INVESTOR'S BUSINESS DAILY
MONDAY, OCTOBER 1, 2018

NorthCoast Still Bullish On U.S. Stock Market

Lightens up on most foreign areas due to concerns over slower growth but still likes outlook in Australia

BY BILLY FISHER
FOR INVESTOR'S BUSINESS DAILY

Key positions for NorthCoast Asset Management's ETF retirement portfolios broke through to new highs in Q3. A vibrant economy and swelling corporate profits fueled gains by U.S. equity ETFs. The firm added exposure to Canadian and Australian stocks. NorthCoast dialed back its European equity holdings as growth in the region was muted by looming trade uncertainty.

Here are portfolio highlights from Q3:

IShares Core S&P Small-Cap[IJR], iShares Core S&P 500[IVV] and iShares Core S&P Mid-Cap[IJH] remained as featured holdings in three of the portfolios. The trio accounted for 42% of the total weight of the Tactical Growth portfolio.

Bets on these domestic ETFs have paid off with respective gains of 14.19%, 10.41% and 7.05% so far this year. "We are overweight the U.S. and this has been one of the regions that has been the most productive year to date," said Patrick Jamin, chief investment officer for NorthCoast. "The reality is the domestic equity markets are better than other major international markets — developed or emerging."

Jamin's commitment to these holdings has been encouraged by robust GDP growth and healthy labor market data. NorthCoast's models left the firm with a slight preference for small caps at the end of Q3. "Our outlook for IJR remains more bullish compared to IVV and IJH," Jamin said.

NorthCoast added to its stakes in iShares MSCI Canada[EWC] as manufacturers north of the border stayed upbeat. "Canada's manufacturing PMI hit 57.1 in June which was its highest level in the past five years," Jamin said. "The economic surprise index for Canada has also been increasing steadily."

Jamin and his team built positions in iShares MSCI Pacific ex Japan[EPP] in Q3. Approximately 57% of the fund is composed of Australian equities. "We are overweight that region right now," he said. "We're seeing positive macro and sentiment signals being the major contributors driving our model's scoring. The rate of economic growth in Australia has really been surprising."

Earlier this month the Australian Bureau of Statistics reported that Q2 GDP growth spiked 3.4% on a year-over-year basis.

The NorthCoast team cut back on its iShares MSCI Eurozone[EZU] positions during the quarter. "We are underweight Europe at the moment," Jamin said. "Technical, sentiment, macro and valuation indicators from our models are in negative territory. Eurozone industrial production also declined by 0.8% month-over-month in July following a similar drop in June."

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>
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Shares of EZU ticked up 2.1% in Q3 but remain down slightly from the start of the year.

Jamin bought shares of iShares Interest Rate Hedged High Yield Bond[HYGH] for the Tactical Income portfolio in Q3. The fund incorporates short positions in interest rate swaps into a portfolio of high-yield corporate bonds. "We've developed a duration-timing model to actively manage interest rate risk," said Jamin of the addition. "Our model was indicating it was quite bullish on credit risk but not so bullish on duration risk. We have shifted some of our position from iShares iBoxx $ High Yield Corporate Bond[HYG] to HYGH, giving us the same exposure to high-yield risk while decreasing exposure to duration."

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Tactical Income

Year to date performance as of 9/28/18: -0.8%

iShares ETFs	Symbol	Asset class	12-mo yield	Allocation	Price	+/-
MBS Bond	MBB	Bond - ABS	2.5%	14%	103.33	1.2%
JPMorgan USD Emerging Markets Bond	EMB	Bond - Emerging Market	4.6%	12%	107.81	5.5%
Long-Term Corporate Bond	IGLB	Bond - Corp. - Inv. Grade	4.3%	10%	58.27	6.4%
High Yield Muni Bond	HYD	Bond - Corp. - High Yield	4.3%	9%	31.13	12.7%
iBoxx $ High Yield Corporate Bond	HYG	Bond - Corp. - High Yield	5.1%	5%	86.44	8.7%
Interest Rate Hedged High Yield Bond	HYGH	Bond - Corp. - High Yield	5.1%	5%	92.32	12.1%
Interest Rate Hedged Long-Term Corprte Bond	IGBH	Bond - Corp. - Inv. Grade	3.4%	5%	26.36	11.8%
Intermediate-Term Corporate Bond	IGIB	Bond - Corp. - Inv. Grade	2.8%	5%	53.10	2.7%
1-3 Year Treasury Bond	SHY	Bond - Govt - Short Term	1.5%	5%	83.09	0.4%
20+ Year Treasury Bond	TLT	Bond - Govt - Long Term	2.7%	4%	117.27	2.7%
Select Dividend	DVY	Equity - Domestic - Div.	3.2%	6%	99.76	19.2%
International Select Dividend	IDV	Equity - International - Div.	4.9%	6%	32.63	20.1%
US Real Estate	IYR	Real Estate	3.8%	6%	80.02	11.0%
US Preferred Stock	PFF	Preferred Stock	5.6%	4%	37.13	9.5%
Mortgage Real Estate	REM	Real Estate	10.1%	3%	43.56	22.3%

Diversified Core

Year to date performance as of 9/28/18: 0.9%

iShares ETFs	Symbol	Asset class	12-mo yield	Allocation	Price	+/-
MBS Bond	MBB	Bond - ABS	2.5%	10%	103.33	1.2%
JPMorgan USD Emerging Markets Bond	EMB	Bond - Emerging Market	4.6%	9%	107.81	5.5%
Long-Term Corporate Bond	IGLB	Bond - Corp. - Inv. Grade	4.3%	8%	58.27	6.4%
High Yield Muni Bond	HYD	Bond - Corp. - High Yield	4.3%	5%	31.13	12.7%
Intermediate-Term Corporate Bond	IGIB	Bond - Corp. - Inv. Grade	2.8%	5%	53.10	2.7%
3-7 Year Treasury Bond	IEI	Bond - Govt - Interm. Term	1.8%	5%	119.07	-0.1%
10-20 Year Treasury Bond	TLH	Bond - Govt- Long Term	2.1%	3%	128.57	-0.1%
Core S&P 500	IVV	Equity - Large Cap	1.7%	12%	292.73	34.4%
Core S&P Small-Cap	IJR	Equity - Small Cap	1.2%	11%	87.24	29.7%
MSCI Canada	EWC	Equity - International	2.1%	10%	28.78	13.3%
MSCI European Union	EZU	Equity - International	3.0%	7%	41.01	23.9%
Core S&P Mid-Cap	IJH	Equity - Mid Cap	1.4%	7%	201.29	24.8%
MSCI Pacific ex-Japan	EPP	Equity - International	4.6%	5%	45.42	22.1%
Core MSCI Emerging Markets	IEMG	Equity - Emerging Market	2.7%	3%	51.78	26.1%

Diversified Growth

Year to date performance as of 9/28/18: 2.0%

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JPMorgan USD Emerging Markets Bond	EMB	Bond - Emerging Market	4.6%	9%	107.81	5.5%
Long-Term Corporate Bond	IGLB	Bond - Corp. - Inv. Grade	4.3%	6%	58.27	6.4%
High Yield Muni Bond	HYD	Bond - Corp. - High Yield	4.3%	5%	31.13	12.7%
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Core S&P Mid-Cap	IJH	Equity - Mid Cap	1.4%	10%	201.29	24.8%
Core MSCI Emerging Markets	IEMG	Equity - Emerging Market	2.7%	6%	51.78	26.1%
MSCI Pacific ex-Japan	EPP	Equity - International	4.6%	5%	45.42	22.1%

Tactical Growth

Year to date performance as of 9/28/18: 1.5%

iShares ETFs	Symbol	Asset class	12-mo yield	Allocation	Price	+/-
Long-Term Corporate Bond	IGLB	Bond - Corp. - Inv. Grade	4.3%	9%	58.27	6.4%
High Yield Muni Bond	HYD	Bond - Corp. - High Yield	4.3%	5%	31.13	12.7%
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MSCI Canada	EWC	Equity - International	2.1%	5%	28.78	13.3%

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