

# Quarterly Client Update

2017 Q4

December 31, 2017



NorthCoast   
Asset Management

# President's Post

President & CEO Dan Kraninger reflects on the market moves of 2017 and provides insights moving forward.

***“The greatest trick the devil ever pulled was convincing the world he didn't exist.”***

- The Usual Suspects (1995)



My wife and I like the movies. We go throughout the year but between Christmas and New Year's, we really pick up steam. With the cold weather, time off work, and family gatherings, we certainly didn't disappoint this year. One in particular stood out and I'm glad we saw it again -- *The Usual Suspects*. Interestingly, the line above hit me as soon as I heard it as the lead in to this quarter's letter. I'll simply change a few words -- the greatest trick the **market** ever pulled was convincing the world **volatility** didn't exist.”

Consider volatility. Despite the geopolitical maelstrom in 2017, the North Korean conflict, fear of China's economic slowdown, the stock market's advance, and instability in South America, the stock price daily volatility of the S&P 500 Index was the lowest in a half-century. You have to go back to 1964 to find the average daily change for the market as low as it was in 2017. Further, the S&P 500 Index hasn't closed 3% below its all-time high since the 2016 November elections. This current 14-month streak is the longest ever.

The biggest decline during the year in 2017 for the Dow Jones Industrial Average was 3.4%, and that's the second lowest for a single year ever, behind only 1995. And then there's this; the S&P 500 was positive each calendar month for 13 months in a row; the last time this happened was in 1959 (that run lasted for 15 months).

Ok, so now what? **First**, take time to review your portfolio and life changes with our advisory team. It's a best practice -- clients who take advantage of these discussions at least annually do better over time. During those calls, here's what I believe investors should be thinking about in 2018:

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- 1 Rebalance your portfolio** After big years, many clients find themselves more concentrated in one asset class or even a single position. Are you concentrated in Apple or Amazon stock? We offer concentrated stock strategies with options to help clients unload concentrations with tax sensitivity.

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  - 2 Seek alternative income** Kind of a drumbeat for us for the last 18-months but it still makes sense. The U.S. bond market made +3.5% last year and we don't anticipate better in 2018. There are other, alternative ways to generate income. Take a look at Tactical Income or Zero Beta.

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  - 3 Look overseas** Although the S&P 500 had a good year, Europe had an even better year with a 27% gain, while the Pacific region advanced 28.9% and emerging markets surged 37.4%. Even Japan, mired in slow growth for ages, outperformed with a 24.3% gain. A global economic recovery and improved corporate profits worldwide deserve the credit and should be included in any equity portfolio.

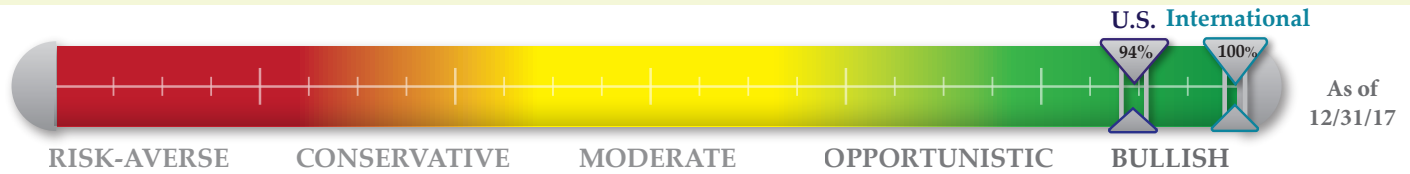
Also, remember what John Templeton said -- “Bull markets are born on pessimism, grown on skepticism, mature on optimism, and die on euphoria.” Try and keep a level head and let data, discipline, and common sense be your guide. We are monitoring daily and will make the necessary changes in our tactical strategies when the data suggests. You can see on the following page that we are near fully invested heading into 2018. Valuation metrics are stretched in the U.S. but offset by other good factors.

In closing, thank you for your business. NorthCoast had a terrific year across the board in 2017 and I'm proud of how we navigated risks and returns. Our international and buy-and-hold strategies in 2017 were +22-27%. Our hedged strategies (portfolios that hold cash at times to mitigate some market decline) were +17-20%. And our income and low correlation strategies were +6-8%. Without you, of course, there is no business - so again, thank you.

From all of us, Happy New Year and best wishes for a happy, healthy, and prosperous 2018!

# 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?

Driven by a positive Q3 corporate earnings season and a surging tech sector, domestic equities bounced higher in October. November saw new highs for major U.S. indexes with the Dow Jones Industrial Average hitting 24,000 and the S&P 500 passing 2,600. Tech stocks drove gains in international markets, particularly in Emerging Markets, which continued to the end of 2017. December saw the seeds sown for a new U.S. tax policy and the European Central Bank announced their scaling back of monetary policy, acknowledging economic strength in the Eurozone. The U.S. retail sector got a boost from the highest holiday retail sales in five years. Emerging and Asian markets had a positive December and ended 2017 as the year's biggest winners. European stocks notched their best year since 2013, and all three major U.S. indexes surged to new highs.

## TECHNICAL

Volatility remained low as the CBOE VIX ended the year at 11. The S&P 500 ended December 2%, 5% and 8% above its 50, 100, and 200-day simple moving averages, respectively.

## SENTIMENT

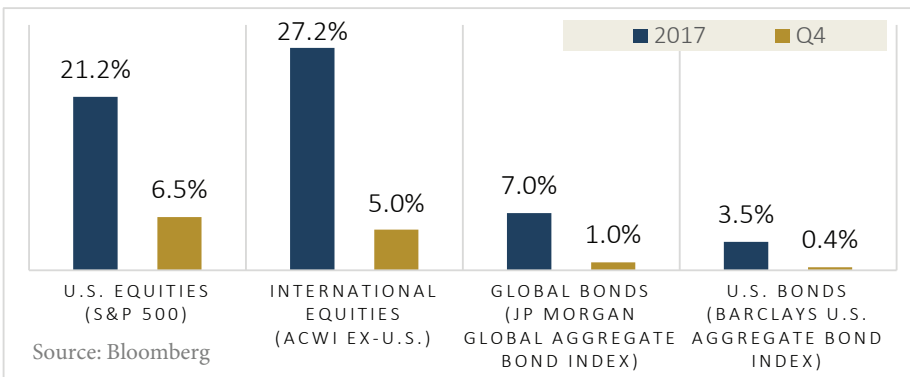
The homebuilder sentiment index climbed steadily in the 4th quarter hitting 74 in December, the highest level since July 1999.

## MACROECONOMIC

The U.S. leading economic indicators sustained their high levels. Wage growth was on the rise and unemployment remained near historic lows.

## VALUATION

With equities in an upward trend, valuations remained stretched. P/E and forward P/E ratios both increased in December.



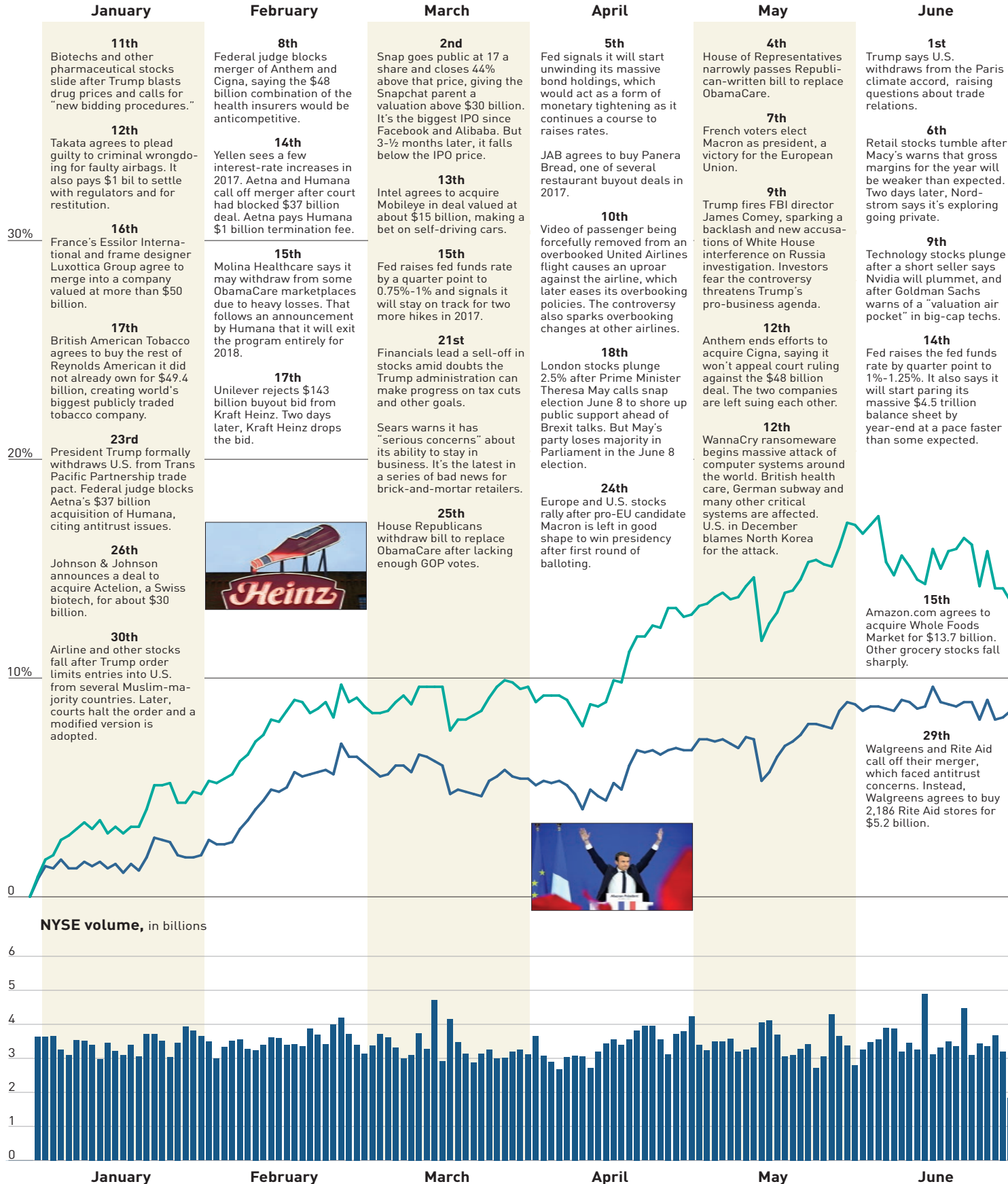
## Moving into 2018

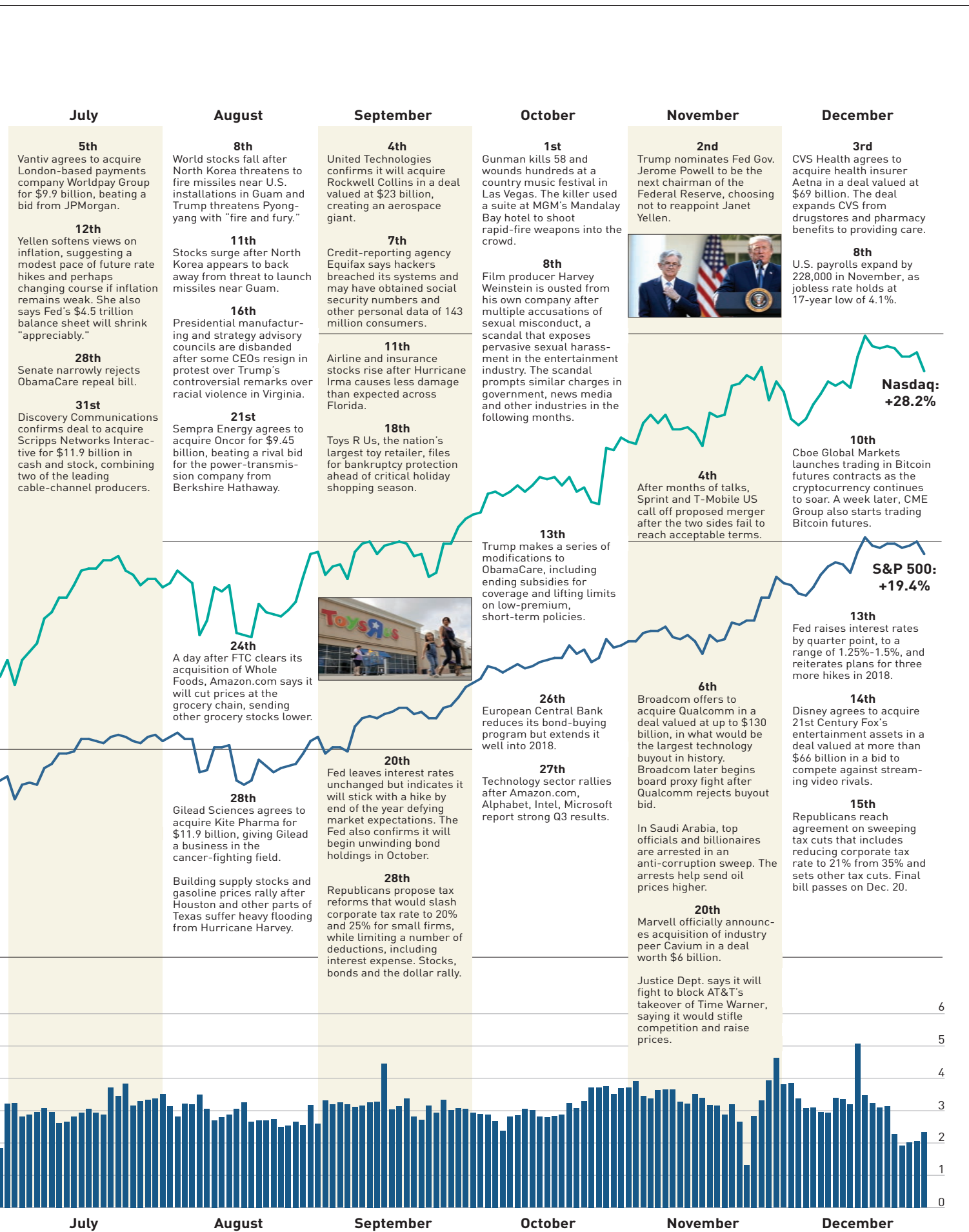
The success of 2017 spurred high levels of investor optimism moving into 2018. Central banks raising their growth forecasts and the tightening of monetary policy in many countries indicated the optimism is not only held by investors, but also central bankers. The New Year ushers in a new tax policy in the U.S. as all eyes will be on the initial response by corporations particularly if and how much of their international earnings they decide to repatriate at the lower corporate tax rate. Valuations remain stretched, but strong macroeconomic and technical indicators still shine through. We enter January 94% invested in our U.S. tactical strategies and near 100% invested in the international tactical strategy.

Data as of 12/31/2017. Data provided by Bloomberg, NorthCoast Asset Management.

# 2017: A Remarkable Year For Stocks

Indexes made superb gains in a year of unusually low volatility. The Nasdaq's worst drop was only 4.4%.





Source: Investor's Business Daily. Index performance excludes dividends.

# Strategy Performance

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	2017 (NET)	Q4 (NET)
Risk-Adjusted "Tactical"	CAN SLIM <sup>®</sup>	Tactical All-Cap Growth	18.6%	6.3%
	CAN SLIM <sup>®</sup> <i>International</i>	Tactical All-Cap International Growth	23.2%	4.0%
	CAN SLIM <sup>®</sup> <i>Global</i>	50% CAN SLIM <sup>®</sup> / 50% CAN SLIM <sup>®</sup> International	20.8%	5.2%
	Tax-Managed	All-Cap U.S. Growth	20.0%	6.0%
	Tactical Growth •	Tactical Global Asset Allocation	19.4%	4.0%
	U.S. Sector Select Hedged •	Tactical U.S. Sector Allocation	19.8%	5.9%
	International Select Hedged •	Tactical Country Rotation	23.6%	2.5%
Growth	Legends Value	All-Cap Value	14.6%	6.4%
	United Portfolio	50% Legends Value / 50% CAN SLIM <sup>®</sup>	16.5%	6.4%
	Vista	All-Cap Growth	22.1%	6.7%
	Global Select •	Global Country Allocation	24.0%	2.9%
	U.S. Sector Select •	U.S. Sector Rotation	22.9%	6.9%
	International Select •	International Country Allocation	27.3%	2.4%
	Emerging Market Select •	Emerging Market Country Allocation	27.3%	4.1%
Core	Diversified Core •	Global Asset Allocation	14.6%	2.9%
	Diversified Growth •	Global Asset Allocation	17.6%	3.6%
	CAN SLIM <sup>®</sup> : <i>Growth &amp; Income</i>	75% CAN SLIM <sup>®</sup> / 25% Bond ETFs	15.1%	4.9%
	CAN SLIM <sup>®</sup> : <i>Balanced</i>	50% CAN SLIM <sup>®</sup> / 50% Bond ETFs	11.5%	3.4%
Income	Core Fixed Income •	Conservative Income	5.7%	0.7%
	Tactical Income •	Dynamic Income	8.3%	1.1%
	Aggressive Income	Aggressive Income	6.2%	0.6%
Alts	Zero Beta	Liquid Alternatives	6.3%	2.8%

• = ETF Managed Strategy

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