Quarterly Client Update

2019 Q1

March 31, 2019

NorthCoast
Asset Management

President's Post

Insight & market commentary from NorthCoast President & CEO, Dan Kraninger

"*To understand the things that are at our door is the best preparation for understanding those that lie beyond.*"
- Hypatia

1) Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?

A) More than $102

B) Exactly $102

C) Less than $102

D) Don't know

2) Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, with the money in this account, would you be able to buy?

A) More than today

B) Exactly the same as today

C) Less than today

D) Don't know

3) Do you think the following statement is true or false? Buying a single company stock usually provides a safer return than a stock mutual fund.

A) True

B) False

C) Don't know

According to the Global Financial Literacy Excellence Center, only 1/3 of Americans will answer these three questions correctly. They are the basis of every financial literacy quiz and not only is the number of Americans answering correctly falling in recent years but the US rate is also below the global rate. By the way, answers are A, C, and B. Financial literacy is an issue we should address. As more people live paycheck to paycheck and savings rates continue to decline, there is no time like the present. Without a rudimentary understanding of interest or compounding, how can people make sound financial decisions?

I know our client base would score way above the national average on this quiz. Through hard work and education, our clients have made many good financial decisions and amassed wealth because of them. This did get me thinking, though, what is the ensuing quiz for someone that has done well? What should they know now in order to make the most from their investments? I came up with the following short quiz with the belief that someone with a good understanding of the following portfolio management concepts should have a better chance of living the financial life they desire:

1) Investor's expectation of additional return to balance for return uncertainty is known as:

A) Risk premium

B) Risk free rate

C) Risk adjusted return

2) A portfolio's beta is the relationship between the:

A) Percentage of bonds vs. the percentage of stocks in the portfolio

B) Historic return of the portfolio vs. market

C) Expected return of the portfolio and the expected return of the market portfolio

3) What does the Sharpe ratio measure?

A) Company's earnings before interest, taxes, depreciation and amortization relative to its stock price

B) An investment's return relative to its benchmark

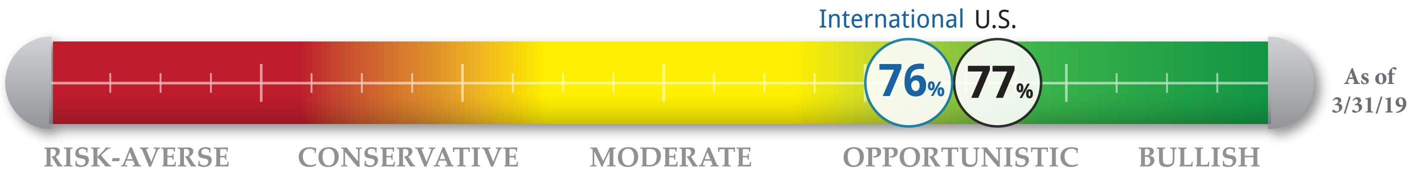
C) Return a manager produced relative to the risk he or she took to earn that return

These might be tricky because they probably aren't concepts you would spend much time on but, to us, they are our livelihood. Risk premium (question 1, A) beta (question 2, C), and Sharpe (question 3, C) are the business we are in – the pursuit of producing above average returns for the risks we take. Let me shape it this way, one of our flagship strategies, CAN SLIM®, is +8% YTD and the S&P 500 is +13% YTD. Is that good or bad? Well considering the risk we took, it's quite good. For investors that value downside protection, we hedged during December's decline and in the first quarter. In fact, we held near 50% cash at times during the last 3 months and still produced a return of +8%. We produced excess return given the beta of the portfolio and, if you do that over time, you produce a good Sharpe ratio. After 12 years, CAN SLIM®'s long term Sharpe ratio is 0.5 with a long term beta of 0.58. Said another way, we have done our job – producing better returns than the market given the risks we took along the way (especially in 2008).

I encourage you to set up time to talk with our advisors about these concepts. You don't simply pay for the money management -- you also pay for the advice. Understanding risk premium, beta, and Sharpe ratio are key concepts to making better investment decisions. This is the vernacular of portfolio management and could be the difference in making a good financial decision beyond the door. (Reference to the above quote and HBO's *Game of Thrones!* :)

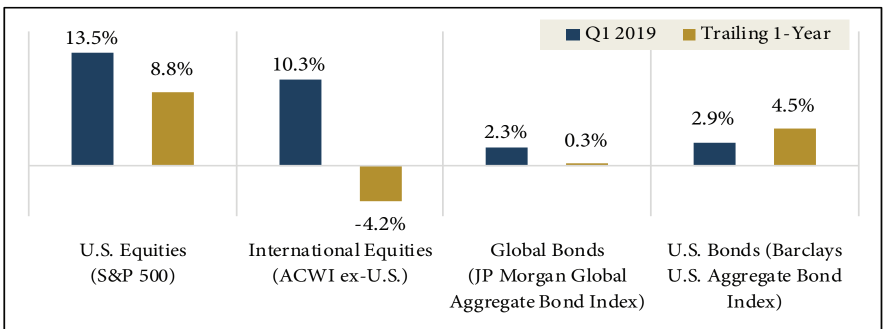
NorthCoast Navigator

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?

U.S. stocks closed out Q1 2019 with a positive March and notched the largest quarterly gains since 1998. The uptick was driven in part by growing consensus that the U.S. Federal Reserve will hold interest rates low due to concerns of slowing global economic growth and by some renewed optimism about U.S. – China trade talks. Valuations were also more attractive after the volatile market decline pared back stock prices in the final months of 2018. Domestic equities have recouped almost all of last year's 4th quarter losses and prices have returned to more elevated levels. Both U.S. and global bond prices increased, which appears to have been driven by some investors' movements to safer assets due to global economic growth concerns and the general lack of inflation. Uncertainty across the globe has continued, especially regarding Brexit negotiations, which garnered a lot of attention last month because of the inability of the U.K. parliament to pass a Brexit agreement.



Source: Bloomberg. Trailing 1-Year, 4/1/2018-3/31/2019

Moving into the 2nd quarter

With so much attention on the Federal Reserve, equities may have unexpected reactions to both positive and negative news. Investors may have to keep in mind the impacts of slowing growth versus rising interest rates. Economic data pointing to possible slowing growth could actually bolster stocks because the possibility of near-term rate increases would become less likely. We have been monitoring this development for a long time to understand all of its impacts independent of the implications on rate policy. At the end of Q1 we sit 77% invested in our domestic tactical strategy and 76% in the international tactical strategy. We feel confident with the room to increase exposure in the case of more positive data in the coming weeks and months, and to scale to more cash should the data turn more negative.

Valuation

P/E ratios are hovering around the same levels as February. The recovery from the losses at the end of last year has brought prices back to elevated levels similar to September of 2018.

Technical

The S&P 500 sat 3% above its 200-day moving average at the end of last month. Volatility also lowered slightly with the VIX moving from 14.8 to 13.7 on 3/31/2019.

Macroeconomic

Data released last month showed that personal consumption expenditure rose by less than anticipated in January. Inflation also appears to be lagging behind the Federal Reserve's 2% target. The government shutdown in December and January may have impacted some data.

Sentiment

The University of Michigan Consumer Sentiment Survey rose almost 5 points to 98.4. Investment flows into the SPY ETF were positive again last month. Lowered mortgage rates could see an uptick in housing sales.

Data as of 3/31/2019. Data provided by Bloomberg, NorthCoast Asset Management.

Strategy Performance

NorthCoast Asset Management

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	2019 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	**8.4%**
		CAN SLIM® *International*	Tactical All-Cap International Growth	**7.5%**
		CAN SLIM® *Global*	50% CAN SLIM® / 50% CAN SLIM® International	**8.0%**
		Tax-Managed	All-Cap U.S. Growth	**9.2%**
		Tactical Growth ●	Tactical Global Asset Allocation	**9.1%**
		U.S. Sector Select Hedged ●	Tactical U.S. Sector Allocation	**-0.6%**
		International Select Hedged ●	Tactical Country Rotation	**-0.8%**
Growth	Seek to generate growth returns greater than the respective market benchmark	**Legends Value**	All-Cap Value	**11.0%**
		United Portfolio	50% Legends Value / 50% CAN SLIM®	**9.7%**
		Vista	All-Cap Growth	**11.0%**
		Global Select ●	Global Country Allocation	**11.5%**
		U.S. Sector Select ●	U.S. Sector Rotation	**13.6%**
		International Select ●	International Country Allocation	**9.7%**
		Emerging Market Select ●	Emerging Market Country Allocation	**5.9%**
Core	Designed to meet the broad goals of growth and income and serve as the 'core' of a portfolio	**Diversified Core ●**	Global Asset Allocation	**8.2%**
		Diversified Growth ●	Global Asset Allocation	**10.1%**
		CAN SLIM®: *Growth & Income*	75% CAN SLIM® / 25% Bond ETFs	**7.1%**
		CAN SLIM®: *Balanced*	50% CAN SLIM® / 50% Bond ETFs	**5.9%**
Income	Designed to generate yield and returns through traditional and non-traditional income sources	**Core Fixed Income ●**	Conservative Income	**3.7%**
		Tactical Income ●	Dynamic Income	**5.1%**
		Aggressive Income	Aggressive Income	**4.4%**
Alts	Aim to generate returns that are independent of the equity and fixed income markets	**Zero Beta**	Liquid Alternatives	**0.4%**

● = 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. There were no material changes to the Form ADV, Part 2 - http://www.northcoastam.com/pdf/forms/Form-ADV-Part-2.pdf

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