



NorthCoast

Asset Management

January 13, 2005

Conventional, but not Wisdom

Wall Street's Simple Rules

Asset Allocation

Performance / Methodology

Why it Works



"The most successful of Wall Street are those who have received severe training, who have had some sledgehammer blows applied to their heads to temper them, like the conversion of iron to steel."

- Henry Clews

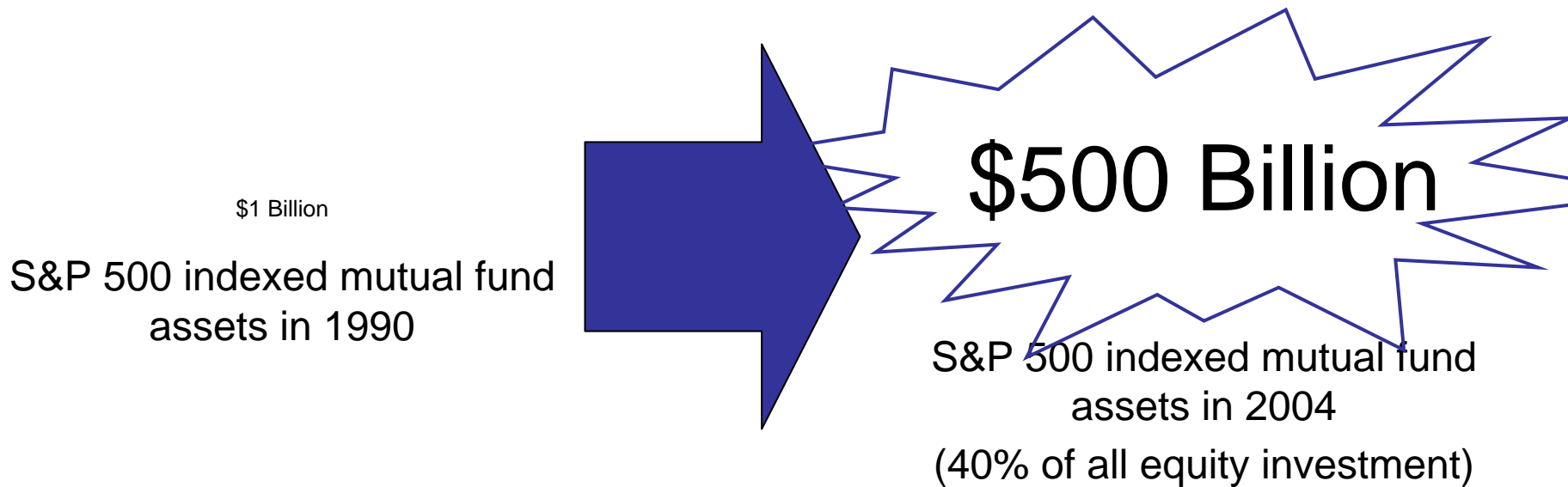
Buy and Hold is fine . . . if you have 40 years

Secular <u>Bear</u> Markets			Secular <u>Bull</u> Markets		
Period	Duration	Real Return	Period	Duration	Real Return
1802-1815	13	2.8%	1815-1835	20	9.6%
1835-1843	8	-1.1%	1843-1853	10	12.5%
1853-1861	8	-2.8%	1861-1881	20	11.5%
1881-1896	15	3.7%	1896-1906	10	11.5%
1906-1921	15	-1.9%	1921-1929	8	24.8%
1929-1949	20	1.2%	1949-1966	17	14.1%
1966-1982	16	-1.5%	1982-2000	18	14.8%
Overall	95	0.3%	Overall	103	13.2%

“Every generation laughs at the old fashions but follows religiously the new.”

- Henry David Thoreau

Index, Index, and more Index



"Whenever you find that you are on the side of the majority, it is time to reform."

- Mark Twain

Modern Portfolio Theory

But wait a second . . .

1. Morningstar 5-star system is worthless in determining future performance
2. Past correlations are largely a product of coincidence
3. In times of crisis, things become suddenly highly correlated
4. The efficient frontier works only in hindsight
5. Why doesn't a .8 beta stock or fund do what it is supposed to?

“Wall Street experts have perfected the art of being wrong with confidence.”

- Bennett Goodspeed

1. Markets Change

Socioeconomic

Demographics
Technology
Medicine

Government

Agencies
Taxes
Federal Reserve

Global

Politics
Monetary Policies
War

Human

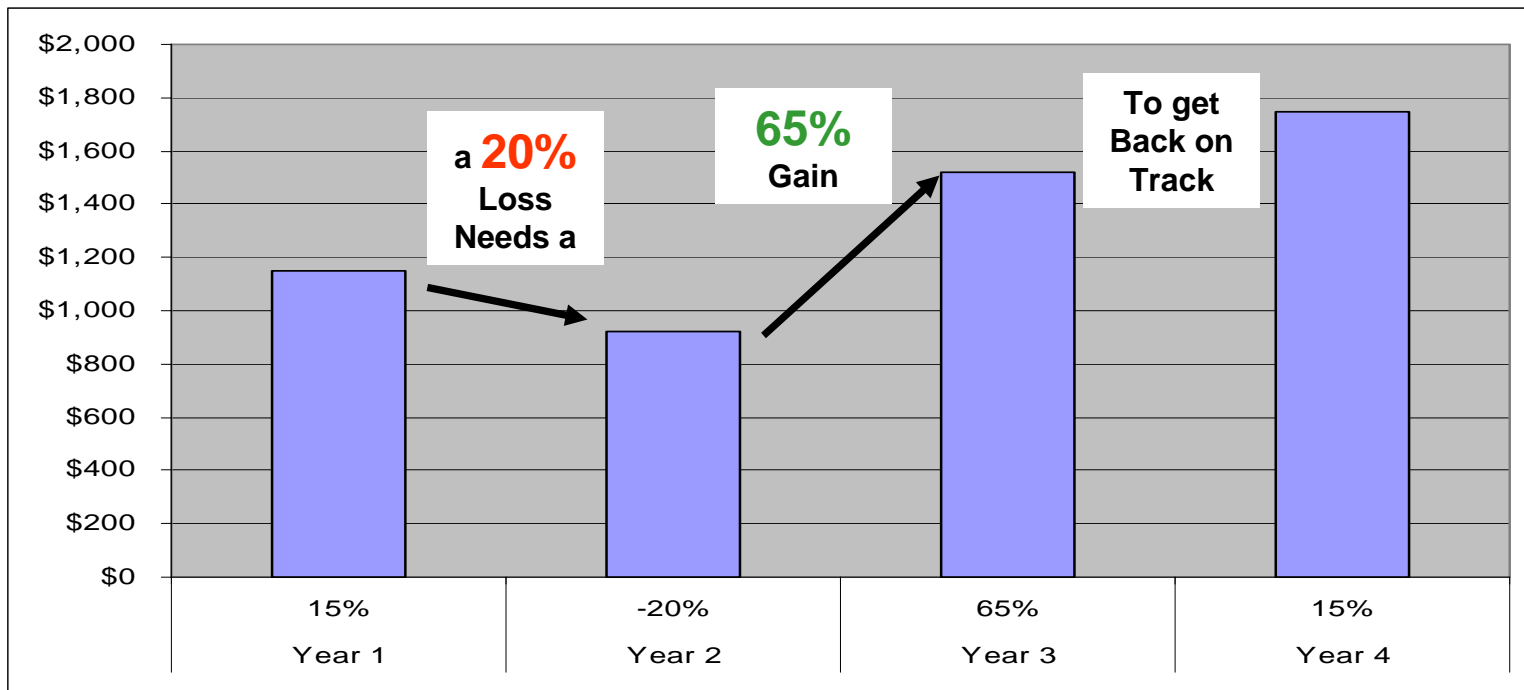
Fear
Greed



"Even if you're on the right track, you'll get run over if you just sit there."

- Will Rogers

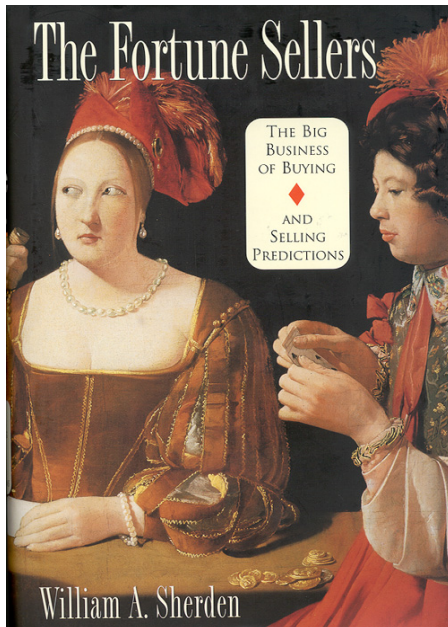
2. *Avoid Big Losses*



"The first rule is not to lose money. The second rule is not to forget the first rule."

- Warren Buffet

3. *No One Knows the Future*



Second oldest profession – records from 5,000 years ago show forecasting methods by seeing clues in animal entrails.

\$200 billion predictive industry today – from stock market to meteorology to technology futurists.

Accuracy less than Coin Flip – complex systems are impossible to predict.

"In Wall Street the only thing hard to explain is next week."

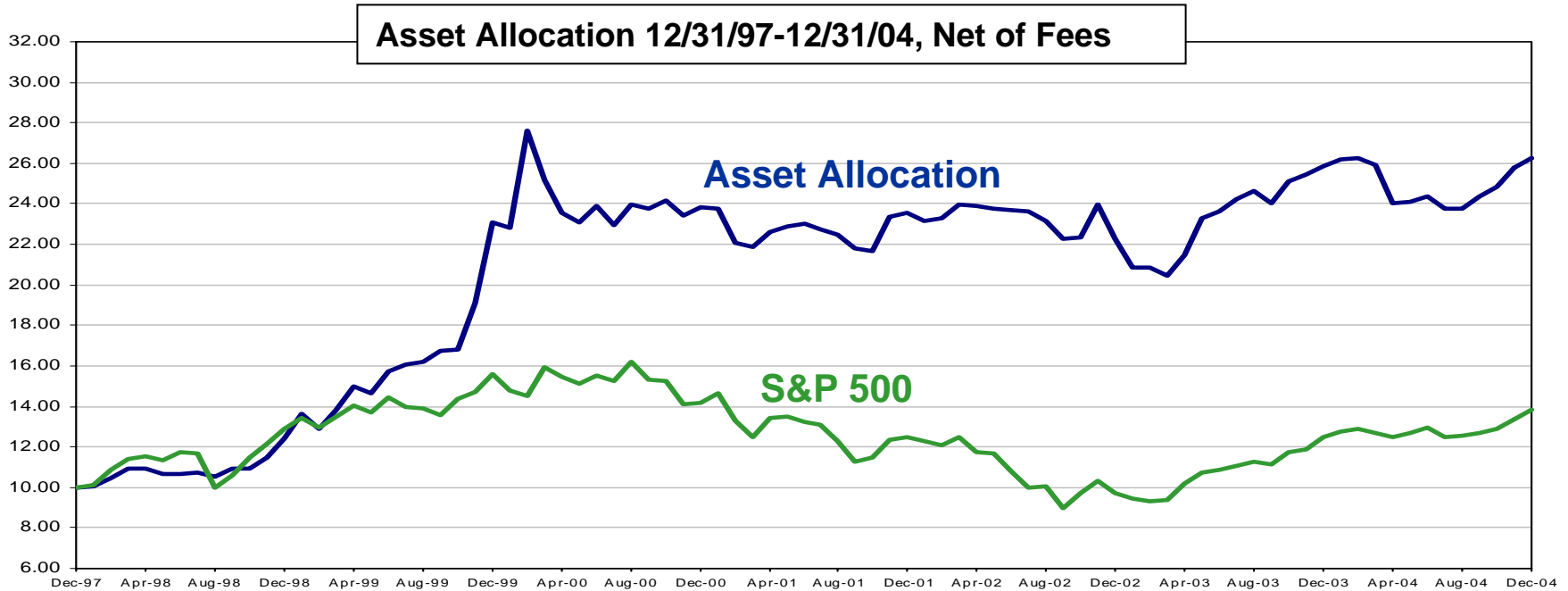
- Louis Rukeyser

Dynamic Asset Allocation

1. **Markets Change --** Rotates among diverse universe of mutual funds and ETFs to produce returns.
2. **Avoid Big Losses --** Scales to cash in a declining market.
No shorting and no leverage.
3. **No One Knows the Future --** Makes money by participating in the market – ***not predicting it.***

“To think is easy. To act is difficult. To act as one thinks is the most difficult of all.”

- Johann Wolfgang von Goethe



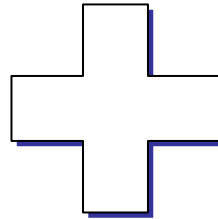
Summary Statistics, Net of Fees

	Asset Allocation	S&P 500
Total Return (1/1/98 – 12/31/04)	162.5%	38.3%
Annual Rate of Return	17.5%	5.6%
Standard Deviation	4.6%	4.7%
Beta	0.46	---
Alpha (avg. monthly return)	1.24% (1.39%)	---

Asset Allocation is the Combination of Two Strategies

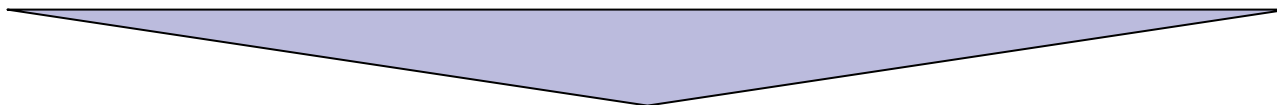
50% Foundational

- Slow Rotator
- Maximum of 20 Positions
- Universe of 730 Funds
- Average Hold > 100 days
- Slowly scales into and out of cash



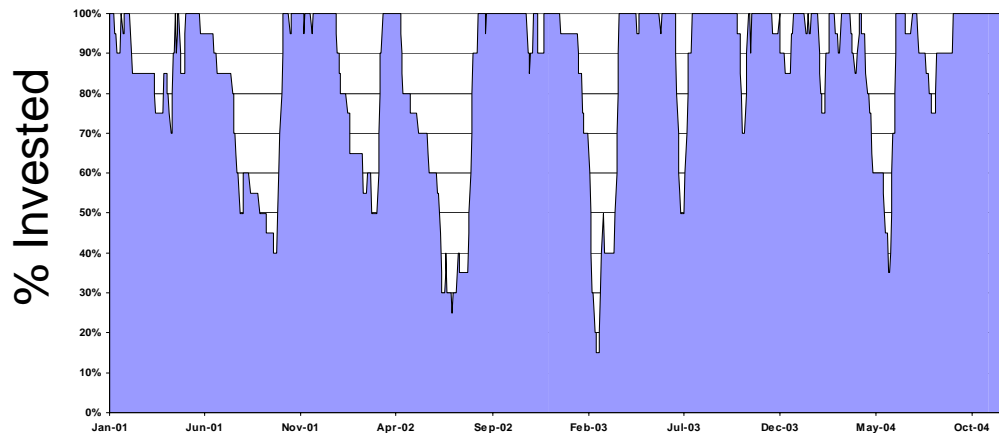
50% Trading

- Fast Rotator
- Maximum of 8 Positions
- Universe of 130 ETFs and Funds
- Average Hold 40 days
- Quickly scales into and out of cash



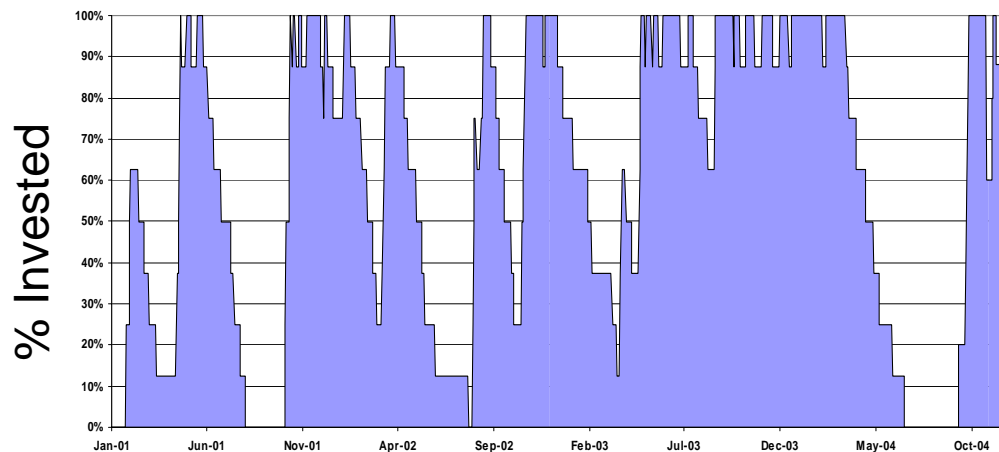
Uniting the Strategies Creates a Superior Portfolio

Foundational



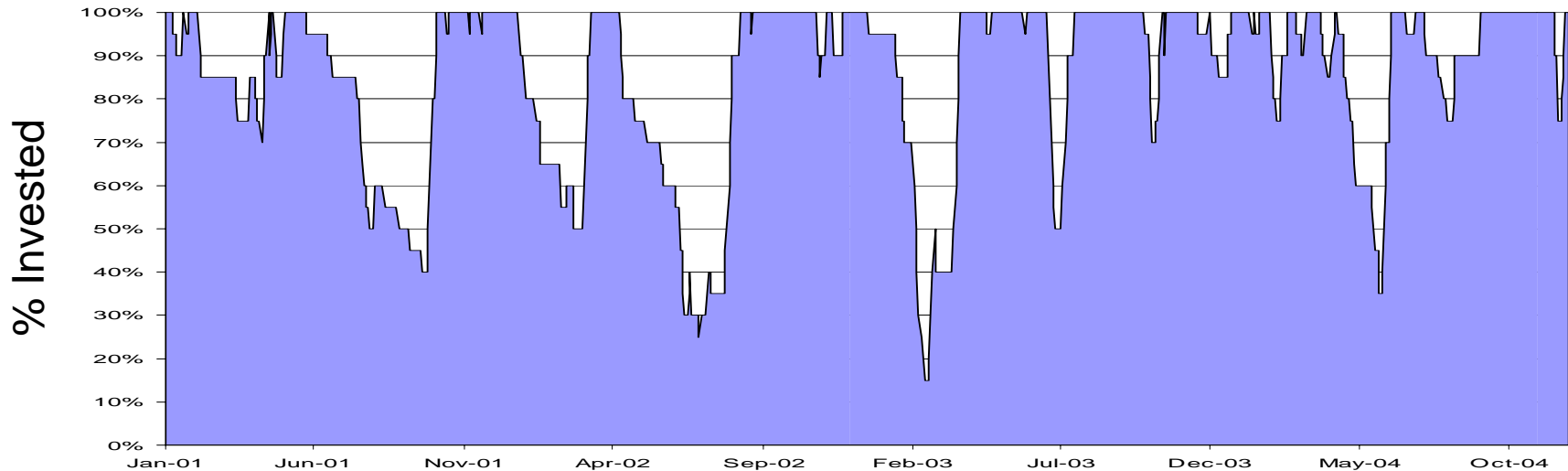
12/31/00-11/30/04	Foundational	S&P 500
Annual ROR	8.0%	-1.4%
Standard Deviation	3.3%	4.7%
Sharpe Ratio	0.49	-0.24
Negative Variance	-2.1%	-3.2%
% Positive Months	57%	57%
Worst Drawdown	-10.4%	-37.4%

Trading



12/31/00-11/30/04	Trading	S&P 500
Annual ROR	19.4%	-1.4%
Standard Deviation	5.5%	4.7%
Sharpe Ratio	0.88	-0.24
Negative Variance	-3.5%	-3.2%
% Positive Months	60%	57%
Worst Drawdown	-17.9%	-37.4%

Two Strategies - Combined



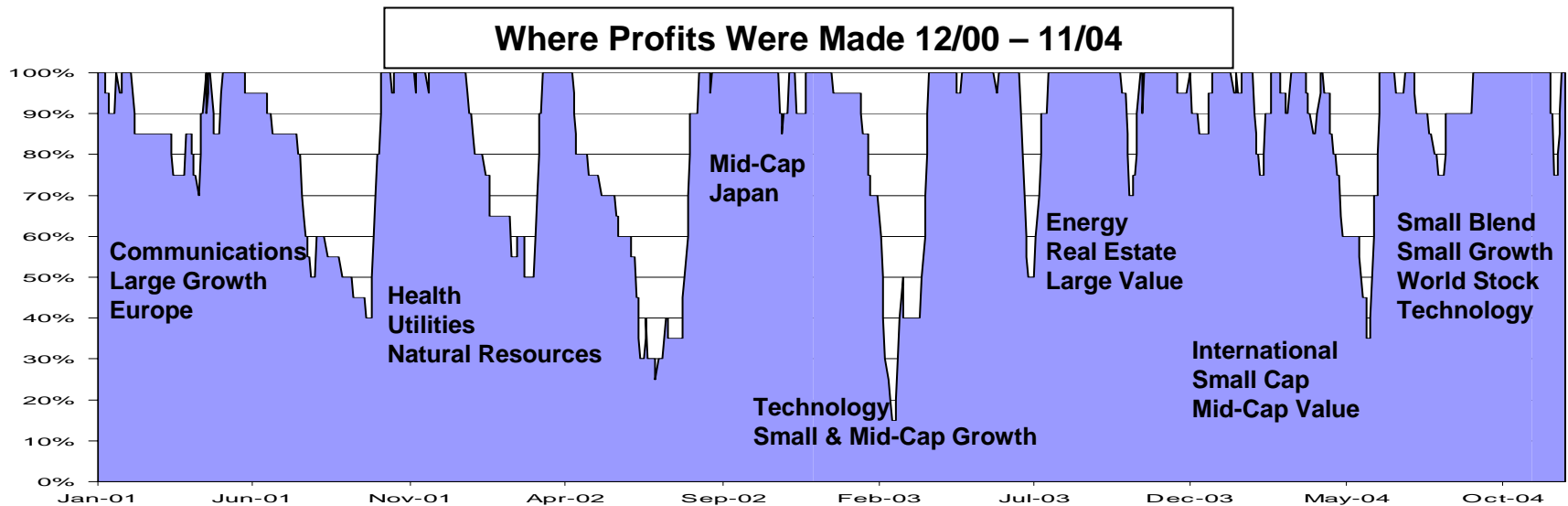
12/31/00–11/30/04 (gross of fees)	Foundational	Trading	Combined	S&P 500
Annual ROR	8.0%	19.4%	13.8%	-1.4%
Standard Deviation	3.3%	5.5%	4.3%	4.7%
Sharpe Ratio	0.49	0.88	0.76	-0.24
Negative Variance	-2.1%	-3.5%	-2.8%	-3.2%
Worst Drawdown	-10.4%	-17.9%	-14.2%	-37.4%

Buy Rules

- 5-month risk-adjusted return and price performance are greater than Index*
- Fund exhibits the strongest relative price acceleration over last 20 days

Sell Rules

- Fund has dropped into the bottom 50% of relative strength ratings
- 1996 – 2003: 58% of trades are profitable (take losses early)



* TL's proprietary average Fund Index. 1,400 total.

- **Well established underlying principles**

1. Journal of Finance (March 1993, Harvard) – Persistence of mutual fund returns
2. What Works on Wall Street (2000, McGraw-Hill) – Relative Strength is the top performing growth factor
3. Style Investing (1995, John Wiley) – Excess returns generated from market segmentation
4. Journal of Portfolio Management (1999, CU) “What drives mutual fund returns” – Weigand
5. Taking Losses early – “take care of what is difficult while it is still easy”

- **Experience-based rules . . . Consistently applied**

1. Discipline over Intuition – 85% of money managers fail to outperform S&P 500 because they do not consistently apply their strategy or “*Everybody has a plan until they get punched in the mouth*”
2. Explicit, written investment rules and policy – two changes in eight years

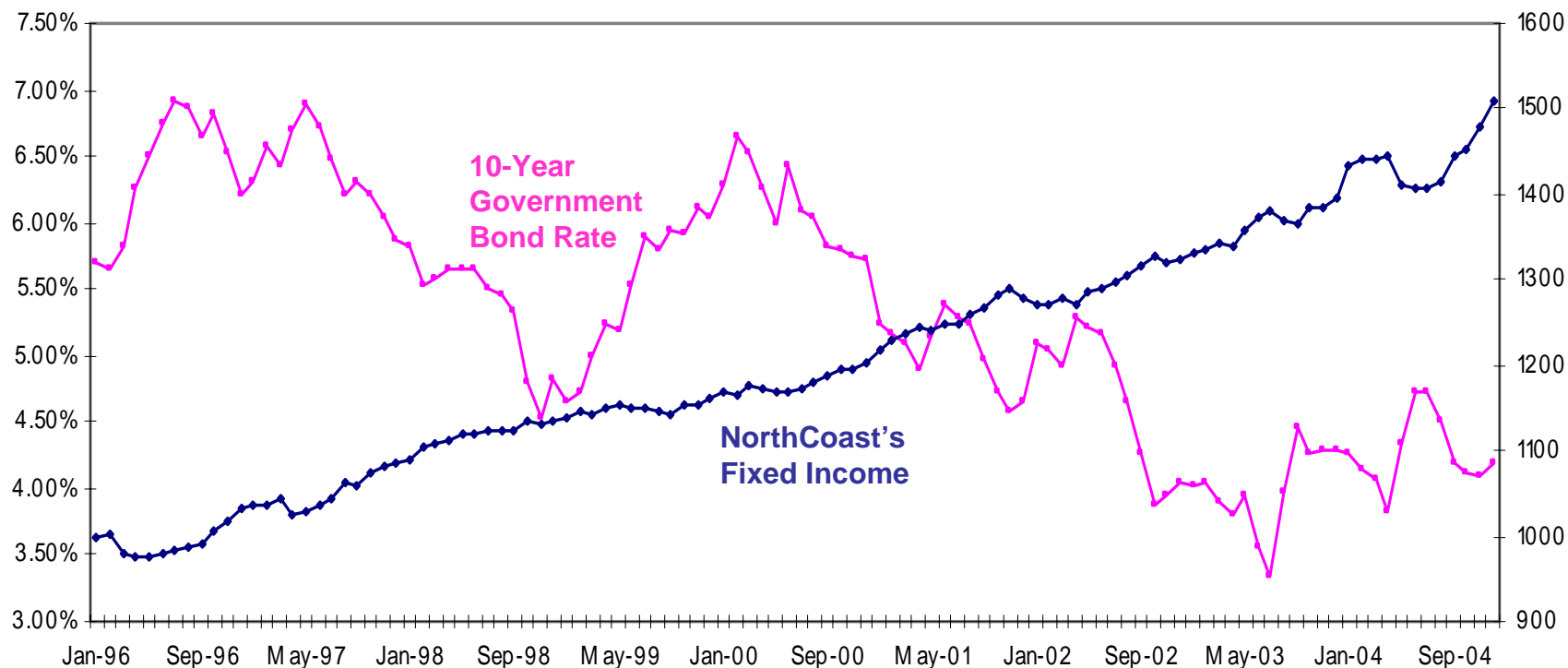
- **Risk Management / Capital Preservation**

1. Goes to cash in declining market. A clearly defined exit discipline and hedge vehicle.
2. 5% maximum, single position / 20% concentration maximum in volatile sectors
3. No shorting or use of leverage

“The first rule is not to lose money. The second rule is not to forget the first rule”

- Warren Buffet

- Fixed Income Program
- Fund Universe
- Principals



1/96 – 11/04, Net of Fees	Fixed Income	Bond Index
Annual Rate of Return	4.7%	2.6%
Standard Deviation	0.8%	1.0%
Worst Drawdown	-2.8%	-3.1%
Worst Year	2.4%	-1.1%

Objective

Return primarily from Interest Dividends. For consideration versus holding low yielding money market funds.

Diversification

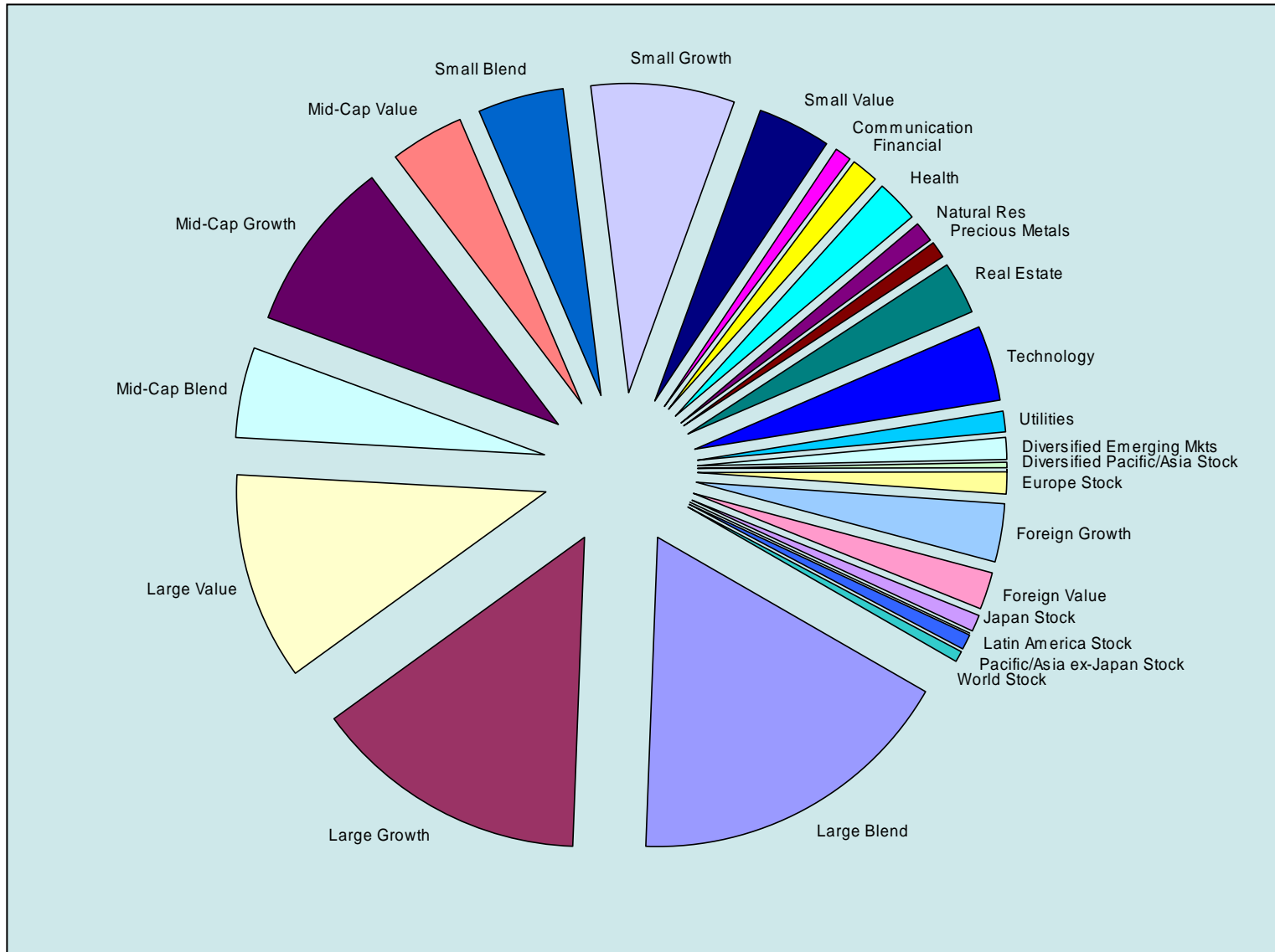
The portfolio holds up to 10 U. S. registered mutual funds investing in fixed income securities – both US and abroad.

Risk Control

The portfolio automatically moves assets to those sectors demonstrating market strength and away from declining sectors. In broad declining bond markets, will scale into cash to preserve capital. **No Down 12-Month periods.**

Performance

Average annual return 4.7% vs. Bond Index of 2.6%.



Paul E. Dean, Chairman. Mr. Dean graduated from Georgia Institute of Technology in 1966 with a B.S. degree in Industrial Engineering and earned a MBA from Harvard University in 1968. He has been involved in researching, developing and implementing futures trading strategies and programs based on trend-timing trading philosophy since 1974. Mr. Dean was the partner of the late Richard D. Donchian, one of the first advocates of the diversified trend-following approach to managed futures. He co-founded TrendLogic in 1988.

J. Richard Semels, CEO. Mr. Semels graduated from the University of Connecticut in 1964 with a B.A. degree in English. Mr. Semels spent ten years in advertising, then joined Salomon Smith Barney Inc. where he held the title Senior Vice President-Investments. He has been involved in researching, developing and implementing trading and risk management systems for use in the futures and securities markets since 1975. Mr. Semels co-founded TrendLogic in 1988.

Daniel J. Kraninger, President. Previously, Mr. Kraninger was Senior Vice President of GE Private Asset Management (GEPAM) a \$2.5 billion money management subsidiary of GE Capital. His responsibility at GEPAM was directing their Private Client Group - a team that advised and managed money for over 1,500 high-net worth clients. Prior to GE, he served as Senior Vice President of O'Shaughnessy Capital Management (OCM), a \$1 billion Greenwich investment adviser and mutual fund manager that he helped establish in 1996 with founder, Jim O'Shaughnessy. OCM later sold its assets to Netfolio, LLC in January, 2000. Before OCM, Mr. Kraninger worked at Merrill Lynch as a member of the 1994 JET Program, and he is a graduate of Villanova University.

Warren K. Greene, Senior Vice President. Previously, Mr. Greene was president of the American Investors group of mutual funds, which he joined from The First Boston Corporation in New York. American Investors pioneered relative-strength analysis applied to stocks and industry groups. He was portfolio manager of American Investors Growth Fund, American Investors Income Fund, and American Investors Option Growth Fund. He served as president of the No-Load Mutual Fund Association and Chairman, No-Load Committee of the Investment Company Institute. Mr. Greene is a member the New York Society of Security Analysts, Inc. and the Association of Investment Management and Research. He graduated from Oregon State University with a B.S. degree in Industrial Engineering and from New York University with a MBA degree.

Brentin C. Elam, Vice President and Director. Mr. Elam graduated from the University of Cincinnati in 1969 with a B.S. degree in Science. Mr. Elam has traded futures professionally since 1970, using and writing computer programs for trading portfolios. He was a founding director of the National Association of Futures Trading Advisors and has served on the National Futures Association's CTA/CPO Advisory Committee and the NFA's Business Conduct Committee, Eastern Region.

Harry H. Suber, Ph.D, Director of Research. From 1960 to 1969, Dr. Suber attended Clemson University in South Carolina earning a B.S. (*cum laude*) in Physics, a MS in Mathematics and a Ph.D in Mathematics. He was an Associate Professor with the Department of Mathematics at Salisbury University in Maryland from 1969 to 1990. Dr. Suber is a co-founder of TrendLogic and has been the Director of Research since May, 1988. He has primary responsibility for computer-assisted research and programming for TrendLogic's portfolio management models and systems.

Robert Tardiff, Ph.D, Assistant Director of Research. Dr. Tardiff earned his Ph.D in Mathematics from the University of Massachusetts in 1975. In 1982, he joined the faculty at Salisbury University, becoming a full Professor of Mathematics in 1989. Subsequently he was Chairman of the Computer Science and Mathematics Department, and currently is Dean, Henson School of Science and Technology, Salisbury University. Dr. Tardiff performs research programming and system/data base management for TrendLogic's programs.