

Quarterly Client Update

2018 Q1

March 31, 2018



NorthCoast 
Asset Management

President's Post

“Something good can come from every defeat and disappointment.”

- Jay Wright, Head Coach, Villanova Men's Basketball



A big disclaimer before you start reading this – I'm a Villanova alumnus. I married a Villanova alumnae and my oldest son is currently a freshman there. So I'm definitely biased. With that out of the way, let me tell you a story of how Villanova basketball relates to what I do every day as an investment manager. At NorthCoast, we use data to build investment models. We then implement these models daily. We believe this quantitative discipline separates us from many other firms that rely on a conventional portfolio manager who makes decisions based on a combination of his/her intuition and intellect.

Why? Because we believe human beings are flawed decision makers over time. Greed, hope, fear, and over-confidence are just some of many elements that creep into the process and disrupt results. The proof is in the pudding - after many years of data, the S&P 500 index routinely outperforms classic buy and hold equity managers. I believe this is largely because the S&P index adheres to a discipline – it doesn't come into the office upset after an argument with a spouse, have a headache from drinking too much the night before, or make a decision just because a paycheck is on the line. It simply comes to work every day and buys the 500 biggest companies in the U.S. We believe by approaching our investment strategies with the same discipline and more sophistication, we can outperform over time.

Outside of investments, I enjoy reading stories about how the use of data is changing decision making across other industries, the following being one of them...

After a 13-19 season record in 2012, Jay Wright made a conscious decision to recruit guys who could *shoot*, rather than just score. This decision was based on the research of Wright's former assistant, Billy Lange (now with the Philadelphia 76ers), who is an analytics expert and loves the mathematics of basketball. Lange produced a blueprint for Villanova to follow that outlined an approach to the 3-point shot (both offensively and defensively) in a 37-page manifesto. This is now the core of the team's identity and a large reason why the Wildcats have been so successful since its implementation.

Shoot 'em up and sleep in the streets is what coach Wright calls his offensive game plan, a layman's term for the more scientific discovery, which boils down to this: offensive success comes not from making a high percentage of 3-pointers, but from the **volume of attempts**. That sounds simplistic but to make it actually work takes a pretty nifty coach, one that doesn't mind hearing as many clanks as swishes during a game. With Wright at the helm, Villanova players have the proverbial green light to shoot. The Wildcats ranked seventh (out of 351 programs) in the nation this year in 3-pointers attempted and set a record for 3-pointers attempted and made during their college basketball tournament win this season.

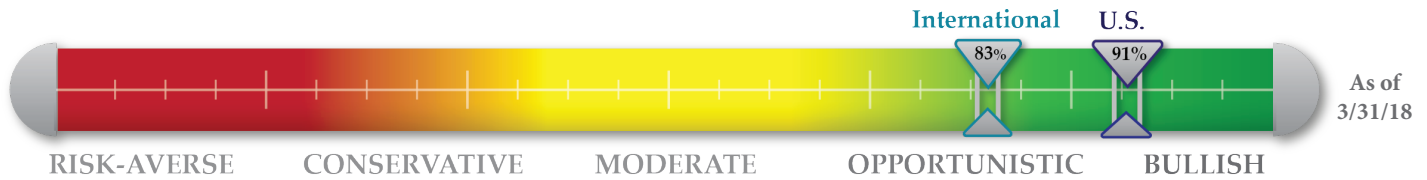
On the flip side, a winning defensive strategy isn't based on limiting an opponent's shooting percentage, but on reducing the number of shots it takes. As much as the Wildcats are known for their 3-point offense, the real secret to the team's success is the way they defend the arc. Every which way Lange broke down the data proved the same thing -- the more 3's opponents attempted, the more likely Villanova was to lose the game. Therefore, the defense focused on minimizing the 3-point attempts by the other team, and it's no surprise the numbers again skewed heavily in Villanova's favor this season. More impressive, this recipe for success has been in place since 2013 which happens to coincide with another record Villanova set this year – 136 wins over the last four years (the best 4-year mark in NCAA history).

Statistical analysis and commitment to data were critical for Jay Wright and the Villanova Wildcats to build and maintain their success in college hoops. The same is true for NorthCoast. Every stock and ETF in your portfolio conforms in the same manner – they are filtered through a selection process that relies on data and analytics in an attempt to produce more “wins”. Though this discipline can produce “clanks” (not owning many FANG stocks during the last two years as the data said not to), over time this approach has kept our clients in good stead. Those who own those stocks now have a much harder decision on what to do... Sell? Hold? Buy more? And many, I imagine, are using their gut to make that call. I recommend against that. If you find yourself in a similar position, ask our advisors to take a look. We score 3,000 stocks daily based on their probability to outperform and frequently share this intelligence with our clients. We can score the stocks in your portfolio and then help advise you on next steps. Though the approach can feel mechanical at first, once implemented, I think you'll find it as freeing as launching up another 3-point shot.



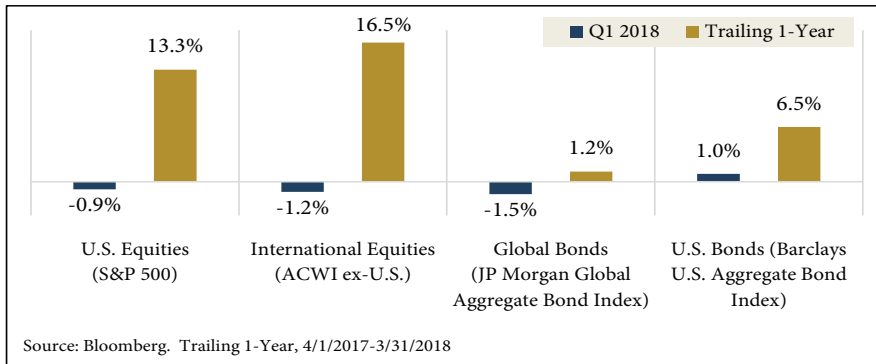
NorthCoast Navigator

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?

2018 began with a continuation of 2017's successes as general market indexes hit new highs in January. However, after a peak on January 26th, equities began to slide. Driven by rising interest rates and valuation concerns, the market continued falling until February 9th, shaving 10% off the S&P 500. Positive earnings results and macroeconomic data supported equities after the bottom of the correction with a 5%+ run. However, March brought new headline risks of rising global trade tensions and data security at large technology firms after Facebook's user data misuse. Continued rhetoric between the U.S. and foreign governments spurred volatility throughout the month with a slight reprieve coming as a result of subsequent negotiations. The technology sector took heavy losses towards the end of the quarter and dragged the general market into negative territory for Q1, the first quarterly loss since Q3 2015.



Moving into the 2nd quarter

The first quarter saw a large increase in market volatility and surprising headline risk. However, the outlook for near-term market growth remains positive. Beneath the headlines, fundamentals remain strong with the U.S. and global economies expected to expand along with corporate earnings. Aided by rebounding producer and consumer survey results and long-term market momentum, the majority of macroeconomic, sentiment, technical and valuation indicators remain positive. We will continue to diligently monitor all market conditions with the same high level of discipline as we enter April 91% invested in our domestic tactical strategies and 83% invested in our international tactical strategies.

VALUATION

The recent market decline dropped P/E ratios slightly lower and brought indicators marginally more positive. However, equities still appear stretched in the midst of the continued bull market.

TECHNICAL

Despite the drawdown in February and a negative March, the S&P 500 remained 2% above the 200-day moving average. Shorter term moving averages show opportunity for a reversal towards positive trends.

MACROECONOMIC

The Federal Reserve's target rate increase is a nod to a strong U.S. economy. Forecasts for the global economy remained positive and U.S. unemployment rate is expected to tick lower after weekly jobless claims hit the lowest level since 1973.

SENTIMENT

Consumer sentiment ticked higher in March with the University of Michigan Consumer Sentiment Survey rising above 100. Short interest ratio remained steady and below 2.

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	2018 Q1 (NET)
Risk-Adjusted	Designed to first analyze market risk then determine the desired asset allocation and security selection	CAN SLIM*	Tactical All-Cap Growth	2.7%
		CAN SLIM* <i>International</i>	Tactical All-Cap International Growth	-2.3%
		CAN SLIM* <i>Global</i>	50% CAN SLIM* / 50% CAN SLIM* International	0.2%
		Tax-Managed	All-Cap U.S. Growth	2.6%
		Tactical Growth ●	Tactical Global Asset Allocation	-0.5%
		U.S. Sector Select Hedged ●	Tactical U.S. Sector Allocation	-0.8%
		International Select Hedged ●	Tactical Country Rotation	3.2%
Growth	Seek to generate growth returns greater than the respective market benchmark	Legends Value	All-Cap Value	-6.3%
		United Portfolio	50% Legends Value / 50% CAN SLIM*	-1.9%
		Vista	All-Cap Growth	-0.6%
		Global Select ●	Global Country Allocation	1.8%
		U.S. Sector Select ●	U.S. Sector Rotation	-1.5%
		International Select ●	International Country Allocation	2.8%
		Emerging Market Select ●	Emerging Market Country Allocation	3.3%
Core	Designed to meet the broad goals of growth and income and serve as the 'core' of a portfolio	Diversified Core ●	Global Asset Allocation	-0.6%
		Diversified Growth ●	Global Asset Allocation	-0.1%
		CAN SLIM*: <i>Growth & Income</i>	75% CAN SLIM* / 25% Bond ETFs	1.6%
		CAN SLIM*: <i>Balanced</i>	50% CAN SLIM* / 50% Bond ETFs	0.6%
Income	Designed to generate yield and returns through traditional and non-traditional income sources	Core Fixed Income ●	Conservative Income	-1.4%
		Tactical Income ●	Dynamic Income	-1.3%
		Aggressive Income	Aggressive Income	-0.2%
Alts	Aim to generate returns that are independent of the equity and fixed income markets	Zero Beta	Liquid Alternatives	-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.
Form ADV, Part 2 - <http://www.northcoastam.com/pdf/forms/Form-ADV-Part-2.pdf>

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