

# INVESTOR'S BUSINESS DAILY

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## NorthCoast Increases Stake In Canada ETF

Retirement portfolios geared for favorable long-term bond outlook, but emerging markets abandoned

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FOR INVESTOR'S BUSINESS DAILY

Patrick Jamin kept his big picture focus in a month that brought topsy-turvy conditions. The chief investment officer for NorthCoast Asset Management made slight adjustments to the firm's ETF retirement portfolios in June. As global markets attempted to digest the results of the Brexit vote and hesitation of the Federal Reserve to raise interest rates, Jamin rebalanced his foreign ETF weightings.

Here are some highlights from the month:

### Maple Leaf Optimism

Jamin added to the firm's position in iShares MSCI Canada ETF<sup>EWC</sup> which has been a stellar performer in the first-half of 2016. In June, Bank of Canada Governor Stephen Poloz said the Canadian economy is setting up for an "outsized recovery" in Q3. "Our models have shown improving macro and technical signals for EWC," Jamin said. "Economic growth in Canada has been pretty impressive, and we expect its economy to be even stronger in the second-half of the year."

Shares of EWC pulled back 0.7% during the month, but they are up 14% so far this year.

iShares Core S&P 500 ETF<sup>IVV</sup> and iShares Core S&P Mid-Cap ETF<sup>IJH</sup> remained among NorthCoast's top holdings. "We think the sentiment of the U.S. economy is sound," Jamin said of the positions. "Job growth has been robust. There have been record low layoffs and record high job openings."

IVV and IJH have risen 2.5% and 6% year-to-date.

The Federal Reserve got cold feet on hiking the federal funds rate target in June. The decision contributed to a rally by U.S. government bonds. "We think there might be a little less risk in mid-to long-term bonds right now," Jamin said. "So we have kept positions in iShares 20+ Year Treasury Bond ETF<sup>TLT</sup>, iShares 10+ Year Credit Bond ETF<sup>CLY</sup> and iShares Intermediate Credit

### Bond ETF<sup>CIU</sup>."

Shares of TLT and CLY spiked 7% and 5% in June. CIU gained 1%.

iShares MSCI Eurozone ETF<sup>EZU</sup> sold off following the U.K.'s vote to leave the European Union. NorthCoast's models underweighted the holding and kept its ETF retirement portfolios entirely out of iShares MSCI United Kingdom<sup>EWU</sup> based on macro and sentiment indicators. "The portfolio had budgeted the probability of a pullback related to a potential Brexit and overallocated to bonds before the Brexit," Jamin said. "We then trimmed some of those positions and redeployed to equities after the referendum."

### Lightening Up

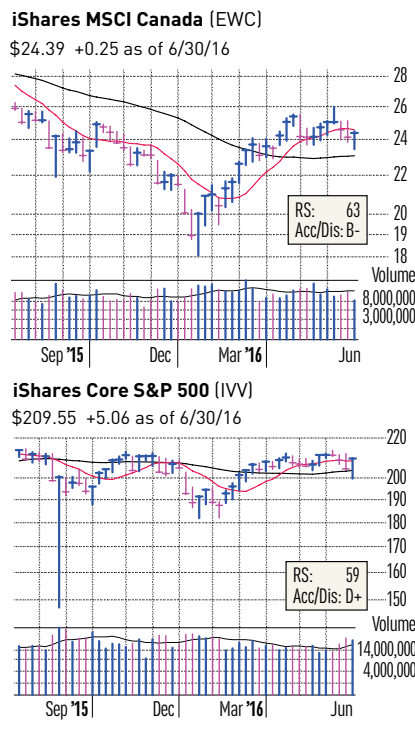
NorthCoast closed its iShares Core MSCI Emerging Markets ETF<sup>IEMG</sup> positions in June. "It is a position that has worked pretty well for us," Jamin said. "We have seen macro, valuation, sentiment and technical scores turning negative in our models though. We also see structural challenges in China with high levels of debt."

IEMG gained 2% in June and is up 6% on the year.

The firm also sold part of its iShares MSCI Pacific ex Japan ETF<sup>EPP</sup> stake. The fund is heavily weighted with Australian equities. "Australia's economy has been relatively strong with Q1 GDP expanding by 3.1%," Jamin said. "However, its PMI (Purchasing Managers' Index) has dropped to its lowest level since November 2015."

Shares of EPP fell 1% during the month and are down 2% since the start of the year.

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## NorthCoast Retirement Portfolios

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## Tactical Income

iShares ETFs	Symbol	Asset class	12-mo yield	Allocation	Price	+/-
10+ Year Credit Bond	CLY	Bond - Corp. - Inv. Grade	4.0%	20%	62.65	14.6%
MBS Bond	MBB	Bond - ABS	2.8%	15%	109.97	3.0%
iBoxx \$ High Yield Corporate Bond	HYG	Bond - Corp. - High Yield	5.6%	11%	84.70	7.7%
JPMorgan USD Emerging Markets Bond	EMB	Bond - Emerging Market	4.6%	11%	115.15	11.0%
Short Treasury Bond	SHV	Bond - Govt. - Short Term	0.1%	8%	110.45	0.3%
Intermediate Credit Bond	CIU	Bond - Corp. - Inv. Grade	2.4%	5%	111.26	4.8%
National AMT-Free Municipal Bond	MUB	Bond - Municipal	2.3%	5%	113.92	3.8%
Select Dividend	DIV	Equity - Domestic - Div.	3.1%	5%	85.28	15.3%
Global Infrastructure	IGF	Equity - Infrastructure	3.1%	5%	40.46	14.4%
International Select Dividend	IDV	Equity - International - Div.	5.5%	5%	28.63	2.8%
US Preferred Stock	PFF	Preferred Stock	5.7%	5%	39.89	5.1%
US Real Estate	IVR	Real Estate	3.90%	5%	82.39	12.1%

► Designed to generate income with protection against inflation and rising interest rates. Appropriate Benchmark: 100% Barclays Bond Aggregate

## Diversified Core

iShares ETFs	Symbol	Asset class	12-mo yield	Allocation	Price	+/-
10+ Year Credit Bond	CLY	Bond - Corp. - Inv. Grade	4.0%	15%	62.65	14.6%
MBS Bond	MBB	Bond - ABS	2.8%	10%	109.97	3.0%
iBoxx \$ High Yield Corporate Bond	HYG	Bond - Corp. - High Yield	5.6%	9%	84.70	7.7%
Short Treasury Bond	SHV	Bond - Govt. - Short Term	0.1%	5%	110.45	0.3%
Emerging Markets High Yield Bond	EMHY	Bond - Corp. - High Yield	6.4%	5%	49.37	12.5%
Core S&P Mid-Cap	IJH	Equity - Mid Cap	1.6%	15%	149.39	8.1%
Core S&P 500	IVV	Equity - Large Cap	1.7%	11%	210.50	3.8%
MSCI Canada	EWC	Equity - International	2.0%	10%	24.51	14.9%
Core S&P Small-Cap	IJR	Equity - Small Cap	1.4%	9%	116.21	6.3%
MSCI European Union	EZU	Equity - International	2.8%	8%	32.27	-5.6%
MSCI Pacific ex-Japan	EPP	Equity - International	4.10%	3%	39.20	3.8%

► Centerpiece portfolio for a conservative retiree or investor near retirement. Appropriate Benchmark: 50% S&P 500 & 50% Barclays Bond Aggregate

## Diversified Growth

iShares ETFs	Symbol	Asset class	12-mo yield	Allocation	Price	+/-
MBS Bond	MBB	Bond - ABS	2.8%	7%	109.97	3.0%
10+ Year Credit Bond	CLY	Bond - Corp. - Inv. Grade	4.0%	7%	62.65	14.6%
Short Treasury Bond	SHV	Bond - Govt. - Short Term	0.1%	6%	110.45	0.3%
iBoxx \$ High Yield Corporate Bond	HYG	Bond - Corp. - High Yield	5.6%	6%	84.70	7.7%
Core S&P 500	IVV	Equity - Large Cap	1.7%	21%	210.50	3.8%
Core S&P Mid-Cap	IJH	Equity - Mid Cap	1.6%	18%	149.39	8.1%
MSCI Canada	EWC	Equity - International	2.0%	10%	24.51	14.9%
Core S&P Small-Cap	IJR	Equity - Small Cap	1.4%	9%	116.21	6.3%
MSCI European Union	EZU	Equity - International	2.8%	8%	32.27	-5.6%
MSCI Japan	EWJ	Equity - International	1.6%	5%	11.50	-4.4%
MSCI Pacific ex-Japan	EPP	Equity - International	4.1%	3%	39.20	3.8%

► Centerpiece portfolio for a more growth-oriented retiree or investor retiring in 5-10 years. Appropriate Benchmark: 70% S&P 500 & 30% Barclays Bond Aggregate

## Tactical Growth

iShares ETFs	Symbol	Asset class	12-mo yield	Allocation	Price	+/-
Short Treasury Bond	SHV	Bond - Govt. - Short Term	0.1%	8%	110.45	0.3%
10+ Year Credit Bond	CLY	Bond - Corp. - Inv. Grade	4.0%	6%	62.65	14.6%
Core S&P 500	IVV	Equity - Large Cap	1.7%	28%	210.50	3.8%
Core S&P Mid-Cap	IJH	Equity - Mid Cap	1.6%	18%	149.39	8.1%
MSCI European Union	EZU	Equity - International	2.8%	11%	32.27	-5.6%
Core S&P Small-Cap	IJR	Equity - Small Cap	1.4%	11%	116.21	6.3%
MSCI Canada	EWC	Equity - International	2.0%	10%	24.51	14.9%
MSCI Japan	EWJ	Equity - International	1.6%	5%	11.50	-4.4%
MSCI Pacific ex-Japan	EPP	Equity - International	4.10%	3%	39.2	3.8%

► Designed to generate long-term capital appreciation with downside risk controls. Appropriate Benchmark: 100% S&P 500

