Quarterly Client Update

2018 Q3

September 30, 2018

NorthCoast Asset Management

President's Post

Market insight from NorthCoast President & CEO, Dan Kraninger

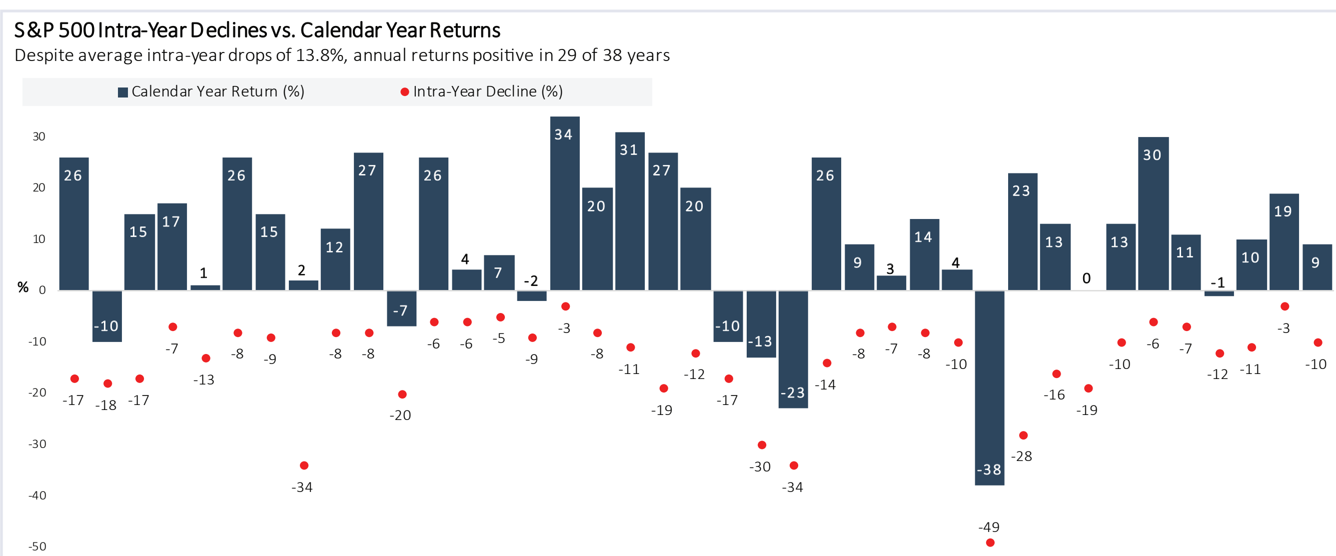
"You get recessions, you have stock market declines. If you don't understand that's going to happen, then you're not ready, you won't do well in the markets." - Peter Lynch

"*Is now a good time to invest?*" This is the most common question I hear – nearly every day for many years. Why? Because it lies at the very center of the market's never ending tug-of-war between hope and fear. Although that question often comes from an emotional place, it doesn't have to, and the **NorthCoast Navigator** is our answer to that question and the focus of this post.

Our ability to research and implement good, long-term investment models is what distinguishes us from others, and core to that is a fundamental belief that data and consistency will win out over time. One example of this is the Navigator. It guides all of our tactical strategies and it's included in every newsletter (see right) and e-mailed to you every month. **What is it?** It's our proprietary probability model of whether a significant market decline of more than -20% will occur over the next six months. We do this by combining 40 indicators from four broad categories into one number between -1 to +1. -1 means many negative market factors are present and we should hold 100% cash. +1 means many positive market factors are present and we should be 100% invested in stocks. Today (as of 9/30), which is like most days, has more positive metrics than negative ones so we are 83% invested in our tactical domestic strategies and 17% in cash. It's generally good to stay invested.

One important concept to share about the Navigator is that we are not trying to solve for the -10/-15% declines. Why? Because they happen every year, are likely surprise events (I call them trap doors), and often don't have long term implications. That's the key to the Navigator – distinguishing between the routine -10% decline and a nasty bear market. Every year has declines (see below). In fact, the average intra-year decline for the last 40 years is **-13.8%** (see chart below), and yet a majority of those years still turn out to be positive. Whenever I hear people concerned about -10% declines or trying to avoid these trap doors, I know they rarely ever make any money because they are always hiding in cash.

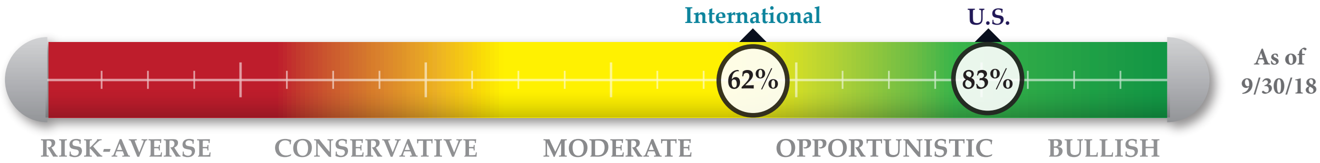
Balancing the desire to make money and the fear of losing it is what we have tried to help clients with for over 20 years. The good thing is you have access to see or hear what the data is forecasting. Give us a call or read the monthly update if you want to further understand the process. Unfortunately when it comes to money, I believe we need to offset an *ounce* of emotion with a *pound* of fact. We have terrific advisors who have more than a pound at their disposal. Decision making can then turn into higher quality, probability investments as opposed to how one feels about the market today. The Navigator, our outcome of a systematic and thoughtful process, has done a good job over the years and more importantly, doesn't allow emotion to creep into the equation.



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on index only and do not include dividends. Intra-year drops refers to the largest drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980-2018 YTD.

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 3rd quarter?

Despite only a modest rise in September, the S&P 500 had its best quarterly return since 2013 and, with lagging international and emerging market returns, extended U.S. equities' lead over the rest of the world year-to-date. The driving force this quarter was continually positive economic data and the response to rising sentiment. The reactions to trade unease have become muted relative to earlier this year as investors seem more focused on the strength of the economy and rising bond yields. Tech stocks experienced some volatility in the quarter, especially in July. The Healthcare sector led the way this quarter on great corporate earnings and a shift by investors towards more stable non-cyclical stocks. The Federal Reserve raised rates for a third time this year in September.

Moving into the 4th quarter

The strong quarterly returns for U.S. equities are a sign that investors are prioritizing the solid corporate earnings and positive economic data over geopolitical tensions. Lagging international stocks have likely been driving some investors to increase their allocations to domestic equities, which may be driving up stock prices even more. As a result, the upcoming U.S. earnings season will be watched very closely. The dollar strengthening during Q3 could have a negative impact on multinationals' profits as it becomes more expensive to convert international profits into U.S. dollars. Upcoming economic and earnings data overseas will also be important to either reinforce the thoughts of an international slowdown or to show some signs of positive growth.

Data as of 9/30/2018. Data provided by Bloomberg, NorthCoast Asset Management.

Company Updates

NorthCoast comes to Texas

After advising clients from the home office over the last five years, Senior Advisor, Joe Merkle, along with his wife, Tara, and their 9-year old pitbull, Arthur, will be relocating to Dallas. Joe will be able to better serve all of NorthCoast's Texas clients with individualized consultations and streamline our efforts to foster a true partnership. We encourage local clients to reach out to Joe and welcome him to the Lone Star State!

CJ Pepe, private client advisor, becomes Certified Financial Planner (CFP®)

NorthCoast can now count advisor CJ Pepe as another CERTIFIED FINANCIAL PLANNER™ on the Private Client advisory team. CJ has been working with NorthCoast clients since 2015 and recently obtained his CFP® certification, furthering his expertise specializing in investments and retirement planning. The CFP® certification identifies professionals who have met the high standards of competency and ethics established and enforced by the CFP Board, and is the recognized standard of excellence for personal financial planning.

Strategy Performance

NorthCoast Asset Management

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.

		Strategy	Overview	YTD	Q3
Risk-Adjusted "Tactical"	Designed to first analyze market risk then determine the desired asset allocation and security selection	**CAN SLIM®**	Tactical All-Cap Growth	12.4%	6.0%
		CAN SLIM® *International*	Tactical All-Cap International Growth	-2.9%	0.3%
		CAN SLIM® *Global*	50% CAN SLIM® / 50% CAN SLIM® International	4.7%	3.2%
		Tax-Managed	All-Cap U.S. Growth	9.4%	5.0%
		Tactical Growth ●	Tactical Global Asset Allocation	1.3%	2.6%
		U.S. Sector Select Hedged ●	Tactical U.S. Sector Allocation	8.1%	4.4%
		International Select Hedged ●	Tactical Country Rotation	-2.2%	0.1%
Growth	Seek to generate growth returns greater than the respective market benchmark	**Legends Value**	All-Cap Value	-2.6%	3.1%
		United Portfolio	50% Legends Value / 50% CAN SLIM®	4.8%	4.5%
		Vista	All-Cap Growth	3.6%	2.8%
		Global Select ●	Global Country Allocation	0.8%	4.8%
		U.S. Sector Select ●	U.S. Sector Rotation	8.9%	5.6%
		International Select ●	International Country Allocation	-5.6%	0.4%
		Emerging Market Select ●	Emerging Market Country Allocation	-13.4%	-2.5%
Core	Designed to meet the broad goals of growth and income and serve as the 'core' of a portfolio	**Diversified Core ●**	Global Asset Allocation	0.8%	2.0%
		Diversified Growth ●	Global Asset Allocation	1.9%	2.5%
		CAN SLIM®: *Growth & Income*	75% CAN SLIM® / 25% Bond ETFs	8.7%	4.6%
		CAN SLIM®: *Balanced*	50% CAN SLIM® / 50% Bond ETFs	5.0%	3.1%
Income	Designed to generate yield and returns through traditional and non-traditional income sources	**Core Fixed Income ●**	Conservative Income	-1.6%	0.4%
		Tactical Income ●	Dynamic Income	-1.1%	0.8%
		Aggressive Income	Aggressive Income	2.0%	2.1%
Alts	Aim to generate returns that are independent of the equity and fixed income markets	**Zero Beta**	Liquid Alternatives	-2.8%	1.1%

● = 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.

Returns are presented net-of-fees. Net-of-fee returns are reduced by trading costs and the portfolio's actual management fee. Valuations are computed and performance is reported in U.S. dollars. A complete list of composite descriptions is available upon request. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. To obtain a compliant presentation for the associated strategy, please contact one of our advisors at 800.274.5448.

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