NorthCoast Navigator

MAY 2014

A volatile April kept market returns, our strategy returns, and our market positioning relatively unchanged. The S&P 500 quickly dropped 3% as momentum stocks were hit hard early, then rebounded to end the month +0.7%.

With roughly half of the S&P 500 companies reporting earnings thus far, 70% of those beat estimates, which is in line with historical averages since 2009. Only 41%, however, beat analysts' sales estimates, which is less than historical averages. Companies meeting expectations experienced a mild uptick, while misses were severely punished. This effect partially explains a renewed M&A intensity as well as a noticeable rotation out of momentum and small caps into value and large caps.

So far this points to a good earnings season with a bitter after-taste. Typically earnings are met with cost reductions (especially borrowing costs) and share buy backs mechanically increasing earnings per share without producing top line increases consistent with historical norms. This is a sign that there are fewer lucrative uses of capital. Another important trend is the increased M&A activity. Acquisitions are another use of capital which historically generates the less-than-promised returns ultimately leading to future goodwill write-offs. Abroad, the Eurozone remains attractive. Monetary policy is anticipated to remain loose and the weakening of the euro versus the dollar is helping rebalance the economic competitiveness of the Eurozone. Additionally, the minutes from the Bank of England meeting did not show any signs of tightening which bodes well for risky assets. There has been a relatively positive effect on developed European equities as assets flee Russia and Ukraine due to the unfortunate evolving conflict.

Minor exposure changes kept our tactical programs between 80%-90% equity invested as we still sit in an 'Opportunistic' posture. Although concerns exist, we believe there are opportunities to make money in this environment.

Opportunistic – Favorable equity environment with developing risk concerns

The NorthCoast Navigator is a market "barometer" displaying NorthCoast's current equity outlook. This score 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.

Market Dimension	Outlook	Commentary
Technical *positive*	↑	▪ The market retreated from its early high as growth stocks experienced a sell-off ▪ S&P 500 dipped below its 50-day & 100-day averages in early April but has since rebounded and now sits 1% above its 50-day moving average, 3% above the 100-day, and 6% above the 200-day ▪ Volatility (VIX) spiked early with the brief sell-off but then leveled off and remained at levels consistent with the first three months of the year
Sentiment *postive*	↑	▪ SPY equity funds experienced their first month of positive flows in 2014 (+0.9%) ▪ An uptick occurred in retail sentiment as more investors turned bullish and fewer turned bearish ▪ Federal Reserve continued its reduction of bond purchases by scaling back another $10 billion per month
Macroeconomic *positive*	↑	▪ Fed chief Janet Yellen states low inflation is a larger threat to U.S. economy than rising prices ▪ U.S. consumer spending improved along with the weather according to the Fed's Beige Book ▪ Eurozone business growth accelerated in April with PMI climbing to a 35-month high of 54 from 53.1 in March ▪ China's manufacturing PMI edged up to 50.4 in April
Valuation *neutral*	↔	▪ P/E remained unchanged at 17.2 and Forward P/E at 16.0, both below 10-year historical averages but sit at their highest level over the last year

As of 4/30/2014. Data provided by Bloomberg, GoldmanSachs, Morningstar.

Did you miss the Q1/Q2 Navigator Series Webinar? You can watch the replay here -

2014 Q1/Q2 Navigator Series Webinar

Strategy	Highlights	Equity Exposure
NorthCoast CAN SLIM®	CAN SLIM® ended the month positive as momentum stocks traded in volatile waves throughout the month. Big winners including MO, GILD, QCOR, and MU buoyed performance while the strategy was hindered by BAC, GMCR, and V. Exposure marginally increased to end the month 83% invested.	83%
NorthCoast CAN SLIM® International	International stock values increased over the month but CAN SLIM® International was hampered by the brief momentum sell-off. Top performers were SU and BCS while positions such as EJ, CSIQ, and EDU kept the strategy in negative territory.	89%
NorthCoast Legends Value	Legends Value continued its outperformance of the benchmark as rotation into value stocks boosted strategy performance. Top performers were MYGN and CRUS, each increasing over 15% in value during the month. After the positive start to the year, 10 positions were liquidated and replaced.	100% (no cash scaling)
NorthCoast Retirement Portfolios Tactical Growth	Cash equivalents remained at a 13% weighting while EFA continued to be a top holding as the international equity outlook remained bullish. Promising trends across the pond have boosted returns of ETFs with heavy exposure to Europe such as EFA and IEV.	87%
NorthCoast Retirement Portfolios Tactical Income	Tactical Income saw widespread gains in April. IDV in particular was a cut above. "It uses a methodology that selects stocks not only on dividend yield, but also on dividend growth rate, maximum payout ratio and liquidity," said CIO Patrick Jamin. The allocation to non-traditional income ETFs has been a major contributor to the positive performance of the strategy.	20%

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NorthCoast Asset Management

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