Clark Capital Management Group

NavigatorInsights

K. Sean Clark, CFA
Chief Investment Officer

As Clark Capital's Chief Investment Officer, Sean oversees all of the Firm's investment activities and heads the Firm's portfolio team. Sean joined the Firm in 1993 and is responsible for asset allocation and investment selection for Navigator Investment Solutions as well as directing ongoing market research and contributing to the development of proprietary products. Sean is a member of the Clark Capital Management Committee and the Board of Directors. He graduated from the University of Delaware, earning a B.S. and an M.A. in Economics. Sean is a Chartered Financial Analyst and a member of the CFA Institute (formerly AIMR) and the Financial Analysts of Philadelphia, Inc. Sean is considered an industry expert and is often asked to appear on CNBC and Bloomberg television to share his views on the market. In addition, Sean has been quoted in a number of articles in nationally distributed business journals and newspapers.

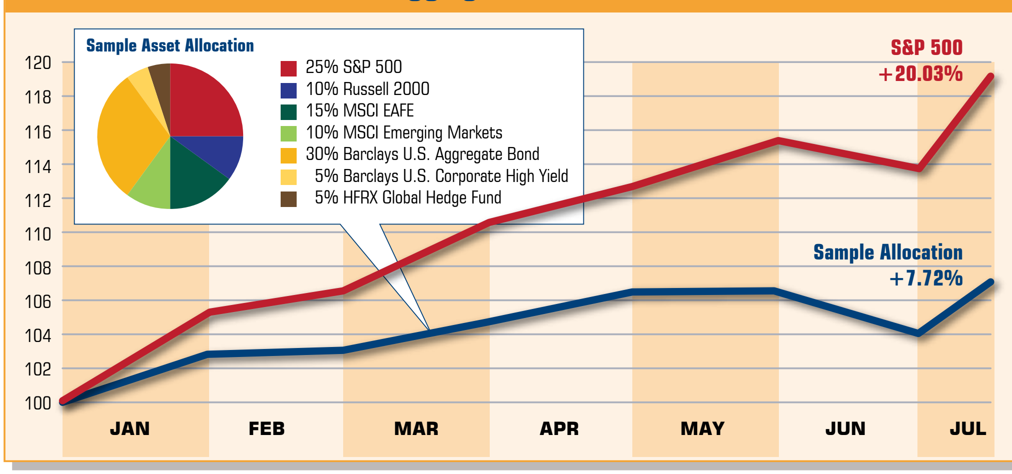
Is Diversification Out of Favor?

One of the first rules individual investors learn about investing is the importance of diversification. They can quickly understand the concept of "not putting all your eggs in one basket." However, the recent market environment has been punishing the prudent, diversified investor. According to a recent Gallup poll, 54% of investors said they had benefited either "a little" or "not at all" from the recent market rally.

The sharp increase in the U.S. Equity markets has not been followed by the rest of the world's equity markets or other asset classes. As a result, the benefits of diversification have been difficult to discern.

When you consider the S&P 500 is up 20.03% this year while a sample hypothetical asset allocation is up only 7.72%, it is hardly surprising that investors might ask, **"Why is my portfolio up single digits when the S&P 500 is up double digits?"**

Diversified Portfolios Are Lagging Behind the Broader U.S. Markets



Portfolio shown is hypothetical and does not reflect an actual portfolio. As of 7/19/2013. Source: Morningstar Direct; All returns include the reinvestment of dividends

The chart above compares a hypothetical asset allocation to the S&P 500 from January 1, 2013 to July 19, 2013.

Financial professionals recognize that the above chart compares apples and oranges but unfortunately, many individual investors think of the S&P 500 and the U.S. equity markets as benchmarks for their diversified investments. Furthermore, this misconception is often reinforced by the media as they highlight the strength of the U.S. stock market. This may drive investors to feel they are missing out, and greed may take hold of them. As the annual Dalbar studies show year after year, when investors' behavior is driven by fear or greed, it can be detrimental to their ability to reach their long-term goals.

This is where goals-based investing, or what some people call liability-driven investing, should be considered. This increasingly popular approach is yet another example of the retail investment world borrowing a page from institutional investors' playbook—trying to manage people's assets so they better match their liabilities. This approach has long been a focus of pension funds. By focusing on goals rather than benchmarks, investors may have a better chance of staying the course.

While diversification seems to be out of favor, we believe it is still a key investment principal that should not be hastily discarded. Keeping your clients focused on their goals generally requires continued education on the benefits of meaningful diversification, especially during time periods when the performance of one asset class outshines the others.