

Quarterly Client Update

2016 Q2

June 30, 2016



President's Post

President & CEO Dan Kraninger reflects on a volatile 2nd quarter and provides insight moving forward.



“Intuition is a suspension of logic due to impatience.”

-- Rita Mae Brown

Since the end of the quarter, I've been asked many times about my thoughts on Brexit. What will happen to interest rates? The euro? Stocks? Global growth? Basically, these questions are subtitles under one central theme, **“where is the risk and how do we avoid it.”** With this post, I thought I would try to explain how we view risk and what it means to be tactical. Let me start with a story . . .

Here is the scenario -- you just landed your dream job, Director of Player Evaluation and Acquisition for a Major League Baseball team. When you arrive, you have reports on 5,000 prospects on your desk. Each report encompasses hundreds of individual statistics on each player's past results and future potential. The draft is 30 days away. Over the course of the draft, you will select 40 of those 5,000 players to lead your team to future success... What would you do? What do you think other teams would do? What would an experienced General Manager do? Now to switch gears a bit, what do you think an engineer from Google would do with the same problem?

A similar challenge is examined in the book and subsequent 2011 Oscar® nominated movie, Moneyball, which starred Brad Pitt. The central premise of Moneyball is that the collective wisdom of baseball insiders over the past century is subjective and flawed. Moneyball tells the true story of the Oakland A's General Manager, Billy Beane, hiring a young ivy league graduate to mathematically determine which player statistics better predict team wins than the conventional approaches used for decades. Together they built a winning team and revolutionized the sport (and business) of baseball by selecting players based on obscure factors such as on-base percentage and slugging percentage.

The A's eliminated intuition and relied on logic to produce wins. Not an easy transition. For over a century, scouts were respected employees of baseball teams and for the first time their value was being questioned. (Look at the fortune and folly of draft prospects from the four major sports over the years and one wonders what took so long!).

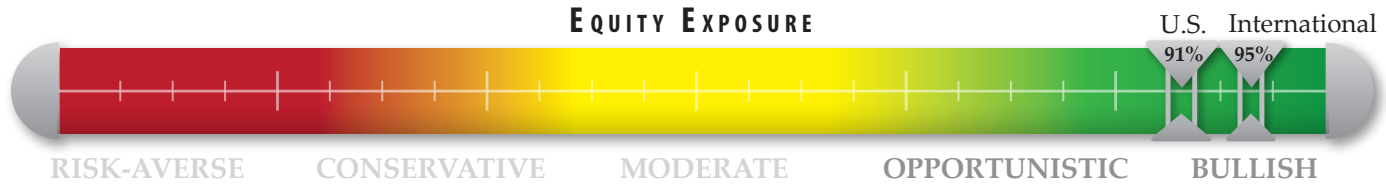
We do the same thing at NorthCoast. We rely on data and discipline to produce results. Every day we generate a number to score the stock market's attractiveness. We use 40 inputs – some are valuation based (how expensive is the market), some are technical (are prices improving), some are economic (are retail sales increasing), some are sentiment (are producers optimistic about their business climate). We too eliminate intuition, and I believe this discipline is why our company has prospered for more than two decades.

5% and 10% declines are frequent, unpredictable and often temporary as they shake out loose hands. These declines whether recent -- Brexit (June, 2016) / China (January, 2016) or old -- Long Term Capital (August, 1998) / Iraqi Freedom (January, 2003) teach the same lesson. Markets that are reasonably priced in a decent economic environment with positive business surveys present good buying opportunities. Markets like 2000 or 2008 teach a different lesson -- markets that are expensive in a declining economic environment with negative business surveys are more likely to enter into a bear market. These are the bear markets our tactical strategies try to avoid.

On the following page you will see our NorthCoast Navigator. It has been published for years and is the visual representation of the data I referenced above. So whenever the next Brexit, avian flu, Russian invasion, or bank write-down hits, if you really want to understand how your money is being managed, instead of asking me or my colleagues what we think of the situation, ask us if anything has changed in our Navigator score.

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.

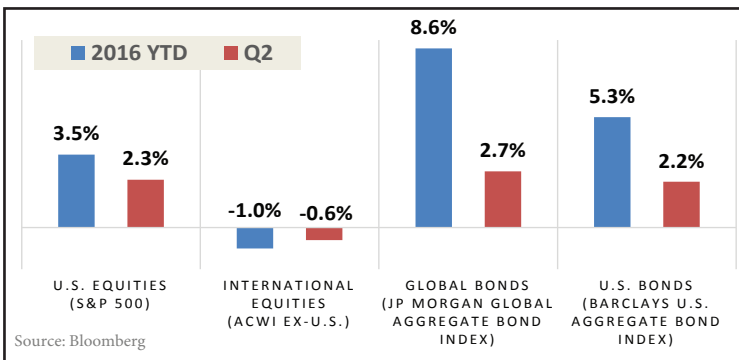


What happened in Q2?



On June 23, U.S. stocks were approaching new highs and on a trajectory to close the quarter and year-to-date in positive territory. Later that evening, citizens in Great Britain voted to remove their country from the European Union (EU), a politico-economic union of 28 nations.

Since that vote, U.S. and international stocks have experienced a roller coaster ride of lows and highs. The next two trading sessions following June 23 saw over \$3 trillion in global assets disappear, the largest real-dollar drop in history. Since that June 27 low, stocks have rallied +5%, the largest 3-day gain since February. When the dust settled, U.S. Stocks (S&P 500 Index) closed the quarter +2.3% and sit at 3.5% YTD. The "Brexit" vote had a bigger market impact on international stocks as the ACWI ex-U.S. closed the quarter -0.6% and is now -1.0% YTD.



Moving into Q3

We increased exposure in our tactical strategies throughout June and specifically after the Brexit announcement. We enter July approximately 91% and 95% invested in our U.S. and international strategies respectively. With a strong economic backdrop and increased valuation signals, we expect continued growth in the near-term as the recent pullback provided an attractive entry point.

TECHNICAL



The volatility index (VIX), often referred to as a fear index, spiked in June to its highest level in over five months. A rise in volatility without corresponding data to support the fear is seen as a bullish indicator.

SENTIMENT



Both the Purchasing Managers Index and the NAHB, a housing market index, produced better than expected results.

MACROECONOMIC



The U.S. economy continues to grow. GDP rose at an annualized 1.1% rate in Q1. Although the most recent payroll number was disappointing, U.S. job growth is robust, supported by nearly record low layoffs and record high job openings. With a weakened jobs report and Brexit concern, The Federal Reserve backed away from a June or July rate hike.

VALUATION



Though still modestly stretched, stocks cheapened on a relative and absolute basis. With a rush to safe-haven assets such as cash, bonds, and gold, yields continue to be squeezed thus opening the door for equities which are providing higher risk-adjusted return potential.

Data as of 6/30/2016.

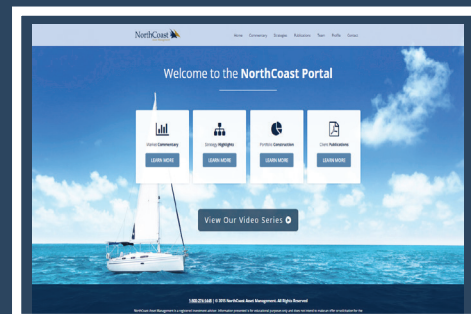
Strategy Performance

Strategy	Overview	2016 Q2 (Net)	YTD (Net)
CAN SLIM® Strategies			
CAN SLIM®	All-Cap U.S. Tactical Growth	-1.3%	-2.6%
Growth & Income	75% CAN SLIM® / 25% Bond ETFs	-0.1%	-0.4%
Balanced	50% CAN SLIM® / 50% Bond ETFs	1.1%	2.0%
International	All-Cap International Tactical Growth	0.8%	-2.4%
Global	CAN SLIM® + CAN SLIM® International	-0.2%	-2.4%
Tax-Managed	Tax Management Considerations	1.5%	1.0%
Christian	Faith-based Considerations	-2.6%	-1.3%
Shariah	Faith-based Considerations	-1.9%	-1.5%
Fully-Invested (100% stock) Strategies			
Vista	All-Cap Long-Only Growth	0.8%	4.9%
Legends Value	All-Cap Long-Only Value	-2.0%	3.1%
United Portfolio	CAN SLIM® + Legends Value	-1.7%	0.3%
ETF Strategies			
Tactical Income	Global Income Production	4.2%	7.6%
Diversified Core	Global Balanced	1.9%	3.8%
Diversified Growth	Global Growth & Income	1.1%	1.8%
Tactical Growth (Global)	Global Tactical Asset Allocation	0.2%	0.9%
U.S. Sector Select	U.S. Sector Allocation (Fully-Invested)	1.5%	0.1%
U.S. Sector Select Hedged	Tactical U.S. Sector Allocation	0.8%	0.9%
Liquid Alternative Strategies			
Zero Beta	Liquid-Alternative	-0.2%	0.1%

Get On. Get Active.

The NorthCoast Portal

<https://portal.northcoastam.com/>



Log on now to view our market insight and much more!

Recent Trades
Market Commentary
Equity Outlook
Strategy Performance
Research Publications
Portfolio Construction Tool
Hot Topics

Important Client Information

Is your portfolio built to withstand the next market decline?



Now may be the time to get a better understanding of your overall investment portfolio and see how NorthCoast can help build a solution for your long-term goals and objectives. Contact your advisor for details.

Do you know someone who could benefit from NorthCoast's investment services?



NorthCoast offers family-fee sharing. Refer a family member, friend, or even a co-worker and you'll receive a reduction in your quarterly management fee. Contact us for more information.

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

This information contained herein has been prepared by NCAM on the basis of publicly available information, internally developed data and other third party sources believed to be reliable. This material is for informational and illustrative purposes only and should not be viewed as a recommendation or a solicitation to buy or sell any securities or investment products or to adopt any investment strategy. The investment views and market opinions/analyses expressed herein may not reflect those of NorthCoast as a whole and different views may be expressed based on different investment styles, objectives, views or philosophies. To the extent that these materials contain statements about the future, such statements are forward looking and subject to a number of risks and uncertainties.