

Quarterly Client Update

2017 Q2

June 30, 2017



NorthCoast 
Asset Management

President's Post

“Patience is not simply the ability to wait - it’s how we behave while we’re waiting.” - Joyce Meyer



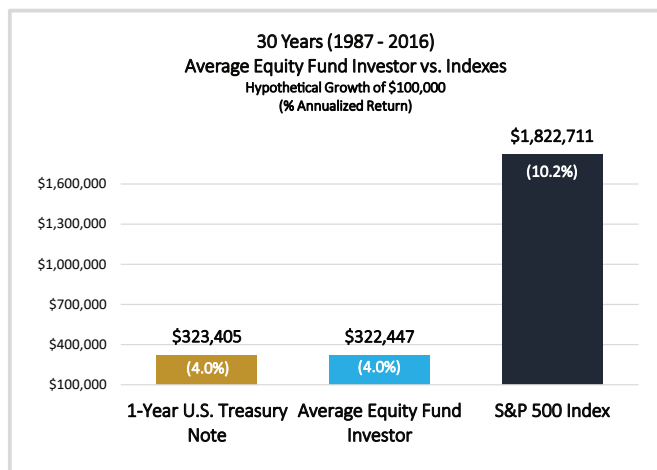
In the U.S., we have a savings/retirement concern. The population is aging, Social Security’s trust funds are expected to be depleted by 2034, and the median retirement savings of a household headed by someone aged 55 to 64 is a little over \$100,000. But does that mean large numbers of Americans are facing a retirement crisis? Will they suffer a substantial drop in their standard of living in later life?

These questions are rather dramatic and even experts, it turns out, are sharply divided on the answers. Shai Akabas, director of fiscal policy for the Bipartisan Policy Center, a Washington, D.C.-based think tank, convened 19 experts to recommend ways to improve the nation’s retirement security and no big surprise, that group ultimately agreed to disagree that a crisis even existed. Some favored a view that retirees will do just fine and others predicted dramatic shortfalls (good time to insert an economist joke -- here’s one of my favorites, **Q:** How many economists does it take to change a light bulb? **A:** Seven, plus or minus ten).

If I were invited to that forum in Washington, I would have a suggestion that could really help things that I’m sure they haven’t even considered – **allow retirement accounts to only change investment strategies once every 5 years.** Yes, this is very draconian and even contrary to my rugged individualism leanings but the data is compelling.

DALBAR, a leading independent expert in evaluating, auditing, and rating customer financial performance has analyzed investor returns for over 30 years, and they have found once again in 2016 that the average investor did not realize returns that were on par with general market indices. For the 12 months ending December 30, 2016, the S&P 500 index produced an impressive annual return of 12%, while the average equity mutual fund investor earned only 7%, a gap of 5%. What do you think the underperformance is attributable to? The individual investor’s own actions – buying and selling fund shares at inopportune times. Election fear was the primary culprit in 2016 as many investors sold in anticipation of a poor market post-election.

Individual investor underperformance in 2016 wasn’t even that bad, though, probably due to the low volatility. The long term study results are far worse (see corresponding chart). For the 30 years ending 2016, the average equity investor made 4% while the market made 10%. That’s an incredible 6% per year!



Source: DALBAR 2017 QAIB Study. Morningstar.

That’s well over \$1,000,000 of lost opportunity on \$100,000. This amount of money would solve almost anyone’s retirement crisis!

DALBAR’s conclusion in their 23rd edition of this study – investment results are more dependent on investor behavior than on fund performance.

I have referred to this study in past letters because I think the message is so important. Investment results are best measured over long periods of time and too often people muddly activity (or money movement) with effectiveness. In fact, results examined in shorter time frames are leading to decisions that DALBAR would say is doing measurable damage.

So what to do about it? Simple, select an investment strategy that fits your needs and then let it work. Five years is a fair time to review as good strategies are apt to do poorly in pockets because they pursue approaches that are different than the market. Chasing one and three year investment results does not work. We can help by constructing portfolios for you that we believe will pay off over time. Right now, we are encouraging all of our advisors to spend more time talking with clients about **international equity opportunities** and the risks inherent in the **fixed income market**. The benefits of these discussions are tangible and may be realized over time. And, according to DALBAR, luckily the biggest factor in determining the success of your portfolio is patience, and that’s well within your control.

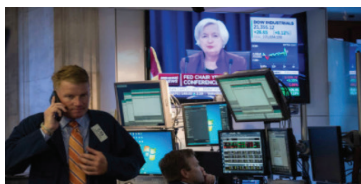
NorthCoast Navigator

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.

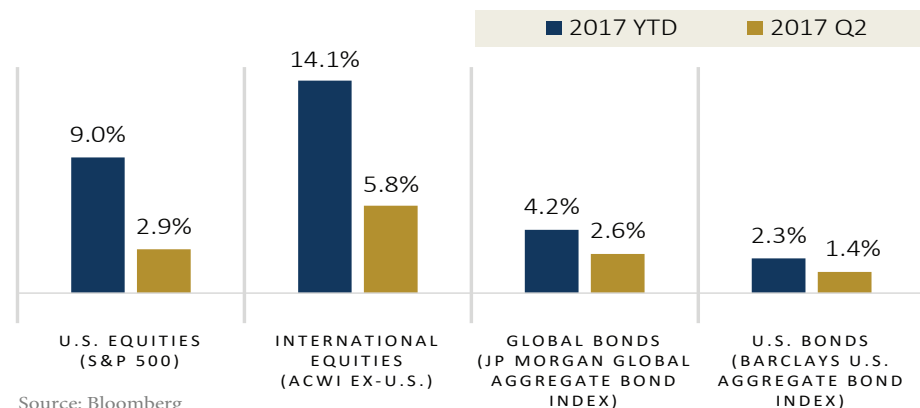


What happened in the 2nd quarter?

Market global stock indexes moved higher in each of the three months in the 2nd quarter, pushing equities to a 1st half of a year not seen since 2013, when the S&P 500 Index finished +31.5%.



A strong Q1 earnings season kicked off the quarter with companies in the S&P 500 recording profits at their highest rate since 2011. The rally continued in May, offsetting the declining commodities prices and geopolitical turmoil. Equities experienced a modest gain in June with record low volatility. The small gains were mostly due to dividends paid out throughout the month.



Source: Bloomberg

Moving into the 3rd quarter

A few of the consumer and producer sentiment surveys we monitor fell in June, providing enough rationale to raise cash throughout the month. The high sentiment that followed the election of Trump with discussions of pro-growth initiatives such as tax reform, accommodative trade policies and infrastructure spending has faded. The late-month pullback boosted valuation metrics, but equity valuations still remain near highs. We enter July with an opportunistic posture at 76% invested in our tactical U.S. strategies and 96% exposure outlook in our international strategies.

TECHNICAL



Short-term equity momentum staggered in late June as the S&P 500 Index traded just 1% above its 50-day moving average but remained 6% above the 200-day.

MACROECONOMIC



Leading Economic Indicators hit their highest level for the year after the May reading while unemployment remains low and GDP estimates were revised higher.

SENTIMENT



The UM Consumer Survey dropped for the 1st time since February and equity fund (SPY) experienced a 3rd straight month of outflows (-0.6% in June).

VALUATION



U.S. stock price valuations remained in line with the prior month near decade highs at 21.5 P/E with a focus on Q2 earnings reports.

Data as of 6/30/2017. 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.

			2017		
		STRATEGY	OVERVIEW	YTD (NET)	Q2 (NET)
Risk-Adjusted "Tactical"	Designed to first analyze market risk then determine the desired asset allocation and security selection	CAN SLIM [®]	Tactical All-Cap Growth	8.2%	3.7%
		CAN SLIM [®] <i>International</i>	Tactical All-Cap International Growth	13.1%	4.2%
		CAN SLIM [®] <i>Global</i>	50% CAN SLIM [®] / 50% CAN SLIM [®] International	10.6%	3.9%
		Tax-Managed	All-Cap U.S. Growth	9.5%	3.8%
		Tactical Growth ●	Tactical Global Asset Allocation	9.2%	3.3%
		U.S. Sector Select Hedged ●	Tactical U.S. Sector Allocation	8.6%	3.0%
		International Select Hedged ●	Tactical Country Rotation	13.0%	2.3%
Growth	Seek to generate growth returns greater than the respective market benchmark	Legends Value	All-Cap Value	5.7%	0.8%
		United Portfolio	50% Legends Value / 50% CAN SLIM [®]	6.8%	2.2%
		Vista	All-Cap Growth	7.6%	1.0%
		Global Select ●	Global Country Allocation	12.3%	4.0%
		U.S. Sector Select ●	U.S. Sector Rotation	9.9%	3.3%
		International Select ●	International Country Allocation	14.2%	3.4%
		Emerging Market Select ●	Emerging Market Country Allocation	13.1%	1.2%
Core	Designed to meet the broad goals of growth and income and serve as the 'core' of a portfolio	Diversified Core ●	Global Asset Allocation	7.3%	3.2%
		Diversified Growth ●	Global Asset Allocation	8.8%	3.5%
		CAN SLIM [®] : <i>Growth & Income</i>	75% CAN SLIM [®] / 25% Bond ETFs	6.9%	3.3%
		CAN SLIM [®] : <i>Balanced</i>	50% CAN SLIM [®] / 50% Bond ETFs	5.6%	2.8%
Income	Designed to generate yield and returns through traditional and non-traditional income sources	Core Fixed Income ●	Conservative Income	3.6%	2.2%
		Tactical Income ●	Dynamic Income	5.5%	2.6%
		Aggressive Income	Aggressive Income	5.3%	2.6%
Alts	Aim to generate returns that are independent of the equity and fixed income markets	Zero Beta	Liquid Alternatives	2.3%	0.6%

● = ETF Managed Strategy

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

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