

#### QUARTERLY ADVISOR UPDATE

or a sixth consecutive calendar year, U.S. equities closed in positive territory. The S&P 500 ended 2014 +13.0% (including dividends), the third straight year of double-digit gains.

Positive macroeconomic data in the U.S. propelled stocks throughout 2014. Increasing GDP growth, positive job growth, decreasing unemployment and confidence in the economy from the Federal Reserve to end Quantitative Easing all contributed to the positive movement.

Much of the concern and many of the 2014 market pullbacks were caused by instability and geopolitical factors outside the United States. A weakened recovery in Europe, slow growth in Emerging Markets including China, and political tensions with Russia caused international equities to fall in 2014 with the ACWI ex-US (All-Country World Index excluding U.S.) ending the year -3.9%, an almost 17% difference from the S&P 500. Heading into 2015, many of the same themes exist. Positive momentum in the U.S. and uncertainty globally guide the investment decisions. NorthCoast remains cautiously bullish or "Opportunistic" in this environment, with our tactical portfolios between 85%-90% equity invested.

Q4 | December 31, 2014

### NorthCoast Navigator

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

| RISK-AVERSE CONSI | I I I I I I I I I I I I I I I I I I I  |  |  |  |  |  |
|-------------------|--|--|--|--|--|--|
| Technicals        | year +13.0% with moment  | o all-time highs ending the<br>sum continuing to build even<br>e during geopolitical tensions  |  |  |  |  |
| Sentiment         | Indicators show positive momentum for a sustained<br>upward move with an 8.7% increase in equity flows, an<br>eight-year high in consumer confidence, rising home-<br>builder confidence, and positive retail sales. |  |  |  |  |  |
| Macroeconomic     | - 5% growth in 2014. Pos<br>unemployment, and reduce   | ance with expectations of 4%<br>sitive wage growth, declining<br>ced oil prices could lead to<br>s, even though global markets<br>in macroeconomic data. |  |  |  |  |
| Valuation         | highs and remain above   | uities ended near their yearly<br>their 10-year historical aver-<br>ion ratios experienced during<br>on.   |  |  |  |  |
|                   |  |  |  |  |  |  |

#### **The President's Post**

by NorthCoast President & CEO, Dan Kraninger

"The only function of economic forecasting is to make astrology look respectable." -- John Kenneth Galbraith

2015 is here and with it comes the inane Wall Street annual ritual of consensus forecasts. For years I have kept Barron's January issue as a constant reminder why data and discipline will outperform instinct and intellect over time. Every year experts from the biggest firms on Wall Street gather to predict how markets will unfold in the year ahead. Their firms manage billions, employ thousands, and arguably have more access to information and insight than anyone else, and as you probably already well know, their forecasts tend to be laughable when looking back at them each December.

Let's take a couple of big doozies from 2014 -- bonds crashing and oil not. Twelve months ago, with long-term Treasuries trading with a 3.9% yield, everyone pounded his or her table about the inevitable inflation pick-up and bond crash. And they're still waiting, I guess. Long-term Treasuries closed the year yielding 2.7% and made a robust +27% return. In response to this forecast, many folks sold their bonds and bought income generating assets like limited partnerships (many of which are linked to oil.) And what was the biggest investment story of the year? Oil. A certifiable crash. The kind that puts companies out of business. Crude oil dropped 50% in value – from well over \$100/ barrel to close the year near \$50/barrel. How many experts do you think saw this one coming last January? The answer, of course, zero.

So be careful of consensus. Often it is misleading. One current issue, in particular, that seems to be close to consensus is the gloom and doom associated with international investing. Because U.S. equities have outperformed international equities for two years, many are selling their international exposure even though stocks outside the U.S. represent 50% of global equity. As the table (*below*) demonstrates, international stocks play an important role in diversifying one's portfolio and have terrific periods of outperformance vs. U.S. stocks.

|              | Annual Returns: S&P 500 vs. ACWI ex-U.S. (Global Equities outside U.S.) |        |       |       |       |       |      |        |       |       |      |       |       |       |       |
|--------------|---|--------|-------|-------|-------|-------|------|--------|-------|-------|------|-------|-------|-------|-------|
|              | 2001  | 2002   | 2003  | 2004  | 2005  | 2006  | 2007 | 2008   | 2009  | 2010  | 2011 | 2012  | 2013  | 2014  | Total |
| S&P 500      | -12.2%  | -22.5% | 28.0% | 10.2% | 4.3%  | 15.1% | 4.9% | -37.4% | 25.5% | 14.4% | 1.5% | 15.2% | 31.5% | 13.0% | 88.8% |
| ACWI ex-U.S. | -19.7%  | -14.9% | 40.8% | 20.9% | 16.6% |       |      | -45.5% |       |       |      | 16.8% | 15.3% | -3.9% | 91.6% |

As of 12/31/2014. Data provided by Bloomberg, GoldmanSachs, Morningstar, Bureau of Economic Analysis. S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. ACWI ex-U.S. is designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies.

# 2014: The Stock Market Marches Higher, Despite Two Corrections

|                 | January   | February   | March  | April   | May   | June   | July  | August  | September   |   |
|-----------------|---|--|--|---|---|--|---|---|---|---|
| 15%             | <ul> <li>6th: Senate confirms<br/>Janet Yellen as new Fed<br/>chairwoman.</li> <li>10th: December job<br/>growth of 74,000 falls far<br/>short of expectations and<br/>is weakest in nearly three<br/>years.</li> </ul> | <b>3rd:</b> ISM report shows<br>manufacturing growth<br>stalled in January. Auto<br>sales disappointed,<br>adding to string of<br>weaker-than-expected<br>economic data.   | <b>3rd:</b> Financial markets<br>rattled after Ukraine<br>crisis worsens. Russian<br>troops move in to<br>control Crimea, taking<br>over government<br>buildings and<br>surrounding Ukraine<br>army bases. | <ul> <li>4th: Employers add<br/>192,000 jobs in March,<br/>less than expected.<br/>Jobless rate holds at<br/>6.7%.</li> <li>9th: Fed minutes show<br/>concern about labor<br/>market's progress in</li> </ul> | <ul> <li>2nd: U.S. employers add 288,000 jobs in April, the highest in two years. Unemployment rate drops to 6.3%.</li> <li>6th: Alibaba, China's dominant e-commerce company, files for a U.S</li> </ul>     | <ul> <li>5th: GM fires 15 people<br/>in the wake of the<br/>automaker's 11-year<br/>failure to recall cars<br/>equipped with a<br/>defective ignition switch.</li> <li>9th: Merck agrees to<br/>acquire Idenix</li> </ul>      | <ul> <li>1st: ISM manufacturing index dips but remains strong as new orders climb to 6-month high.</li> <li>10th: Portugal's Espirito Santo Bank comes under financial stress, triggering sell-offs in</li> </ul> | <b>10th:</b> Michael Brown, an<br>18-year-old black man, is<br>fatally shot by white police<br>officer Darren Wilson in<br>Ferguson, Mo., sparking<br>protests and a nationwide<br>debate on law<br>enforcement's relationship<br>with black Americans, | <ul> <li>4th: European Central<br/>Bank lowers interest<br/>rates and sets<br/>purchases of asset-<br/>backed securities<br/>as it tries to combat a<br/>stagnant economy.</li> <li>18th: Larry Ellison</li> </ul>  | 3r<br>sc<br>Co<br>firs<br>cc<br>air<br>tra<br>8t                |
| 10%             | <b>23rd:</b> Stocks tumble after<br>a disappointing Chinese<br>factory report and, to a<br>lesser extent,<br>weaker-than-expected<br>U.S. manufacturing data.   | <ul> <li>7th: January payrolls<br/>rise by 113,000, below<br/>expectations.</li> <li>Unemployment rate slips<br/>to 6.6% as workforce<br/>continues to shrink.</li> <li>11th: Stocks rally as</li> </ul>               | 7th: Malaysian Airlines<br>777 jetliner disappears<br>from radar; several<br>Asian nations launch a<br>search operation, but<br>the wreckage is never<br>found.  | a weak recovery.<br><b>10th:</b> Health and<br>Human Services<br>Secretary<br>Kathleen Sebelius<br>resigns after facing fire<br>for ObamaCare's   | <ul> <li>13th: Retail sales crawl up 0.1% in April, missing expectations, as economy continues uneven recovery.</li> <li>16th: Narenda Modi, a</li> </ul>   | Pharmaceuticals for<br>\$3.85 billion, gaining<br>three hepatitis C drugs<br>in development.<br>Tyson agrees to buy<br>Hillshire for \$8.5 billion,<br>winning a bidding war   | Europe and U.S.<br>markets.   | 14th: Iraqi Prime Minister<br>Nouri al-Maliki quits after<br>Iran and a powerful Shiite<br>militia voice support for<br>his successor, Haider<br>al-Abadi.  | steps down as CEO of<br>Oracle but stays on as<br>chairman and chief<br>technology officer.   | m<br>ov<br>do<br>ra   |
| 5%              | Developing market<br>currencies slammed on<br>growth worries.<br><b>24th:</b> Global markets<br>roiled on worries about<br>emerging-market growth<br>and U.S. corporate   | Yellen vows to continue<br>measured taper of bond<br>purchases.<br><b>13th:</b> GM recalls more<br>than 775,000 cars for<br>faulty ignition switch<br>blamed for several   | <b>16th:</b> Crimea votes to<br>secede from Ukraine<br>and join Russia.<br>Western leaders say<br>they won't recognize<br>the vote.  | bungled rollout and her<br>claims that the<br>government's website<br>was ready.  | reform-minded candidate,<br>wins India's election for<br>prime minister in a<br>landslide.  | with Pilgrim's Pride.  | $\sim$  |   | ~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~   | \<br>\/   |
| 0               | earnings.   | deaths.<br>Comcast agrees to pay<br>\$45 billion for Time<br>Warner Cable.   |  |   | 19th: The Justice<br>Department criminally  | 12th: Crude oil surges<br>after Islamic State of Iraq<br>and Syria seizes several<br>Iraqi cities and threatens<br>Baghdad, U.S. mulls<br>air- strikes to aid Iraq<br>government.  | 14th: Mylan agrees to<br>buy Abbott Labs'<br>generic-drug business<br>and AbbVie nears deal<br>for Shire as some U.S.<br>companies seek to move<br>headquarters to Ireland,<br>where taxes are lower.             | 18th: Dollar General bids<br>\$9.7 billion for rival Family<br>Dollar, topping Dollar   | <ul> <li>19th: Alibaba shares<br/>soar 38% after going<br/>public at 68 a share,<br/>becoming the biggest<br/>IPO in history.</li> <li>22nd: U.S. and Arab<br/>allies launch airstrikes<br/>against Islamic State,<br/>including the first<br/>strikes inside Syria.</li> </ul> | <b>10</b><br>Te   |
| -5%             | <b>29th:</b> Fed deducts<br>another \$10 billion from<br>monthly bond purchase<br>program, noting an uptick<br>in economic activity.  |  | <b>19th:</b> Fed trims stimulus<br>by another \$10 billion a<br>month. Yellen says a<br>rate increase is likely six<br>months after taper<br>ends, meaning spring of<br>2015.                              | <ul> <li>28th: Pfizer confirms interest in buying AstraZeneca, one of several buyouts sought in the pharmaceutical industry.</li> <li>30th: Fed tapers an</li> </ul>  | charges five Chinese<br>military officials with<br>hacking into and spying on<br>American businesses,<br>including U.S. Steel and<br>Alcoa.<br><b>22nd:</b> Ailing tech giant<br>Hewlett-Packard<br>announces | <b>17th:</b> It's reported that<br>the number of<br>Americans enrolled in<br>Social Security Disability<br>Insurance hit a new high<br>in May, marking an 18%<br>jump since Obama took<br>office.                              | <ul> <li>15th: Fed warns small caps, biotechs and social media stocks suffer from "stretched valuations."</li> <li>17th: Malaysia Air flight from Amsterdam to Kuala Lumpur crashes</li> </ul>                    | Tree's offer of \$9.2 bil.<br><b>22nd:</b> Yellen defends<br>need for extraordinary<br>monetary policy and<br>voices support for leaving<br>interest rates near zero for<br>some time.<br><b>27th:</b> Burger King agrees                               | <ul> <li>23rd: Treasury unveils<br/>new rules to crack<br/>down on tax-inversion<br/>mergers, but move is<br/>seen as only a stop-gap<br/>measure.</li> <li>26th: Bill Gross leaves<br/>Pimco, the giant bond</li> </ul>  | "ir<br>be<br>lea<br><b>13</b><br>te<br>aff<br>fir:<br>dis<br>da |
| -10%            | []  | <ul> <li>19th: Facebook agrees<br/>to acquire messaging<br/>provider WhatsApp in<br/>deal valued at \$19<br/>billion.</li> <li>28th: Concerns about<br/>Gilead's hepatitis C drug<br/>spark more selling in</li> </ul> | In Ukraine, the<br>government withdraws<br>its troops from Crimea,<br>one day after Russia<br>claims the disputed<br>region.<br><b>31st:</b> Yellen stresses<br>Fed's plans to support                     | additional \$10 billion<br>from stimulus, to \$45<br>billion a month, even<br>though GDP growth for<br>Q1 stalls at 0.1%.   | it is laying off 50,000<br>employees.   | <ul> <li>18th: E-tailing king<br/>Amazon enters the<br/>smartphone wars with<br/>its Amazon Fire Phone.</li> <li>25th: Supreme Court<br/>rules video streaming<br/>service Aereo violates<br/>copyright protections</li> </ul> | in Ukraine. Separatist<br>forces are later blamed.  | to acquire Ontario-based<br>Tim Hortons for \$11<br>billion in a deal that gives<br>Burger King lower<br>Canadian taxes,  | firm he founded, for<br>Janus Capital amid<br>questions over his<br>management.   | is<br><b>16</b><br>Pr<br>su<br>bo<br>as                         |
|                 | S&P 500: 11.4%  DJIA: 10.0% Performance excludes dividends  NYSE volume, in billions  | biotechs,  | economy, says Fed is<br>not satisfied as long as<br>too many are working<br>part time or remain<br>unemployed for long<br>periods.   |   |   | of broadcasters.   |   |   |   | 29<br>er<br>in<br>31<br>SL                                      |
| 3.0             |   |  |  |   |   |  |   |   |   | its<br>bo   |
| 2.0<br>1.0<br>0 |   |  |  |   |   |  |   | Himinin I   |   |   |
|                 | January   | February   | March  | April   | May   | June   | July  | August  | September   |   |

#### October

**3rd:** Salix Pharmaceuticals scraps acquisition of Cosmo Technologies, the first tax-inversion deal to collapse after new rules aimed at limiting such transactions.

8th: Minutes of Sept. Fed meeting show concern over global growth and dovish stance on when to raise rates.

## November

**4th:** Republicans win enough seats to take the majority in the Senate. GOP also widens its majority in the House and wins key governorships.

#### December

**5th:** Payrolls surge 321,000 in November, best increase in nearly three years.

15%

10%

5%

0

-5%



**10th:** Microchip Technology warns an "industry correction has begun," as chips stocks lead a rout in stocks.

**13th:** A nurse in Dallas tests positive for Ebola after having treated the first man to die of the disease in the U.S. Two days later, another nurse is diagnosed.

**16th:** St. Louis Fed President James Bullard suggests Fed could extend its program of bond purchases, known as QE3, amid falling inflation expectations.

**29th:** Federal Reserve ends QE3, citing progress in jobs and the economy.

**31st:** Bank of Japan, in a surprise move, increases its stimulus program by boosting asset purchases.

**10th:** Obama proposes regulating Internet service firms as public utilities and barring them from charging fees for faster access to websites. Two days later, AT&T halts broadband expansion plans.

**17th:** Actavis agrees to acquire Allergan for more than \$66 billion, as Valeant Pharmaceuticals abandons a hostile bid.

Shanghai and Hong Kong markets begin a program that opens up cross- border investments

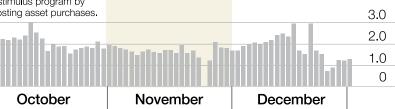
**21st:** China cuts lending rates for the first time in two years. European Central Bank President Mario Draghi says ECB is prepared to expand asset purchase program if necessary. **16th:** Crude oil falls below \$56 a barrel, lowest level since May 2009.

**17th:** Fed says it will be "patient" in raising interest rates, cites improving economic recovery.

Obama eases restrictions on trade and travel with Cuba, as the two nations agree to prisoner swap and set other steps to normalize relations.

**31st:** U.S.-targeted mergers and acquisitions total \$1.52 trillion in 2014 – 45% of global deals – up from \$998 billion in 2013.

U.S. IPOs end their best year since 2000 after raising \$85.2 billion, up 55% from 2013, fueled by Chinese e-commerce giant Alibaba and action camera maker GoPro.



Source: Investor's Business Daily

### **Individual Equity Portfolios**

| Strategy                            | Q4<br>(Net) | 2014<br>(Net)  | Strategy Description  | Strategy Highlights   |  |  |
|-------------------------------------|-------------|----------------|---|---|--|--|
| CAN SLIM                            | 3.2%        | 10.9%          | All-Cap Tactical Growth                                     | With a high equity investment level near 100% and a low at 65% invested, CAN SLIM <sup>®</sup> navigated a volatile yet positive 2014.  |  |  |
| Growth & Income                     | 2.4%        | 7.2%           | 75% CAN SLIM <sup>*</sup> / 25% Bond ETFs                   | Keeping in line with the S&P 500, CAN SLIM <sup>®</sup> posts a double-digit<br>gain for the 2nd year in a row as quality stock picking and improved  |  |  |
| Balanced                            | 2.0%        | 5.4%           | 50% CAN SLIM <sup>*</sup> / 50% Bond ETFs                   | risk metrics propel the strategy.   |  |  |
| CAN SLIM <sup>*</sup> International | -1.1%       | - <b>0.</b> 7% | All-Cap International Tactical Growth                       | CSI felt the effects of an underperforming global marketplace.<br>Across international markets, including Europe and China, equities<br>ended negatively, but with an average 15% cash level throughout the<br>year and profitable stock selection, CAN SLIM <sup>*</sup> International ended<br>slightly below even. |  |  |
| CAN SLIM <sup>®</sup> Global        | 0.9%        | 4.6%           | CAN SLIM <sup>*</sup> + CAN SLIM <sup>*</sup> International | See commentary on CAN SLIM <sup>®</sup> and CAN SLIM <sup>®</sup> International   |  |  |
| Legends Value                       | 0.0%        | 7.5%           | All-Cap Long-Only Value                                     | Value stocks underperformed their growth counterparts in 2014.<br>Legends Value's fully-invested mandate provided strong returns off<br>the periodic pullbacks but its high exposure to oil stocks in the 2nd<br>half of the year dampened performance.   |  |  |
| United Portfolio                    | 1.6%        | 8.9%           | CAN SLIM <sup>*</sup> + Legends Value                       | See commentary on CAN SLIM <sup>®</sup> and Legends Value   |  |  |
| Vista                               | 3.3%        | 8.0%           | All-Cap Long-Only Growth                                    | NorthCoast's newest separate account offering provides a fully-<br>invested strategy selecting stocks at a reasonable price.  |  |  |

# NorthCoast Retirement Portfolios

| Strategy           | Q4<br>(Net) | 2014<br>(Net) | Strategy Description  | Strategy Highlights   |
|--------------------|-------------|---------------|---|---|
| Tactical Income    | 1.7%        | 6.3%          | Designed to generate income with<br>protection against inflation and rising<br>interest rates | Tactical Income took advantage of the Federal Reserve's dovish<br>outlook throughout the year and maximized exposure to higher<br>duration and higher yield offerings which boosted performance.<br>Positions in high-yield corporate debt, dividend equities, and real<br>estate were a few of the top performers. |
| Diversified Core   | 1.3%        | 2.5%          | Designed for a conservative retiree or investor near retirement                               | The strategies ended the year in positive territory, but with high<br>exposure to international equities, they struggled as foreign stocks<br>underwhelmed and small-cap equities significantly underperformed  |
| Diversified Growth | 1.3%        | 2.2%          | Designed for a more-growth-oriented retiree or investor retiring in 5-10 years                | their large-cap counterparts. The large holding in IVV guided the<br>positive performance. The strategies were slightly underweight U.S.<br>equities, neutral on Europe and modestly overweight on Japan. The<br>underlying reason for this allocation was that, when comparing                                     |
| Tactical Growth    | 1.5%        | 1.7%          | Designed to generate long-term appreciation with downside risk controls                       | historical equity valuation multiples of the different regions, the valuation indicators were very attractive. For more info visit:   |

Past or current results do not guarantee future performance. 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. This document provides only impersonal advice and statistical data and is not intended to meet objectives or suitability requirements of any specific account.

# By The Numbers

**200** - # of data factors taken into account before Google delivers a result on a search query <sup>1</sup>

**\$1.8+ Trillion** - U.S. ETF Assets (2007: \$500 Billion)<sup>2</sup>

**1999** - Last occurrence (*before 2012-2014*) of 3-straight years of double digit gains in the S&P 500 (2000: -9.1%)<sup>3</sup>

**207,000** - Population of Green Bay, WI; smallest U.S. city with a major professional sports team

11 - Percentage of adults who have used an online dating site  ${}^4$ 

2008 - The last time crude oil prices fell below \$60/barrel  $^{\scriptscriptstyle 5}$ 

**5** - Babies welcomed into the world by NorthCoast team members in 2014

<sup>1</sup> Businesss Insider; <sup>2</sup> Investment Company Institute, August 2014;
 <sup>3</sup> Bloomberg; <sup>4</sup> Pew Research; <sup>5</sup> Barchart Market Data Solutions

### **Private Clients**

#### Looking for information?

For more information on NorthCoast strategies and quarterly performance updates, please visit our website at

http://ncamadvisors.com/resources.html.

To speak with our national sales director, contact John Wildern at 248-470-3600 or email at jwildern@northcoastam.com.

# Do you know someone who could benefit from NorthCoast's investment services?

We aim to provide the highest caliber investment experience to each and every client. If you think NorthCoast services could benefit someone you know, please refer them to us.

### **Inside NorthCoast**

NorthCoast celebrated its 26th year in 2014 – one of the longest-tenured investment management firms utilizing quantitative and rules-based strategies.



From our family to yours, Happy New Year - wishing you a happy, healthy and prosperous 2015!