

NorthCoast Navigator

June 2015



Stocks Remain Positive for 2nd Straight Month

As 2015 approaches its midway point, U.S. equities continue their soft ascent in positive territory. The S&P 500 gained +1.2% in May with an annual gain of 3.0% YTD.

The strength of the U.S. economy, arguably the biggest contributor to equity performance in 2015, is beginning to show weakening signals after months of increasing momentum. Even though unemployment and jobless claims remain at pre-recession numbers, it appears the cold winter had a more chilling effect than previously estimated. A downward revision to the GDP data pushed it into negative territory, showing the [U.S. economy contracted in Q1 at a 0.7% annual rate](#). The news comes at a time when the Federal Reserve is rounding third base in its decision to raise interest rates for the first time since 2007.

Globally, international stocks have flourished in 2015 with the ACWI (All-Country World Index) ex-U.S. +7.0 YTD, after a slight pullback in May at -1.6%. International economies continue to play catch-up with the U.S. in terms of post-recession stimulus. Japan, China, and the Eurozone are driving equity performance with their [respective economic packages](#).

TECHNICAL	SENTIMENT	MACROECONOMIC	VALUATION
<ul style="list-style-type: none"> S&P 500 ended the month +1.2% and sits +3.0% YTD, with the ACWI ex-U.S. (All-Country World Index minus U.S.) -1.6% in May and +7.0% YTD Momentum remained the same with the S&P 500 in line with the 50-day, 1% above 100-day moving averages, and 3% above the 200-day Volatility (VIX) decreased for the 2nd straight month to 13.9 with little market-driving news 	<ul style="list-style-type: none"> Equity fund (SPY) flows slightly increased 0.4%, after last month's exodus out of U.S. equities The UM Consumer Sentiment Survey displayed its lowest level in 2015 at 90.7 The AAll Investor Sentiment Survey, at its lowest point in over a year, showed investors are feeling bullish (A positive sign for our model, as retail sentiment is seen as a contrarian factor) 	<ul style="list-style-type: none"> Revised data shows U.S. GDP contracted at a 0.7% pace in Q1, with the cold winter and strong U.S. dollar inhibiting growth Eurozone factory data was weaker than previously estimated in May with the manufacturing PMI at 52.2 Continued economic stimulus is expected in China as a private survey showed a 3rd straight month of contraction for small and medium size companies 	<ul style="list-style-type: none"> S&P 500 P/E remained relatively unchanged at 18.6 with forward P/E at 17.8 Growth stocks outperformed their value counterparts in May, with value stocks in negative territory Small-cap and mid-cap stocks performed in line with large-cap stocks in May with mid-cap stocks leading the pack YTD

As of 5/31/2015. Data provided by Bloomberg, GoldmanSachs, Morningstar, Bureau of Economic Analysis, HSBC/Markit.

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.

NorthCoast Reduces U.S. Equity Exposure

As equities softened in early May with minor pullbacks, NorthCoast aimed to take advantage of the attractive entry points. Equities then rebounded and moved higher, providing a needed boost to strategies such as CAN SLIM® and Legends Value. Later in the month, as macro-economic data weakened and valuation levels rose, NorthCoast began to reduce equity exposure across the board and increase cash holdings. In Tactical Growth, increased exposure to the Eurozone and fixed income replaced the U.S. equity sells.

STRATEGY	DESCRIPTION	COMMENTARY	EQUITY EXPOSURE (END OF MONTH)
CAN SLIM®	All-Cap Tactical Growth	With a quarter of the strategy in cash, CAN SLIM® relied on stock selection to outperform the S&P 500 in May. While stocks such as AA, GPS, and UNP hampered performance, GILD, GS, and UNH helped the strategy outperform the broad market for the month and move positive for the year-to-date.	75%
CAN SLIM® INTERNATIONAL	All-Cap International Tactical Growth	International stocks experienced a minor setback in May amid an otherwise stellar performance in 2015. While still positive for the year, CAN SLIM® International lags its global benchmark. The portfolio's current 14% exposure to Canadian stocks dampened performance as Canadian stocks (EWC) sank -6% in May.	94%
LEGENDS VALUE	All-Cap Value	Legends Value remains in line with the market's (S&P 500) performance even though value stocks underperformed growth stocks in May. Positions added to or increased in the portfolio include AGO, CTCT, DECK, OIS, and PLD.	100% (no cash scaling)
TACTICAL GROWTH	Dynamic ETF Allocation Growth	Over the month, Tactical Growth reduced U.S. equity exposure (IVV, IJR) and increased its positions in the Eurozone (EZU). U.S. equities still remain the top holding as CIO Patrick Jamin explains, "Out of all of the global economies, the U.S. economy has showed the most consistent strength."	88%
TACTICAL INCOME	Dynamic ETF Allocation Income	With the outlook on equities weakening, Tactical Income reduced exposure to dividend-paying equities (DVY) and preferred stock (PFF) in May. Seeking "safer" yet attractive yields in the given environment, the strategy added exposure to emerging market debt (EMB) and muni bonds (MUB).	10%

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 5/31/2015. Provided by Bloomberg, Investor's Business Daily, NorthCoast Asset Management.

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.