Clark Capital MANAGEMENT GROUP

Navigator® Market Update

K. Sean Clark, CFA, Chief Investment Officer

April 11, 2014 - Market Commentary

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 Board of Directors, the Investment Committee and the Management Committee. 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 featured in a number of articles in nationally distributed business journals and newspapers.

TOP OR PAUSE THAT REFRESHES?

The market has been experiencing a rotational correction over the past month and a half with aggressive sectors giving back a good portion of their recent gains while defensive sectors and valued-based styles have taken the lead. The S&P 500 had held up much better than individual stocks and aggressive sectors. Even with the newness of the decline there is a lot of angst among investors regarding how the market is trading. The S&P 500 is only down 3.0% from its record closing high on April 2nd. The current drawdown is less than the correction in January. However, the Russell 2000 index of small cap stocks is down 6.7%. Whether this rotational correction will lead to a more significant decline in the major indices or if we are just witnessing a change in leadership before the next thrust higher is a question many are struggling to answer. We think it is highly likely that this rotation is a sign of a market topping process. However, market tops usually form over weeks and months, not days. So we would expect to see a rebound unfold that would be likely to at least test the recent highs. The characteristics of that rebound will give important clues about the intermediate-term health of the market. For now, the market remains in a cyclical uptrend, but we have yet to see an oversold condition or wash-out scenario develop. The selling pressure has intensified over the past couple of trading sessions. Telling indicators such as the percentage of names making 20-day lows, the status of put/call ratios, and the levels of skew and sentiment are not yet washed out but are approaching levels that are consistent with a low. It may take a little more time.

In our *2014 Market Outlook* and other writings we have highlighted the potential for a market correction given the mid-term election year tendencies and the changing of the guard at the Federal Reserve. We are sensitive to the likelihood of experiencing the largest correction for the broad market since 2012. We have noticed some changes in our relative strength modeling processes that confirm a changing tone in the market and have resulted in some recent portfolio changes. For example, we have been paring back our small cap exposure over the past several weeks and exited small cap altogether from the Style and Macro allocations. In addition, value-based styles have risen to the fore and we increased our allocation to value in Style.

The Sentry Managed Volatility Fund is positioned with a mix of options and cost-managed volatility holdings. The fund owns S&P 500 put options with a strike of 1750, which is currently only 4.5% out of the money. So, should the market continue to deteriorate, the Sentry fund is positioned to help mitigate the downside, and we will make ongoing adjustments as the market conditions change.

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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 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 NASDAQ Index is a market-weighted index of all common stocks listed on the NASDAQ exchange.

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 World Index is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance.

The MSCI World Index ex. U.S. is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance excluding the U.S.

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

The MSCI All Country Europe is a free float-adjusted market capitalization index that is designed to measure the performance of European equity markets.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

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 VIX Index is a forward looking index of market risk which shows expectation of volatility over the coming 30 days.

Barclays U.S. Government/Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries and government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year.

The Barclays U.S. Aggregate Bond Index covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities. To qualify for inclusion, a bond or security must have at least one year to final maturity, and be rated investment grade Baa3 or better, dollar denominated, non-convertible, fixed rate and publicly issued.

The Barclays U.S. Corporate High-Yield Index covers the dollar-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.

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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