



It's been said, "stocks climb a wall of worry". That statement rings true for the first three quarters of the year. 2013 started with worries over the Italian elections, Cyprus, and fiscal cliff negotiations. And here we are, 273 days later, and similar concerns exist, particularly in our own political arena with debt ceiling negotiations and Federal Reserve stimulus spending. However, the market has digested both the drama and data, and the data is winning. Stocks have rallied for a +19% gain thus far in 2013, outpacing any move in the S&P 500 since 2003.

Across the board, data points to a world economy on the mend. In the U.S., unemployment ticked down slightly to 7.3%, jobless claims (albeit, it can be argued more people are simply giving up on seeking employment), and the GDP growth rate held steady at a conservative 2%. In August, U.S. auto sales experienced their best month since May 2007, emerging markets business activity continued its expansion, and China lessened worries of a hard landing with increased manufacturing data. And after three and a half years of a crippling debt crisis, the world's largest economy, Europe, finally pulled itself out of recession. With a mix of national austerity measures and centralized banking stimulus, led by growth out of France and Germany, European equities gained, with all international equities (ACWI ex U.S.) up almost 7% for the month.

Our stance continues to be cautiously bullish, or opportunistic, and we begin the 4th quarter over 90% invested in our tactical portfolios. To circle back to our 1st quarter metaphor, the driving conditions on the road dictate how fast we can drive. While there are clouds above, the road remains clear. Should conditions (data) change, we will slow down. Until then, our market exposure will remain high.

NorthCoast Navigator

An inside look at the four dimensions of NorthCoast market analysis

Technicals



The S&P 500 rebounded from its August decline with a +3% move in September. The market remained in line with its 50 day and 100 day moving averages, while 6% above the 200 day. Minus a few 'news headline' driven moves, volatility remained steady at just over 30% of its historical average.

Sentiment



Turmoil in the Middle East, uncertainty regarding Federal Reserve stimulus, and a looming government shutdown spooked investors throughout September. Mutual funds experienced a negative flow of -5% while equities rose 3%. The October 1st deadline for Congress to pass a budget came and went with no agreement and no signs of progress in sight.

Macroeconomic



Economic data across the globe continued to move in a positive direction as Europe crawled out of a recession. China avoided a hard landing, and business activity in the U.S. increased. U.S. auto sales experienced their best month since May 2007, and retail spending continued to increase. China manufacturing data for August was revised down at the end of the month but international equities still experienced an almost +7% in September alone.

Valuation



The market lost some of its attractiveness as equities increased 3% for the month. A P/E of 16.1 is seated 15% below its historical average. The relative valuation of the market will become more clear as earnings season approaches this month.

Investor Insight

by NorthCoast President, Dan Kraninger

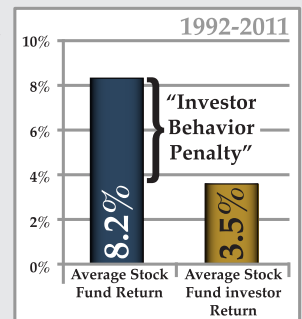
"If you make every game a life or death proposition, you're going to have problems. For one thing, you'll be dead a lot."

– Hall of Fame Basketball Coach,
Dean Smith

Have you ever heard a losing coach after a big title game respond to a question with "if you would have told me at the beginning of the season that we would be playing for national title, I would have told you that you were nuts"? I've always loved that comment. Besides ringing with honesty, it also in one fell swoop, curbs emotion and provides perspective. All the hope, anger, excitement, and despair that went into that game begin to fade and most fans nod along with their coach pleased that the season was successful despite ending with a loss.

I wish someone would come up with a token phrase like that for when people open their investment statements. Something that provides perspective and helps reduce what for many is an emotional response. If there was ever one endeavor that doesn't reward emotion, it's investing.

Dalbar Inc. in their paper, Quantitative Analysis of Investor Behavior, believes emotions cost investors 4.7% per year. How did they get there? After calculating the average mutual fund return from 1992-2011 of 8.2%, they then compared that to the actual shareholder buys and sells in those funds along the way. Investors walked away with 3.5% although the funds made 8.2% per year. The result, 4.7% per year, is painful. They attribute that outcome to investors buying high and selling low . . . pouring money into hot trends and bailing on poor performers.



How can you avoid this result? Whether +19% (like this year) or +10% or -10%, ask yourself the following questions when opening a statement. Why am I investing? Have my financial goals changed? Do I understand the risks and the rewards of my investment? Has enough time passed for me to properly analyze the results? These are a great place to start. If you have others, please consider passing them on to us.

Individual Equity Portfolios

Strategy	Q3 (Net)	2013 YTD (Net)	Strategy Description	Strategy Highlights
CAN SLIM® Investment Program	5.4%	18.8%	All-Cap Tactical Growth	CAN SLIM® outperformed the S&P 500 for the month of September as the program strategically entered positions and stayed on course during the possible slowdown of Federal Reserve stimulus. Top performers for the month were SPWR, EXPE, EBAY, V, and CELG, with each increasing over 10% in September alone. The program added exposure with some new buys such as CREE, PEP, and STI while liquidating RIG, BIIB, and MA.
Growth & Income	4.0%	13.0%	75% CAN SLIM / 25% Bonds	
Balanced	2.7%	7.2%	50% CAN SLIM / 50% Bonds	
CAN SLIM® International	8.5%	19.2%	All-Cap International Tactical Growth	“A rising tide lifts all boats.” The ACWI ex US index has been an underperforming and lackluster index for most of 2013. However, in September, international equities increased almost 8%, boosting CAN SLIM® International. Top performers for the month included ERIC, SI, and CBD while locking in profit in VR. We increased our exposure throughout the month with buys such as DB, TLK, and SNY.
Legends Value	7.0%	20.9%	All-Cap Long-Only Value	Still outperforming the market year to date, value stocks took a back seat to their growth counterparts in September. Top performers were EXPR, RWT, and FCX, each with over 10% growth for the month. We replaced 2 positions with new additions M and MYGN.
United Portfolio	6.2%	19.6%	CAN SLIM + Legends Value	(See commentary on CAN SLIM® and Legends Value)

NorthCoast Retirement Portfolios

A MANAGED ETF SOLUTION

Strategy	Q3 (Net)	2013 YTD (Net)	Strategy Description	Strategy Highlights
Tactical Income ETF	2.7%	0.6%	Designed to generate income with protection against inflation and rising interest rates	WPS and IDV posted outsized returns in the month of September with advances of 8% and 6.5%, respectively. IDV was trimmed to keep exposure in line with the risk tolerance of the portfolio and re-invested into CIU, which exhibits a more attractive risk/reward ratio for the current environment. The portfolio currently carries a 5.0% yield.
Diversified Core ETF	4.9%	5.9%	Designed for a conservative retiree or investor near retirement	The Diversified Core portfolio met resistance in August due to tension in Syria. The largest position in the portfolio remained iShares MSCI EAFE (EFA). EFA saw a 1.7% decline during the month. Shorter-duration bond holdings such as iShares 1-3 Year Credit Bond (CSJ) and Intermediate Credit Bond experienced slight declines. The ETFs were down 0.2% and 1% respectively.
Diversified Growth ETF	5.9%	9.7%	Designed for a more-growth-oriented retiree or investor retiring in 5-10 years	A favorable big-picture outlook for Japan continued to be a theme for the Diversified Growth portfolio as EFA held on to the top billing. Japanese stocks account for 22.1% of the total weight of that ETF. The portfolio also held on to its stake in iShares MSCI Japan (EWJ), which turned an early rally into a 3.3% decline.
Tactical Growth ETF	6.5%	12.8%	Designed to generate long-term appreciation with downside risk controls	A boost in global markets helped propel Tactical Growth in September as 35% of the portfolio was invested in international equities. Favorable and opportunistic global outlook continued to be the theme for Tactical Growth as equities accounted for 90% of the portfolio, with real estate accounting for the remaining 10% at the end of September.

Inside NorthCoast

Bob Wright (Advisor) organized a charity golf event to raise funds and awareness for the Dravet Foundation.

Yogesh Prosad (Trader) recently got married in India to his wife, Rajshree Kumari.

Chief Investment Officer, Patrick Jamin, took part in an intense, physical skill challenge, known as the Warrior Dash.

Jack Killea and Joe Merkel recently joined NorthCoast on our Client Services team. A graduate of Villanova University, Joe recently worked in Morgan Stanley Smith Barney's Operations department, providing analytical metrics and support to advisors. Jack received his B.A. in Economics from Williams College and recently worked with Consolidated Trading LLC as a trader. Jack and Joe are excited to be a part of NorthCoast and look forward to working with you.

By The Numbers

25% – Percentage of Americans who have “no confidence” that they will have enough money to retire comfortably.

37 – Number of states whose highest paid public employee is a sports coach.

39,000 – The number of investing clubs. Down from 400,000 in 1998. A decrease of 90%.

3 – The number of times the word “recession” was used during the June 2007 Federal Reserve meeting. The word “strong” was used 61 times. The economy entered into a recession six months later.

135% – Including dividends, the S&P 500 gained 135% from March 2009 - January 2013, during what people remember as the “Great Recession”. It gained the exact same amount from 1996-2000 during what people remember as the “greatest bull market in history.”

Sources; 25%: Employee Benefit Research Institute, Washington, D.C. 37: Reuben Fischer-Baum, Deadspin, N.Y., Harper; 39,000: BetterInvesting;

Giving Back

We value investments in the community. Each quarter, NorthCoast randomly selects a client who chooses a charity/organization of their preference. The client's quarterly fee for that respective quarter is then donated by NorthCoast to that organization.

This quarter, Dan and Rachel from Naples, FL selected: Wounded Warrior Project. Client of NorthCoast since May 2012, Dan and Rachel are currently retired and have a strong affinity for the Veteran community. You can get involved and learn more about Wounded Warrior Project by visiting their website, www.woundedwarriorproject.org.

