are what mislead you because bad news is a headline, and gradual improvement is not.”

- Bill Gates



A few weeks ago, I had a ‘proud father’ moment when I took my first-born child to college at Villanova University. Extra proud because I’m a Villanova grad myself. But I would be remiss if the tragedy in Charlottesville, VA, which happened just a few weeks prior, didn’t cross my mind when I thought about the safety of my son, as well as all of my children for that matter. And then headlines about North Korea launching missiles came across the news wire. And a few weeks after that, hurricanes Harvey, Irma and Maria barraged our shores, uprooting the lives of so many. And just last week, the tragic shooting in Las Vegas. It seems bad news is always around, and it really affects how we feel. Unfortunately, when it comes to investing, feelings are often detrimental to building wealth. The important conclusion I made as an investor many years ago was to separate feeling from financial decisions by automating investment choices. Our responsibility here is to cut through the noise and focus on the data, because news outlets are paid to turn events into headlines to sell newspapers, attract clicks - do whatever it takes to gain eyeballs. From an investment standpoint, questions often follow like this after reading a headline -- *What happens if North Korea launches a missile towards Guam...Is it time to get out of the market?*

Understandably, we’ve experienced an uptick of client calls and emails with concerns about these recent events and how they might impact their investments. As I’ve written about before and as I communicate with our clients daily, I always stress that over time, **data and discipline outweigh headlines and hunches**. The last nine years have proven that. Bill Gates said it best - bad news has been a headline but the stock market has ‘gradually improved’ throughout that time. Take a look at the table below detailing the last three years of major headline news and market returns. The market moves over time because of data. We measure that data every day and adjust accordingly. We rely on a rigorously tested combination of technical, valuation, sentiment, and macroeconomic indicators which provide an estimated likelihood of whether the market will move higher or decline. The process is systematic by design and rules-based by implementation. We keep our investment fingers on the market pulse every day. Thankfully, bad bear markets can give off warning signs such as rising inflation, above average valuations, a slowing economy and declining prices. Bear markets don’t arise from fear – whether that be from a missile launch, a terrible tragedy, or hurricanes.

The last time we held a majority of cash in our tactical strategies was in 2008. It was not because of headlines (which are always negative), but instead because of market data. This is an important element of our approach and I encourage you to contact one of our investment advisors to discuss. They are well prepared to help you analyze your situation and marry that to what we are observing. Learn more about how we navigate through uncertain and volatile markets. Ask about diversification opportunities in international equities and alternative income. They can work with you to help select an investment strategy that fits your needs, goals, and even fears, and then let it work.

My thoughts and prayers go out to all those impacted by the recent events I’ve mentioned. And if NorthCoast can be of any service to you and your family, please reach out. We are more than happy to help.

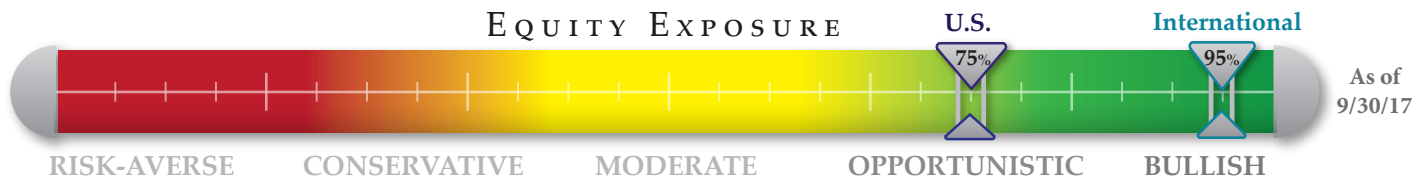
Market Indicators vs. Headline News

Date	9/30/2008	9/30/2015	9/30/2016	9/30/2017
News Headlines	Bear Sterns and Lehman Brothers collapse Subprime mortgage crisis Somalia pirates hijack multiple ships	Growing global threat of ISIS Greek bailout proceedings questions EU’s strength China devalues currency	Presidential campaign Fallout from U.K. vote to leave the EU (“Brexit”) Zika virus outbreak expands	N. Korea continuously tests nuclear missiles Multiple devastating hurricanes make landfall U.S. social and political unrest
NorthCoast Navigator				
Valuation	●	●	●	●
Technical	●	●	●	●
Macroeconomic	●	●	●	●
Sentiment	●	●	●	●
% cash held in U.S. tactical strategy	85%	19%	10%	25%
Forward return of S&P 500 Index				
6-month	- 30.9%	+ 8.1%	+ 9.8%	TBD
12-month	- 7.7%	+ 14.7%	+ 17.9%	TBD

Source: Bloomberg, NorthCoast. “% cash held in U.S. tactical strategy” = % cash held in a model account of the CAN SLIM® Investment Program.

NorthCoast Navigator

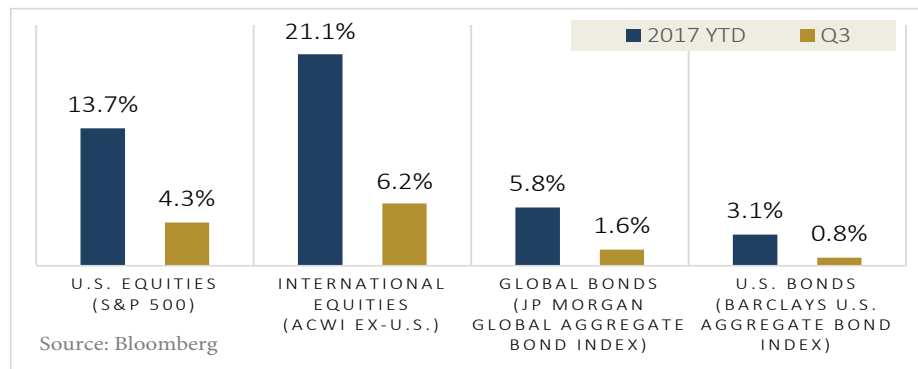
The NorthCoast Navigator is a market "barometer" displaying NorthCoast's current equity outlook. This aggregate metric is determined by multiple data points across four broad dimensions including Technical, Sentiment, Macroeconomic, and Valuation indicators. The daily result determines equity exposure in our tactical strategies.



What happened in the 3rd quarter?

The quarter began with positive corporate earnings data from Q2 with 73% of companies in the S&P 500 reporting above consensus of analysts' expectations. During the quarter, both domestic and international equities experienced positive gains driven by these earnings reports and positive economic data. The inflow of positive data continued in the U.S. where second quarter GDP growth was revised up to 3%. Thanks in large part to very strong consumer spending, this was the highest quarterly growth of the economy in over two years.

In response to what appears to be a healthy economy, the Federal Reserve announced that it would begin pairing back its balance sheet. Despite inflation staying below its stated target level, the Fed indicated that it is still open to a rate rise in the fourth quarter.



Moving into the 4th quarter

Preliminary economic impacts of hurricanes Harvey and Irma were seen in the initial jobless claims, which came in slightly higher than analysts' estimates at 272,000. However, economists expect the effects to be transient, continuing into the fourth quarter before the positive effects of rebuilding boost GDP moving into 2018. September saw small-cap stocks outperforming their large-cap counterparts, which could indicate investors are expecting positive economic data and a general rise in sentiment indicators. Despite rising sentiment and positive macroeconomic data, technical indicators saw a dip during the month and valuations remain high after a positive month for equities. We enter October 75% invested in our tactical U.S. strategies and 95% in our international strategies.

VALUATION



A positive month for equities led valuations higher. Pressure is high for Q3 earnings season to deliver with stock prices at record levels.

TECHNICAL



The S&P 500 Index rose to 2% above the 50-day moving average, signaling higher possibility of reversal. Relative strength indicator moved closer to "overbought" territory.

MACROECONOMIC



Eurozone remained strong and U.S. economy withstood Harvey and Irma. Higher oil prices should boost domestic inflation and expectations for GDP rose.

SENTIMENT



A 95+ reading from the UM consumer sentiment survey and stemmed flows from equity funds (SPY) pushed sentiment indicators into positive territory.

Strategy Performance

NorthCoast offers a suite of active investment strategies designed to meet the individual goals and objectives of the investor. Our dedicated advisory team will work with you to construct a portfolio catered to your needs.

			2017		
		STRATEGY	OVERVIEW	YTD (NET)	Q3 (NET)
Risk-Adjusted "Tactical"	Designed to first analyze market risk then determine the desired asset allocation and security selection	CAN SLIM [®]	Tactical All-Cap Growth	11.6%	3.2%
		CAN SLIM [®] <i>International</i>	Tactical All-Cap International Growth	18.5%	4.7%
		CAN SLIM [®] <i>Global</i>	50% CAN SLIM [®] / 50% CAN SLIM [®] International	14.9%	3.9%
		Tax-Managed	All-Cap U.S. Growth	13.3%	3.5%
		Tactical Growth ●	Tactical Global Asset Allocation	14.7%	5.1%
		U.S. Sector Select Hedged ●	Tactical U.S. Sector Allocation	13.1%	4.1%
		International Select Hedged ●	Tactical Country Rotation	20.6%	6.7%
Growth	Seek to generate growth returns greater than the respective market benchmark	Legends Value	All-Cap Value	7.7%	1.9%
		United Portfolio	50% Legends Value / 50% CAN SLIM [®]	9.5%	2.5%
		Vista	All-Cap Growth	14.5%	6.4%
		Global Select ●	Global Country Allocation	20.5%	7.3%
		U.S. Sector Select ●	U.S. Sector Rotation	14.9%	4.6%
		International Select ●	International Country Allocation	24.4%	8.9%
		Emerging Market Select ●	Emerging Market Country Allocation	22.2%	8.1%
Core	Designed to meet the broad goals of growth and income and serve as the 'core' of a portfolio	Diversified Core ●	Global Asset Allocation	11.4%	3.8%
		Diversified Growth ●	Global Asset Allocation	13.5%	4.4%
		CAN SLIM [®] : <i>Growth & Income</i>	75% CAN SLIM [®] / 25% Bond ETFs	9.7%	2.6%
		CAN SLIM [®] : <i>Balanced</i>	50% CAN SLIM [®] / 50% Bond ETFs	7.8%	2.1%
Income	Designed to generate yield and returns through traditional and non-traditional income sources	Core Fixed Income ●	Conservative Income	5.0%	1.3%
		Tactical Income ●	Dynamic Income	7.1%	1.5%
		Aggressive Income	Aggressive Income	5.6%	0.3%
Alts	Aim to generate returns that are independent of the equity and fixed income markets	Zero Beta	Liquid Alternatives	3.4%	1.1%

● = ETF Managed Strategy

PAST PERFORMANCE DOES NOT GUARANTEE OR INDICATE FUTURE RESULTS. INVESTING ENTAILS RISKS, INCLUDING POSSIBLE LOSS OF SOME OR ALL OF THE INVESTOR'S PRINCIPAL.

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