# Quarterly Client Update

2017 Q4

December 31, 2017







### **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:

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.

# 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.

### 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!

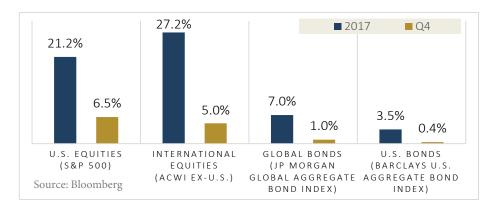
### NorthCoast Navigator

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.





#### 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.

#### 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.

### 2017: A Remarkable Year For Stocks

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

#### January **February** March **April** Mav June 11th 8th 2nd 5th 4th 1st Trump says U.S. Biotechs and other Federal judge blocks Snap goes public at 17 a Fed signals it will start House of Representatives pharmaceutical stocks slide after Trump blasts merger of Anthem and unwinding its massive bond holdings, which withdraws from the Paris share and closes 44% narrowly passes Republiabove that price, giving the can-written bill to replace Cigna, saying the \$48 climate accord, raising drug prices and calls for billion combination of the health insurers would be Snapchat parent a valuation above \$30 billion. would act as a form of monetary tightening as it questions about trade OhamaCare "new bidding procedures. relations. anticompetitive. It's the biggest IPO since continues a course to French voters elect Macron as president, a 12th Facebook and Alibaba, But 6th raises rates. Takata agrees to plead 3-1/2 months later, it falls Retail stocks tumble after guilty to criminal wrongdo-Yellen sees a few interest-rate increases in JAB agrees to buy Panera below the IPO price. victory for the European Macy's warns that gross ing for faulty airbags. It Bread, one of several Union. margins for the year will 2017. Aetna and Humana call off merger after court restaurant buyout deals in also pays \$1 bil to settle 13th be weaker than expected. Intel agrees to acquire 9th with regulators and for Two days later. Nord-Mobileye in deal valued at about \$15 billion, making a had blocked \$37 billion Trump fires FBI director strom says it's exploring restitution. 10th deal. Aetna pays Humana \$1 billion termination fee. James Comey, sparking a backlash and new accusagoing private. 16th bet on self-driving cars. Video of passenger being France's Essilor Interna-tional and frame designer forcefully removed from an tions of White House 9th overbooked United Airlines Technology stocks plunge 15th 15th interference on Russia Luxottica Group agree to Molina Healthcare says it Fed raises fed funds rate flight causes an uproar investigation. Investors after a short seller says against the airline, which by a quarter point to 0.75%-1% and signals it merge into a company may withdraw from some fear the controversy Nvidia will plummet, and valued at more than \$50 ObamaCare marketplaces later eases its overbooking threatens Trump's after Goldman Sachs will stay on track for two more hikes in 2017. policies. The controversy also sparks overbooking warns of a "valuation air pocket" in big-cap techs. hillion due to heavy losses. That pro-business agenda. follows an announcement 17th by Humana that it will exit changes at other airlines. 12th British American Tobacco 14th 21st Anthem ends efforts to the program entirely for agrees to buy the rest of Financials lead a sell-off in 18th acquire Cigna, saying it Fed raises the fed funds London stocks plunge 2.5% after Prime Minister won't appeal court ruling against the \$48 billion rate by quarter point to 1%-1.25%. It also says it Reynolds American it did stocks amid doubts the not already own for \$49.4 17th Trump administration can Unilever rejects \$143 billion buyout bid from billion, creating world's biggest publicly traded Theresa May calls snap election June 8 to shore up will start paring its massive \$4.5 trillion make progress on tax cuts deal. The two companies and other goals. are left suing each other. Kraft Heinz. Two days later, Kraft Heinz drops tobacco company. public support ahead of balance sheet by year-end at a pace faster than some expected. Sears warns it has Brexit talks. But Mav's 12th 23rd serious concerns" about party loses majority in WannaCry ransomeware President Trump formally withdraws U.S. from Trans its ability to stay in Parliament in the June 8 begins massive attack of business. It's the latest in election. computer systems around the world. British health care, German subway and Pacific Partnership trade pact. Federal judge blocks a series of bad news for 24th brick-and-mortar retailers. Aetna's \$37 billion Europe and U.S. stocks many other critical 25th rally after pro-EU candidate Macron is left in good systems are affected. U.S. in December acquisition of Humana, citing antitrust issues. House Republicans withdraw bill to replace ObamaCare after lacking shape to win presidency after first round of blames North Korea 26th for the attack. Johnson & Johnson enough GOP votes. balloting. announces a deal to acquire Actelion, a Swiss 15th biotech, for about \$30 Amazon.com agrees to acquire Whole Foods Market for \$13.7 billion. 30th Airline and other stocks Other grocery stocks fall fall after Trump order sharply limits entries into U.S. from several Muslim-maiority countries. Later. courts halt the order and a modified version is 29th Walgreens and Rite Aid call off their merger, which faced antitrust concerns. Instead. Walgreens agrees to buy 2.186 Rite Aid stores for \$5.2 billion. NYSE volume, in billions

#### July August September October November December 5th 8th 1st 3rd 4th 2nd Trump nominates Fed Gov. World stocks fall after United Technologies Gunman kills 58 and CVS Health agrees to Vantiv agrees to acquire North Korea threatens to Jerome Powell to be the London-based payments confirms it will acquire wounds hundreds at a acquire health insurer Rockwell Collins in a deal company Worldpay Group fire missiles near U.S. country music festival in next chairman of the Aetna in a deal valued at for \$9.9 billion, beating a bid from JPMorgan. Las Vegas. The killer used a suite at MGM's Mandalay Federal Reserve, choosing not to reappoint Janet \$69 billion. The deal expands CVS from installations in Guam and valued at \$23 billion, creating an aerospace Trump threatens Pyongyang with "fire and fury. Bay hotel to shoot drugstores and pharmacy giant. Yellen 12th rapid-fire weapons into the benefits to providing care. Yellen softens views on crowd. 11th Stocks surge after North Korea appears to back Credit-reporting agency Equifax says hackers inflation, suggesting a modest pace of future rate 8th 8th U.S. payrolls expand by hikes and perhaps changing course if inflation remains weak. She also away from threat to launch breached its systems and Film producer Harvey 228,000 in November, as missiles near Guam. may have obtained social Weinstein is ousted from iobless rate holds at security numbers and his own company after . 17-year low of 4.1% other personal data of 143 million consumers. savs Fed's \$4.5 trillion 16th multiple accusations of balance sheet will shrink Presidential manufactursexual misconduct, a "appreciably." ing and strategy advisory scandal that exposes councils are disbanded 11th pervasive sexual harass-28th after some CEOs resign in Airline and insurance ment in the entertainment Senate narrowly rejects protest over Trump's stocks rise after Hurricane industry. The scandal ObamaCare repeal bill. controversial remarks over Irma causes less damage prompts similar charges in Nasdaq: government, news media and other industries in the racial violence in Virginia. than expected across +28.2% 31st Florida. **Discovery Communications** 21st following months. Sempra Energy agrees to acquire Oncor for \$9.45 18th confirms deal to acquire Scripps Networks Interac-Toys R Us, the nation's 10th largest toy retailer, files for bankruptcy protection ahead of critical holiday Cboe Global Markets launches trading in Bitcoin tive for \$11.9 billion in cash and stock, combining billion, beating a rival bid for the power-transmistwo of the leading sion company from Berkshire Hathaway. 4th futures contracts as the cable-channel producers. After months of talks, shopping season. cryptocurrency continues Sprint and T-Mobile US to soar. A week later, CME call off proposed merger after the two sides fail to Group also starts trading Bitcoin futures. 13th reach acceptable terms Trump makes a series of modifications to ObamaCare, including S&P 500: ending subsidies for +19.4% coverage and lifting limits on low-premium, short-term policies 13th Fed raises interest rates by quarter point, to a range of 1.25%-1.5%, and 24th A day after FTC clears its acquisition of Whole reiterates plans for three more hikes in 2018. Foods, Amazon.com says it 6th will cut prices at the grocery chain, sending 26th Broadcom offers to 14th Disney agrees to acquire 21st Century Fox's European Central Bank acquire Qualcomm in a other grocery stocks lower. reduces its bond-buying deal valued at up to \$130 program but extends it billion, in what would be entertainment assets in a the largest technology . welľ into 2018. deal valued at more than buyout in history. Broadcom later begins \$66 billion in a bid to 20th 27th compete against stream-Fed leaves interest rates Technology sector rallies board proxy fight after ing video rivals unchanged but indicates it will stick with a hike by after Amazon.com. Qualcomm rejects buyout 28th Alphabet, Intel, Microsoft 15th end of the year defying market expectations. The Gilead Sciences agrees to Republicans reach agreement on sweeping report strong Q3 results. acquire Kite Pharma for In Saudi Arabia, top Fed also confirms it will \$11.9 billion, giving Gilead a business in the officials and billionaires tax cuts that includes begin unwinding bond are arrested in an reducing corporate tax holdings in October. cancer-fighting field. rate to 21% from 35% and anti-corruption sweep. The sets other tax cuts. Final bill passes on Dec. 20. arrests help send oil 28th Building supply stocks and prices higher. Republicans propose tax gasoline prices rally after Houston and other parts of reforms that would slash 20th corporate tax rate to 20% Texas suffer heavy flooding Marvell officially announcfrom Hurricane Harvey. and 25% for small firms, es acquisition of industry peer Cavium in a deal while limiting a number of deductions, including worth \$6 billion. interest expense. Stocks, bonds and the dollar rally. Justice Dept. says it will fight to block AT&T's takeover of Time Warner, saying it would stifle competition and raise

December

## **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"	Designed to first analyze market risk then determine the desired asset allocation and security selection	CAN SLIM°	Tactical All-Cap Growth	17.5%	6.2%
		CAN SLIM <sup>®</sup> International	Tactical All-Cap International Growth	23.3%	4.0%
		CAN SLIM <sup>®</sup> Global	50% CAN SLIM° / 50% CAN SLIM° International	20.2%	5.1%
		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%
Grow	Seek to generate growth returns greater than the respective market benchmark	Legends Value	All-Cap Value	14.4%	6.3%
		United Portfolio	50% Legends Value / 50% CAN SLIM°	15.7%	6.3%
		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%
Col	Designed to meet the broad goals of growth and income and serve as the 'core' of a portfolio	Diversified Core •	Global Asset Allocation	14.6%	2.9%
		Diversified Growth •	Global Asset Allocation	17.6%	3.6%
		CAN SLIM': Growth & Income	75% CAN SLIM* / 25% Bond ETFs	13.5%	4.6%
		CAN SLIM <sup>*</sup> : Balanced	50% CAN SLIM* / 50% Bond ETFs	10.3%	3.1%
Inco	Designed to generate yield and returns through traditional and non-traditional income sources	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	Aim to generate returns that are independent of the equity and fixed income markets	Zero Beta	Liquid Alternatives	6.3%	2.8%

ETF Managed Strategy

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