

Quarterly Client Update

2016 Q3
September 30, 2016



President's Post

President & CEO Dan Kraninger reflects on the 3rd quarter and provides insights moving forward.



“The big picture doesn’t just come from distance; it also comes from time.” -- Simon Sinek

Two interesting things happened in this quarter. First, the CAN SLIM® Select Growth Fund (CANGX) that we manage earned a #1 ranking versus its Morningstar peer group for its performance over a 10-year period. And second, the 10-year U.S. Treasury bond yielded 1.34% on July 5th. Both of these events are significant to me and played a role when I was thinking about a quotation to kick off this quarter's post.

Regarding CAN SLIM®, I am reminded why I do this and why I love the product solutions we manage for our clients. At NorthCoast, we exist to offer institutional caliber products to high net worth investors. We tackle today's toughest investment challenges with research, common sense, and a belief that discipline and data will outperform intuition over time. CAN SLIM® in particular attempts to balance our clients' need for growth with their desire to avoid bad bear markets. It's tactical – using stocks to grow in bull markets and cash to hedge when bear market risk rises. This methodology, which is unique and certainly valuable, proved its mettle in 2008 (as well in 2000-2002) and the strategy has built a very enviable 10+ year track record. It also lends itself to short-term pockets of underperformance against more conventional investment options. Anything can work for a year or two and the data on this point is quite clear. But outperformance through a full investment cycle is what this business and serving clients is about, and I'm proud when I see that #1 rank. I know that indexing is very vogue right now. Over the last few years we have seen an astounding amount of money chase into passive investments. But that will change. The math is in our favor. When money stampedes into a cap-weighted index like the S&P 500, it simply means big companies get the most dollars and become more and more expensive. Anyone else remember a \$60 GE with a 29 P/E ratio in 1999?

Regarding the bond market, we may have finally seen its top (*chart on next page*). The 30+ year steady decline in rates appears to be over. There may be a shock or two that pushes yields low again but with Federal Reserve governors turning hawkish and a firming U.S. job market with wage pressure growing, it's very hard to believe that there is any juice left in the lemon. Bonds have seen an additional \$200 billion in positive flows this year as investors have added fixed income to their portfolios and at the same time dumped equities (U.S. equity flows YTD are at -\$53 Billion). Hard to believe this will pay off. Four years ago, we started a strategy called Tactical Income to combat this rising rate headwind. Consistent with our mission statement, we wanted to solve a big issue for investors – how to get a monthly income check in a low rate world without taking on too much inflation risk. This strategy was recently awarded 'Top Gun' recognition by Informa Investment Solutions as one of the best income strategies in the country over the last year.

No one can say for certain whether 2016 will mark a bond high or if passive investing will show cracks like it did in 1999 ... the big picture needs time and distance. What you can do right now, though, is work in advance to build a portfolio that meets *your* unique risk/return appetite. You can adjust risk/return parameters using the strategies we provide. We offer buy and hold investments, tactical strategies as well as low risk bond approaches. Each is designed to deliver a targeted risk/return outcome.

As an investor, the one thing I encourage you to do is call us. In a world of advancing technology and semi-robotic client servicing, we remain committed to our clients through a professional advisory staff and a dedicated client portal. Our team is readily available to assist and advise when you're ready to discuss the investment issues that you're facing today.

For more information on the CAN SLIM® Select Growth Fund (ticker: CANGX), please reference northcoastam.com/CANGX where you can find important disclosure information including the [fund prospectus](#). More performance disclosure information can be found [here](#) or on the back of this document. You can find details about PSN/Informa's Top Gun recognition by clicking [here](#) or visiting our website at northcoastam.com/resources.

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 Q3?

Global stocks experienced upward movement in July in a relatively tight range with low volatility. After the Brexit turmoil in late June, market news headlines were light. Fears of a slowing economy, interest rate hikes and geo-political tension all subsided, allowing corporate earnings and macroeconomic data to lead the way. August was a quiet month for stocks as investors geared up for the busy fall season. U.S. stocks traded inside a tight range with relatively little movement. For the first time this year, the S&P 500 Index did not end a trading session in August with a move greater than +/- 1.0%. Corporate earnings surprised to the upside in Q2 pushing valuations higher in the U.S., while the Eurozone showed its early resilience amid the Brexit aftermath. Global equities spent the 1st half of September in a gradual decline as an interest rate increase from the Federal Reserve appeared forthcoming. With macroeconomic data displaying a stable, growing economy, regulators have been seeking an opportunity to increase the rate at which institutions borrow money. However, the decision was made to keep interest rates in place. Since then, equities gained to close the month with positive momentum heading into 4th quarter.

TECHNICAL



The volatility index (VIX), often referred to as a fear index, remains near all-time lows, possibly signaling complacency in the marketplace. However, the S&P 500 continues to sit 4% above its 200-day moving average providing strong momentum for equities.

SENTIMENT



The UM Consumer Sentiment Index remains positive, while PMI data strengthened, showing signs of an improving U.S. manufacturing sector.

MACROECONOMIC



The U.S. economy continues to grow. GDP rose at an annualized inflation adjusted 1.4% rate in Q2. Median household income jumped 5.2% over the previous year. While there was a slight decline in retail sales, housing starts continued to increase.

VALUATION



Still modestly stretched, stocks cheapened on a relative 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.

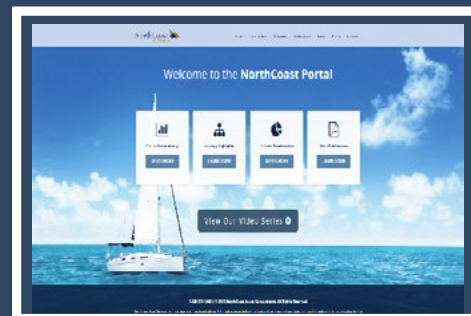


Strategy Performance

| Strategy | Overview | 2016 Q3 (Net) | YTD (Net) |
|---|---|---------------|-------------|
| CAN SLIM® Strategies | | | |
| CAN SLIM® | All-Cap U.S. Tactical Growth | 3.9% | 1.2% |
| Growth & Income | 75% CAN SLIM® / 25% Bond ETFs | 3.2% | 2.9% |
| Balanced | 50% CAN SLIM® / 50% Bond ETFs | 2.5% | 4.6% |
| International | All-Cap International Tactical Growth | 3.7% | 1.3% |
| Global | CAN SLIM® + CAN SLIM® International | 3.8% | 1.4% |
| Tax-Managed | Tax Management Considerations | 1.0% | 2.0% |
| Fully-Invested (100% stock) Strategies | | | |
| Vista | All-Cap Long-Only Growth | 1.8% | 6.8% |
| Legends Value | All-Cap Long-Only Value | 6.1% | 9.3% |
| United Portfolio | CAN SLIM® + Legends Value | 4.9% | 5.2% |
| ETF Strategies | | | |
| Core Fixed Income | Conservative Income | 1.5% | 8.5% |
| Tactical Income | Global Income Production | 1.7% | 9.4% |
| Diversified Core | Global Balanced | 4.0% | 8.0% |
| Diversified Growth | Global Growth & Income | 4.4% | 6.4% |
| Tactical Growth | Global Tactical Asset Allocation | 4.7% | 5.6% |
| U.S. Sector Select | U.S. Sector Allocation (Fully-Invested) | 3.5% | 3.6% |
| U.S. Sector Select Hedged | Tactical U.S. Sector Allocation | 3.1% | 4.1% |
| Liquid Alternative Strategies | | | |
| Zero Beta | Liquid-Alternative | 1.2% | 1.3% |

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Important Disclosure Information

Disclosure information regarding CANGX:

Mutual fund investing involves risk. Principal loss is possible. Past performance does not guarantee future results. The Fund invests in small and medium capitalization companies which tend to have limited liquidity and greater price volatility than large-capitalization companies. Investments in foreign securities involve greater volatility and political, economic, and currency risk and differences in accounting methods. These risks are greater for investments in emerging markets. The Fund will experience portfolio turnover, which may result in adverse tax consequences to the Fund's shareholders. Because the Fund invests in ETFs it is subject to additional risks such as the possibility that the market price of an ETF's shares may trade at a discount to its net asset value (NAV), an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact a fund's ability to sell its shares.

Morningstar Category: Allocation-- 85%+ Equity
as of 9/30/2016

10-Year Rating: 5-star
10-Year Ranking: 1
of Funds: 102

5-Year Rating: 2-star
5-Year Ranking: 120
of Funds: 134

3-Year Rating: 3-star
3-Year Ranking: 67
of Funds: 150

1-Year Rating: N/A
1-Year Ranking: 166
of Funds: 178

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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