President’s Post

President & CEO Dan Kraninger reflects on the market moves of 2017 and provides insights moving forward.

“The greatest trick the devil ever pulled was convincing the world he didn’t exist.”
- The Usual Suspects (1995)

My wife and I like the movies. We go throughout the year but between Christmas and New Year’s, we really pick up steam. With the cold weather, time off work, and family gatherings, we certainly didn’t disappoint this year. One in particular stood out and I’m glad we saw it again -- The Usual Suspects. Interestingly, the line above hit me as soon as I heard it as the lead in to this quarter’s letter. I’ll simply change a few words -- the greatest trick the market ever pulled was convincing the world volatility didn’t exist.”

Consider volatility. Despite the geopolitical maelstrom in 2017, the North Korean conflict, fear of China’s economic slowdown, the stock market’s advance, and instability in South America, the stock price daily volatility of the S&P 500 Index was the lowest in a half-century. You have to go back to 1964 to find the average daily change for the market as low as it was in 2017. Further, the S&P 500 Index hasn’t closed 3% below its all-time high since the 2016 November elections. This current 14-month streak is the longest ever.

The biggest decline during the year in 2017 for the Dow Jones Industrial Average was 3.4%, and that’s the second lowest for a single year ever, behind only 1995. And then there’s this; the S&P 500 was positive each calendar month for 13 months in a row; the last time this happened was in 1959 (that run lasted for 15 months).

Ok, so now what? First, take time to review your portfolio and life changes with our advisory team. It’s a best practice -- clients who take advantage of these discussions at least annually do better over time. During those calls, here’s what I believe investors should be thinking about in 2018:

1 Rebalance your portfolio
After big years, many clients find themselves more concentrated in one asset class or even a single position. Are you concentrated in Apple or Amazon stock? We offer concentrated stock strategies with options to help clients unload concentrations with tax sensitivity.

2 Seek alternative income
Kind of a drumbeat for us for the last 18-months but it still makes sense. The U.S. bond market made +3.5% last year and we don’t anticipate better in 2018. There are other, alternative ways to generate income. Take a look at Tactical Income or Zero Beta.

3 Look overseas
Although the S&P 500 had a good year, Europe had an even better year with a 27% gain, while the Pacific region advanced 28.9% and emerging markets surged 37.4%. Even Japan, mired in slow growth for ages, outperformed with a 24.3% gain. A global economic recovery and improved corporate profits worldwide deserve the credit and should be included in any equity portfolio.

Also, remember what John Templeton said -- “Bull markets are born on pessimism, grown on skepticism, mature on optimism, and die on euphoria.” Try and keep a level head and let data, discipline, and common sense be your guide. We are monitoring daily and will make the necessary changes in our tactical strategies when the data suggests. You can see on the following page that we are near fully invested heading into 2018. Valuation metrics are stretched in the U.S. but offset by other good factors.

In closing, thank you for your business. NorthCoast had a terrific year across the board in 2017 and I’m proud of how we navigated risks and returns. Our international and buy-and-hold strategies in 2017 were +22-27%. Our hedged strategies (portfolios that hold cash at times to mitigate some market decline) were +17-20%. And our income and low correlation strategies were +6-8%. Without you, of course, there is no business - so again, thank you.

From all of us, Happy New Year and best wishes for a happy, healthy, and prosperous 2018!
What happened in the 4th quarter?

Driven by a positive Q3 corporate earnings season and a surging tech sector, domestic equities bounced higher in October. November saw new highs for major U.S. indexes with the Dow Jones Industrial Average hitting 24,000 and the S&P 500 passing 2,600. Tech stocks drove gains in international markets, particularly in Emerging Markets, which continued to the end of 2017. December saw the seeds sown for a new U.S. tax policy and the European Central Bank announced their scaling back of monetary policy, acknowledging economic strength in the Eurozone. The U.S. retail sector got a boost from the highest holiday retail sales in five years. Emerging and Asian markets had a positive December and ended 2017 as the year’s biggest winners. European stocks notched their best year since 2013, and all three major U.S. indexes surged to new highs.

Moving into 2018

The success of 2017 spurred high levels of investor optimism moving into 2018. Central banks raising their growth forecasts and the tightening of monetary policy in many countries indicated the optimism is not only held by investors, but also central bankers. The New Year ushers in a new tax policy in the U.S. as all eyes will be on the initial response by corporations particularly if and how much of their international earnings they decide to repatriate at the lower corporate tax rate. Valuations remain stretched, but strong macroeconomic and technical indicators still shine through. We enter January 94% invested in our U.S. tactical strategies and near 100% invested in the international tactical strategy.

Data as of 12/31/2017. Data provided by Bloomberg, NorthCoast Asset Management.
2017: A Remarkable Year For Stocks

Indexes made superb gains in a year of unusually low volatility. The Nasdaq’s worst drop was only 4.4%.

<table>
<thead>
<tr>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
</tr>
</thead>
<tbody>
<tr>
<td>11th</td>
<td>8th</td>
<td>2nd</td>
<td>5th</td>
<td>4th</td>
<td>1st</td>
</tr>
<tr>
<td>Biotechs and other pharmaceutical stocks slide after Trump blasts drug prices and calls for “new bidding procedures.”</td>
<td>Federal judge blocks merger of Anthem and Cigna, saying the $48 billion combination of the health insurers would be anticompetitive.</td>
<td>Snap goes public at 17 a share and closes 44% above that price, giving the Snapchat parent a valuation above $30 billion. It’s the biggest IPO since Facebook and Alibaba. But 3½ months later, it falls below the IPO price.</td>
<td>Fed signals it will start unwinding its massive bond holdings, which would act as a form of monetary tightening as it continues a course to raise rates.</td>
<td>House of Representatives narrowly passes Republican-written bill to replace Obamacare.</td>
<td>Trump says U.S. withdraws from the Paris climate accord, raising questions about trade relations.</td>
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<tr>
<td>12th</td>
<td>14th</td>
<td>13th</td>
<td>10th</td>
<td>7th</td>
<td>6th</td>
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<tr>
<td>Takata agrees to plead guilty to criminal wrongdoing for faulty airbags. It also pays $1 billion to settle with regulators and for restitution.</td>
<td>Yellen sees a few interest-rate increases in 2017. Aetna and Humana call off merger after court had blocked $37 billion deal. Aetna pays Humana $1 billion termination fee.</td>
<td>Intel agrees to acquire Mobileye in deal valued at about $15 billion, making a bet on self-driving cars.</td>
<td>Video of passenger being forcefully removed from an overbooked United Airlines flight causes an uproar against the airline, which later eases its overbooking policies. The controversy also sparks overbooking changes at other airlines.</td>
<td>French voters elect Macron as president, a victory for the European Union.</td>
<td>Retail stocks tumble after Macy’s warns of gross margins for the year will be weaker than expected. Two days later, Nordstrom says it’s exploring going private.</td>
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<tr>
<td>16th</td>
<td>15th</td>
<td>19th</td>
<td>21st</td>
<td>9th</td>
<td>9th</td>
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<tr>
<td>France’s Essilor International and frame designer Luxottica Group agree to merge into a company valued at more than $50 billion.</td>
<td>Molina Healthcare says it may withdraw from some ObamaCare marketplaces due to heavy losses. That follows an announcement by Humana that it will exit the program entirely for 2018.</td>
<td>Fed raises fed funds rate by a quarter point to 0.75%-1% and signals it will stay on track for two more hikes in 2017.</td>
<td>Financials lead a sell-off in stocks amid doubts the Trump administration can make progress on tax cuts and other goals.</td>
<td>Sprint and T-Mobile US call off proposed merger after the two sides fail to reach an agreement to avoid premium payments.</td>
<td>Technology stocks plunge after a short seller says Nvidia will plummet, and after Goldman Sachs warns of a “valuation air pocket” in big-cap techs.</td>
</tr>
<tr>
<td>23rd</td>
<td>26th</td>
<td>18th</td>
<td>25th</td>
<td>12th</td>
<td>14th</td>
</tr>
<tr>
<td>President Trump formally withdraws U.S. from Trans Pacific Partnership trade pact. Federal judge blocks Aetna’s $37 billion acquisition of Humana, citing antitrust issues.</td>
<td>Johnson &amp; Johnson announces a deal to acquire Actelion, a Swiss biotech, for about $30 billion.</td>
<td>London stocks plunge 2.5% after Prime Minister Theresa May calls snap election. June 8 to shore up public support ahead of Brexit talks. But May’s party loses majority in Parliament in the June 8 election.</td>
<td>House Republicans withdraw bill to replace ObamaCare after lacking enough GOP votes.</td>
<td>Anthem ends efforts to acquire Cigna, saying it won’t appeal court ruling against the $48 billion deal. The two companies are left suing each other.</td>
<td>Fed raises the fed funds rate by quarter point to 1%-1.25%. It also says it will start paring its massive $4.5 trillion balance sheet by year-end at a pace faster than some expected.</td>
</tr>
<tr>
<td>30th</td>
<td>24th</td>
<td>15th</td>
<td>29th</td>
<td>15th</td>
<td>29th</td>
</tr>
<tr>
<td>Airline and other stocks fall after Trump order limits entries into U.S. from several Muslim-majority countries. Later, courts halt the order and a modified version is adopted.</td>
<td>Europe and U.S. stocks rally after pro-EU candidate Macron is left in good shape to win presidency after first round ofballoting.</td>
<td>Amazon.com agrees to acquire Whole Foods Market for $13.7 billion. Other grocery stocks fall sharply.</td>
<td>Walgreens and Rite Aid call off their merger, which faced antitrust concerns. Instead, Walgreens agrees to buy 2,186 Rite Aid stores for $5.2 billion.</td>
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2017: A Remarkable Year For Stocks

10% 20%

6

courts halt the order and a
from several Muslim-ma-
fall after Trump order
acquire Actelion, a Swiss
announces a deal to
citing antitrust issues.
Aetna’s $37 billion
President Trump formally
billion, creating world’s
not already own for $49.4
Reynolds American it did
billion.

tional and frame designer
with regulators and for
also pays $1 bil to settle
guilty to criminal wrongdo-
Takata agrees to plead
drug prices and calls for
slide after Trump blasts
pharmaceutical stocks
Biotechs and other

January February March April May June July August September October November December
12th
Yellen softens views on
inflation, suggesting a
modest pace of future rate
hikes and perhaps
changing course if inflation
remains weak. She also
says Fed’s $4.5 trillion
balance sheet will shrink
“appreciably.”
28th
Senate narrowly rejects
ObamaCare repeal bill.
31st
Discovery Communications
confirms deal to acquire
Scripps Networks Interac-
tive for $11.9 billion in
cash and stock, combining
two of the leading
cable-channel producers.

July
5th
Vanish agrees to acquire
London-based payments
company Worldpay Group
for $9.9 billion, beating a
bid from JPMorgan.
12th

August
8th
World stocks fall after
North Korea threatens to
fire missiles near U.S.
installations in Guam and
Trump threatens Pyong-
yang with “fire and fury.”
11th
Stocks surge after North
Korea appears to back
away from threat to launch
missiles near Guam.
16th
Presidential manufactur-
ing and strategy advisory
councils are disbanded
after some CEOs resign in
protest over Trump’s
dubious remarks over
racial violence in Virginia.
21st
Sempra Energy agrees to
acquire Oncor for $9.45
billion, beating a rival bid
for the power-transmis-
sion company from
Berkshire Hathaway.

September
4th
United Technologies
confirms it will acquire
Rockwell Collins in a deal
valued at $23 billion,
creating an aerospace
giant.
7th
Credit-reporting agency
Equifax says hackers
breached its systems and
may have obtained social
security numbers and
other personal data of 143
million consumers.
11th
Airline and insurance
stocks rise after Hurricane
Irina causes less damage
than expected across Florida.
18th
Toys ‘R Us, the nation’s
largest toy retailer, files
for bankruptcy protection
ahead of critical holiday
shopping season.

October
1st
Gunman kills 58 and
wounds hundreds at a
country music festival in
Las Vegas. The killer used
a suite at MGM’s Mandalay
Bay hotel to shoot
rapid-fire weapons into the
crowd.
8th
Film producer Harvey
Weinstein is ousted from
his own company after
multiple accusations of
sexual misconduct, a
scandal that exposes
pervasive sexual harass-
ment in the entertainment
industry. The scandal
prompts similar charges in
government, news media
and other industries in the
following months.

November
2nd
Trump nominates Fed Gov.
Jerome Powell to be the
next chairman of the
Federal Reserve, choosing
not to reappoint Janet
Yellen.

December
3rd
CVS Health agrees to
acquire health insurer
Aetna in a deal valued at
$69 billion. The deal
expands CVS from
drugstores and pharmacy
benefits to providing care.
8th
U.S. payrolls expand by
228,000 in November, as
jobless rate holds at
17-year low of 4.1%.

Nasdaq:
+28.2%

S&P 500:
+19.4%

Fed raises interest rates by
quarter point, to a
range of 1.25%–1.5%, and
reiterates plans for three
more hikes in 2018.

Disney agrees to acquire
21st Century Fox’s
entertainment assets in a
deal valued at more than
$66 billion in a bid to
compete against stream-
ing video rivals.

Republicans reach
agreement on sweeping
tax cuts that includes
reducing corporate tax
rate to 21% from 35% and
sets other tax cuts. Final
bill passes on Dec. 20.

NorthCoast offers a suite of active investment strategies designed to meet the individual goals and objectives of the investor. Our dedicated advisory team will work with you to construct a portfolio catered to your needs.

### Strategy Performance

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Overview</th>
<th>2017 (Net)</th>
<th>Q4 (Net)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAN SLIM'</td>
<td>Tactical All-Cap Growth</td>
<td>17.5%</td>
<td>6.2%</td>
</tr>
<tr>
<td>CAN SLIM' International</td>
<td>Tactical All-Cap International Growth</td>
<td>23.3%</td>
<td>4.0%</td>
</tr>
<tr>
<td>CAN SLIM' Global</td>
<td>50% CAN SLIM' / 50% CAN SLIM' International</td>
<td>20.2%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Tax-Managed</td>
<td>All-Cap U.S. Growth</td>
<td>20.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Tactical Growth *</td>
<td>Tactical Global Asset Allocation</td>
<td>19.4%</td>
<td>4.0%</td>
</tr>
<tr>
<td>U.S. Sector Select Hedged *</td>
<td>Tactical U.S. Sector Allocation</td>
<td>19.8%</td>
<td>5.9%</td>
</tr>
<tr>
<td>International Select Hedged *</td>
<td>Tactical Country Rotation</td>
<td>23.6%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Legends Value</td>
<td>All-Cap Value</td>
<td>14.4%</td>
<td>6.3%</td>
</tr>
<tr>
<td>United Portfolio</td>
<td>50% Legends Value / 50% CAN SLIM'</td>
<td>15.7%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Vista</td>
<td>All-Cap Growth</td>
<td>22.1%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Global Select *</td>
<td>Global Country Allocation</td>
<td>24.0%</td>
<td>2.9%</td>
</tr>
<tr>
<td>U.S. Sector Select *</td>
<td>U.S. Sector Rotation</td>
<td>22.9%</td>
<td>6.9%</td>
</tr>
<tr>
<td>International Select *</td>
<td>International Country Allocation</td>
<td>27.3%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Emerging Market Select *</td>
<td>Emerging Market Country Allocation</td>
<td>27.3%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Diversified Core *</td>
<td>Global Asset Allocation</td>
<td>14.6%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Diversified Growth *</td>
<td>Global Asset Allocation</td>
<td>17.6%</td>
<td>3.6%</td>
</tr>
<tr>
<td>CAN SLIM': Growth &amp; Income</td>
<td>75% CAN SLIM' / 25% Bond ETFs</td>
<td>13.5%</td>
<td>4.6%</td>
</tr>
<tr>
<td>CAN SLIM': Balanced</td>
<td>50% CAN SLIM' / 50% Bond ETFs</td>
<td>10.3%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Core Fixed Income *</td>
<td>Conservative Income</td>
<td>5.7%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Tactical Income *</td>
<td>Dynamic Income</td>
<td>8.3%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Aggressive Income</td>
<td>Aggressive Income</td>
<td>6.2%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Zero Beta</td>
<td>Liquid Alternatives</td>
<td>6.3%</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

* = ETF Managed Strategy

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