

# Quarterly Client Update

2017 Q1

March 31, 2017



NorthCoast   
Asset Management

# President's Post

*"And I've also come to the conclusion that, as far as guitar solos and things like that are concerned, it's more important to complement the music rather than take away from it"* - Eric Clapton



In my previous letter, I wrote about the rise of index investing and the impact it has on big cap stocks – essentially as more investors index, the largest companies simply get more and more expensive. The price/earnings multiples for the following big capitalization names tell the story – GE (26), MSFT (23), XOM (35), AMZN (183), AAPL (17), GOOGL (25), FB (33), BRKA (23). Of the list, only Apple is selling at a reasonable level though its multiple is still trading at the high end of its own 5 year range (10-17). After last quarter's letter, enough clients contacted us asking for further commentary and questions such as "how can I benefit?" or "what changes should I make?" that it makes sense to me to build out some action steps.

First, let's give some perspective regarding the run on big cap stocks. The graphic below details how the S&P 500 has performed relative to many other investments. Breaking up the investable universe into its constituent pieces like this reveals some potential areas of risk as well as other overlooked opportunities. Many portfolios, given the success of big cap stocks, are now missing important potential sources of return as a result of putting too many of their "risk" eggs in one basket. Too many hopes are pinned on the prospects of this single asset class. The heavy reliance on the S&P 500 in many portfolios today is worrisome and simultaneously overlooks potentially attractive opportunities in areas such as international equity, emerging market debt, and even other US equity approaches unrelated to market capitalization (think small stocks or growth stocks). Many investors have little or no exposure to these three areas.

Second, I don't think anything rash is necessary. We like stocks here and are near fully invested in all of our equity strategies. Detailed on the next page, the Navigator spells out our position. In a nutshell, though valuations are a little stretched, other metrics are in place for more gains. Even if we were to have a pullback right now, I would view that as a chance to invest.

Now for the big third! Get in touch with our advisors. They are terrific and well prepared to help you analyze your situation. As Clapton said above, solos are fine but it's more important to complement the music. Said another way, let us help you build a comprehensive investment portfolio beyond large cap equity that takes advantage of the inefficiencies shown in the chart below. We have an excellent long-term international equity strategy. Our tactical income strategy and our tax managed equity strategy both won money management awards in the 4th quarter for their exceptional performance. Our emerging market ETF approach has started the year off like a racehorse. More clients should be aware of the benefits of liquid alternatives and we offer an approach with our Zero Beta strategy. All of these strategies are listed quarterly on the final page of this letter. The time is now -- preparation is the key to success.

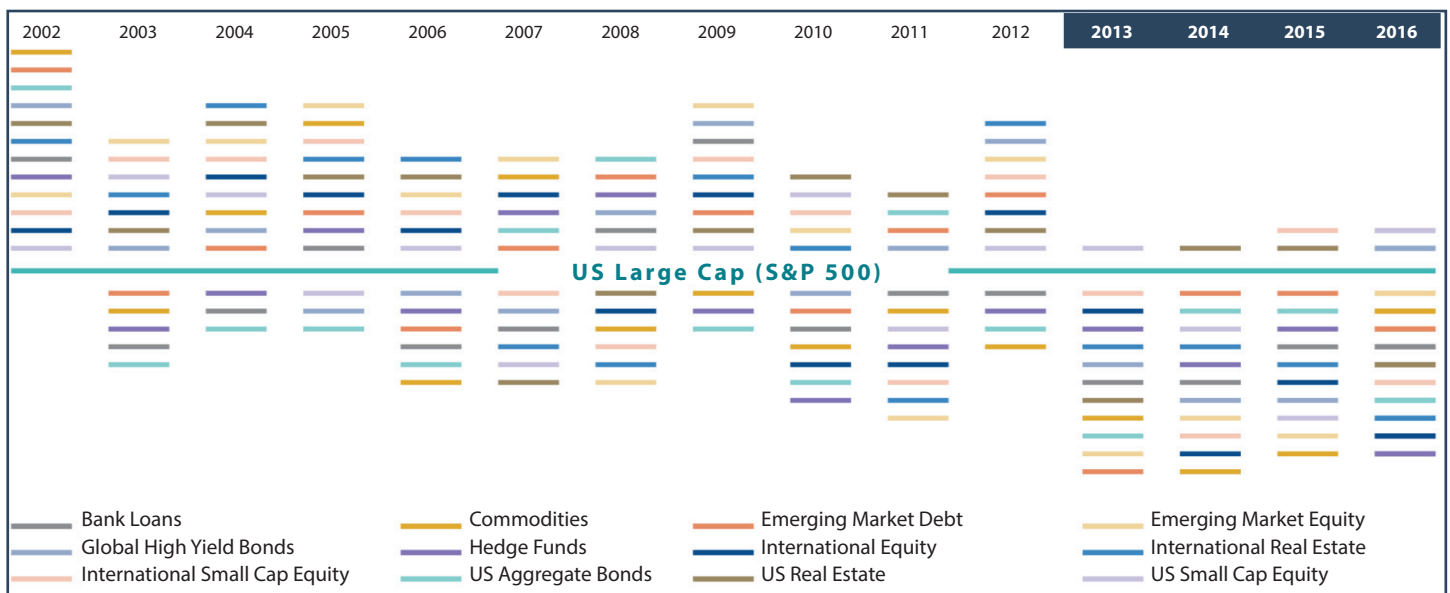


Chart source: GSAM, Bloomberg. As of 9/30/2016. Data source: As of 3/31/2017. All data represents total return. Past performance does not guarantee future results.

# 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 1st quarter?

The post-election stock market rally continued in January. As the month concluded, investor optimism and the appetite for risk looked to be waning after a disappointing start to earnings season and the unknown financial impact of the recent political policy changes. However, positive momentum continued in February as U.S. and international stocks advanced for a 4th and 3rd straight month, respectively. The shortened month witnessed a reduction in negative geopolitical headline noise and continued positive macroeconomic data releases – U.S. consumer prices (key indicator of inflation) increased the most since February 2013, retail sales gained, and existing home sales rose to their highest level in nearly a decade. While the “Trump trade” began to lose momentum in March, continued optimism in expanding global economies propelled equities. The recent shift could mean that investors are relying on the data of a growing economy to make investment decisions over the belief in future fiscal policy, which has its uncertainties and doubts.



### TECHNICAL

Long-term equity momentum remained strong with the S&P 500 index 7% above the 200-day moving average while 1% above the 50-day moving average.

### SENTIMENT

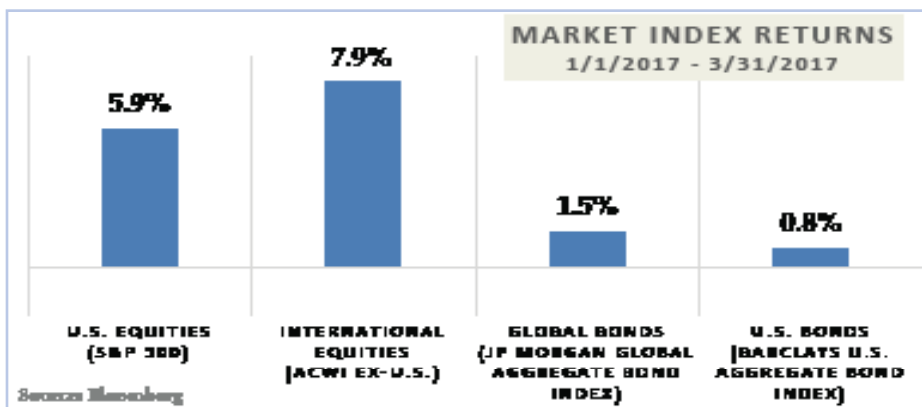
Equity fund (SPX) flows increased 1.1% in March. UM Consumer Sentiment survey improved to 96.9 while U.S. PMI dipped from February high but remains healthy at 57.2.

### MACROECONOMIC

The U.S. macroeconomic picture remained positive as housing starts jumped to an almost 10-year high coupled with a tightening labor market and growing inflationary metrics.

### VALUATION

Valuation remains a concern as the P/E multiple of the S&P 500 is 21.8, 27% higher than its 10-year average while forward P/E remained at 18.3.



## Moving into the 2<sup>nd</sup> quarter

While macroeconomic data remained strong, producer and consumer sentiment moved higher in March. The mid-March pullback provided an opportunity to increase our equity exposure and take advantage of the short-term price discount. Even though valuation levels remain a point of concern, the surrounding data points provided a rationale for an almost full investment level. We enter the 2nd quarter 96% invested in both our U.S. and international tactical equity strategies.

Data as of 3/31/2017. Data provided by Bloomberg, NorthCoast Asset Management.

# 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.

	STRATEGY	OVERVIEW	2017 Q1 (NET)
Risk-Adjusted "Tactical"	CAN SLIM <sup>®</sup>	All-Cap U.S. Growth	4.3%
	CAN SLIM <sup>®</sup> <i>International</i>	All-Cap International Growth	8.6%
	CAN SLIM <sup>®</sup> <i>Global</i>	50% CAN SLIM <sup>®</sup> / 50% CAN SLIM <sup>®</sup> International	6.5%
	Tax-Managed	All-Cap U.S. Growth	5.4%
	Tactical Growth ●	Global Asset Allocation	5.7%
	U.S. Sector Select Hedged ●	Tactical U.S. Sector Allocation	5.5%
Growth	Legends Value	All-Cap Value	4.9%
	United Portfolio	50% Legends Value / 50% CAN SLIM <sup>®</sup>	4.6%
	Vista	All-Cap Growth	6.5%
	U.S. Sector Select ●	U.S. Sector Rotation	6.4%
Core	Diversified Core ●	Global Asset Allocation	4.0%
	Diversified Growth ●	Global Asset Allocation	5.1%
	CAN SLIM <sup>®</sup> : <i>Growth &amp; Income</i>	75% CAN SLIM <sup>®</sup> / 25% Bond ETFs	3.5%
	CAN SLIM <sup>®</sup> : <i>Balanced</i>	50% CAN SLIM <sup>®</sup> / 50% Bond ETFs	2.7%
Income	Core Fixed Income ●	Conservative Income	1.5%
	Tactical Income ●	Dynamic Income	2.9%
	Aggressive Income	Aggressive Income	2.6%
Alts	Zero Beta	Liquid Alternative	1.8%

● = ETF Managed Strategy

**Form ADV:** The annual update to NCAM's Form ADV Part 2 is available for review on our website at [www.northcoastam.com](http://www.northcoastam.com).  
Form ADV, Part 2 - <http://www.northcoastam.com/pdf/forms/Form-ADV-Part-2.pdf>

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