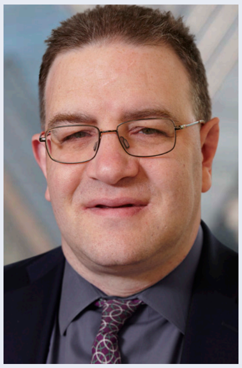
ClarkCapital MANAGEMENT GROUP

Portfolio Commentary

Navigator® Opportunity Update

Author



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Navigate Your Future. Enjoy the Journey.

What Recession Worries? Stocks Enjoy Their Best First Three Quarters Since 1997

2019 has been a year of turbulent headlines for the markets, with the U.S./China trade war switching between hot and cold. Market volatility has increased, particularly in regard to interest rates. Amidst these worries, we should not be surprised that the markets enjoyed their best first three quarters since 1997. After all, bull markets are composed of a flood of investor worries, many of which later prove to be overdone and false as good events and not investors' worst fears come to fruition.

From a psychological perspective, isn't it amazing how nothing going wrong can have such a powerful effect? 2019 has been proof of that the market direction could go either way. However, we believe that the evidence leans bullish for now. Below we go through a longer list of market indicators and their status.

While we currently have a long list of negative and positive indications, we want to note for our investors that there are just as many, if not more, indicators that are bullish than bearish. Keep in mind that many investor fears tend not to occur, enabling the bulls to win as fears fade away.

Some negative data and/or concerns include:

- Uncertainty surrounding the U.S./China trade war
- Washington drama and impeachment talk
- The shape of the yield curve
- The strong dollar and defensive equity leadership
- Slowing global manufacturing, the sudden market momentum crash in early September
- Consumer confidence falling off in the future

Meanwhile, the reasons to remain bullish are even more numerous and include:

- Improved market breadth and an uptick in value stocks
- The advance/decline line making new highs
- Jobless claims remaining low and under control
- Leading Economic Indicators that continue to rise
- A continuing strong U.S. consumer and services economy
- Massive central bank easing on a global level
- A strong U.S. housing market
- Compelling relative value for stocks (the S&P 500 dividend yield is well above the 10-year U.S. Treasury yield)
- Generally high levels of investor fear than investor optimism (which is contrarian and bullish)

Past performance is not indicative of future results.
This is not a recommendation to buy or sell a particular security. Please see attached disclosures.

A strong set of bullish and bearish indications at the same time such as now is one of the toughest environments for investors to sort through and prosper in. We remain bullish following the evidence that we have laid out above; however, we continue to closely watch key economic indicators. We continue to believe that a focus on risk management will pay off in the long run, as a bear market and weak economy, when they come, may present many opportunities to preserve capital and be tactically opportunistic.

Sector Opportunity Portfolio

The Sector Opportunity portfolio uses a relative strength methodology to rank the top performing sectors over the intermediate-term, and by owning these sectors going forward (and avoiding lower-ranked sectors) attempts to outperform the S&P 500. Markets made a tactical low during a correction in early June, but then surged on to new all-time highs by the end of July. Within this trend, however, leadership began to change. Most notably, technology relative strength began to decline, particularly among internet and software stocks, who valuations many called into question.

The Sector portfolio moved away from these areas, but continues to maintain a broad allocation to Technology, and the sector's relative strength has flattened but not broken down. The Fed's dramatic dovish shift this year has produced mostly defensive market leadership with one exception: Homebuilders (XHB). Homebuilders have a steady and rising relative strength chart, boosted by lower interest rates and a refinancing boom that aids affordability.

Early September brought a huge shift in the markets. While the broad market indexes didn't move, prior winners such as Technology, Staples, Real Estate, and interest rate sensitive stocks were slammed while prior losers including Financials, Energy, and value stocks soared. It was one of the biggest two-day gaps between growth and value on record.

However, the trend has not persisted, and we are hesitant to jump in with two feet until Financials, the largest value stock sector, makes new relative highs. Unfortunately, they are again now closer to making new relative lows, and the secular trend against them has not yet been broken. Since this momentum crash, we have higher beta sectors enter the portfolio, and slowly our large position in the S&P 500 (which still ranks highly in our matrix) has been pared back.

Here are some further developments in the portfolio during the quarter:

- The portfolio contains a mixture of higher beta names such as Retailers (XRT), Semiconductors (SOXX), and Homebuilders (XHB) along with longer-term defensive leadership like Real Estate (VNQ) and Technology (VGT). This is an indication a range-bound, directionless market without a clear trend. As a result, the S&P 500 still takes a prominent role in the portfolio, as we are wary of entering trendless but volatile sectors like Industrials and Financials. The fact that our recent portfolio additions have been higher beta names can be taken as a bullish sign, especially given improved market breadth.
- Retailers (XRT) have been slammed by the decline of the mall-oriented stores and the rise of online buying. Many of these smaller cap stocks have endured full-on bear markets during the last few years, but they were one of the biggest winners during the momentum crash, and so far, their relative strength has held its own since early September. We are willing to take a position in the volatile, beaten down sector because if its strength continues, its prior weakness and cheaper valuations means it could be in for a sizeable run.
- Semiconductors (SOXX) are probably the highest beta, most volatile sector in our universe, and that has been particularly true this year, as they have proven to be the sector most leveraged to U.S./China trade headlines. Nevertheless, Semiconductors have become an essential commodity in today's internet of things world, and their earnings have delivered. Surprisingly, they were one of the biggest winners during the momentum crash, despite having strong performance over the past one- and three-year periods.
- Homebuilders (XHB) and the S&P 500 (IVV) were the top contributors on the quarter, while Semiconductors (SOXX) and Aerospace & Defense (ITA) were the top detractors.

Ticker	Quarter Ending September 30, 2019	Average Weight (%)	Contribution to Return (%)
Top Contributors			
XHB	SPDR S&P Homebuilders ETF	8.49	0.62
VNQ	Vanguard Real Estate ETF	6.80	0.58
XLP	Consumer Staples Select Sector SPDR Fund	5.75	0.32
Top Detractors			
VFH	Vanguard Financials ETF	2.48	-0.79
IGV	iShares Expanded Tech-Software Sector ETF	7.08	-0.26
SOXX	iShares PHLX Semiconductor ETF	1.35	-0.25

Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period, contact: PortfolioAnalytics@ccmg.com.

International Opportunity Portfolio

The International Opportunity portfolio's stated mission is to allocate tactically between international style, factor, and region ETFs that are displaying significant relative strength (and avoiding those that do not), and in doing so to attempt to outperform the MSCI All Country World Ex-U.S. Index. The portfolio's universe of investments now includes factor, style box, and regional ETFs such as: international value, growth, quality, small-cap, currency hedged, minimum volatility, buyback, and momentum ETFs along with emerging markets, emerging markets small-cap, and emerging markets minimum volatility ETFs.

Our move to broader, multi-country ETFs has proven beneficial as the portfolio and ETF matrix now follow longer-term and less volatile trends. This has produced an improved hit rate on our holdings, and substantially less trading. While U.S. markets have enjoyed a huge increase in 2019 and over a longer five-year period, international markets are down roughly 15% since a January 2018 peak.

Most PMIs (Purchasing Manager Indexes) across the globe are underwater, and the rest of the globe is arguably in recession. The fact that international markets peaked in January 2018, precisely when the U.S./China trade war first emerged, is not a coincidence. As a result, our portfolio includes the U.S. itself, which maintains relative strength, and stable, defensive holdings such as growth stocks, momentum stocks, and high-quality balance sheets. Despite turbulent headlines and weak European and Chinese growth, these ETFs have maintained leadership. We expect only a sustained turnaround in international economic data will force the portfolio into a more cyclical and higher beta posture. We are far from that point. Here are some further developments during the quarter:

- U.S. markets have trounced international markets for many years now, and though the U.S. is more expensive, we do not see that trend letting up anytime soon. The International Opportunity portfolio has held a 25% position in the U.S. (the maximum allowed by policy) for most of 2019, and since the first quarter. Not surprisingly, emerging markets, emerging markets small-cap, and Asia Pacific Ex-Japan rank at the bottom of our matrix, each struggling amidst trade war tensions and a stronger dollar.Given the new, smaller universe size that the portfolio follows, we expect that the portfolio will own between three to six ETFs, up to about one third of the universe of 18 different ETFs.
- Aside from the U.S., the portfolio's holdings since the first quarter have a common theme: quality and defensiveness. EAFE Growth (EFG) and International Quality (IQLT) own high quality companies with stable, reliable earnings by definition, according to their screens of the international stock universe. These companies have been relative winners, and we would note that they particularly underweight financials.
- The U.S. dollar continues to rise, despite a dovish Fed stance since early January 2019. More aggressive quantitative easing by the European Central bank appears to have spurred another leg higher. Our portfolio takes a position in a Currency Hedged EAFE ETF (DBEF), which interestingly owns both value and growth stocks. That hasn't mattered, as the benefits of hedging against a strong dollar has made DBEF rise to the very top of our matrix.

Ticker	Quarter Ending September 30, 2019	Average Weight (%)	Contribution to Return (%)
Top Contributors			
DBEF	Xtrackers MSCI EAFE Hedged Equity ETF	12.74	1.23
IVV	iShares Core S&P 500 ETF	24.96	0.43
Top Detractors			
EWX	SPDR S&P Emerging Markets Small Cap ETF	3.61	-0.85
IQLT	iShares Edge MSCI Intl Quality Factor ETF	24.85	-0.43

Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period, contact: PortfolioAnalytics@ccmg.com.

Style Opportunity Portfolio

The Style Opportunity portfolio has focused on large-cap and growth stocks for most of 2018 and 2019, and with the short-term crash in momentum stocks that we saw in early September, that has begun to change. The portfolio favors value stocks very modestly, and whether their trend will prove to be a longer-term leader is an open question.

Research that we have seen by Jeff DeGraff (Renaissance Macro Research) shows that after such massive underperformance for momentum, it tends to lose its leadership over a six to twelve month period. However, there has yet to be a proven new leader. Value stocks have not continued to move higher after their short-term spike, and as a result our portfolio and our ETF ranking matrix are pointing towards a neutral stance, waiting for a larger trend to show itself.

We began to reduce large-cap growth stocks in the portfolio even before the momentum event in early September, but that obviously accelerated after the events of early September. Right now, Minimum Volatility (USMV) to our eyes has the strongest relative strength chart, but even that is not out at new highs. We continue to believe that the Fed's dovish stance will provide a strong monetary backdrop for markets, but we have yet to see that translate into a broader risk-on stance by investors. At this point in the economic cycle, a modestly defensive stance appears prudent, and our quantitative research affirms that approach. The following were other developments in the portfolio during the quarter:

- In the ETF world, value means screening for stocks with cheaper P/E ratios. That process inevitably leads to an overweight position in Financials, Energy, and generally debt-ridden companies. While these stocks are as cheap as they have even been on a relative basis, we have a higher bar for them to exceed before giving them larger weight. Since slow growing companies do not inherently grow, they need a stronger overall economy to exceed expectations. While we do not yet see evidence of a recession coming, we also certainly do not see stronger than normal economic growth. In fact, we believe that over the longer-term economic growth will be slow and steady at best. Thus, until we see stronger trend evidence, we are likely to buy our benchmark index than jump whole hog into Value ETFs.
- Small-cap growth and mid-cap growth rank at the bottom of our ETF rankings. This is likely due to the loss of leadership in Technology, and the ongoing struggles of Biotechnology in particular.
- Minimum Volatility (USMV) and the S&P 500 Growth ETF (SPYG) were the top contributors on the quarter, while the S&P 500 (IVV) and S&P 500 Value (SPYV) were the top detractors.

Ticker	Quarter Ending September 30, 2019	Average Weight (%)	Contribution to Return (%)
Top Contributors			
USMV	iShares Edge MSCI Min Vol USA ETF	23.07	0.99
SPYG	SPDR Portfolio S&P 500 Growth ETF	28.86	0.48
IVV	iShares Core S&P 500 ETF	18.19	0.31
Top Detractors			
SPYV	SPDR Portfolio S&P 500 Value ETF	3.40	-0.19
QUAL	iShares Edge MSCI USA Quality Factor ETF	0.00	0.00
PKW	Invesco Buyback Achievers ETF	0.00	0.00

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Global Tactical Portfolio

The methodology of the Global Tactical portfolio is to select ETFs that are part of a narrowed-down universe of 32 U.S. equity styles, sectors, country/regions, and commodities. The portfolio uses the Fixed Income Total Return credit market model as an overlay to manage risk. When the credit market model is positive towards High Yield Bonds (and thus on credit risk and market risk in general), the portfolio will select from its ETF universe made up primarily of equities.

However, when the credit model turns negative, the portfolio sells equities and owns cash or Treasury bonds that are in line with the Fixed Income Total Return portfolio's holdings. When our credit market model turned defensive in early June, the portfolio sold equities and moved towards a 100% U.S. Treasuries exposure.

We held that position through August, when bond yields dived, and Treasuries surged. However, as September began, interest rates declined quickly, as bond markets had priced too much pessimism into rates. Our credit-based models moved to favor risk-on, and in mid-September, we sold out of Treasuries and moved back to 100% equity position.

Markets and the economy remain on a gradual, upward course, but their course is volatile and driven by U.S./China trade news and hopes and fears surrounding Fed action. The underlying fundamentals for both equities and credit are stable and attractive on a relative value basis, but as we are so late in this economic cycle, we are happy to have our credit-based models available to manage broader economic-based risks as they may arise.

- While the Global Tactical portfolio missed out on some upside between June and September, the strategy was able to avoid considerable volatility in late 2018. Between November 16th and our re-entry back into equities on January 10th, the iShares Core S&P 500 ETF (IVV) declined 4.8%, and the iShares Core S&P 600 Small Cap ETF (IJR) tumbled 6.2%.
- When the portfolio owns equity, it will own a suite of ultra-low cost, broad ETFs with a 70% U.S. to 30% international equity weighting. The portfolio will include U.S. Large Caps (SPLC), U.S. Small Caps (IJR), broad Large Cap International Equity (IXUS), and Small Cap International Equity (VXUS).
- Two U.S. Treasury ETFs (IEF and SPTL) were the top contributors for the quarter, while U.S. Large Cap and Small Cap equities (SPLG and IJR) were the top detractors.

Ticker	Quarter Ending September 30, 2019	Average Weight (%)	Contribution to Return (%)
Top Contributors			
SPTL	SPDR Portfolio Long Term Treasury ETF	14.29	0.64
IEF	iShares 7-10 Year Treasury Bond ETF	40.83	0.47
SPTI	SPDR Portfolio Intermediate Term Treasury ETF	26.57	0.13
Top Detractors			
IJR	iShares Core S&P Small Cap ETF	3.48	-0.59
SPLG	SPDR Portfolio Large Cap ETF	8.03	-0.41
IXUS	iShares Core MSCI Total International Stock ETF	3.34	-0.28

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Alternative Opportunity Portfolio

We recommend that investors view the Alternative Opportunity portfolio as a source of alternative beta and exposures that still when possible looks to capture available risk premia and tactical trading gains. The product is designed to serve as a diversifier and to provide lower downside correlation during times of volatility. The Alternative Opportunity portfolio contains a broad mix of themes which breaks down as follows: Alternative-Oriented Mutual Funds and ETFs 49.0%, Tactical Global Equity 28.0%, Fixed Income 10.0%, Commodities 9.0%, and Cash 4.0%. The following are some important events that occurred in the portfolio during the quarter:

- The primary purpose of the core liquid alternative portion of the portfolio is to provide non-correlated alternative exposure and includes seven mutual funds (and one ETF) in the alternative credit, long/short equity, long/short commodity, managed futures, options-based, high yield muni bond, and merger arbitrage areas.
- The Alternative investing sphere enjoyed gains, with the exception of commodities. The SG Trend Index, a trend-following managed futures index, gained 5.8%. The Bloomberg Commodity Index declined 1.8%, largely due to falling oil prices. Gold (GLDM) again fared well, gaining 4.3% on the quarter. The HFRX Event Driven Equity Index was up 1.7%. Our Alternative portfolio benchmark, the HFRX Global Hedge Fund Index, gained 1.6%.
- One reason gold has fared so well turns out to be that it can be viewed as a bond substitute. As of late August, the world was awash in $1.6 trillion in negative yielding debt. Gold, a commodity with zero yield, is a 100% asset-backed and secured vehicle with a yield of zero, which is higher than every bit of that $1.6 trillion in debt. Gold is often thought of as an inflation hedge, which is a simplistic notion. In fact, it can be thought of as a deflation hedge. Gold produces its strongest returns when real interest rates are negative or below 2.0% (as they are now).
- The top contributors to return for the quarter were Gold (GLDM) and Altegris Managed Futures (EVOIX); Oil Services stocks (OIH) and Emerging Markets (IEMG) were the top detractors and were perhaps part of the collateral damage of trade war tensions.

Ticker	Quarter Ending September 30, 2019	Average Weight (%)	Contribution to Return (%)
Top Contributors			
EVOIX	Altegris Futures Evolution Strategy Fd Cl I	6.35	0.35
GLDM	SPDR Gold MiniShares Trust	5.56	0.22
NHMRX	Nuveen High Yield Municipal Bond Fund Class I	6.15	0.15
Top Detractors			
OIH	VanEck Vectors Oil Services ETF	4.63	-1.09
IEMG	iShares Core MSCI Emerging Markets ETF	6.61	-0.30
GUNR	FlexShares Morningstar Global Upstream Natural Resources Index Fund	5.00	-0.25

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Fixed Income Total Return

The Fixed Income Total Return (FITR) portfolio owned U.S. Treasuries during July and August, and they performed very well, as fears of a global economic slowdown and never-ending trade war turned the tone of markets defensive. However, as September began, interest rates spiked and optimism returned to equities, and in particular, small-cap and value stocks enjoyed strong gains.

High yield bonds saw renewed price strength, and spreads quickly came in near recent lows. As a result, we purchased back into High Yield Bonds on September 13th and we held them until the end of the quarter. The move was precipitated more by U.S. Treasury relative weakness and what appeared to be an explosive blow off in Treasury yields than a surge in high yield bonds.

We are always mindful that providing a smoother risk-adjusted ride through the credit markets is the portfolio's primary mission, and we will not hesitate to turn towards Treasuries and risk-off again if credit market confidence and economic data show a trend of weaker confidence.

- The portfolio maintained a duration of over 7 years while in Treasuries, a number that is a bit larger than during past defensive stances. The larger duration was helpful during August as investors surged in Treasuries after seeing disappointing economic data. When re-entering High Yield Bonds, we established slightly larger positions in two High Yield ETFs, Bloomberg Barclays Short-Term High Yield Bond SPDR (SJNK) and X-Trackers US Corporate High Yield Bond (HYLB). Both offer attractive expense ratio and liquidity profiles.
- Over 50% of the U.S. Investment Grade corporate market is now rated BBB, with the next downgrade moving them into the High Yield category. With low interest rates, this is not an immediate cause for concern. However, the next time that we see a recession or major credit downgrade cycle, the price pressure on lower quality investment grade and High Yield credit may be huge and provide opportunities to play defense and become a tactical buyer as sentiment turns.
- On the quarter, the top performing holdings were the Navigator Tactical Fixed Income Fund (NTBIX) and the SPDR Long-Term Treasury ETF (SPTL). Detractors included the PIMCO 0-5 Year High Yield Bond ETF (HYS) and the Blackrock High Yield Bond Fund (BRHYX).

Ticker	Quarter Ending September 30, 2019	Average Weight (%)	Contribution to Return (%)
Top Contributors			
NTBIX	Navigator Tactical Fixed Income Fund Class I	49.71	0.33
SPTL	SPDR Long-Term Treasury ETF	6.85	0.28
IEF	iShares 7-10 Year Treasury Bond ETF	20.09	0.23
Top Detractors			
BRHYX	Blackrock High Yield Bond Fund	1.17	-0.01
LHYAX	Lord Abbet High Yield	0.42	-0.01
HYS	PIMCO 0-5 Year High Yield Bond ETF	0.33	-0.01

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Sentry Managed Volatility Portfolio

Hedging an equity portfolio is always a costly endeavor, but it has been doubly so after the S&P 500 surged to its best first 3 quarters of the year since 1997. Amidst such a strong rally, our equity hedge strategy was left with nothing to do but tactically trade to minimize costs, as our primary hedges declined in accordance with their design. That has meant looking tactically for short-term market peaks and valleys to reduce hedging costs, and to roll our protections.

Looking forward into the rest of 2019, we think that markets could well surge higher into the end of the year. Historical seasonality points towards that being the case, and markets have begun to take off again as October has developed. In fact, we believe markets could continue higher into the first and second quarter of 2020, before the election becomes the fully front stage event.

While we have that short-term market view, we are very aware that we are at the later stages of the economic cycle. We would like to remind our investors that an equity hedge can play a valuable volatility-reducing role when markets and the economy turn south.

While a major bearish turn is not imminent, we believe that it is likely over the next few years, and we continue to monitor key economic indicators. An equity hedge's most valuable role of all might be to keep investors sticking to their long-term plan, and not deviating at an inopportune time. We remain committed to keeping protection on at all times for our clients in the Sentry program, and when we see spikes in volatility, we are often looking to be opportunistic about reducing the cost of the hedge.

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The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 26 Emerging Markets (EM) countries*. With 2,206 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

A S&P 500 'BBB' rated obligation exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments on the obligation.

The SG Trend Index is a trend-following index that measures managed futures.

The Bloomberg Commodity Index is a highly liquid and diversified benchmark for commodity investments.

The HRFX Event Driven Index maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated, and frequently involve additional derivative securities.

The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage.

The Bloomberg Barclays US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury

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 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. 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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