

NorthCoast Navigator

November 2014



NorthCoast Remains Invested During Volatile October to End the Month in Positive Territory

"To think is easy. To act is hard. But the hardest thing in the world is to act in accordance with your thinking"
- Johann Wolfgang von Goethe

On October 15, the combination of 40+ data points we monitor continued to display a bullish environment and an opportunity to make money in the near-term.

Macroeconomic data: Strong / Valuation levels: Improving / Sentiment: Positive / Technicals: Weakening but steady

But as of October 15, the S&P 500 had fallen roughly 9% from its high on September 18. Equities were extremely volatile. Of the first eleven trading days (through 10/15), seven experienced either an advance or decline of over 1%; Five negative and only two positive. Clients were fearful and news headlines were abuzz. Once the fear subsided, equities rebounded and ended the month +2.4%, and +10.4% YTD.

Throughout the volatility, NorthCoast remained grounded in its analysis which indicated a bullish market environment. A few strategies even added exposure as attractive entry points opened up. Short-term corrections are inevitable and the recent decline only solidified our position that over time, data and discipline will outperform gut reaction and opinion.

With the sharp advance in equities (S&P 500) over the past two weeks, some of our indicators have now weakened, and as the dust settled from a wild October, we moved back into an 'Opportunistic' market environment. As a result, we reduced the equity risk exposure across our tactical strategies to roughly 80%.

We will continue to monitor these developments each day and make necessary adjustments when warranted.

- Question of the Month -

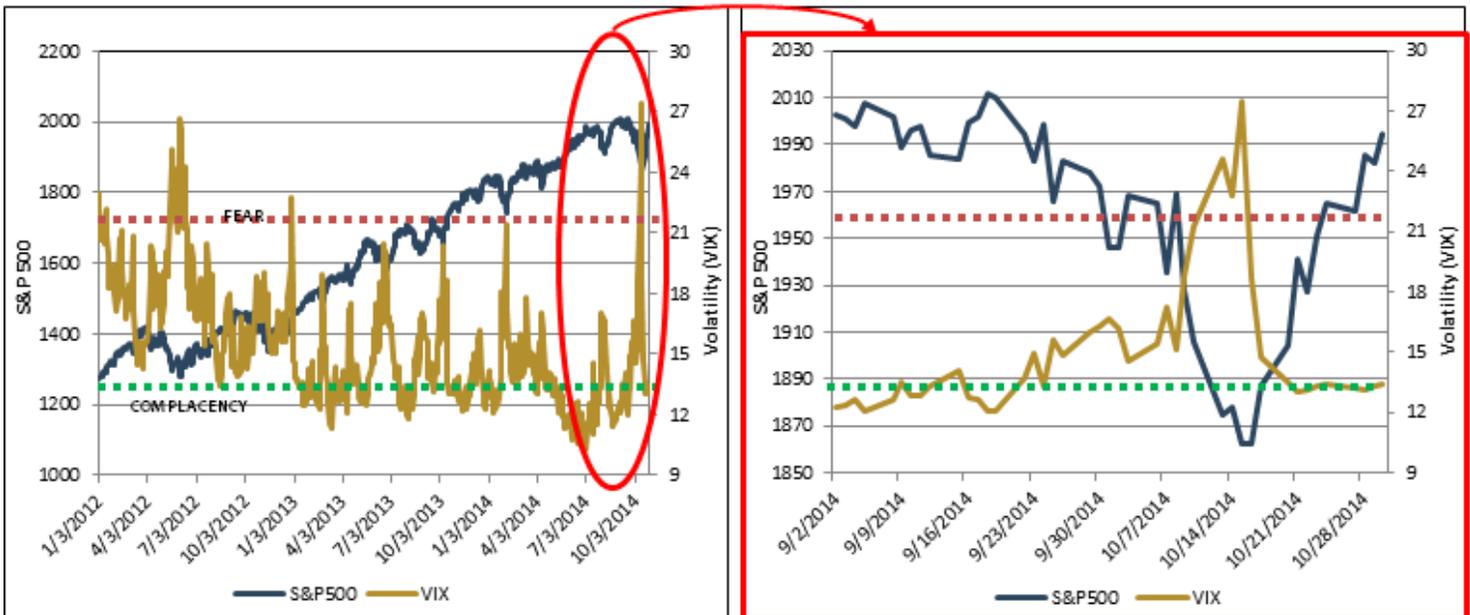
Why did NorthCoast stay fully invested throughout the October decline?

On October 15, NorthCoast published a market update highlighting our current market outlook with three supporting data points. You can review the research by clicking on the question above.

- Chart of the Month -

S&P 500 vs. Volatility (VIX)

On October 15, the VIX Index (~ fear Index) reached its highest point over the past two years. As seen below, while the VIX makes quarterly incursions into this territory, in each instance the market pulls back before resuming its ascent after fear subsides and the VIX normalizes.



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.

TECHNICAL	SENTIMENT	MACROECONOMIC	VALUATION
<ul style="list-style-type: none"> ▪ S&P 500 ended the month +2.4% and YTD +10.4% ▪ Momentum increased with the S&P 500 3% above its 50-day moving average, 3% above the 100-day, and now 6% above the 200-day after breaking below the 200-day earlier in the month ▪ Volatility (VIX) sky-rocketed to a two-year high above 25 before settling back to its yearly average of 14 	<ul style="list-style-type: none"> ▪ Equity fund flows remained unchanged for October ▪ The UM Consumer Sentiment Survey edged higher for the 4th straight month to 86.9 ▪ Short interest decreased for a second straight month ▪ Factoring in market volatility, investor sentiment rose over the course of the month 	<ul style="list-style-type: none"> ▪ U.S. GDP remains in a slow-growth movement at +2.2% annualized ▪ Unemployment rate dropped below 6% for the first time since July 2008 ▪ Positive momentum continued with increasing housing starts and accelerating wage growth with a 6% jump in auto sales 	<ul style="list-style-type: none"> ▪ P/E rose to its highest level of the year of 17.9 ▪ Forward P/E also ticked up to 16.8 ▪ Both still above their 10-year historical averages and in line with valuation ratios experienced during the recent financial recession

As of 10/31/2014. Data provided by Bloomberg, GoldmanSachs, Morningstar.

- **Did you miss the Quarterly Advisor Webinar?** -

On October 14, President & CEO Dan Kraninger led an interactive Webinar recapping Q3 and providing insights into the final quarter of the year. You can listen to the recording by clicking on the question above.

Don't have the time for the 30-minute Webinar? [Review the PDF Overview here.](#)

Strategies Ride Wave of Volatile October

STRATEGY	DESCRIPTION	COMMENTARY	EQUITY EXPOSURE (END OF MONTH)
CAN SLIM®	All-Cap Tactical Growth	CAN SLIM® held its investment level during the October decline which aided in the rebound it experienced at the end of the month. As positions were liquidated at designated sell-stops, new positions were added at attractive entry points. Weakness in technical and valuation indicators provided reason to decrease exposure moving into November.	78%
CAN SLIM® INTERNATIONAL	All-Cap International Tactical Growth	Maintaining its 80% equity exposure, CAN SLIM® International was able to bounce back after the early month losses, but international equities continue to trail U.S. counterparts as currency and macroeconomic factors hamper growth.	82%
LEGENDS VALUE	All-Cap Value	With the whipsaw action in the marketplace, Legends Value experienced its fair share of volatility. The mid-month correction allowed for attractive entry into new positions as the strategy gears up for year-end.	100% (no cash scaling)
TACTICAL GROWTH	Dynamic ETF Allocation Growth	Tactical Growth experienced multiple allocation shifts. With October's volatility and changing trends in market posture, the strategy removed its exposure to Europe (IEV) and Emerging Markets (EEM) while taking stake in fixed income with high-yield (HYG) and 10+ year credit (CLY) bond ETFs. The strategy is positioning for further volatility and uncertainty as 2014 concludes.	88%
TACTICAL INCOME	Dynamic ETF Allocation Income	With the conclusion of the Fed's QE program, interest rates remain highly sensitive. The strategy shortened its duration to protect against rising interest rates. The strategy added 10+ year credit (CLY) and short-term treasuries (SHV) ETFs while also buying Select Dividend (DVY) ETF to increase yield potential. CIU, SUB, and CSJ were removed from the strategy.	15%

The securities shown are for informational purposes only. They can change and are not a recommendation to buy or sell any of these securities or to allocate a portfolio in this manner. Data and performance shown is through 10/31/2014. Provided by Bloomberg, Investor's Business Daily, NorthCoast Asset Management.

About NorthCoast



NorthCoast Asset Management is an established leader in the field of tactical investment management, specializing in quantitative research and constructing risk-managed equity portfolios. Our experienced management team, long-term portfolio performance, and premier partnerships make NorthCoast a preferred choice for astute growth-oriented investors seeking downside risk protection.

Recent Publications

