Third Quarter 2015

Clark Capital MANAGEMENT GROUP

navigator® REPORT

Harry J. Clark, CFP® Chief Executive Officer, Editor in Chief

Did the Pause Refresh?

You might recall that the title of the past two *Navigator Reports* was "A Pause That Refreshes or Something More?"

The question has now been answered. The pause was "Something More" than just a pause as the major indexes took it on the chin over the past quarter.

The first half of this year marked the first time in history that the S&P 500 index was not up or down more than 3.5% on a closing basis. In addition, the first half of 2015 was the most uneventful on record as it was the worst start for the market in a pre-election year since 1947. The S&P 500 has been range bound by 5% only twice before, in 1993 and 2004. Following 1993, the S&P 500 rose only 3.63% over the next two years while after 2004 it gained only 6.23% over the following two years. The historic low volatility of the first six months of 2015, and of the prior two years, did an abrupt about-face during the third quarter. There have been over five times the number of 2% daily moves this year compared to last year and all have occurred in the past two months.

> The recent market correction did not reach Bear Market territory. In our opinion, the Secular Bull Market will continue for now.

During the past quarter, the U.S. markets were battered and bruised with strong headwinds on many fronts. Corporate profits were mixed with future estimates lowered. U.S. industrial production fell again. China has been a major negative recently. As the second largest economy in the world, China is one of the engines that drive the world economy and, when that economy is having troubles, the world takes note. Both the consumer price index and the producer price indexes in China are shrinking as their imports are weakening. Chinese GDP grew 6.9% year over year for the quarter, which is the slowest growth since 2009, and most analysts expect the decline to continue albeit it rather slowly. This slowdown is nothing new and reflects China's transition to a more developed and consumer oriented economy. Services now make up a larger

SUMMARY

The Summer Swoon is over. The way overdue correction has come and gone. We have been warning of a potential "Pause that Refreshes" for some time. It had been 46 months since the last 10% correction raised its ugly head. The "secular bull" market is intact and I believe it is time to be in the stock markets. While fourth quarters normally represent nearly one half of the yearly gains, fourth quarters are usually the strongest of the year especially following a down October. When October begins in a downtrend, it has been followed by the best performance of any month in the year since 1950.

Several Other Bullish Facts

A cluster of volume thrusts, as discussed by James Stack of InvesTech, and shown herein, bodes very well for the bull market continuing.

Dollar strength is flattening, boding well for Industrials and earnings.

Dividend yields are the highest in almost 50 years. This should pull assets from bonds.

Short interest ratio is the highest since 2011 and could provide fuel for a continued rally.

Assets in the Rydex bear fund have reached the highest level in decades. More fuel for the rally.

AAII (American Association of Individual Investors) shows that investors are so bearish that it is bullish.

part of the Chinese economy than manufacturing. Chinese growth had been as high as 14%, if you can believe the numbers. It appears as though the Chinese central bank has been able to engineer a soft landing for the economy while everyone was expecting a hard landing.

The real fun began when Janet Yellen, Chair of the Federal Reserve Bank, spoke and said that the Fed governors had decided not to raise the discount rate. The market promptly had the craziest day in many years on Monday, August 24th with wild gyrations and wide swings in many sectors of the market. The S&P 500 had an intraday price swing of 5.27%. This was the seventh largest price swing since the current bull market (yes, it is still a bull market) began. It was reminiscent of the 1987 crash and is being called the Black Monday of 2015.

An increase in the discount rate had been widely expected as the last increase was nine years ago and many felt it was about time. This delay means more nervousness and volatility, and many still feel that a rate increase is required to normalize the U.S. economy. Passing on the rate hike made investors feel as if there was something that has not been revealed about the real economy. This tended to exacerbate the decline that had already begun.

FOR THE THIRD QUARTER

The **S&P 500** declined by 6.44% and now has a loss of 5.29% to September 30th.

The **Dow Jones Industrials** declined 6.98% and has a loss of 6.95% to September 30th.

Small cap stocks, as tracked by the **Russell 2000**, declined 11.92% and stand at a loss of 7.23% to September 30th.

International markets did poorly with the **MSCI EAFE** index (the best performing index as of June 30th with a gain of 5.52%) falling 10.23% and now showing a loss of 5.28% to the end of September.

High Yield Bonds cratered, losing 8.45%, and now show a loss of 6.04% to September 30th. All of our high yield bonds were moved to U.S. Treasuries on July 27th thus avoiding most of the declines.

None of this should have come as a surprise since it had been 46 months since a correction of at least 10% as mentioned in the last ***Navigator Report*****.** A correction of at least 10% typically occurs once every 18 months or so. **This was the third longest period in history without a 10% correction and the longest since 2003.** There have been 48 declines of 10% or more over the past 100 years. Sometimes a 10% correction continues and becomes a 20% or more correction or a bear market. This has happened 19 times over the past 100 years. Therefore, a correction that exceeds 10% has become a full blown bear market about 40% of the time. **Will this be the case today or will we avoid a real bear market?**

THE ECONOMY

The year 2015 has been a very mixed bag for the U.S. economy. **The recovery has been agonizingly slow and just recently GDP growth for the years 2012 through 2014 has been lowered from 2.4% to 2.1%, thus making the current recovery the weakest since WWII.** There has been persistent weakness in the U.S. Manufacturing sector with factory orders falling in nine of the past 12 months. Business confidence tanked in June and July with small business confidence hitting a one-year low. A record 70% of U.S. company Chief Financial Officers (CFOs) think that the market is overvalued. Commodities prices hit a thirteen-year low this past summer on weak demand. U.S. wage growth fell to a record slow pace during the second quarter.

On a more positive note, Homebuilder confidence hit a 10-year high with construction spending at its highest level since the Great Recession. The U.S. is now the world's leading oil producer. This revolution is helping to revive American industry, create jobs, and lower gas and utility costs for consumers. Inflation remains well under the Fed's stated target of 2%. Jobless claims are at a 42-year low while job openings are at a 15-year high. Corporate earnings are expected to decline for this quarter, as well as for the fourth quarter, and this could put a damper on further market gains. A bright spot relating to corporate earnings is that the U.S. dollar had begun to weaken. Over 50% of large company earnings come from abroad, and a strong dollar has impacted these earnings in a negative way. Dollar weakness helps minimize this problem.

BEAR MARKET?

NO! We are not in a bear market and we did not have a bear market. By definition a bear market is called when an index declines by 20% or more. Yes, there were some scary days during August, and the market declined by almost 1000 points during one day before recovering most of that loss. The S&P 500 fell 9% between Thursday, August 20th and Monday, August 24th. A decline of this magnitude in only three days is very rare. There have been only sixteen other times over the past forty-five years when the S&P 500 had declined by this magnitude over a three day period. The last time was in August of 2011, and the market went on to gain 17.3 % over the next twelve months. In fact, the market rose 81% of the time after similar three-day declines or thirteen out of sixteen times. Does this mean that we are out of the woods?

The stock market has just had a very normal correction in an ongoing bull market which flushed out excesses and should set the stage for the next round of gains into 2016.

The chart below shows the highs and lows for several major indices. Only one index, emerging markets, declined by more than 20% to be classified as a bear market. In addition to those indices, the major Chinese market declined by 33% and it has been in a bear market for several months.

Index Name	2015 High	2015 Low	% Change (High – Low)
S&P 500	2130.82	1867.61	12.40%
Dow Industrials	18312.39	15666.44	14.48%
NASDAQ	5218.86	4506.49	13.64%
EAFE	1949.49	1609.50	17.40%
Russell 2000	1295.80	1083.91	16.40%
Emerging Markets	1067.01	771.77	27.67%
Barclays HY Index	1687.05	1572.49	6.79%

Whenever the Dow Jones Industrial Average (the index which individual investors generally see most) declines by 2600 points over a few months, it has to raise fears of a further decline. The numbers shown above for the U.S. markets are not pretty, but they are better than those of the rest of the world. The ETF that tracks the ACWI ex US index (the whole world except the U.S.) declined 18.7% before recovering.

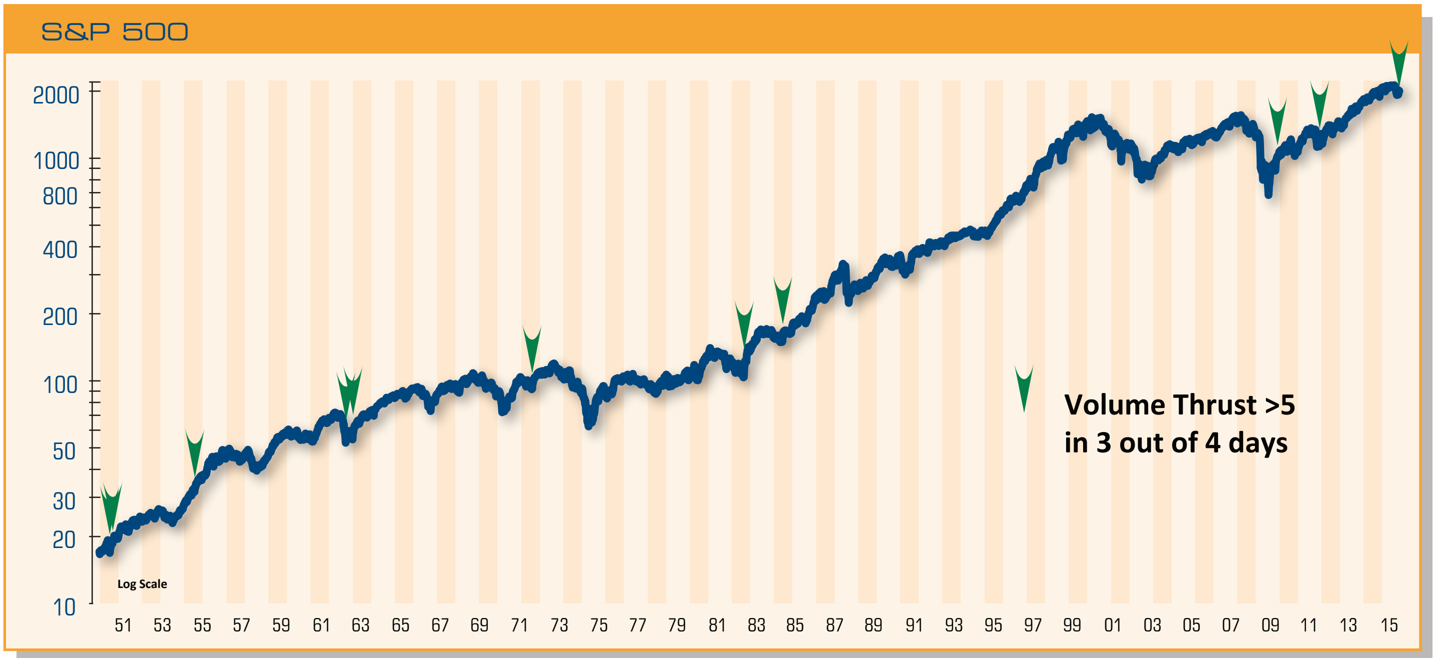
IS THE CORRECTION OVER?

After the 5.7% price swing on August 24th, the market appeared to have set a bottom on August 25th, after the Dow Jones had declined 1800 points in five days. **The market then waffled around for five weeks until a decline on September 29th when most all major indices held above the previous low of August 25th.** Two days later the employment numbers were released and they were horrible. The market promptly dropped 1.6% and it seemed as if the decline would resume. But then, to most everyone's surprise, the market experienced a lightning fast turnaround, erasing the loss and closing higher by 1.4%. **That was confirmation that the low had been set and the bull was back.** The market then rallied for five consecutive days for the first time all year and, as of October ninth, stocks had risen for two weeks. It appears as if the very weak job creation of 142,000 made most believe that a rate hike by the Fed is off the table for this year and the rally began. On October 12th (I waited to write this Report until the yearend rally was confirmed), **Ned Davis Research wrote, "Bottom in Place — Overweight Equities Again."**

James Stack, of InvesTech Research (mentioned here quite often) compiled the chart on the next page. This chart shows volume thrusts since 1951. A volume thrust ensues when there are several days when the advancing volume of stocks moving higher exceeds declining volume of stocks moving lower by better than five to one. **One of these volume thrusts is fairly common but clusters of three or more are rare.** This has occurred only ten times in the past 65 years as the chart shows. Market returns one month later have all been positive with an average gain of 5.5%. At three months, there was one decline of 0.6% and the average gain was 9.0%. At six and twelve months following a cluster of three or more volume thrusts there were no losses and the average gain was 16.6% at six months and 24.4% at twelve months.

To summarize the volume thrust results, **there have been 10 volume thrusts since 1950. Results following at three, six, and 12 months later show only one loss of 0.6% over 40 periods. Pretty impressive!**

THE navigator™ REPORT



Source: InvesTech Research

Past performance is not indicative of future results. This material is not financial advice or an offer to sell any product. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment.

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

The Russell 2500 Index measures the performance of 2500 small and midcap market capitalizations and includes the smallest 2500 companies of the Russell 3000.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe.

The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

The MSCI World ex US Index is a market capitalization-weighted index designed to measure equity performance in 22 global developed markets, excluding the United States.

The S&P Global Broad Market Index (also known as the S&P Global BMI) is a widely encompassing, rules-based index that measures global stock market performance.

The Russell 3000 Index measures the performance of the 3000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

HFRXEH is an equally weighted equity hedge fund performance index produced by Hedge Fund Research.

The opinions expressed are those of the Clark Capital Management Group Investment Team. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. There is no guarantee of the future performance of any Clark Capital investment portfolio. Material presented has been derived from sources considered to be reliable, but the accuracy and completeness cannot be guaranteed. Nothing herein should be construed as a solicitation, recommendation or an offer to buy, sell or hold any securities, other investments or to adopt any investment strategy or strategies. For educational use only. This information is not intended to serve as investment advice. This material is not intended to be relied upon as a forecast or research. The investment or strategy discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances.

Clark Capital Management Group, Inc. reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security, sector or industry. There is no assurance that any securities, sectors or industries discussed herein will be included in or excluded from an account's portfolio. Asset allocation will vary and the samples shown may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Clark Capital Management Group, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Clark Capital's advisory services can be found in its Form ADV which is available upon request.

CCM-656

Investment Advisory ❖ One Liberty Place ❖ 53rd Floor ❖ 1650 Market Street ❖ Phila, PA 19103
(215) 569-2224 ❖ (800) 766-2264 ❖ Fax (215) 569-3639 ❖ navigator@ccmg.com ❖ www.ccmg.com

© 2015. All rights reserved.