

NorthCoast Navigator

February 2015



Stocks Fall to Start 2015, but Remain Attractive in Current Environment

For a second consecutive calendar year, U.S. equities dropped more than 3% in value during the month of January. The S&P 500 ended -3% as global macroeconomic worries and portfolio re-balancing took effect.

The short-term pullback has done little to sway the overwhelmingly positive data for equities. As we near the halfway point in earnings season, 70% of S&P 500 companies who have reported beat earnings estimates while 46% beat sales estimates. The U.S. economy continues to power forward and is one of the few major economies expected to accelerate in 2015. Unemployment continues to fall and if the pace continues, household wealth rise and consumer spending will get a boost, propelling the U.S. economy further.

The "wildcards" of uncertainty continue to center around central banks, oil prices and production, and global economies. The European Central Bank announced a plan for heavy quantitative easing in an effort to keep the Eurozone out of a recession. China's manufacturing index remained below the pivotal contraction/expansion level, raising concerns about the world's second largest economy. And while the 50% drop in oil prices is providing short-term relief, little is known about the long-term health of the commodity and the billions of dollars connected to it.

With the current information at hand, NorthCoast remains cautiously bullish or "Opportunistic" in this environment, with our tactical portfolios between 90%-100% equity invested. We will continue to monitor the data points daily and make adjustments if necessary.

TECHNICAL	SENTIMENT	MACROECONOMIC	VALUATION
<ul style="list-style-type: none"> ▪ S&P 500 ended the month -3.0%, with the ACWI (All-Country World Index) -1.6% ▪ Momentum decreased with the S&P 500 2% below its 50-day moving average, 1% below the 100-day, and 1% above the 200-day, but found support at the 150-day ▪ Amidst global uncertainty, Volatility (VIX) slightly rose and ended January at 21.0 	<ul style="list-style-type: none"> ▪ Equity fund (SPY) flows decreased -13.2%, with portfolio re-balancing and profit taking as the likely culprits ▪ The UM Consumer Sentiment Survey edged higher for the 7th straight month to 98.1 ▪ With the fall in equities, more investors turned bearish in January providing positive sentiment analysis* <p><small>*Investor Sentiment seen as a contrarian indicator</small></p>	<ul style="list-style-type: none"> ▪ U.S. GDP continued to advance and remains one of the few major economies expected to accelerate growth this year ▪ Global data weakened as both Chinese and Eurozone manufacturing levels remain subdued ▪ Consumer spending could rise as household wealth increases and oil prices remain at current levels 	<ul style="list-style-type: none"> ▪ P/E decreased over the month and finished 17.6, reaching a level not seen since September 2014, with Forward P/E ended at 16.7 ▪ Both still above their 10-year historical averages and in line with valuation ratios experienced during the recent financial recession ▪ Value stocks took a bigger hit than their growth counterparts as S&P 500 Value fell -4.4% versus S&P 500 Growth at -1.7%

As of 1/31/2015. Data provided by Bloomberg, GoldmanSachs, Morningstar, Bureau of Economic Analysis.

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.

Strategies Feel Effects of Early Year Pullback

STRATEGY	DESCRIPTION	COMMENTARY	EQUITY EXPOSURE (END OF MONTH)
CAN SLIM®	All-Cap Tactical Growth	With a high equity investment level near 90% for most of the month, the strategy felt the effects of the broad market pullback. So far earnings season has produced mixed results. Examples are demonstrated by BILB on the positive and MSFT to the negative.	91%
CAN SLIM® INTERNATIONAL	All-Cap International Tactical Growth	International stocks ended January relatively flat but exposure to financial equities in the strategy led to a bumpy start to the year. As the global economy searches for its identity in 2015, we expect holdings in the strategy to carry more volatility but the prospects still remain attractive.	98%
LEGENDS VALUE	All-Cap Value	Value stocks were hit especially hard in January as the S&P 500 Value fell -4.4%. However, positive stock selection with the over allocation to discretionary stocks and slight underweight to energy stocks in January aided the portfolio. Legends Value saw a modest pullback compared to value stocks as a whole.	100% (no cash scaling)
TACTICAL GROWTH	Dynamic ETF Allocation Growth	As 2015 gets underway, international equities provided a boost in January to counteract the drop in U.S. holdings. Tactical Growth continued to favor equities for the near-term and increased equity exposure to 100%, from 85% in December. The strategy dropped its three fixed income positions (MBB, HYG, CLY) to increase allocations for large-cap (IVV) and small-cap (IJR) U.S. equities.	100%
TACTICAL INCOME	Dynamic ETF Allocation Income	Tactical Income continues to take advantage of the low-interest rate environment with a healthy allocation to alternative, equity, and high-yield positions. 10+ Year Credit Bond (CLY), a 10% holding in the strategy, rallied 5% with its low-default rate and attractive yield.	25%

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 12/31/2014. Provided by Bloomberg, Investor's Business Daily, NorthCoast Asset Management.

Inside NorthCoast

Personnel Movement - NorthCoast is excited to announce Jack Killea will be transitioning into a new role with the Advisor Sales team, supporting our network of external wholesalers across the country. Jack started out working as an advisor with the Private Client Group, and his experience working with direct clients will serve as a great benefit to the Advisor group. You can reach Jack at 203.532.7000 or jkilllea@northcoastam.com.

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

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