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Retirement Portfolios Shift Some Allocations

NorthCoast bumps up munis in Tactical Income, slashes short Treasuries in Tactical Growth

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FOR INVESTOR'S BUSINESS DAILY

Patrick Jamin has a big-picture focus. After capping a banner year in 2013, the chief investment officer for NorthCoast Asset Management tweaked allocation to some of the four NorthCoast ETF Retirement Portfolios, while holding others steady.

In January, some of Jamin's big winners from 2013 faced short-term resistance. Valuation concerns for domestic stocks and volatility in emerging markets have tested investor resolve. Jamin is up for the challenge as his holdings have remained largely intact. Here are highlights from the first month of 2014:

IShares Core S&P 500 ETF[IVV] remained a staple NorthCoast holding in January as attention shifted to corporate earnings results.

Nearly 80% of companies that have reported have topped analysts' predictions. "It is still relatively early in the earnings season," Jamin said. "The average reaction of the stock price of companies on the day of their earnings reports has been slightly below that of the market on those days. This trend is suggesting a relative disappointment of investors."

IVV has pulled back to the tune of 5% so far this year.

IShares MSCI EAFE[EFA] held on as the top holding in three of the four portfolios. In Tactical Growth, the position in iShares Europe[IEV] was bumped up 6% to 11% and in iShares MSCI EAFE 5% to 30%. Both funds are rich with U.K. stocks. "We see two main risks in Europe at the moment," he said. "The first is the health of the banking system, which is still undergoing an asset-quality assessment from the European Central Bank, and the second is the end of several bailout programs."

These risks have not dampened Jamin's favorable outlook for the region as U.K. consumer confidence rose to its highest level since 2007 in January. "The data is pointing to a recovery with these readings," he said. "The ECB is expected to remain supportive, with room to further stimulate growth by loosening monetary policy."

Shares of both EFA and IEV posted declines of 5% during the month.

IShares MSCI Emerging Markets[EEM] experienced head winds in January. A report that Chinese manufacturing might contract for the first time in six months highlighted concerns about growth. "We have been surprised by the weaker-than-expected Chinese economic data," Jamin said. "There has been a substantial outflow from emerging market equity funds this year." EEM fell 9% during the month.

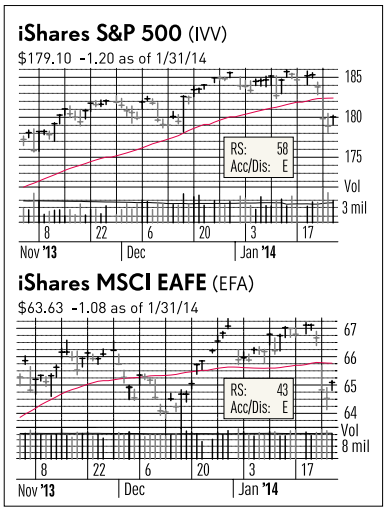
Tactical Growth's position in Barclays Short Treasury was slashed by 13% to 8%.

IShares iBoxx $ High Yield Corporate Bond[HYG] continued to anchor the Tactical Income portfolio as its top holding. HYG ticked up 0.4% in January. "While we have stayed away from mid- and long-term government bonds, we see some opportunities in the credit sectors where higher yield and lower durations can be attractive," Jamin said.

Jamin also likes the prospects of iShares National AMT-Free Muni Bond[MUB], up 3% this year and a new addition to Tactical Income. "Beyond the preferential tax treatment, it can benefit from improvements in the fundamentals of the municipal markets as well as rising taxes," he said.

Positions in iShares Barclays MBS Bond and 1-3 Year Credit Bond were trimmed by 5% each.

IShares U.S. Preferred Stock[PFF], up 3% this year, has surged out of the blocks for Tactical Income. "In the current environment of stretched equity valuations and Fed tapering, we believe PFF sits at the sweet spot between appreciation potential and yield," Jamin said.



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Tactical Income

Year-to-date performance as of 1/31/14: 0%

iShares ETFs	Symbol	Asset class	12-mo yield	Allocation	Price	+/-
iBoxx $ High Yield Corporate Bond	HYG	Bond - Corp. - High Yield	6.1%	16%	$93.25	8.8%
Intermediate Credit Bond	CIU	Bond - Corp. - Inv. Grade	2.7%	14%	108.93	1.9%
Barclays MBS Bond	MBB	Bond - ABS	1.2%	10%	106.53	-0.8%
S&P National AMT-Free Municipal Bond	MUB	Bond - Municipal	2.9%	10%	106.40	0.0%
1-3 Year Credit Bond	CSJ	Bond - Corp. - Inv. Grade	1.2%	5%	105.54	0.8%
JPMorgan USD Emerging Markets Bond	EMB	Bond - Emerging Market	4.8%	5%	107.28	-6.7%
S&P Global Infrastructure	IGF	Equity - Infrastructure	3.5%	10%	38.43	0.0%
Dow Jones International Select Dividend	IDV	Equity - International - Div.	4.7%	10%	36.04	17.5%
S&P US Preferred Stock	PFF	Preferred Stock	6.4%	14%	37.92	2.5%
S&P Developed ex-U.S. Property	WPS	Real Estate	4.3%	5%	35.35	8.6%

▶ Designed to generate income with protection against inflation and rising interest rates.
Appropriate Benchmark: 100% Barclays Bond Aggregate

Diversified Core

Year-to-date performance as of 1/31/14: -2.6%

iShares ETFs	Symbol	Asset class	12-mo yield	Allocation	Price	+/-
iBoxx $ High Yield Corporate Bond	HYG	Bond - Corp. - High Yield	6.1%	12%	$93.25	6.2%
Core Total US Bond Market	AGG	Bond - Govt./Corp.	2.3%	11%	108.07	-0.5%
Intermediate Credit Bond	CIU	Bond - Corp. - Inv. Grade	2.7%	9%	108.93	1.9%
1-3 Year Credit Bond	CSJ	Bond - Corp. - Inv. Grade	1.2%	4%	105.54	0.8%
Barclays Short Treasury Bond	SHV	Bond - Govt - Short Term	0.0%	3%	110.24	0.0%
JPMorgan USD Emerging Markets Bond	EMB	Bond - Emerging Market	4.8%	3%	107.28	-8.5%
MSCI EAFE	EFA	Equity - International	2.7%	21%	63.61	0.6%
Core S&P 500	IVV	Equity - Large Cap	1.9%	15%	179.17	27.7%
MSCI Emerging Markets	EEM	Equity - Emerging Market	2.2%	6%	38.19	-5.5%
MSCI Japan	EWJ	Equity - International	1.2%	5%	11.33	1.7%
S&P Europe 350	IEV	Equity - International	2.4%	5%	45.27	-1.0%
Core S&P Mid-Cap	IJH	Equity - Mid Cap	1.3%	4%	130.88	30.5%
Core S&P Small-Cap	IJR	Equity - Small Cap	1.0%	2%	105.09	36.1%

▶ Centerpiece portfolio for a conservative retiree or investor near retirement.
Appropriate Benchmark: 50% S&P 500 & 50% Barclays Bond Aggregate

Diversified Growth

Year-to-date performance as of 1/31/14: -3.5%

iShares ETFs	Symbol	Asset class	12-mo yield	Allocation	Price	+/-
Core Total US Bond Market	AGG	Bond - Govt./Corp.	2.3%	9%	$108.07	-0.5%
iBoxx $ High Yield Corporate Bond	HYG	Bond - Corp. - High Yield	6.1%	6%	93.25	6.2%
Intermediate Credit Bond	CIU	Bond - Corp. - Inv. Grade	2.7%	4%	108.93	1.9%
Barclays Short Treasury Bond	SHV	Bond - Govt - Short Term	0.0%	3%	110.24	0.0%
JPMorgan USD Emerging Markets Bond	EMB	Bond - Emerging Market	4.8%	3%	107.28	-8.5%
1-3 Year Credit Bond	CSJ	Bond - Corp. - Inv. Grade	1.2%	2%	105.54	0.8%
MSCI EAFE	EFA	Equity - International	2.7%	28%	63.61	0.6%
Core S&P 500	IVV	Equity - Large Cap	1.9%	20%	179.17	27.7%
MSCI Emerging Markets	EEM	Equity - Emerging Market	2.2%	8%	38.19	-5.5%
MSCI Japan	EWJ	Equity - International	1.2%	5%	11.33	1.7%
S&P Europe 350	IEV	Equity - International	2.4%	5%	45.27	-1.0%
Core S&P Mid-Cap	IJH	Equity - Mid Cap	1.3%	5%	130.88	30.5%
Core S&P Small-Cap	IJR	Equity - Small Cap	1.0%	2%	105.09	36.1%

▶ Centerpiece portfolio for a more growth-oriented retiree or investor retiring in 5-10 years.
Appropriate Benchmark: 70% S&P 500 & 30% Barclays Bond Aggregate

Tactical Growth

Year-to-date performance as of 1/31/14: -4.1%

iShares ETFs	Symbol	Asset class	12-mo yield	Allocation	Price	+/-
Barclays Short Treasury Bond	SHV	Bond - Govt - Short Term	0.0%	8%	110.24	0.0%
MSCI EAFE	EFA	Equity - International	2.7%	30%	63.61	0.6%
Core S&P 500	IVV	Equity - Large Cap	1.9%	20%	179.17	27.7%
S&P Europe 350	IEV	Equity - International	2.4%	11%	45.27	-1.0%
Core S&P Mid-Cap	IJH	Equity - Mid Cap	1.3%	11%	130.88	30.5%
MSCI Emerging Markets	EEM	Equity - Emerging Market	2.2%	10%	38.19	-5.5%
MSCI Japan	EWJ	Equity - International	1.2%	5%	11.33	-4.1%
Core S&P Small-Cap	IJR	Equity - Small Cap	1.0%	5%	105.09	36.1%

▶ Designed to generate long-term capital appreciation with downside risk controls.
Appropriate Benchmark: 100% S&P 500

NorthCoast Asset Management
iShares by BLACKROCK