

QUARTERLY CLIENT UPDATE December 31, 2012

6 Glenville Street ● Greenwich, CT 06831 ● Phone 800-274-5448 ● info@ncamadvisors.com ● www.ncamadvisors.com

"To expect the unexpected shows a throroughly modern intellect" -Oscar Wilde

t's 2013 and time again for the annual Wall Street ritual called "The Year Ahead." This is when every newspaper's financial section rolls out the experts to dole out their forecasts for the stock market's expected return for the year. It resembles the parable of the six blind men describing an elephant. Each describes what they "see" in relationship to their own framework. Here's the short form: The Fundamentalist sees the market in terms of earnings and historical valuation – he believes stocks are cheap. The Technician sees trend lines and price patterns – he looks for retracement. The Macro Economist looks to global economic activity or lack thereof – he is still baffled by Europe's positive stock market and continues to look for a slowing in Asia. The Monetarist only watches the Fed and believes the answer lies in government intervention – he sees more ahead. The Behaviorist watches put/call and bull/bear ratios to determine the amount of fear or greed in the market – he's pleased that money still pours out of equity mutual funds because he thinks the little guy is always wrong. Finally, the Political Economist cannot see past the fiscal cliff and rising taxes – he only wants to talk about debt.

Each manages to describe a small portion of what is going on and do so with only limited success. AND this is without considering their own unique, human biases. Imagine the Fundamentalist who has three kids in college (maybe things aren't that cheap) or the Behaviorist who walks past a line of people at an Apple store (maybe people are too excited).

We believe investors can expect only one thing from 2013 – the unexpected. Because no single discipline can capture the "grand plan" of the market, we measure data from four approaches that have historically proven worthy. For us, market data culled from Valuation, Sentiment, Technical, and Macro Economic gauges together drive our positioning. Those gauges are monitored daily and investment positioning is fluid as new data presents along the way. Flexibility is key. In the parable, it's not until each blind man rigorously defends his opinion of what the elephant is and rebuts the others that learning occurs. Together they arrive at the answer only after collaboration and each becomes more open to change. Thus, we enter the year 80% invested in stocks in our CAN SLIM® program and as the year unfolds will adjust exposure accordingly.

2012 proved to be a productive yet muted year. We entered 2012 50% invested and found ourselves in the same posture during the market's summer swoon. Those cash positions protected accounts yet dampened return although not by as much as one might expect. (You can see the portfolio's positioning on the bottom of the chart on pages 2-3.) The more difficult headwind was investors' appetite

for dividend stocks. Anything with a dividend yield > 3% was bought last year and companies with little or no business growth benefited. Thankfully, that grip loosened in the 4th quarter as growth stocks began to show some life. Stocks like T, VZ, CLX, and JNJ hit highs in October that weren't seen again. Meanwhile CAN SLIM® portfolio names like EXPE, HCA, HTZ, and LCC powered to 52 week highs and companies that are producing strong earnings growth look poised to gain prominence this year.

Though valuation is only one measure, it is quite remarkable how cheap growth stocks are currently. Many of our internal measures look very bullish as growth stocks potentially catch up to where they have been historically valued. For example, our current portfolio has a PEG ratio <1. PEG is a ratio that divides a stock's p/e by its estimated growth rate. With an average below 1, our portfolio on average holds companies growing their earnings faster than they are being given credit. A stock warrants a p/e of 20 if it's growing at 30% (20 / 30 = .66) and growth stocks historically have PEG ratios between 1.5-2. A real example in the portfolio is IACI – a 35% earnings grower trading at a 17 p/e. While VZ (a dividend payer) which is actually shrinking (EPS growth is negative) carries a p/e of 19. Weird. Take a look at the table to the right. Stocks overall are cheap and growth stocks even more so. When further considering that cash balances pay nothing and intermediate bond rates are 1-2%, stocks are even more attractive. As investors continue to wake up to the risk of holding bonds and high-yielding stocks, we look forward to very productive times ahead.

C	Current P/E vs. 20-year avg. P/E							
Π,	Value	Blend	Growth					
Large	11.8	12.5 / 16.2	15.2 / 20.9					
Mild	12.7/14.0	14.4 16.3	16.7					
Small	13.2	14.6	16.3 / 21.3					

Current P/E as % of 20-year avg. P/E								
E.g.: Large Cap Growth stocks are 27.3% cheaper than their historical average.								
	Value	Blend	Growth					
Large	84.8%	76.9%	72.7%					
Mild	91.0%	88.3%	76.6%					
Small	92.9%	85.7%	76.6%					

February

January

March

April

May

2012: A News-Driven Market Manages Respectable Gains For The Year

INVESTOR'S BUSINESS DAILY®

December

November

	, () () (, manage	s kespec							J DOJINEJJ D
	January	February	March	April	May	June	July	August	September	October	November	December
200, as u drop	: U.S. employers add ,000 jobs in December nemployment rate os to 8.5%.	1st: Facebook files for IPO that would raise \$5 billion. 3rd: Payrolls rise by	9th: Payrolls increase by 227,000 in February. Unemployment rate stays flat at 8.3%.	3rd: Minutes of the Fed's March meeting show less enthusiasm for a third round of quantitative easing.	4th: Payrolls in April rise just 115,000, below forecasts, marking third straight month of declining growth. Unemployment rate drops to 8.1%.	1st: Payrolls grow weaker-than-expected 69,000 in May, as unemployment rate rises to 8.2%.		1st: Trading glitch roils 150 stocks, raising concerns about electronic trading and forcing Knight Trading to seek a financial rescue.	6th: ECB chief Draghi announces open-ended bond-buying program for eurozone nations that agree to conditions.	3rd: T-Mobile USA and MetroPCS agree to a merger in which Deutsche Telekom will own 74% of the recapitalized company.	2nd: Unemployment rate rises to 7.9% as payrolls increase 171,000 in October.6th: President Obama is	7th: Payrolls rise by 146,000 ir November. Unemployment rate falls to 7.7% as more Americans leave the workforce.
AAA and	h: S&P downgrades A countries France Austria among nine ozone nations.	243,000 in January as unemployment rate falls to 8.3%, the lowest since February 2009.	13th: Major banks raise dividends as 15 of 19 pass the Fed's stress tests. 19th: Apple sets dividend	6th: Employers add 120,000 jobs in March, well below expectations. Unemployment rate dips to 8.2%.	7th: World markets fall after anti-austerity candidates win elections in Greece and France.	13th: Retail sales fall 0.2% in May. Several Wall Street firms cut Q2 GDP estimates. 20th: Fed extends	5th: ECB cuts interest rates to 0.75%; China cuts interest rates for the second time in a month; Bank of England	3rd: Payrolls increase by 163,000 in July but unemployment rate rises to 8.3%.	13th: Fed sets openended bond-buying in new quantitative easing program, and extends to	5th: Unemployment rate falls to 7.8% on a surge in part-time jobs.	re-elected. Republicans hold big majority in the House while Democrats maintain edge in the Senate.	11th: GOP gives White House counter-offer on fiscal cliff amid signs of some progress i negotiations. Michigan
earn expe Bof	h: Google's Q4 nings and sales miss ectations. But Intel, A, Morgan Stanley	21st: Eurozone finance ministers OK 130 billion euro bailout for Greece, its second rescue package, in	and share buyback of \$10 billion.	10th: Spanish benchmark bond yields near 6% on growing doubts about its deficit cuts.	10th: JPMorgan says it lost \$2 billion in poorly managed derivatives trades over a six-week period.	Operation Twist, but takes no other steps to bolster economy despite cutting its GDP forecast.	adds 50 billion pounds to its asset-buying program. 6th: U.S. payrolls rise by	16th: Results, outlook from Cisco and NetApp show optimism from tech sector.	2015 the period in which it will keep interest rates near zero.	15th: Japan's Softbank agrees to acquire up to 70% of Sprint Nextel with an offer of \$29.1 billion.	7th: Stocks plunge on worries that fiscal cliff, tax hikes are more likely in wake of Obama's	lawmakers approve law that lets workers decline to pay union dues.
24th	views. h: Apple's holiday- rter earnings soar % as results easily	exchange for more cuts. 29th: Bernanke gives mixed view of the economy		11th: Dept. of Justice sues Apple and five publishers, charging them with price-fixing of e-books.	18th: Facebook starts trading at 38 a share, closes up 23 cents after erasing most of a 12% surge at the open.	26th: ECB chief Draghi vows to "do whatever it takes" to save the euro.	80,000 in June, below expectations. Unemployment rate stays at 8.2%. 17th: Bernanke warns that	Merkel voices support for ECB's efforts to aid eurozone.	27th: Spanish budget, China stimulus hopes revive markets. But U.S. durable goods orders plunge 13.2% in August.	17th: Vikram Pandit steps down as Citigroup CEO in reported clash with the board. Michael Corbat	re-election. House Speaker Boehner offers to compromise. 20th: Bernanke warns that the Fed has no tools	12th: In a historic step, Fed says it will keep interest rates near zero as long as unemployment is above 6.5% and inflation is near its
25th leav	t expectations. h: Fed extends time to re rates ultralow to at least	but gives no hint that further stimulus is planned.		24th: Apple easily tops profit expectations on strong iPad, iPhone sales.	25th: Spanish banks seek funds as country grapples with deep economic slowdown.	28th: Supreme Court, in 5-4 decision, rules most of Obama's health law is constitutional, letting it	economic uncertainty is increasing and risks to economy have increased.		•	takes over.	available to offset the impact of the fiscal cliff's taxes and budget cuts.	2% target. It expands bond buying from \$40 bil to \$85 billion a month.
for t targ fed t rate	2014. In firsts the Fed, it sets inflation tet rate of 2% and discloses funds forecasts of its				30th: 10-year Treasury yield hits record low amid Spain bank crisis, weak U.S. home sales report.	29th: Eurozone leaders agree to use rescue fund to prop up banks, buy	27th: GDP increased 1.5% in			$\bigwedge \bigwedge$	27th: Senate Majority Leader Reid says talks on the fiscal cliff are stalled.	18th: Boehner and Obama meet as talks on fiscal cliff pic up steam.
27th	cymakers. h: GDP rose 2.8% in Q4, t gain since mid-2010 below expectations.		^^	Δ α	^	countries' sovereign bonds and take other steps to fix debt crisis.	Q2, slowest rate since 2008.	~~~	J		M	$\sim \sim$
					1						A Co	~~~\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\
		M		\.W	Ch.	Λ				\[\frac{1}{\psi}\]		~~ \
	^			l W	May	AN MAN		y. 🗢				20th: Boehner fails to get enough votes for "Plan B," further clouding outlook for a fiscal cliff deal.
Á		2	012 Performa			y w w				28th: Economy grew 2% in Q3, led by consumers and home construction. 29th-30th: Financial markets	201 500 500	26th: Negotiators cut short expectations of a grand bargain as deadline for fiscal
/			CAN SLIM®S&P 500: 13			U				close as Super- storm Sandy slams the mid-Atlantic region.	30th: S&P 500 companies' Q3 profits inched up 0.1% and revenue fell 0.8%, the weakest performance since Q3 of 2009.	
		*11	Dow Jones BD publishes price re									accord to avoid fiscal cliff.
D-	proentogo lavo		process process									
	ercentage Inve uring the year	soleu -										

July

September

August

October

Quarterly Client Update: December 31, 2012

Introducing Tactical Income

Producing income from investments is a big issue facing our clients who are now in retirement. Producing income while at the same time managing principal risk, however, is the bigger concern. What happens to bonds and other yield portfolios when the 10-year treasury rises over time to 3-4% instead of the government-sponsored, anemic 1.8% that it is today?

Last year, we launched a new strategy called Tactical Income to tackle this problem, and we believe this portfolio properly balances income production and risk. The portfolio invests in ETFs diversified across the income spectrum using US Bonds, Global Bonds, Real Estate, Corporate Bonds, Mortgages, and some US and Global Dividend Equities. During healthy markets, we will take commensurate risk. As the interest rate environment sours, though, the portfolio systematically shortens duration and reduces credit risk in an attempt to decrease principal decline. Today, the portfolio yields 5% and its objective over time is to produce 2-3% more income than inflation.

We thoroughly researched the strategy and have prepared a short presentation explaining the offering in more detail. Please call or email us if you care to review.

Finally, thank you for your business. We are grateful to serve you and send you best wishes from all of us at NorthCoast Asset Management for a happy, healthy and prosperous 2013!

Portfolio Options

CAN SLIM® Investment Program

Long-term growth portfolio that invests in CAN SLIM® stocks as markets are rising and scales to cash as markets weaken. Its objective is capital appreciation.

Growth and Income

Distributes the investment between our CAN SLIM® strategy (75%) and laddered bonds (25%) for a more conservative approach.

Balanced

Even more conservative, Balanced utilizes a 50/50 approach of investment dollars between CAN SLIM® and laddered bonds. A popular option for those nearing retirement.

CAN SLIM® International

A long-term growth portfolio that invests exclusively in foreign based stocks (ADRs) exhibiting CAN SLIM® attributes as markets are rising and scales to cash as markets weaken.

Legends Value

Utilizes the strategies of the best value managers of the past 30 years by dissecting their strategies and determining which factors they favor.

United Portfolio

Distributes the investment evenly between our CAN SLIM® strategy (50%) and our Legends Value strategy (50%).

Tactical ETF

A long-term growth portfolio that invests in leading ETFs as markets strengthen and reduces exposure by selling positions as markets weaken.

NorthCoast Portfolio Options	4 th Quarter (Net of Fees)	2012 (Net of Fees)
CAN SLIM® Investment Program	0.3%	8.0%
Growth and Income (75% CAN SLIM & 25% Bonds)	0.1%	7.0%
Balanced (50% CAN SLIM & 50% Bonds)	0.2%	5.8%
CAN SLIM® International	3.0%	15.4%
Legends Value	1.6%	7.7%
United Portfolio (50% CAN SLIM & 50% Legends Value)	0.9%	7.5%
Tactical ETF	-0.7%	4.5%
S&P 500	-0.6%	15.2%