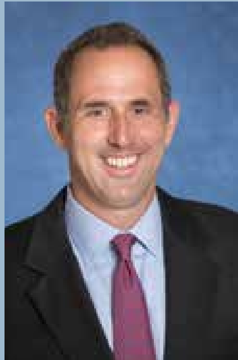
WINTER IS COMING



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Senior Portfolio Manager

Tony serves as a portfolio manager in the Premier Portfolios group and is a member of the Clark Capital Investment Committee. He has over 25 years of portfolio management experience utilizing both a quantitative and fundamental process. From 1997 to 2013 Tony was the President and Chief Investment Officer of Global Capital Management which he founded. He was cited as a Top Guns Manager in 2006 and 2007 and was named Manager of the Decade in 2011 by PSN. From 1986 through 1997, Tony was Director of Portfolio Management at RTE Asset Management where he was responsible for portfolio management across all asset classes. Tony is a graduate of the Wharton School of the University of Pennsylvania and holds the CFA designation.

Executive Summary

Current Bull Market Snapshot: The bull market is over five years old and has gone over 1000 days without a 10% correction. The current low levels of volatility are accompanied by low levels of bearishness.

A Focus on the Positive: The quarter was highlighted by a steady Fed and robust M&A activity.

Investors seemed to focus on solid corporate balance sheets, strong dividends and low and predictable interest rate policy as stocks advanced to new heights in June.

Just as July's scorching temperatures have pushed January's snow storms deep into our memory banks, stocks low volatility advance to new highs in June appears to have lulled investors into complacency. But as Game of Throne's Ned Stark says, "Winter Is Coming"; it's only a matter of time before a change in seasons. In the series, summers can last nine years or more but Ned also states, "Long summers lead to long winters." Or to put it in another context, if extended good times ups optimism which in turn creates large imbalances, then the time to adjust can be long or violent. Fortunately, in the current U.S. equity cycle most measures of the market's value such as price relative to earnings (S&P 500: 17.6) or our calculation of price to intrinsic value (S&P 500: 0.60) appear to us to indicate that large cap U.S. stocks are fairly priced. Hallmarks of the current bull market are length, low realized volatility and anticipated volatility. The bull market is over five years old and has gone over 1000 days without a 10% correction. The "original VIX" or S&P 100 VXO index reached a 38-year low at quarter end. While low expected or historic volatility is not necessarily a precursor of an upcoming decline, I am concerned that it is currently accompanied by low levels of bearishness. At quarter-end the American Association of Individual Investors index was just 21.1% and the put/call ratio fell to 0.43, the lowest level since January 2011.

Master of Coin

Some would argue that winter has come and gone as investors shrugged off 2014's first quarter 2.9% GDP decline by sending large cap stocks up approximately 5% last quarter. Looking forward, investors ignored the harsh weather and seemed to focus on the underlying economic fundamentals of solid corporate balance sheets, strong dividends and low and predictable interest rate policy. The quarter was highlighted by a steady Fed and robust M&A activity. Thus far the tapering of quantitative easing has gone without incident. The $85 billion per month purchases of securities by the Fed has declined by $10 billion every Fed meeting and now stands at just $35 billion a month. The intent is to finish the QE experiment this October. Not only has the U.S. central bank provided liquidity to the markets – persistently reducing supply – but merger and acquisition activity appears to have caused repricing of many sectors closer to fair value. Global deal activity has reached $1.75 trillion in 2014, or a pace not seen since 2007.

Past performance is not indicative of future results.

This is not a recommendation to buy or sell a particular security. Please see attached disclosures.

Pfizer's failed bid for AstraZeneca and AbbVie's pursuit of Shire appears to have changed valuation analysis to a focus on pre-tax income with recognition that moving U.S. companies to lower tax domiciles would mean greater returns to investors.

The Seven Kingdoms-Unsynchronized

The investment themes of the first quarter held fairly steady in the second quarter as companies with high dividends, low earnings yields and high profit margins led the performance tables year to date. Large caps continue to outpace small caps, value leads growth and the U.S. is outpacing Europe and Japan. Despite the hiccup in first quarter GDP, anticipated U.S. economic growth continues to be supported by new highs registered by the Leading Economic Indicators index (+6.7% May, year over year) and the positively sloping Treasury yield curve. Strong gains in both pending home sales (+6.1% May, year over year) and autos appear to have pushed the second quarter GDP advance to reverse the first quarter decline. Weak credit creation remains a lingering problem in parts of the rest of the world, especially in the euro zone. European banks are contracting credit to support higher capital ratios and consumer and business credit demand remains timid apparently reflecting weak levels of confidence. As such, French economic growth has been sluggish and German factory output has declined three months in a row. Chinese growth, however, appears to be stabilizing around 7 to 8% and Japan continues to on-balance benefit possibly from Prime Minister Shinzo Abe's demand-side stimulation. In contrast with the early 2000s, emerging market growth is no longer synchronized to developed market growth. We see cross-currents across the globe in economic growth rates, monetary policy and stock prices.

A Lannister Always Pays His Debts...

But the Puerto Rican Power Authority and Argentinean Government do not. . .

Robust M&A Activity Propels ADR Strategy

The Navigator ADR/International Equity strategy gained approximately +8.02% (gross)/7.24% (net) for the second quarter ending June 30, 2014, outpacing both the EAFE (+4.32%) and the broader MSCI All Country World ex- U.S. Index (+5.07%). Our focus on high quality, undervalued companies with improving business prospects continues to yield strong performance in our view. Robust cross-border M&A activity propelled returns as Pfizer's failed bid for AstraZeneca and AbbVie's pursuit of Shire appeared to lift multiples across the pharmaceutical sector. Recognizing that U.S. companies could have an opportunity to change the company's tax domicile may be responsible for advances in Shire PLC, Taro Pharmaceutical and Mallinckrodt each gaining more than 26% for the quarter. Portfolio losses were limited to Bermuda reinsurer, Maiden Holdings (-3.1%), Panamanian airline Copa Holdings (-1.8%) and Germany's Daimler (-1.5%). We removed three financial sector companies from the portfolio this quarter including French bank BNP Paribas, reinsurer Allied World and Invesco. We feel the value characteristics of the ADR strategy remain attractive as the current P/E of 15.4 is less than that of the S&P 500 (17.6) and EAFE (18.9) with similar quality and business growth characteristics.

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Net returns are shown net of 3%, the highest fee that could potentially be charged including investment advisory fees, trading, custody, investment advisory fees and any other expenses that may be incurred in the management of the account. 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.

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 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 free float 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 CBOE Volatility Index (VIX) is a forward looking index of market risk which shows expectation of volatility over the coming 30 days.

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.

Barclays U.S. Government/Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries, government-related & 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 B of A Merrill Lynch U.S. High Yield Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

The Barclays 7-10 Year Treasury Index tracks the investment results of an index comprised of the U.S. Treasury bonds with remaining maturities between seven and ten years.

The Barclays 20+ Year Treasury Index tracks the investment results of an index comprised of the U.S. Treasury bonds with remaining maturities greater than twenty years.

The Barclays Long-Term Year Treasury Index tracks the performance of the long-term U.S. government bond market.

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 U.S. Treasury Bond Index is an issuances-weighted index measuring the performance of the U.S. Treasury bond market, one of the largest and most liquid government bond markets in the world.

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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