ClarkCapital MANAGEMENT GROUP

Navigator® 401(k)

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Second Quarter 2014 - Commentary & Perspective

Risk-Based Portfolios

Navigator Fixed Income

For the 2nd quarter of 2014 the Navigator Fixed Income portfolio gained 2.05% compared to a 1.0% gain for the Barclay's Capital Intermediate Government and Credit Index. Fixed income investments have performed much stronger in 2014 than many expected. Fears of rising interest rates have proven to be unfounded, surprising many. The Fixed Income Core portfolio can be counted among those that are very uncomfortable with the risk-return relationship that fixed income offers, particularly longer-term Treasury bonds. In that sense, our defensiveness with regard to interest rates in 2014 has been wrong. However, the portfolio's now multiyear weighting towards and embrace of credit risk over interest rate risk continues to fare well and contribute to performance. Corporate and higher yielding credits continue to lead among fixed income's various categories, and this year international fixed income in particular has been strong as confidence has returned to emerging markets. Thus our allocation in that space, Legg Mason Brandywine Global Opportunities Bond, was the portfolio's top contributor. Loomis Sayles Investment Grade Bond Fund, one of the most aggressively oriented investment grade bond funds available, has been a favorite of ours for some time and continues to be a top contributor. Navigator Duration Neutral Bond and Western Asset Unconstrained Bond were detractors, in our view due to their more cautious stance on interest rates. We believe that these funds' caution with regard to interest rates will over the long run serve our investors well, and continue to be willing to wait for that caution to pay off. Higher yielding corporate and international bonds continue to be our most favored segments of the fixed income markets, while Treasuries and longer duration in general remains least favored.

Navigator Capital Preservation with Sentry

For the 2nd quarter of 2014 the Navigator Capital Preservation with Sentry returned 1.52% compared to a 2.41% 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. The core fixed income portion of the portfolio continues to favor corporate bonds and spread contraction plays in general. Within the alternative sphere energy and commodity equities along with industrial metals were added to the portfolio. In the portfolio's core equity portion quality and dividend oriented holdings were the strongest performers, while small cap stocks lagged.

Looking forward to the remainder of 2014, we expect markets to enjoy an up year, but with much more volatility than in 2013. We have noted with interest that the traditional seasonal patterns usually seen during the year are so far this year not reliable, presumably due to the Fed's extreme intervention in the markets. With that in mind, while we have been expecting volatile markets, that volatility has just not appeared. We have (admittedly reluctantly) maintained an overall bullish and aggressive stance towards the markets, and thus we have not put the brakes on too early. We do expect volatility to pick up after the Fed ends its bond purchases in October and will be ready to take protective measures if our indicators flash warning signs.

Navigator Conservative Growth with Sentry

For the 2nd quarter of 2014 the Navigator Conservative Growth with Sentry returned 1.45 compared to a 3.21% 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. The portfolio's core fixed income holdings continue to favor credit risk over interest rate risk, and international fixed income over Treasuries. Within the alternative sphere, energy and commodity equities along with copper, livestock, and cocoa were featured in the portfolio. In the portfolio's tactical ETF portion our focus moved towards large cap and value stocks. Amongst sectors, technology remained an overweight and Energy was our largest addition during the quarter. Consumer Discretionary, Consumer Staples, and Telecommunications are least favored sectors. Among international equities, our focus has shifted away from Europe and towards both the U.S. and Emerging Markets, both of which display relative strength.

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Navigator Moderate Growth with Sentry

For the 2nd quarter of 2014 the Navigator Moderate Growth with Sentry returned 1.48% compared to a 3.79% 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. U.S. equities enjoyed solid gains for the quarter; however, our core positions in small caps lagged behind. In the portfolio's U.S. Equity Style portion our focus moved towards large cap and value stocks; small caps were least favored. Amongst sectors, technology remained an overweight and Energy was our largest addition during the quarter. Consumer Discretionary, Consumer Staples, and Telecommunications were least favored sectors. Among international equities, our focus has shifted away from Europe and towards both the U.S. and Emerging Markets, both of which display relative strength. Indian equities were the top contributor, while Italian equities were the top detractor. Within the alternative sphere, energy and commodity equities along with copper, livestock, and cocoa were featured in the portfolio.

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Navigator Growth

For the 2nd quarter of 2014 the Navigator Growth portfolio returned 3.34% compared to a 4.34% return for the Dow Jones Moderately Aggressive Global Index. Higher beta large cap core equity positions such as Clearbridge Aggressive Growth were strong contributors to performance; however, less liquid holdings such as JPMorgan Small Cap Growth lagged as small caps trailed amidst valuation concerns. In the portfolio's U.S. Equity Style portion our focus moved towards large cap and value stocks; small caps were least favored. Amongst sectors, technology remained an overweight and Energy was our largest addition during the quarter. Consumer Discretionary, Consumer Staples, and Telecommunications were least favored sectors. Among international equities, our focus has shifted away from Europe and towards both the U.S. and Emerging Markets, both of which display relative strength. Indian equities were the top contributor, while Italian equities were the top detractor. Within the alternative sphere, energy and commodity equities along with copper, livestock, and cocoa were featured in the portfolio.

Looking forward to the remainder of 2014, we expect markets to enjoy an up year, but with much more volatility than in 2013. Any corrections in the equity market have been shallow and muted. After some weakness in January, markets have slowly grinded higher. We have noted with concern that is has been over 1000 days since markets endured a 10% correction; however, this long period of low volatility in the markets does not mean a correction is imminent. More broadly speaking, the U.S. economy appears to be in solid shape, and Emerging Markets and China appear to have turned the corner. While we are constantly watchful for deteriorating conditions and are ready to take a more defensive stance, we remain cautious optimistic about the next few months. We do expect volatility to pick up when the Fed ends its bond buying program in October.

Navigator Aggressive Growth

For the 2nd quarter of 2014 the Navigator Aggressive Growth portfolio returned 3.61% compared to a 4.99% return for the Dow Jones Aggressive Global Index. Higher beta large cap core equity positions such as Clearbridge Aggressive Growth were strong contributors to performance; however, less liquid holdings such as JPMorgan Small Cap Growth lagged as small caps trailed amidst valuation concerns. In the portfolio's U.S. Equity Style portion our focus moved towards large cap and value stocks; small caps were least favored. Amongst sectors, technology remained an overweight and Energy was our largest addition during the quarter. Consumer Discretionary, Consumer Staples, and Telecommunications were least favored sectors. Among international equities, our focus has shifted away from Europe and towards both the U.S. and Emerging Markets, both of which display relative strength. Indian equities were the top contributor, while Italian equities were the top detractor. Within the alternative sphere, energy and commodity equities along with copper, livestock, and cocoa were featured in the portfolio.

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Strategist Portfolios

Navigator Fixed Income Total Return

For the second quarter of 2014, the Navigator Fixed Income Total Return portfolio returned 2.24% compared to a 2.41% return for the Barclays U.S. Corporate High Yield Index. The credit markets have given investors a clear signal as to what to about the report of first quarter GDP falling 2.9%: don't worry about it! One would think that such a negative report would perhaps foreshadow recession and cause investors to flee risky assets, but that has not been the case in stocks or in fixed income. High yield bonds continue to perform very well in our view, and their positive price action may indicate that investors as a group are simply not very concerned about the global economy for the near term. Spikes of violence in Iraq and Syria and higher oil prices have not been a deterrent so far, either. It is amazing what can happen when central banks around the globe coordinate to keep interest rates and volatility low. The Fixed Income Total Return (FITR) portfolio moved to a 100% fully invested position in High Yield Bonds nearly a year ago on July 18, 2013. The portfolio's primary evaluation regarding which asset class to own involves comparing the relative strength of High Yield Bonds versus Treasuries. By that measure, high yield bonds remain very strong. From July 18, 2013 until June 30th of this year, High Yield Bonds as measured by the Barclays High Yield Bond SPDR (JNK) gained 8.13% while the iShares 7-10 Year U.S. Treasury ETF (IEF) gained 3.20%. The FITR model remains very close to new all-time highs. Our best forecast for the markets' path this year predicts a more volatile and turbulent third and early fourth quarter -- but nothing close to a full blown bear market. As much as we believe in that forecast, the Fixed Income Total Return portfolio is not influenced by any forecast. It is only influenced by its model, which has been undeterred and very bullish. While we are always watchful for deterioration in credit conditions that might force us to become defensive, we see no evidence of any need to become cautious at this time.

Navigator Global Equity ETF

For the second quarter of 2014, the Navigator Global Equity ETF portfolio returned 3.85% compared to a 4.86% return for the MSCI World Index. The Global Equity ETF portfolio actively allocates between three areas: U.S. Equity Style ETFs, U.S. Sector ETFs, and International Equity ETFs. Within each of these three areas we seek to own ETFs that have displayed intermediate-term relative strength. Our allocations shifted during the quarter towards international equities, particularly towards Emerging Markets, which are on the recovery. It appears that negativity and pessimism have peaked in Emerging Markets during early March; markets are now encouraged that growth in China has turned around and Emerging Markets currencies have seen considerable gains. Late in the quarter, we began to see considerable weakness in Europe and our multi-quarter overweight towards Europe was liquidated. The portfolio now overweights both the U.S. and Emerging Markets, underweighting most other developed markets equities. The S&P 500 High Beta ETF, Energy equity ETFs, and Indian equity ETFs were top contributors; Small Cap Growth, Internet, and Italian equity ETFs were the top detractors.

Looking forward to the remainder of 2014, we expect markets to enjoy an up year, but with much more volatility than in 2013. Any corrections in the equity market have been shallow and muted. After some weakness in January, markets have slowly ground higher. We have noted with concern that is has been over 1000 days since markets endured a 10% correction; however, this long period of low volatility in the markets does not mean a correction is imminent. More broadly speaking, the U.S. economy appears to be in solid shape, and Emerging Markets and China appear to have turned the corner. While we are constantly watchful for deteriorating conditions and are ready to take a more defensive stance, we remain cautiously optimistic about the next few months. We do expect volatility to pick up when the Fed ends its bond buying program in October.

High Dividend Equity Portfolio

During the second quarter of 2014, demand for dividend stocks continued as long term Treasury bonds rose a surprising 4.7%. Since the financial crisis the persistent low interest rate environment has fueled the dividend equity strategy as one of the few income plays. Currently valuations in the large cap Dow Jones Industrial Index are trading at 15.8X versus the S&P 500 Index at 18.1X. This lower valuation combined with a higher current dividend yield of 2.16% versus S&P 500 yield of 1.90% may provide attractive 2014 returns for bargain hunters. With the 10-year Treasury yield at 2.53%, dividend investing continues to be an attractive conservative strategy providing income and growth which is often accompanied by a lower beta. Shorter term a rising interest rate environment may hinder the dividend strategy but history has shown longer term investing in quality dividend stocks with strong earnings have outperformed since the late 1930s.

The number of companies paying a dividend in the S&P 500 Index (425 companies) rose to a new high of eighty five percent (85%) which is the highest since 1995. Of the companies that paid a dividend eighty percent (80%) also increased their 12 month Dividend Per Share (DPS) payout year over year.*

**Sources: Factset Research Systems, Inc.*

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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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For each separate account with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a separate account's monthly performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of separate accounts in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The Overall Morningstar Rating for a separate account is derived from a weighted average of the performance figures associated with its three-, five- and ten-year Morningstar Rating metrics.

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.

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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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