NorthCoast
CAN SLIM®
Private Clients

QUARTERLY CLIENT UPDATE
December 31, 2012

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"To expect the unexpected shows a throroughly modern intellect" —***Oscar Wilde***

It's 2013 and time again for the annual Wall Street ritual called "The Year Ahead." This is when every newspaper's financial section rolls out the experts to dole out their forecasts for the stock market's expected return for the year. It resembles the parable of the six blind men describing an elephant. Each describes what they "see" in relationship to their own framework. Here's the short form: The Fundamentalist sees the market in terms of earnings and historical valuation – he believes stocks are cheap. The Technician sees trend lines and price patterns – he looks for retracement. The Macro Economist looks to global economic activity or lack thereof – he is still baffled by Europe's positive stock market and continues to look for a slowing in Asia. The Monetarist only watches the Fed and believes the answer lies in government intervention – he sees more ahead. The Behaviorist watches put/call and bull/bear ratios to determine the amount of fear or greed in the market – he's pleased that money still pours out of equity mutual funds because he thinks the little guy is always wrong. Finally, the Political Economist cannot see past the fiscal cliff and rising taxes – he only wants to talk about debt.

Each manages to describe a small portion of what is going on and do so with only limited success. AND this is without considering their own unique, human biases. Imagine the Fundamentalist who has three kids in college (maybe things aren't that cheap) or the Behaviorist who walks past a line of people at an Apple store (maybe people are too excited).

We believe investors can expect only one thing from 2013 – the unexpected. Because no single discipline can capture the "grand plan" of the market, we measure data from four approaches that have historically proven worthy. For us, market data culled from Valuation, Sentiment, Technical, and Macro Economic gauges together drive our positioning. Those gauges are monitored daily and investment positioning is fluid as new data presents along the way. Flexibility is key. In the parable, it's not until each blind man rigorously defends his opinion of what the elephant is and rebuts the others that learning occurs. Together they arrive at the answer only after collaboration and each becomes more open to change. Thus, we enter the year 80% invested in stocks in our CAN SLIM® program and as the year unfolds will adjust exposure accordingly.

2012 proved to be a productive yet muted year. We entered 2012 50% invested and found ourselves in the same posture during the market's summer swoon. Those cash positions protected accounts yet dampened return although not by as much as one might expect. (You can see the portfolio's positioning on the bottom of the chart on pages 2-3.) The more difficult headwind was investors' appetite for dividend stocks. Anything with a dividend yield > 3% was bought last year and companies with little or no business growth benefited. Thankfully, that grip loosened in the 4th quarter as growth stocks began to show some life. Stocks like T, VZ, CLX, and JNJ hit highs in October that weren't seen again. Meanwhile CAN SLIM® portfolio names like EXPE, HCA, HTZ, and LCC powered to 52 week highs and companies that are producing strong earnings growth look poised to gain prominence this year.

Though valuation is only one measure, it is quite remarkable how cheap growth stocks are currently. Many of our internal measures look very bullish as growth stocks potentially catch up to where they have been historically valued. For example, our current portfolio has a PEG ratio <1. PEG is a ratio that divides a stock's p/e by its estimated growth rate. With an average below 1, our portfolio on average holds companies growing their earnings faster than they are being given credit. A stock warrants a p/e of 20 if it's growing at 30% (20 / 30 = .66) and growth stocks historically have PEG ratios between 1.5-2. A real example in the portfolio is IACI – a 35% earnings grower trading at a 17 p/e. While VZ (a dividend payer) which is actually shrinking (EPS growth is negative) carries a p/e of 19. Weird. Take a look at the table to the right. Stocks overall are cheap and growth stocks even more so. When further considering that cash balances pay nothing and intermediate bond rates are 1-2%, stocks are even more attractive. As investors continue to wake up to the risk of holding bonds and high-yielding stocks, we look forward to very productive times ahead.

Current P/E vs. 20-year avg. P/E

	Value	Blend	Growth
Large	11.8 / 14.0	12.5 / 16.2	15.2 / 20.9
Mild	12.7 / 14.0	14.4 / 16.3	16.7 / 21.8
Small	13.2 / 14.2	14.6 / 17.1	16.3 / 21.3

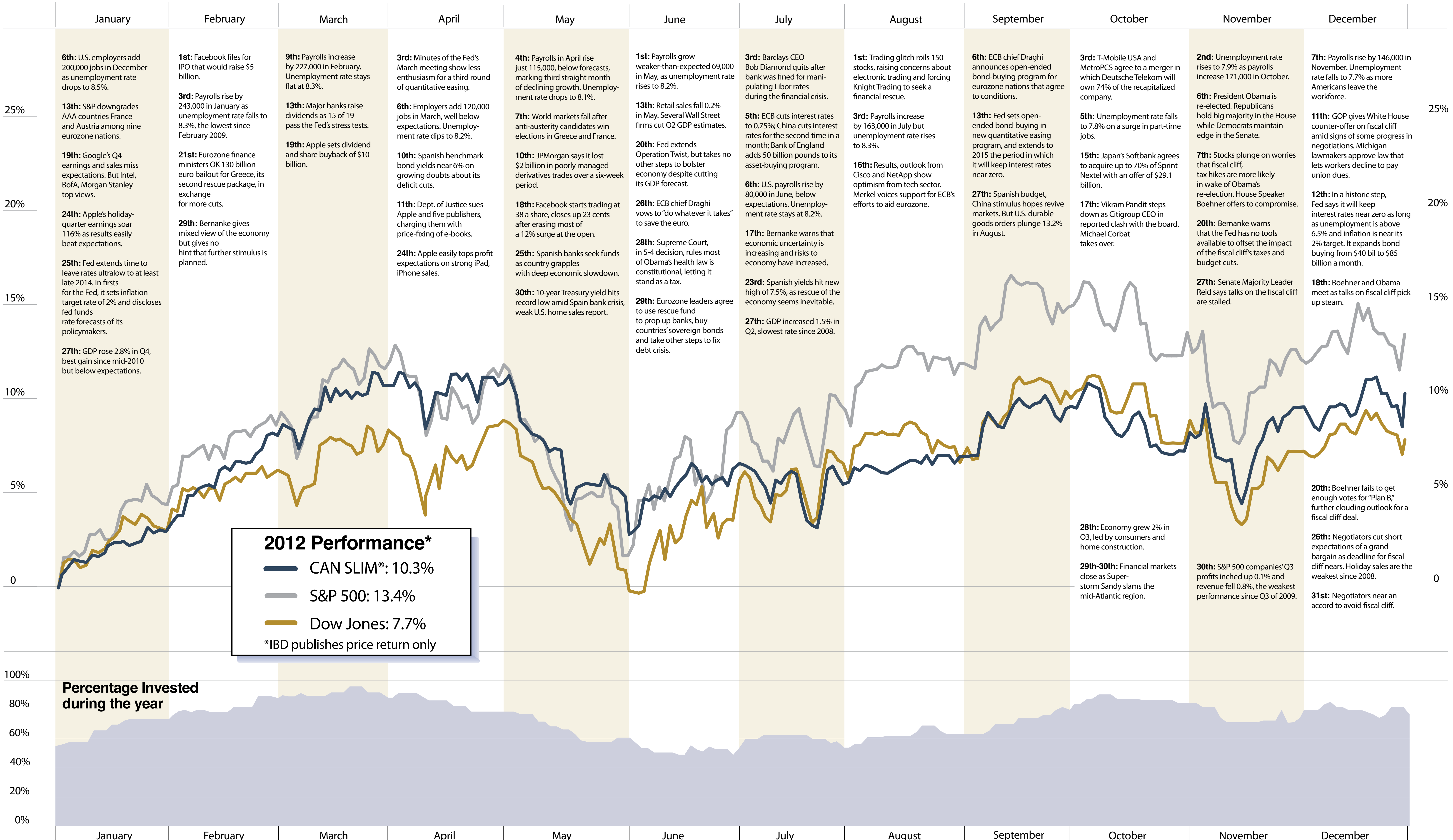
Current P/E as % of 20-year avg. P/E

E.g.: Large Cap Growth stocks are 27.3% cheaper than their historical average.

	Value	Blend	Growth
Large	84.8%	76.9%	72.7%
Mild	91.0%	88.3%	76.6%
Small	92.9%	85.7%	76.6%

2012: A News-Driven Market Manages Respectable Gains For The Year

INVESTOR'S BUSINESS DAILY®



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Introducing Tactical Income

Producing income from investments is a big issue facing our clients who are now in retirement. Producing income while at the same time managing principal risk, however, is the bigger concern. What happens to bonds and other yield portfolios when the 10-year treasury rises over time to 3-4% instead of the government-sponsored, anemic 1.8% that it is today?

Last year, we launched a new strategy called Tactical Income to tackle this problem, and we believe this portfolio properly balances income production and risk. The portfolio invests in ETFs diversified across the income spectrum using US Bonds, Global Bonds, Real Estate, Corporate Bonds, Mortgages, and some US and Global Dividend Equities. During healthy markets, we will take commensurate risk. As the interest rate environment sours, though, the portfolio systematically shortens duration and reduces credit risk in an attempt to decrease principal decline. Today, the portfolio yields 5% and its objective over time is to produce 2-3% more income than inflation.

We thoroughly researched the strategy and have prepared a short presentation explaining the offering in more detail. Please call or email us if you care to review.

Finally, thank you for your business. We are grateful to serve you and send you best wishes from all of us at NorthCoast Asset Management for a happy, healthy and prosperous 2013!

Portfolio Options

CAN SLIM® Investment Program

Long-term growth portfolio that invests in CAN SLIM® stocks as markets are rising and scales to cash as markets weaken. Its objective is capital appreciation.

Growth and Income

Distributes the investment between our CAN SLIM® strategy (75%) and laddered bonds (25%) for a more conservative approach.

Balanced

Even more conservative, Balanced utilizes a 50/50 approach of investment dollars between CAN SLIM® and laddered bonds. A popular option for those nearing retirement.

CAN SLIM® International

A long-term growth portfolio that invests exclusively in foreign based stocks (ADRs) exhibiting CAN SLIM® attributes as markets are rising and scales to cash as markets weaken.

Legends Value

Utilizes the strategies of the best value managers of the past 30 years by dissecting their strategies and determining which factors they favor.

United Portfolio

Distributes the investment evenly between our CAN SLIM® strategy (50%) and our Legends Value strategy (50%).

Tactical ETF

A long-term growth portfolio that invests in leading ETFs as markets strengthen and reduces exposure by selling positions as markets weaken.

NorthCoast Portfolio Options	4th Quarter (Net of Fees)	2012 (Net of Fees)
CAN SLIM® Investment Program	0.4%	8.7%
Growth and Income (75% CAN SLIM & 25% Bonds)	0.3%	7.9%
Balanced (50% CAN SLIM & 50% Bonds)	0.4%	6.7%
CAN SLIM® International	3.1%	16.1%
Legends Value	1.5%	7.9%
United Portfolio (50% CAN SLIM & 50% Legends Value)	1.0%	8.2%
Tactical ETF	-1.1%	5.1%
S&P 500	-0.6%	15.2%