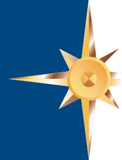

Clark Capital
MANAGEMENT GROUP

Navigator® Global Opportunity

A discussion with John E. Clark, Portfolio Manager

John E. Clark, IV, CFP®, ChFC
Portfolio Manager

John serves as a Portfolio Manager on the Navigator Global Opportunity management team, focusing on trend and risk analysis and is a member of the Clark Capital Investment Committee. John has over 20 years of experience in the investment advisory business. Prior to joining Clark Capital in 2011, John spent 15 years at Wachovia Securities and its predecessor firm Wheat First Butcher Singer, where he spent his last two years managing the Absolute Return ETF portfolio. John holds a degree in Economics from Millersville University and pursued graduate studies in economics at Lehigh University, with an emphasis in Econometrics. He is a Certified Financial Planner (CFP®) licensee and a Chartered Financial Consultant (ChFC) with the American College. He is also an Affiliate of the Market Technicians Association, a professional organization of market analysts, and is currently studying for Level III of the Chartered Market Technician's examination.

What are the goals of the strategy you manage?

Our goal is to provide absolute return within the framework of a tactical risk management process. We accomplish this using a two-step investment process that seeks to control risk at the portfolio level as well as at the position level.

Step One: Evaluate and establish the level of macro risk in the broad market and set the portfolio's overall broad allocation of risk-based positions versus defensive positions. Defensive positions include cash, fixed income, and "hedging positions." Hedging positions have an inverse negative correlation to a market/sector index. This controls risk at the portfolio level.

Step Two: Select the remaining risk-based ETFs using relative strength analysis, comparing all investable ETFs against one another. This controls risk at the position level.

What are CCMG's philosophy, process, and approach to the equity markets in the strategy?

Risk management is the overarching theme of the Global Opportunity portfolio's investment strategy. In addition, our investment strategy seeks to identify trends and to stay with a trend until we believe it becomes at risk.

The top-down investment process is primarily driven by technical analysis. We believe markets move in trends and cycles and human behavior repeats over time. One can track and measure this through disciplined technical analysis. Often, market opportunities can be revealed before the fundamental reasons become apparent to the public investor. To say it with another perspective: good technical analysis can identify what those with superior fundamental knowledge are doing.

How is Global Opportunity different from the other Navigator ETF Strategist offerings?

All other Navigator ETF portfolios are constructed using relative strength analysis as the backbone of their ETF selection process (the second step discussed above). In our opinion, there is a strong and time-tested advantage to using a relative-strength-only process for position selection. In our view, it will not pull you out of positions early; and it will keep you in a trend until it signals you to pull out of risk-based positions in favor of defensive ETFs. The Global Opportunity process begins to adjust defensively to early warning signs (step one), while a relative-strength-only process (step two) will give you defensive signals but generally later in the drawdown. This is good and bad depending on the nature of the trend. In a strong uptrend, possessing shallow drawdowns and quick reversals, the relative-strength-only process can outperform the Global Opportunity process. However, in stronger downtrending markets, the Global Opportunity process can reduce portfolio drawdowns, especially in cyclical bear markets.

Why is the first part of your investment process so important to controlling portfolio risk?

The first part of the investment process determines the amount allocated to risk-based assets versus defensive assets. If we determine the macro risks are minimal, then the Global Opportunity portfolio will resemble Clark Capital's other ETF Strategist portfolios in its construction.

At the other end of the risk spectrum, if we determine there are significant market macro risks, we

will have substantial hedging positions inside the portfolio in an attempt to immunize the portfolio against the market.

How do you perform your risk assessment?

Primarily, we use a "weight of evidence" approach, utilizing various quantitative factors including market internal readings, trend analysis and cycle analysis. Also considered, but with lesser weight, are volatility, momentum, and sentiment readings.

What asset classes and sectors are in the portfolio's investable universe?

The portfolio has an unconstrained asset allocation policy. Our investable universe consists of approximately 500 ETFs which represent the full range of investable asset classes. For purposes of diversification, we will generally set a maximum limit exposure for each major asset class. The number of positions we maintain in different market environments is important to note as well. In periods of higher macro risk, we generally limit our number of positions to four to six positions, primarily to the broad index ETFs. We often find in this environment that there is a lack of relative strength advantage occurring between the narrower sectors (and alternative asset classes) and broad market indices. Therefore, in these conditions, we will limit our number of positions and focus our market exposure on the broad market index ETFs. Conversely, in periods of low macro risk, we typically find more distinguishable and durable relative strength between asset classes and will expand our portfolio to up to 12 positions in order to maximize our opportunities for return.

Why is the strategy appropriate in today's environment?

As this bull cycle continues to extend out beyond the normal historical time boundaries, we believe the odds of a bear cycle increase. We are now completing the sixth year of this bull cycle, with over 200% gains from the 2009 low. Passive equity index investors have had an extraordinary ride; and time has conditioned them to believe that risk management is a superfluous exercise. But eventually mean reversion asserts itself. Our continuing challenge is to minimize the "performance drag" our risk management process encounters during uptrends, while minimizing the Ulcer Index in longer duration downtrends.[1]

Where does this portfolio fit in a diversified asset allocation?

Global Opportunity can serve as a tactical overlay, complementing more aggressive strategies, which don't have an active risk management component. Also, it can be a standalone portfolio for those who are risk averse and desire a portfolio that has a process to mitigate the severity of drawdowns due to market corrections and cyclical bear markets — even if that process leads to market underperformance.

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1. The Ulcer Index is a method for measuring investment risk that addresses the real concerns of investors by measuring the depth and duration of drawdowns in prices from earlier highs in the trend. The Index was first described in *The Investor's Guide to Fidelity Funds: Winning Strategies for Mutual Fund Investors* by Peter Martin and Byron McCann. Originally published by John Wiley & Sons in 1989.

Past performance is not indicative of future results. This material is not financial advice or an offer to sell any product. The relative strength measure is based on historical information and should not be considered a guaranteed prediction of market activity. It is one of many indicators that may be used to analyze market data for investing purposes. The relative strength measure has certain limitations such as the calculation results being impacted by an extreme change in a security price. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. The opinions expressed are those of Clark Capital Management Group Investment Team. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass.

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