

After a relatively volatile quarter, equities (S&P 500) ended with a 1.0% gain. A sell-off in July was quickly erased with an almost 4% run in August. September finished -1.5%, mostly on the angst of the global economic recovery and geopolitical tensions. Despite the headlines, the S&P 500 remains positive at +7.8% YTD and the All Country World Index (ACWI) at +3.7% YTD.

The ACWI has been stifled by a strengthening U.S. dollar and stumbling global economies in Europe and Japan. While international stocks may be advancing, weakened currencies exacerbated the decline for U.S. dollar-invested funds and investors.

Throughout the volatility and uncertainty, our tactical portfolios remained grounded in their conviction and stayed invested as the four dimensions from which we assess market outlook (Technical, Sentiment, Macroeconomic, and Valuation) continued to display positive signals as a whole.

As we head into the homestretch of the year, our attention now turns to Q3 earnings season, central bank strategists in Europe, and economic developments in Japan. Short-term volatility is inevitable and news headlines will create concern, but our current posture remains bullish as the data continues to show an opportunity to make money in this environment.

## NorthCoast Navigator

*An inside look at the four dimensions of our quantitative market analysis*

The NorthCoast Navigator is a market "barometer" displaying NorthCoast's current equity outlook. This aggregate 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.



- Technical**
  - Momentum slightly decreased with the market holding at its 50-day moving average, 1% above the 100-day, and 4% above the 200-day
  - Volatility (VIX) increased to 16.3 during geopolitical tensions across the globe

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- Sentiment**
  - SPY equity funds experienced their best flows of the year (+6.4%) in September
  - The UM Consumer Sentiment Survey edged higher for the 3rd straight month to 84.6
  - Short interest decreased from its high in August

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- Macro-economic**
  - U.S. GDP remains in a slow-growth movement at +2.1% annualized
  - Unemployment rate decreased to 5.9%, albeit with a slight increase in jobless claims and weak U.S. payroll additions in August
  - Positive momentum continued with increasing auto sales data and positive wage growth

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- Valuation**
  - P/E decreased from 18.2 to 17, while Forward P/E slightly decreased to 16.5
  - Both trending lower, but still above their 10-year historical averages
  - More opportunities exist in Europe with attractive valuations

## The President's Corner

by NorthCoast President & CEO, Dan Kraninger

*"Failing to prepare is preparing to fail."*

- John Wooden

What will you do during the next market decline?

It's an important question. Declines are part of the market fabric. They are the price one pays in pursuit of higher returns (i.e. the equity risk premium). They are inevitable, even somewhat routine, yet few investors prepare for them. Further, decisions made during market corrections often determine the success or failure of an investment portfolio. And since we all want to make money and be better investors, why not take some time to prepare?

Every client signs our Investment Advisory Agreement. In it, Question 4 asks clients to complete the following sentence, "If my portfolio produces a long-term return that allows me to accomplish my goals, I am prepared to live with a decline of \_\_\_\_\_". The table below says this regarding market declines:

Size	Frequency
Routine Decline (5% or more)	- About three (3x) per year
Moderate Correction (10% or more)	- About once per year
Severe Correction (15% or more)	- About once every two years
Bear Market (20% or more)	- About every three years

On average, a 10% correction has occurred every year since 1900. By definition, these declines are inevitable and somewhat routine. Why then be surprised when it happens? Don't be. Take time now to prepare. Take the balance in your account and multiply by .9 (example: \$500,000 x .9 = \$450,000). Does that number seriously affect the life that you are living today or the life you expect to live in the near future? No? Then good, because it will most likely happen sometime over the next 12 months. Consider adding to your portfolio when it occurs. Why? **Because every decline in S&P 500 history has been temporary.** If the answer is yes, however, please speak to one of our advisors because you may need to reduce risk in your portfolio. Though many of our products are designed to mitigate loss, little can be done to avoid these types of pullbacks without simultaneously reducing long-term investment return.

We enter the 4th quarter near fully invested based on data, not opinion. Though fear is high, don't be distracted from your long-term goals. We believe strong annual returns in stocks are very possible but a lot of that depends on how you act during the next decline.

## Individual Equity Portfolios

Strategy	Q3 (Net)	2014 YTD (Net)	Strategy Description	Strategy Highlights
<b>CAN SLIM®</b>	0.5%	<b>8.2%</b>	All-Cap Tactical Growth	CAN SLIM® slightly retreated in September after reaching a new high in August. Almost fully invested throughout the month, the strategy felt the effects of weakening global equity performance in September.
<b>Growth &amp; Income</b>	0.1%	<b>6.1%</b>	75% CAN SLIM® / 25% Bond ETFs	
<b>Balanced</b>	-0.4%	<b>4.0%</b>	50% CAN SLIM® / 50% Bond ETFs	
<b>CAN SLIM® International</b>	-1.4%	<b>0.5%</b>	All-Cap International Tactical Growth	At approximately 80% invested throughout the month, CAN SLIM® International experienced a minor pullback in comparison to almost a 5% decrease in international equities.
<b>CAN SLIM® Global</b>	-0.4%	<b>4.6%</b>	CAN SLIM® + CAN SLIM® International	See commentary on CAN SLIM® and CAN SLIM® International
<b>Legends Value</b>	-5.4%	<b>7.9%</b>	All-Cap Long-Only Value	Value stocks lost momentum amid pullbacks in July and September. New opportunities should open as Q3 earnings season gets underway.
<b>United Portfolio</b>	-2.6%	<b>7.9%</b>	CAN SLIM® + Legends Value	See commentary on CAN SLIM® and Legends Value
<b>Vista</b>	-2.6%	<b>4.5%</b>	All-Cap Long-Only Growth	NorthCoast's newest separate account offering!

## NorthCoast Retirement Portfolios

A MANAGED ETF SOLUTION

Strategy	Q3 (Net)	2014 YTD (Net)	Strategy Description	Strategy Highlights
<b>Tactical Income</b>	-1.5%	<b>4.5%</b>	Designed to generate income with protection against inflation and rising interest rates	HYG slumped 2.6% during the month, yielding 5.7%, which is near the highest it's been yielding in the past year. "This presents a good buying opportunity. Seen a few months back when the yield was at about the same level and HYG rebounded to its previous high," comments CIO Patrick Jamin.
<b>Diversified Core</b>	-2.5%	<b>1.1%</b>	Designed for a conservative retiree or investor near retirement	With equity and fixed income markets in positive territory for the year, our 'Diversified' strategies remain positive, but the end of a slumping Q3 stifled performance across the strategies.
<b>Diversified Growth</b>	-2.9%	<b>0.9%</b>	Designed for a more-growth-oriented retiree or investor retiring in 5-10 years	
<b>Tactical Growth</b>	-3.8%	<b>0.1%</b>	Designed to generate long-term appreciation with downside risk controls	Tactical Growth complements its U.S. holdings with a healthy dose of foreign ETFs. Over the past fifteen years, mixing U.S. and international stocks has been beneficial because international markets have fared better. Our portfolios are well-diversified between U.S. and international stocks.

### Inside NorthCoast

NorthCoast welcomes two new members to our professional staff



**Sumanth Amarchinta** joins NorthCoast as a Vice President in the Portfolio Management and Research group. Previously, Sumanth worked as a Senior Investment Analyst at Pyramis Global Advisors in the area of quantitative research and portfolio management. Mr. Amarchinta researched stock selection models as a member of the global small cap team.



**Michael Prinz** joins the team as an Operations Associate. Prior to NorthCoast, Michael worked at JP Morgan Chase as an Assistant Vice President Sr. Compliance Officer where he managed a team of investigators responsible for reviewing high net worth client accounts flagged for potential money laundering or terrorist financing activity.

### Client Services

NorthCoast offers portfolio review to Private Clients

#### Are you prepared for 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 our Private Client Group for a complimentary portfolio review at 203-532-7000 or 800-274-5448.

#### Do 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.

### Charitable Giving

NorthCoast supports national foundation for autoimmune disease

We value investments in our family, friends, and community as a whole. Throughout the year, NorthCoast donates to charities that affect the lives and well-being of our families and the families of our clients and partners.

In August, we donated funds to the Celiac Disease Center at Columbia University on behalf of one of our long-standing financial advisors. Celiac disease is an autoimmune digestive disease that damages parts of the small intestine and interferes with absorption of nutrients from food. Visit <http://www.celiaccentral.org/> for more information.



Past performance is not indicative of future results. All investments involve risk, including loss of principal. Further, the principal value of an investment will fluctuate; thus investor's equity when liquidated may be worth more or less than its original cost. Market commentary presented herein reflects our opinion as of the date of this material, is subject to change without notice, and is provided for informational purposes only.