Clark Capital Management Group
Second Quarter 2015
Navigator® REPORT
Harry J. Clark, CFP® Chief Executive Officer, Editor in Chief

A Pause That Refreshes or the Beginning of Something More *Continued*?

You might recognize the above title from the previous *Navigator Report* and it is used here again because nothing has changed. In fact, this first six months of 2015 have been the most uneventful first half on record unless you were invested in long-term bonds, which were a problem.

There was plenty of cause for worry entering this year as earnings expectations were ratcheted down substantially, mostly due to the 60% plunge in the price of oil coupled with a 12-year high in the U.S. Dollar Index and a .2% decline in GDP. A major drag has been the prospect that the Federal Reserve would raise the discount rate sometime this year for the first time since 2006. World news was also less than positive as Greece took major headlines in its battle with creditors and the Chinese stock market first soared higher before crashing later in the quarter.

Evidently this is the critical stage of the bull market and economic cycle at which risk management becomes a paramount concern regardless of whether the bull market continues to climb to new highs.

This year marks the first in the S&P 500's history when the index was never up or down more than 3.5% on a closing basis during the first half. Did I mention **uneventful!** In addition, this was the worst start for the market in a pre-election year since 1947. The average pre-election year since WWII has seen a median gain of 18% and we are far below that realm now. Besides 2015, the only two other years when the S&P 500 was never up or down more than 5% during the first half of the year were 1993 and 2004. The S&P 500 rose 3.53% and 6.23% respectively over the next two years.

*The group surveyed consisted of 650 Registered Investment Advisors. Criteria for selection were registration with the SEC and assets under management of $300m or more. No fee was paid to participate.

This rating is not indicative of the adviser's future performance and may not be representative of any one client's experience because the rating reflects an average of all, or a sample of all, the experiences of the adviser's clients.

CCMG IN THE NEWS

Clark Capital Management Group has been recognized by the *Financial Times* as one of the "Top 300 Registered Investment Advisors" in the United States for 2015.

Selection to this prestigious listing, resulting from the determinations of the *Financial Times,* is based on several factors that affluent investors consider important when selecting an Investment Advisory firm. The factors used by the *Financial Times* are: assets under management, asset growth, years of experience/years in business, SEC compliance record, certifications of the staff, and the ability to access the advisor online.*

Clark Capital was formed by Harry Clark thirty years ago and has been serving individual investors, trusts, retirement plans, endowments, foundations and institutions ever since.

The S&P 500 managed to eke out a gain of just .28% for the quarter and is now ahead 1.23% for the year. The Dow Jones Industrials lost .29% for the quarter and is ahead only .03 % for the year so far. The NASDAQ was the best performer for the quarter with a gain of 1.75%. The NASDAQ finally eclipsed its old high, which was set in 2000. While the S&P and NASDAQ managed to stay positive for the tenth consecutive quarter, the Dow Jones Industrials winning streak ended at nine quarters.

Bond investors took it on the chin, *as predicted here on several occasions,* with the Barclays Capital U.S. 30-Year Treasury Index plunging 10.44% for the quarter and 5.92% year to date. This was the worst quarter for the 30-year Treasury bond since the third quarter of 1981. This year is the first pre-election year since 1925 when the Dow Jones Average and the long-term Treasury index both declined during the first six months. **The best performing class of bonds,** *also predicted here*, **was corporate high-yield which was flat for the quarter and has gained 2.53% so far this year.** As of June 30th our high-yield bond program, called Fixed Income Total Return (FITR) has a current yield of 6.48%, duration of 3.87 years, a maturity of 6.85 years, and a credit quality of BB-.

The best performing major international market index was the MSCI EAFE, which gained .62% for the quarter and is ahead 5.52% so far this year.

This bull market is now the third longest in history since the introduction of the S&P 500 in 1928. **More importantly, we have now gone 44 months since a 10% correction (last one was in 2011) which is very, very worrisome.** This is the third longest run without such a correction on record and the longest since 2003. On average, a 10% correction occurs every 18 months in the S&P 500. The last correction of any significance was in October of 2014 when the S&P 500 declined 9.5%. Yes, close but no cigar.

THE CURRENT SITUATION

A recent Ned Davis research piece was titled "First Half Review: Ominous Start or Resilient Market?" As mentioned above, the current bull market is now the third longest of the past 85 years and the economic expansion, albeit slow by historic standards, is now the sixth longest of the past century. We are also entering a traditionally slow to choppy market period in the Presidential Election Cycle which stretches from September of this year to May of next year.

So the question remains, is the recent flattish market a prelude to a renewed advance as happened in 1972 (a period our research indicates was very similar to today) when the market soared 15% in the fourth quarter or are the warning flags of market breadth, utilities, and transports the real story?

The similarity of the market in 1972 to today is truly eerie. Interest rates rose in 1972, transports and utilities were in a major decline, and breadth was not confirming the uptrend as the market had been in a nine month period of slow growth. Sound familiar? The charts below are from Jim Stack's publication *InvesTech Research*. Jim was named as one of the elite 300 Top Registered Investment Advisors by *Financial Times*. Under Dow Theory, all three indices must stay in alignment for an advance to continue.

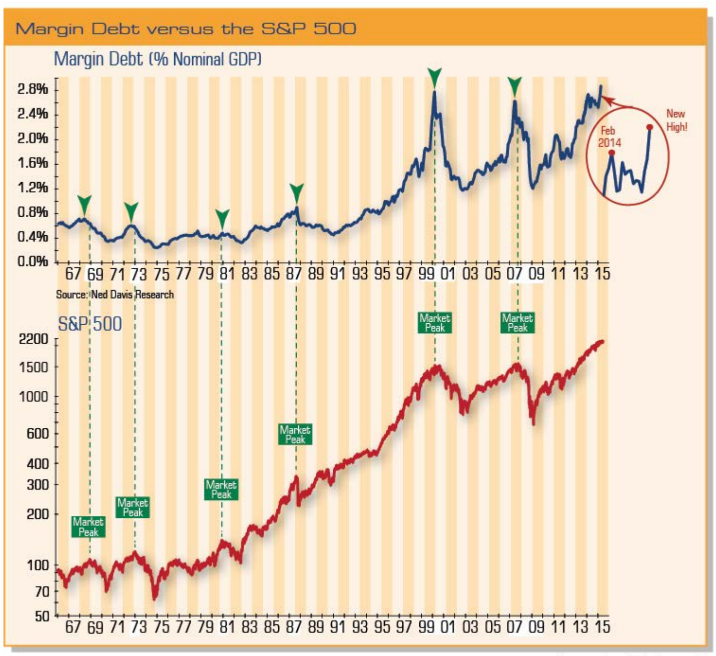
Source: InvesTech Research

The charts show that the Dow Jones is within 2% of its high while the transports are down 9.8% and utilities are down 14.7%. Not good omens for the advance to continue.

The two charts on the next page show that the advance/decline line is also diverging from the S&P 500, another warning flag.

On the positive side, margin debt has historically been a very good indicator of market peaks and as shown it is not showing any signs of decline as of yet.

Source: InvesTech Research



Source: InvesTech Research

INTEREST RATES, THE FLY IN THE OINTMENT

Among the most widely watched news items over the past year have been addresses by Janet Yellen, Fed Chair, about the prospects for an increase in the discount rate. It is widely expected that the Fed will raise the discount rate at least once and possibly twice this year. But data from Bianco Research shows that over the past eight instances when the Fed raised rates at least three times, Nominal GDP was never lower than 4.9% at the start of tightening. It is now at 3.6% and that is being generous. The CPI was 3% or higher and now it is at 1.8%. So why would the Fed raise rates now? Could it be just to get it done? The last increase was in 2006. **Changes in the discount rate are significant events which could have a major impact on market direction.** According to *InvesTech Research*, since 1940 a bear market began just prior to an initial rate increase or within the following year in six of 13 cases. In five of the six cases, a bear market began within one or two months of the increase. So history indicates there may well be a 50% chance of a bear market beginning over the next several months.

As stated here before, we believe that we are in a long term "secular" bull market. During secular bull markets there are usually "cyclical" bear markets. A bear market by definition requires a 20% or greater decline. During secular bull markets, the cyclical bear markets are usually fast and over with quickly. Remember, it is a 50% chance! Between 2004 and 2006 the Fed raised rates eight times and the market still advanced. *In our view, we believe this is the critical stage of the bull market and economic cycle at which risk management becomes a paramount concern regardless of whether the bull market continues to climb to new highs.* So we will watch for other indicators to tell us if a short-term bear market is likely.

RESULTS

While most of our strategies performed to expectations for the quarter and year to date, we are particularly pleased with the performance of our Premier Equity Separately Managed Account portfolios.

The below year-to-date results are net of the maximum fee charged.

The All Cap Portfolio returned 3.49%

vs 1.94% for the Russell 3000

The Small Cap Portfolio returned 7.42%

vs 4.75% for the Russell 2000

The SMID Cap Portfolio returned 7.25%

vs 4.75% for the Russell 2500

International ADR returned 7.34%

vs 4.03% for MSCI ACWI ex U.S.

High Dividend Equity returned 0.31%

vs 0.03% for the Dow Jones

Thank you to Tony Soslow and Maira Thompson, Senior Portfolio Managers, for a fine six months.

SUMMARY

As Ned Davis of Ned Davis Research says, "It is a Bull market until proven otherwise." And besides being old, the current Bull market has given us no cause for alarm or any indication that it is over. There could always be some external shock, such as the situation in Greece getting worse, or the bear market in China spilling over to other world markets, but this is always the case.

I believe that there is at least a 50/50 chance that the current Bull market will continue through this year. There probably will be a sloppy period as we approach fall but that is to be expected. The Fed will most likely raise the discount rate in September but this has been so well announced that it could have no effect. As stated earlier, rate increases have ended about one-half of bull markets over the years. That means that the other half of the time the market continued higher.

Could we have a 10% correction? Yes! We believe it is way overdue and it would actually be good for the market to relieve some tension developed over the past 44 months.

There are several signs that the Bull is still alive under the surface. Smaller capitalized stocks have held up very well with their advance decline lines still moving higher. Accumulation days still outweigh distribution days so far this year.

As stated above, this is still a Bull market until proven otherwise and we will be vigilant in controlling risk as we go forward.

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