ClarkCapital MANAGEMENT GROUP

Navigator® 401(k)

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Fourth Quarter 2013 - Commentary & Perspective

Risk-Based Portfolios

Navigator Fixed Income

For the fourth quarter of 2013, the Navigator Fixed Income portfolio gained 0.57% compared to a 0.02% loss for the Barclays Capital Intermediate Government/Credit Index. After enduring their worst quarter in a decade during the second quarter of 2013, fixed income investments stabilized and were largely flat for the rest of the year. Within the Navigator Fixed Income portfolio, in our opinion, our focus on credit and investment grade corporate bonds continued to pay off. The portfolio added a new mutual fund to the portfolio, Navigator Duration Neutral Bond (NDNIX). The fund owns a diverse portfolio of municipal bonds and hedges away the interest rate risk in the portfolio, with the goal of collecting the yield on municipal bonds and protecting against loss of principal due to rising interest rates. The portfolio also reduced its international fixed income exposure, selling a number of international-oriented closed-end bond funds. We may re-emphasize international bonds perhaps during the fourth quarter of 2014. The portfolio's longer-term commitment to credit spread narrowing among corporate bonds continues, as we would rather take on credit risk than interest rate risk.

Navigator Capital Preservation with Sentry

For the fourth quarter of 2013, Navigator Capital Preservation with Sentry returned 2.64% compared to a 0.78% return for the Dow Jones Conservative Global Index. The fixed income portion of the portfolio continues to favor high yield bonds in its tactical portion as their relative strength continues. Within core fixed income, we have added the Navigator Duration Neutral Bond Fund (NDNIX), a municipal bond fund that is interest rate hedged, to the portfolio. We continue to prefer credit risk over interest rate risk. Within the alternative sphere, we are underweight commodities, and our equity focus remains within the U.S. For all of 2013, the equity portion of the portfolio enjoyed strong performance from JPMorgan Large Cap Core Plus while American Century Midcap Value underperformed. The international portion of the portfolio benefited from the performance of MFS International Value, while JPMorgan Emerging Equity was an underperformer and was sold. Within international equity, we recently reduced risk by paring back our emerging markets exposure.

Looking forward, we believe markets will enjoy an up year in 2014 but with much more volatility than in 2013. There are a number of facets behind our analysis. First, on average, during a mid-term election year, equity markets endure a correction of 19%. Second, markets undergo an average correction of 16% within the first six months of a new Fed chair being installed. Janet Yellen has been confirmed and is expected to take charge of the Fed in late January. Most stock market sentiment readings are at their most extreme levels of optimism in many years, and we believe that this is certainly an indication that the odds of a substantial decline are growing. During 2014, we expect to substantially increase our equity hedge as signs of market weakness and a developing decline are confirmed by price action.

Navigator Conservative Growth with Sentry

For the fourth quarter of 2013, Navigator Conservative Growth with Sentry returned 3.53% compared to a 2.53% return for the Dow Jones Moderately Conservative Global Index. The fixed income portion of the portfolio continues to favor high yield bonds in its tactical portion as their relative strength continues. Within core fixed income, we have added the Navigator Duration Neutral Bond Fund (NDNIX), a municipal bond fund that is interest rate hedged, to the portfolio. We continue to prefer credit risk over interest rate risk. The active portion of our portfolio overweighted small caps and growth stocks within U.S. equities. Financials, technology, and consumer discretionary were the most favored sectors. Within international equity, Europe received a strong overweight, as optimism about a recovery on the continent helped markets enjoy a strong second half of 2013. Emerging markets were minimally weighted, as they were the weakest area within equities for most of 2013.

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Navigator Moderate Growth with Sentry

For the fourth quarter of 2013 Navigator Moderate Growth with Sentry returned 3.91% compared to a 4.26% return for the Dow Jones Moderate Global Index. The fixed income portion of the portfolio continues to favor high yield bonds in its tactical portion as their relative strength continues. Within core fixed income, we have added the Navigator Duration Neutral Bond Fund (NDNIX), a municipal bond fund that is interest rate hedged, to the portfolio. We continue to prefer credit risk over interest rate risk. The active portion of our portfolios overweighted small caps and growth stocks within U.S. equities. Financials, technology, and consumer discretionary were the most favored sectors. Within international equity, Europe received a strong overweight, as optimism about a recovery on the continent helped markets enjoy a strong second half of 2013. Emerging markets were minimally weighted, as they were the weakest area within equities for most of 2013. Overall, our relative strength models point us towards equities over bonds, commodities, currencies, and cash.

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Navigator Growth

For the fourth quarter of 2013 the Navigator Growth portfolio returned 5.68% compared to a 5.90% return for the Dow Jones Moderately Aggressive Global Index. The fixed income portion of the portfolio continues to favor high yield bonds in its tactical portion as their relative strength continues. Within core fixed income, we have added the Navigator Duration Neutral Bond Fund (NDNIX), a municipal bond fund that is interest rated hedged, to the portfolio. We continue to prefer credit risk over interest rate risk. The active portion of our portfolio overweighted small caps and growth stocks within U.S. equities. Financials, technology, and consumer discretionary were most favored sectors. Within international equity, Europe received a strong overweight, as optimism about a recovery on the continent helped markets enjoy a strong second half of 2013. Emerging markets were minimally weighted, as they were the weakest area within equities for most of 2013. Overall, our relative strength models point us towards favoring equities over bonds, commodities, currencies, and cash.

Looking forward, we expect markets to enjoy an up year in 2014 but with much more volatility than in 2013. There are a number of facets behind our analysis. First, on average, during a mid-term election year equity markets endure a correction of 19%. Second, markets undergo an average correction of 16% within the first six months of a new Fed chair being installed. Janet Yellen has been confirmed and is expected to take charge of the Fed in late January. Most stock market sentiment readings are at their most extreme levels of optimism in many years, and we believe that this is certainly an indication that the odds of a substantial decline are growing. We will be watching our relative strength models closely in order to see if defensive assets begin to outperform. Despite a growing number of warning signs, that has yet to be the case.

Navigator Aggressive Growth

For the fourth quarter of 2013 the Navigator Aggressive Growth portfolio returned 6.32% compared to a 7.49% return for the Dow Jones Aggressive Global Index. During all of 2013 the core portion of the portfolio enjoyed strong performance from JPMorgan Large Cap Core Plus, while American Century Value underperformed. The international portion of the portfolio enjoyed strong performance from MFS International Value, while JPMorgan Emerging Equity was an underperformer and was sold. The active portion of our portfolio overweighted small caps and growth stocks within U.S. equities. Financials, technology, and consumer discretionary were the most favored sectors. Within international equity, Europe received a strong overweight, as optimism about a recovery on the continent helped markets enjoy a strong second half of 2013. Emerging markets were minimally weighted, as they were the weakest area within equities for most of 2013. Overall, our relative strength models point us toward favoring equities over bonds, commodities, currencies, and cash.

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Strategist Portfolios

Navigator Fixed Income Total Return

For the fourth quarter of 2013 the Navigator Fixed Income Total Return portfolio returned 2.97% compared to a 3.58% return for the Barclays U.S. Corporate High Yield Index. In mid to late June, the Fixed Income Total Return portfolio reduced the risk in its portfolio by paring back its high yield bond position. Our models are designed to react when raw price losses in high yield bonds exceed a certain threshold, and that threshold was exceeded on June 21st. However, distressed conditions in the credit markets did not last long. Prices recovered and, as a result, we quickly moved back into high yield bonds on July 18th. Since then, high yield bond prices have been basically flat, and investors have simply collected yield. The Fixed Income Total Return quantitative models continue to be near their maximum positivity on high yield bonds, particularly in comparison to treasuries. Looking forward, we believe interest rates appear to be on the rise over the intermediate and longer-term. Taking a look at bond performance during 2013, a time of rising interest rates, quickly shows the value of adding high yield bonds to a fixed income portfolio. For the year, the Barclays High Yield Bond SPDR was up 5.86% while the iShares Barclays 7-10 Year Treasury ETF was down 6.09%. We feel a nearly 12% difference in returns between Treasuries and high yields to be startling and an indication that Treasuries in 2013 represented risk without return.

Navigator Global Equity ETF

For the fourth quarter of 2013 the Navigator Global Equity ETF portfolio returned 5.94% compared to a 8.11% return for the MSCI World Index. The active portion of our portfolios overweighted small caps and growth stocks within U.S. equities. Financials, technology, and consumer discretionary were the most favored sectors. Within international equity, Europe received a strong overweight, as optimism about a recovery on the continent helped markets enjoy a strong second half of 2013. Emerging markets were minimally weighted, as they were the weakest area within equities for most of 2013. Overall, our relative strength models point us towards favoring equities over bonds, commodities, currencies, and cash.

Looking forward, we believe markets will enjoy an up year in 2014, but with much more volatility than in 2013. There are a number of facets behind our analysis. First, on average, during a mid-term election year equity markets endure a correction of 19%. Second, markets undergo an average correction of 16% within the first six months of a new Fed chair being installed. Janet Yellen has been confirmed and is expected to take charge of the Fed in late January. Most stock market sentiment readings are at their most extreme levels of optimism in many years, and we believe that this is certainly an indication that the odds of a substantial decline are growing. We will be watching our relative strength models closely in order to see if defensive assets begin to outperform. Despite a growing number of warning signs, that has yet to be the case.

High Dividend Equity Portfolio

Dividend and Earnings Growth

U.S. equities had a stellar year as improving economic conditions and expectations of future corporate earnings growth, cash flow and dividends. Dividend growth stocks continue to perform aided by a Federal Reserve policy which encourages an historically low interest rate environment. Not all dividend strategy portfolios are alike and the importance of investing in companies with "growth of earnings" as well as "dividend growth" is clear as the performance spread widens. Companies sacrificing fundamental growth for a high dividend payout may suffer in this type of market. For example bond proxy stocks such as utilities and telecommunications could experience continued downward pressure, while quality dividend stocks with strong fundamentals and lower dividend payouts thrive.

In 2013 the S&P 500 Index paid over $300 billion in dividends which was the best year since 1997. While the aggregate dividend payout ratio fell for the first time in seven quarters, the payout is low at 36% versus an historic average of 52%. The number of S&P 500 Index companies that paid a dividend maintained a 17-year high with an 84% representation.

Sectors

The top performing sectors for the year were discretionary, healthcare and industrials while the lowest returns surfaced in energy, utility and telecommunications. The highest dividend growth sectors were information technology (+46%) and financials (+16%)which led the S&P 500 in trailing, year over year dividend increases. Utilities (+69%) and telecommunication services (151%) had the highest payout ratios for the eleventh consecutive quarter. The High Dividend Equity portfolio was overweight in the industrial and discretionary sectors with ownership in companies such as Boeing, Lockheed Martin, General Electric, Johnson Controls and Gannett. The portfolio was equal weight in financials investing in solid companies such as JPMorgan, Ameriprise, Wells Fargo and PNC Bank. Although the portfolio has the flexibility to invest in publicly traded REITs and preferred stocks there has been zero weight since the first quarter of 2013 due to the current economic environment and Federal Reserve policy.

Sources: Ned Davis Research, Bloomberg

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TThe Dow Jones Industrial Average is a stock market index that shows how 30 large publicly owned companies based in the U.S. have traded during a standard trading session in the stock market.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performers of developed markets outside the U.S. and Canada.

The MSCI Emerging Markets Index is a freefloat-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

The Barclays U.S. Government and Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries, government-related, and investment grade U.S. corporate securities that have a remaining maturity of greater than 1 year. In addition, the securities have $250 million or more of outstanding face value, and must be fixed rate and non-convertible.

The Barclays U.S. Corporate High-Yield Index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

The Barclays 30-Year U.S. Treasury Bellwethers Index is a universe of Treasury bonds, and used as a benchmark against the market for long-term maturity fixed-income securities. The index assumes reinvestment of all distributions and interest payments.

The Barclays 10-Year U.S. Treasury Bellwethers Index is a universe of Treasury bonds, and used as a benchmark against the market for long-term maturity fixed-income securities. The index assumes reinvestment of all distributions and interest payments.

The Barclays 5-Year Municipal Bond Index is the 5 Year (4-6) component of the Municipal Bond index. It is a rules-based, market-value-weighted index engineered for the tax-exempt bond market. The index tracks general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds rated Baa3/BBB- or higher by at least two of the ratings agencies.

Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.

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The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices and which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk. The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 75% of U.S. equities. The Barclays Capital U.S. Aggregate Bond Index is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented. Municipal bonds, and Treasury Inflation-Protected Securities are excluded, due to tax treatment issues. The index includes Treasury securities, Government agency bonds, Mortgage-backed bonds, Corporate bonds, and a small amount of foreign bonds traded in U.S. The Barclays Capital Aggregate Bond Index is an intermediate term index.

The volatility (beta) of a client's portfolio may be greater or less than its respective benchmark. It is not possible to invest in these indices.

Returns are presented gross of investment advisory fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. For example, a 0.50% annual fee deducted quarterly (.125%) from an account with a ten year annualized growth rate of 5% will produce a net result of 4.4%. Actual performance results will vary from this example. The Firm's policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

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