September 2014

Clark Capital Management Group

NavigatorInsights

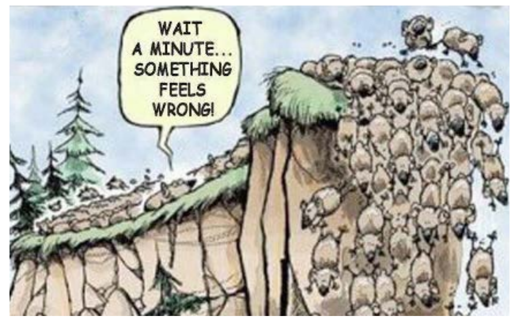
K. Sean Clark, CFA
Chief Investment Officer

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.

Active vs. Passive:

Are We Asking Ourselves the Wrong Question?

A Herd Mentality that Hurts Clients



I can't help but notice the recent onslaught against active managers. And it's not just the passive managers. It's also advisors, supposedly unbiased journalists, and even clients. Now, I understand businesses need to make hay while the sun is shining. And five years into a screaming bull market can make a lot of hay for passive managers. But are we doing right by clients when we recommend one methodology over the other?

I'll be clear – Clark Capital is an active manager. However, we advocate a blend of active and passive styles. In this way, we favor not only diversification of asset classes but also diversification of methodologies. We do not believe that shunning one investment approach entirely in favor of another is prudent. In our experience, investment styles typically perform differently in different market environments. In fact, the 2013 Nobel Prize for Economics was shared by world-renowned professors with opposite views. In one corner was Eugene Fama, who is an advocate of passive investing, and in the other, Robert Shiller, who is an advocate of active management.

Lately, an unmanaged (passive) allocation with extremely low fees has performed favorably. Historically this has tended to be the case in a bull market. However, adding risk management in the form of active management can have many benefits during a bear market when correlations among asset classes generally tend to spike and the benefits of diversification fail when investors need them the most.

Even more troubling is that the styles of investing typically pick up the most steam when they are long in the tooth.

Let's take a look at what some of the conversations might have sounded like over the last 10 years:

2006

I just can't justify the fees. The buy and hold guys win in the long run most times, so how can I tell my clients that active management is the right way to go? If my clients have faith in the future, shouldn't I just pick the inexpensive funds that track the benchmark?

2009

Tactical! I want tactical strategies! I want a manager that will MOVE!I don't believe in that buy-and-hold junk they sold me on; it's no good for my clients. They can't handle what's been going on. We're talking about hard-earned retirement savings here! And my neck!

2011

I sure am glad I moved all my AUM into tactical strategies with risk management. This 20% correction would've been my third strikeout after the bear markets of '02 and '08. Tactical is the only way to go in a global marketplace.

2012

What do you mean you guys had a negative year in 2011? The S&P finished at zero; up 2% with dividends! You know, if I just put all my money in a passive, domestic equity strategy, I'd be a happy camper… by the way, how did you guys do in '08?

2014

Well, active management is officially dead. Passive management is the way to go, cheap and straightforward. The market goes up, the portfolio goes up. Did you hear that statistic about how 75% of active managers underperform in the long term?

A longer look over the past 20 years shows that active and passive have gone in and out of favor time and time again.

At Clark Capital, we advocate diversification of investment styles. We believe that active management and passive both have a place in investors' portfolios, and that combined they can create a robust and diversified portfolio. Like a strand of DNA, we believe passive and active complement each other.

For clients with a shorter time horizon, clients with a predisposition to sell out at the worst time and lock in losses, and clients in the distribution phase, it may make sense to build in active risk management or an active hedging vehicle for downside protection.

Spotlight on the Client: An Outcome-Oriented Approach

Advocates of passive-only investing often cite the fact that active managers typically underperform their benchmark in the long run after fees are accounted for. I'd argue that this statement takes the focus off the client and puts it on performance.

Is the question really about whether a manager can beat a benchmark or is it whether an investor reaches his retirement income needs?

Is the question whether the fees were higher or lower, or whether a couple stayed committed to their financial plan?

An outcome oriented strategy takes into account what a client is looking to achieve personally, and in doing so, the portfolio manager's mandate is to help the client achieve their own goals.

In my opinion, the investment industry should spend a lot less time on advocating an all-or-nothing investment style and a lot more time on ensuring the financial well-being of our collective clients.

Instead of asking whether passive or active investing is better, we believe the following questions are much more critical to the long-term success of a client's investment plan:

- Am I meaningfully diversified?
    - Does my portfolio include non-correlated asset classes and methodologies?
- What is the experience of the portfolio manager? Has he or she managed strategies in various market conditions?
- Is risk management important to me now? Would it be more important to me in a bear market?
- Am I seeking to achieve returns in line with a specific benchmark, or am I seeking to achieve personal objectives such as funding my retirement?

At Clark Capital, we believe that several tools such as an Investment Policy Statement, personal benchmark capabilities, and a portfolio well diversified between active and passive approaches and global asset class exposure can help clients reach their goals.

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