Quarterly Client Update

2016 Q4

December 31, 2016

NorthCoast
Asset Management

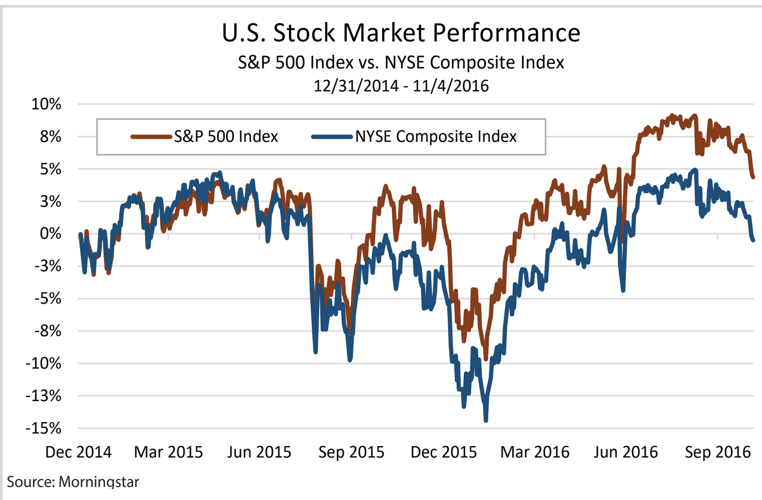
President's Post

President & CEO Dan Kraninger reflects on a challenging 2016 and provides insights moving forward.

"***Change is the law of life.***" - John F. Kennedy

Generally speaking, in the almost two years leading up to the election, no one made money in stocks. Equity markets seesawed for almost 24 months with no clear direction. As you can see on the chart below, from 12/31/14 – 11/4/16 the S&P 500 Index made 4.3% and the more general New York Stock Exchange Composite Average lost -0.5%. Then we had the 2016 presidential election, and in the two months following we've seen a greater gain in stocks than we've seen in the last two years.

Given the tumultuous election that our country just endured, a presidential quote seemed appropriate. The impact of this change of course won't be known for many years, but as of today one thing is clear - Democrats and Republicans alike are voting with their money and they are buying stocks. More importantly it appears in the early stages of this advance that investors will be differentiating between winners and losers.



Source: Morningstar

Over the last several years, the rise of index investing has undermined one core, capitalistic concept – companies that are more efficiently producing profits deserve higher valuations. Similarly, companies that are inefficient and producing poor results deserve lower valuations. Because index investors simply reward large companies (the S&P 500 index is capitalization weighted, therefore for every $1.00 that is invested, $0.25 goes into the biggest 17 stocks), it's been challenging for active managers to demonstrate value. For example, here at NorthCoast, size or market capitalization doesn't play a role in our stock selection process. Why? Because historically there has been no added benefit to buying big over small, let alone buying big over other factors such as profit growth or sales growth. We focus on factors that, over time, make money at a higher rate than simply size alone. This factor differentiation has hurt some of our portfolios over the last two years. However since the election, it appears that investors are beginning to move money into names that make more economic sense and for us, this is a welcome change.

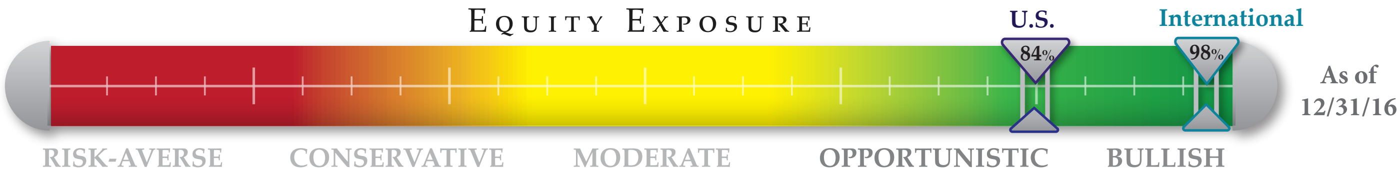
Mean reversion is common in financial markets – strategies or techniques that do very well for a period of time tend to attract interest and money, become overvalued, and then tend to muddle through a period of underperformance. Thus, a cornerstone principle of any allocation strategy, let's say a 60/40 stock/bond allocation for example, is to rebalance. Theory being one takes profits from the successful strategy and buys more of the underperforming asset. This technique over time is very productive. As I mentioned in my last letter, I think the bond bull market that lasted for decades is over. So given this, here are two considerations – 1) if your portfolio is bond heavy, consider reallocating those bond positions. Set some time aside with our advisors to discuss our income and zero beta investment strategies -- both designed to deal with a rising rate environment. 2) Consider further investment in growth stock strategies like CAN SLIM® or Vista -- growth stocks have underperformed the last two years but have attractive long term track records that will benefit as investors begin to differentiate away from indexes.

So, we enter 2017 with optimism about the year ahead. We are seeing change and in that change I like two strong tailwinds that may play to your portfolio's advantage. First, a return to active investing among buyers looking to again differentiate among good and bad stocks, and second, a slow but steady rotation out of bonds.

Happy New Year and best wishes for a happy, healthy, and prosperous 2017!

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 4th quarter?

Ahead of the U.S. election and Federal Reserve meetings, global equities retreated in October posting their largest monthly declines since January 2016. Uncertainty across multiple asset classes including equities, fixed income and real estate pushed volatility measures higher. October also witnessed the mergers of multiple industry titans. Almost a half a trillion dollars of M&A activity was announced globally, an all-time high. The existing low growth environment and a fear of rising rates helped drive much of the M&A action.

Aside from the pre-election decline, U.S. equities advanced throughout November. Small and mid-cap stocks in particular jumped forward on the eve of and then again after the presidential election results were determined. Post-election market momentum continued into December as global equities advanced over the course of the month despite the Federal Reserve decision to raise interest rates and a final-week pullback.

For the year, U.S. stocks rose +11.2% (S&P 500 Index) while the international market was up +4.5% (ACWI ex-U.S.). The fixed income market had a more muted result than equities. After a strong start to the year, bonds declined throughout the 2nd half. The Barclays U.S. Aggregate Bond Index ended the year +2.7% while the JP Morgan Global Aggregate Bond Index was +2.2%.

Moving into January

Even though U.S. equity valuations widened throughout the year, strong macroeconomic data, supporting sentiment indicators, and positive technical momentum continued to provide a foundation for stocks to advance. Much is still unclear about future fiscal, trade, or tax policy but the available data remains relatively bullish in the short-term for U.S. stocks. The same is true in our international exposure, as we maintain a bullish posture.

TECHNICAL

Relative strength remained positive as the S&P 500 Index ended the month 2% above the 50-day moving average and 5% above the 200-day providing momentum into the new year.

SENTIMENT

Investors again gathered into equity funds (SPY) in December, increasing flows at +6.6%. The UM Consumer Sentiment survey reached its highest level of the year at 98.2.

MACROECONOMIC

The U.S. macroeconomic picture remained stable as unemployment decreased to 4.7% while the U.S. created 156,000 jobs in December, just below the 2016 average of 180,000.

VALUATION

U.S. stock valuations ended the year at their highest levels as stocks rose in the midst of declining profits. Forward P/E also ended at a yearly high of 18.8.

Data as of 12/31/2016. Data provided by Bloomberg, NorthCoast Asset Management.

2016: Stocks Shook Off China, Brexit, Election

10%
0
-10
-20

January

4th
Shanghai composite plunges 6.9% on weak Chinese manufacturing report and falling yuan. In the U.S., the ISM manufacturing index falls for fifth-straight month in December.

7th
Nasdaq tumbles 3% and S&P 500 2.4% on worries about China, where a stock sell-off caused a trading halt for the second time in a week.

12th
Crude prices fall below $30 a barrel for first time since December 2003, close just above $30.

13th
Russell 2000's decline tops 22%, marking bear market for small-cap index.

19th
China's economy grows 6.9% in 2015, the slowest rate since at least 1990, sparking speculation of more stimulus.

28th
Amazon's Q4 results miss expectations badly, triggering sell-off in its shares.

29th
Bank of Japan sets a negative interest rate of 0.1% on some deposits.

February

1st
Aetna warns it has "serious concerns" about the viability of ObamaCare.

1st-2nd
Oil prices slide 11% in two days, the worst 2-day rout in seven years, closing under $30. Stocks follow oil lower.

4th
Obama proposes oil tax of $10 per barrel to fund "clean" transportation projects.

5th
Job growth in January slows to 151,000, well below forecasts.

12th
Oil rallies 12% after UAE's energy chief says OPEC is ready for an output cut.

23rd
Saudi oil minister says a cut in oil production "is not going to happen," dismissing worries of oversupply.

29th
China's central bank cuts reserve requirement ratio, its 5th cut in 12 months, to stimulate loan activity.

March

4th
Payrolls surge 242,000 in February, above forecasts. January and December gains revised upward.

9th
Amazon.com confirms it will lease 20 Boeing 767 jets to boost its delivery system.

10th
In a barrage of stimulus, European Central Bank cuts its key rate to -0.4% from -0.3%, hikes monthly asset purchases and says it will pay banks to borrow to boost lending.

11th
International Energy Agency sees "signs that (oil) prices might have bottomed out."

16th
Fed holds interest rates steady and suggests it plans two hikes in 2016, fewer than the four earlier indicated. Central bank cites "global economic and financial developments" that pose risks.

22nd
ISIS terrorists kill more than 30 and injure more than 200 in Brussels in bomb attacks at airport and subway.

28th
Justice Dept. abandons legal effort to force Apple to unlock an iPhone used by the San Bernardino terrorists.

29th
Yellen says global uncertainties are reason for a cautious approach to interest-rate increases.

April

4th
Alaska Air agrees to buy Virgin America for $2.6 billion

5th
Twitter reaches deal to stream NFL's Thursday night games

6th
Pfizer and Allergan drop their merger because of new Treasury rules that would kill the deal's tax benefits.

15th
Industrial output falls 0.6% in March as manufacturing falls 0.3%, the worst drop since early 2015.

19th
UnitedHealth says it will withdraw from most ObamaCare exchanges due to the smaller market and higher risk.

25th
Saudi Arabia announces Vision 2030, a plan to diversify away from oil revenues, including more details on eventual IPO of state-oil giant Saudi Aramco.

26th
Apple's quarterly revenue falls for the first time since 2003 and iPhone sales drop for the first time ever.

May

2nd
Halliburton and Baker Hughes call off planned $35 billion merger, citing objections from antitrust regulators.

3rd
Trump wins Indiana primary, essentially clinching GOP nomination.

10th
Staples and Office Depot drop their merger after a judge blocks the deal over antitrust concerns.

16th
Buffett's Berkshire Hathaway disclosed it acquired a stake worth about $1 bil in Apple stock.

18th
Minutes of the Fed's April meeting suggest support for a rate hike as early as June, provided economy continues to improve.

June

3rd
Payrolls increase 38,000 in May, a figure well below estimates that sparks doubts about future rate hikes.

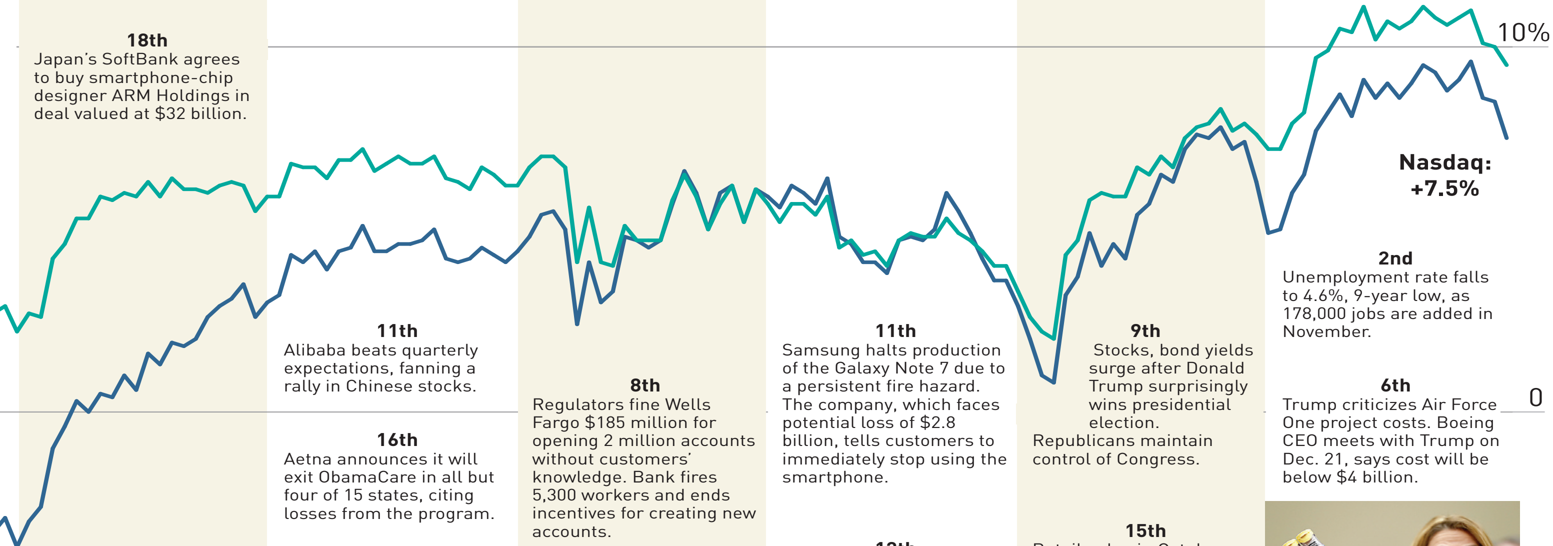
13th
Microsoft agrees to acquire LinkedIn in a deal valued at $26.2 billion.

15th
Fed leaves rates unchanged and sees a slower pace of rate hikes.

20th
Stocks, British pound surge as poll shows majority in the U.K. favor staying in the European Union.

24th
Global stocks, British pound plummet after U.K. votes to leave the EU. British PM Cameron steps down.

Political turmoil, a sell-off in Chinese stocks in January and soft oil prices for much of the year rattled U.S. stocks. Still, the Nasdaq climbed for the seventh year in the past eight.



July

8th
June payrolls swell by 287,000 in big rebound from May. Yield on 10-year Treasury note hits record low of 1.365%.

14th
Delta Air Lines says it will cut capacity as era of cheap oil, which lowered operating costs, is largely over. Other airlines later follow with their own capacity cuts.

18th
Japan's SoftBank agrees to buy smartphone-chip designer ARM Holdings in deal valued at $32 billion.

25th
Verizon agrees to acquire core Yahoo operations in a deal valued at $4.8 billion. Yahoo CEO Marissa Mayer stays on.

28th
Oracle agrees to acquire NetSuite for $9.3 billion.

August

4th
Bank of England cuts main interest rate to 0.25% from 0.5% in response to Brexit. It also revived its U.K. government bond-buying program, set a corporate bond purchase plan and cut its forecast for economic growth.

8th
Nasdaq tops prior high, closing at 5225.

11th
Alibaba beats quarterly expectations, fanning a rally in Chinese stocks.

16th
Aetna announces it will exit ObamaCare in all but four of 15 states, citing losses from the program.

24th
Hillary Clinton says "no justification" for Mylan's EpiPen price hikes. Biotech and drug stocks plunge. On Aug. 25, Mylan expands reduced-cost EpiPen eligibility, followed by cheaper generic version.

26th
Yellen says the case for a rate hike has "strengthened." Bond yields climb.

30th
European regulators strike down a tax deal between Apple and Ireland, forcing the company to pay $14.5 billion in back taxes. Apple says it will appeal. Mondelez drops buyout bid for Hershey after its sweetened offer for a deal that may have been valued upward of $25 billion is rejected.

September

6th
Enbridge agrees to acquire Spectra Energy in a deal valued at $28 billion, creating a giant in energy infrastructure. 21st Century Fox settles with former anchor Gretchen Carlson, who accused ex-Fox News CEO Roger Ailes of sexually harassing her. Other sexual harassment suits are said to be settled also.

8th
Regulators fine Wells Fargo $185 million for opening 2 million accounts without customers' knowledge. Bank fires 5,300 workers and ends incentives for creating new accounts.

9th
Boston Fed President Rosengren says rate hikes may be needed to keep the economy from overheating. European Central Bank President Mario Draghi says policymakers did not discuss extending a bond-buying program, which ends in March.

12th
Agrium and Potash Corp. of Saskatchewan agree to merge, creating a giant in fertilizers and crop additives.

13th
Linde and Praxair end merger talks after they could not agree on sharing management. But the two later resumed talks.

28th
OPEC members agree to cut oil production to reduce glut, setting November meeting to finalize details. Energy stocks rally.

October

5th
Alphabet launches Pixel smartphone, electronic butler and other devices.

6th
Twitter shares dive 20% as Alphabet, Disney seen losing interest in the social network. Stock loss grows to 32% by Oct. 14 as other would-be suitors bow out.

11th
Samsung halts production of the Galaxy Note 7 due to a persistent fire hazard. The company, which faces potential loss of $2.8 billion, tells customers to immediately stop using the smartphone.

12th
Wells Fargo CEO John Stumpf retires without a severance payout following the scandal on the bank's sales tactics.

21st
British American Tobacco offers to acquire the 58% of Reynolds American it doesn't already own for $47 billion, or $56.50 a share. Reynolds says it will consider the deal, which would create the world's largest publicly traded cigarette maker.

23rd
AT&T agrees to acquire Time Warner for $85.4 billion. Deal would be a keystone in the convergence of communications and media industries.

27th
Qualcomm agrees to acquire NXP Semiconductors for $39 billion, the largest takeover ever in the chip industry.

31st
Baker Hughes agrees to merge with General Electric's oil & gas business, creating a new publicly traded company with $32 bil in annual revenue and majority owned by GE.

November

2nd
Facebook earnings spike 91%, but social giant warns that ad growth will slow "meaningfully." Shares fall 6% on Feb. 3.

9th
Stocks, bond yields surge after Donald Trump surprisingly wins presidential election. Republicans maintain control of Congress.

15th
Retail sales in October rise 0.8%. The 4.3% yearly gain is the best since November 2014.

17th
Yellen reiterates case for interest-rate increase, saying it could be "relatively soon."

24th-27th
Thanksgiving weekend sales are strong but BTIG cuts holiday shopping outlook on signs of softer store traffic.

29th
Q3 GDP rose 3.2%, fastest since Q2 2014. Consumer confidence climbs to highest since July 2007.

29th
Pres.-elect Trump, United Technologies confirm deal that leaves open an Indiana plant, keep some jobs from going to Mexico in exchange for tax breaks.

30th
Trump taps ex-Goldman Sachs partner Steve Mnuchin as Treasury secretary and investor Wilbur Ross as Commerce secretary.

30th
OPEC finalizes oil output cuts. Crude prices jump.

December

1st
Howard Schultz says he'll step down as CEO of Starbucks but will remain chairman to focus on the company's premium brand. COO Kevin Johnson is named his replacement.

2nd
Unemployment rate falls to 4.6%, 9-year low, as 178,000 jobs are added in November.

6th
Trump criticizes Air Force One project costs. Boeing CEO meets with Trump on Dec. 21, says cost will be below $4 billion.

7th
Pharmaceutical stocks dive after Trump says he is going to bring down drug prices.

8th
ECB extends bond buys past March, but will taper monthly purchases from 80 billion euros to 60 billion euros.

12th
Oil prices surge after non-OPEC producers agree to cut output and Saudi Arabia pledges to cut more than it previously promised.

12th
Trump criticizes F-35 costs, on Dec. 22 urges Boeing to price out an F/A-18 as possible substitute.

14th
Fed raises interest rates by a quarter point to 0.75% and indicates three more rate hikes in 2017.

15th
It's revealed that hackers stole data from more than 1 billion Yahoo users. Breach threatens Verizon's pending acquisition of Yahoo.

Source: Investor's Business Daily.

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	2016 Q4 (Net)	2016 (Net)
Risk-Adjusted "Tactical"	Strategies that first analyze market risk then determine the desired asset allocation and security selection	CAN SLIM®	All-Cap U.S. Growth	1.8%	3.0%
		CAN SLIM® ***International***	All-Cap International Growth	-0.5%	0.8%
		CAN SLIM® ***Global***	50% CAN SLIM® / 50% CAN SLIM® International	0.6%	2.0%
		CAN SLIM® ***Tax-Managed***	All-Cap U.S. Growth	7.7%	9.8%
		Tactical Growth ●	Global Asset Allocation	2.0%	7.7%
		U.S. Sector Select Hedged ●	Tactical U.S. Sector Allocation	1.4%	5.6%
Growth	Strategies that seek to generate growth returns greater than the respective market benchmark	Legends Value	All-Cap Value	7.8%	17.9%
		United Portfolio	50% Legends Value / 50% CAN SLIM®	4.8%	10.3%
		Vista	All-Cap Growth	2.4%	9.3%
		U.S. Sector Select ●	U.S. Sector Rotation	0.5%	4.1%
Core	Strategies 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%	8.8%
		Diversified Growth ●	Global Asset Allocation	1.3%	7.8%
		CAN SLIM®: ***Growth & Income***	75% CAN SLIM® / 25% Bond ETFs	0.6%	3.5%
		CAN SLIM®: ***Balanced***	50% CAN SLIM® / 50% Bond ETFs	-0.7%	3.8%
Income	Strategies designed to generate yield and return through traditional and non-traditional income sources	Core Fixed Income ●	Conservative Income	-2.7%	5.5%
		Tactical Income ●	Dynamic Income	-3.2%	5.9%
		Aggressive Income	Aggressive Income	-1.1%	7.4%
Alternative	Strategies that aim to generate return that is independent of the equity and fixed income markets	Zero Beta	Liquid Alternative	2.3%	3.6%

● = ETF Managed Strategy

The NYSE Composite is a stock market index covering all common stock listed on the New York Stock Exchange, including American depositary receipts, real estate investment trusts, tracking stocks, and foreign listings. The S&P 500 Index is used for comparison purposes as it represents a sample of the 500 leading companies in leading industries of the U.S. economy. It is generally considered a proxy for the total market.