CLARK CAPITAL MANAGEMENT GROUP, INC.

navigator®

THE NAVIGATOR REPORT

THIRD QUARTER 2005

Comments

The year 2006 marks our 20th year as an advisory firm. During those years, we occasionally receive comments from clients, prospective clients, financial advisors, and other investment professionals about the content of this newsletter, our quarterly Navigator Report. Unfortunately, these comments are rather few and far between, and I would prefer to receive more of them rather than less. Point being, "Please do not hesitate to express your opinion!" Recently we have heard some comments about The Navigator Report, some favorable, some not so favorable, and some just questioning who we are and what we are about. While favorable comments are always appreciated, the unfavorable ones are where we learn something that we potentially did not realize before. Recent comments have been, *"Why were you so negative in the last Report?"* and *"I want to know more about the personal aspects of the firm."* We also heard, *"Why don't you show performance of the various programs anymore?"* and *"I would like to know about your different programs."* Questions about us are always easy to answer.

My firm belief is that when the next rough patch in the markets is past, a very powerful bull market will emerge that will potentially last into the end of the decade.

To answer the last two questions, you will find sections such as "Personnel" and "Program Updates" in ongoing reports. The "Personnel" section will appear whenever there is a change or some reportable event such as a new child of a staff member, a new grandchild of mine (currently at nine), or some other event to note. The "Program Update" section will be ongoing and will detail one of our programs in

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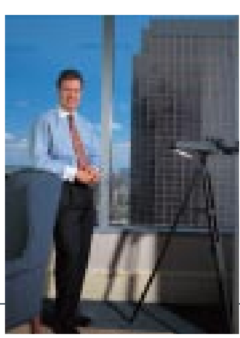
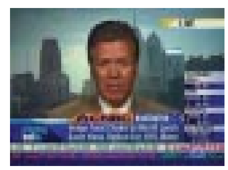


HARRY J. CLARK, CFP PRESIDENT / CHIEF EXECUTIVE OFFICER

CCMG in the News

August 8, 2005

CNBC Closing Bell In the Bull vs. Bear segment, Harry Clark, President and CEO of Clark Capital Management, takes the bear-perspective and argues that while earnings from this year are good, they are not as strong in comparison to the earnings from last year.

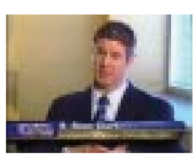


July 31, 2005

Wall Street Journal Report Harry Clark, Founder of Clark Capital Management, discusses his predictions for the market over the next year, and also gives his prediction for the market over the next five years.

July 29, 2005

Bloomberg TV



In an hour long Bloomberg appearance, Sean Clark, Chief Investment Officer of Clark Capital Management, discusses a variety of topics including future economic growth outlooks, interest rates, ETFs, and separately managed accounts.

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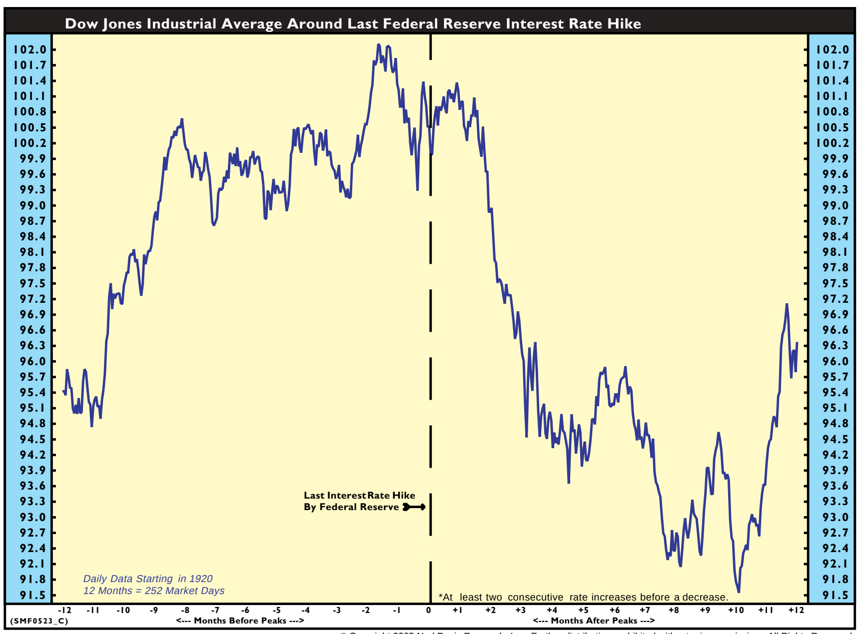
each Report. We will show performance of selected programs from time to time.

As long term readers of these reports realize, I am a believer in market history. I am not saying that the market will repeat exactly, but as Don Hayes of the Hayes Advisory says, *"While markets never repeat themselves exactly, they often rhyme"* and it is this rhyming that often gives us clues about current market conditions.

So why did we appear to be so negative in the last Report?

As some of our readers know, this writer has been appearing on the CNBC market show "Closing Bell" for quite some time. The most recent appearances have portrayed me as "the bear" versus another investment professional who is "the bull." **It's an awful thing to be known as "the bear!"** And as I have stressed on the show many times, *I am a soft cuddly bear, not a hard perma bear; a temporary bear is the way I like to describe my current position.* In fact, I do not considered myself a "bear" at all, just a realist! So, for those who read this Report and think of me as "too negative," please think of me as being realistic. I will explain, as this Report unfolds, why my realistic position may not be so likeable over the next few months. **I will also say right up front that my firm belief is that when the next rough patch in the markets is past, a very powerful bull market will emerge that will potentially last into the end of the decade.** In addition, no one is ever right on the market all, or even most, of the time. The market is a perverse entity, and as Ned Davis says, "The market historically likes to prove the crowd wrong." Situations can, and do, often change rapidly. That is why Sean Clark, my son and our Chief Investment Officer, writes a "Market Update" every two weeks. This update is sent by e-mail to many of our referring investment professionals and to many clients. It is available for all by request to ***Navigator@ccmg.com.***



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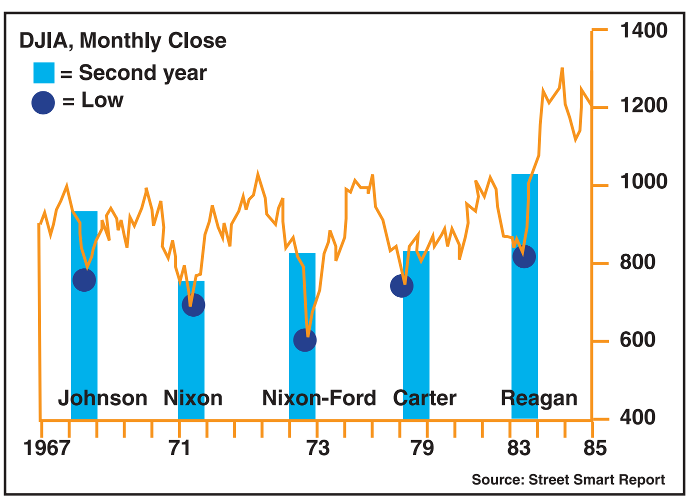
In the 2004 fourth quarter Report, published in early January 2005, it stated, *"We believe that 2005 will be a tough year."* We pointed out that the current bull market and economic recovery were already "long in tooth." We expected the market to have a correction early in the year (it happened), a recovery lasting through the summer (it happened), followed by another correction into fall (it is happening now) and a typical strong period near year-end which would pull the year into a slight gain overall. We did not just pull that pattern out of a hat. It is the typical pattern that the market follows during a first presidential year. We also stated that earnings momentum would slow markedly and that GDP would begin to shrink. Most importantly, we projected that Mr. Greenspan and the Fed would raise interest rates to the point of causing economic distress by 2006. **Our prediction was for rates to reach 4.25% by the end of '05.** Interest rates stand at 3.75 % today and there are two more Fed meetings before year-end. The Fed will raise rates twice more, to 4.25% by year-end.

So let's discuss the current situation. As you know from earlier Reports, the Fed has a bad habit of raising interest rates until they cause recession. There have been fourteen times in Fed history when they have increased interest rates three times or more. Twelve of those fourteen times recession followed. Yes, they (the Fed) pulled it off successfully two out of fourteen tries. They might succeed this time and not cause recession! The realistic position, however, is that they will do what they normally do and cause economic dislocation. **A recession or at least a severe slowdown in growth is most probable. That is not being negative, only realistic.**

But, you might say, "won't the markets rally strongly when the Fed stops increasing rates?" All the financial commentators seem to indicate that the market will react favorably when the Fed stops! An old adage says, "Do not believe anything you hear and only half of what you see and you will be mostly right." Stop watching financial programs (except CNBC "Closing Bell" of course); they are not good for your economic health.

The chart on the previous page shows what has happened, on average, following every time the Fed has increased rates more than two times. The same chart was shown in the last Report, but I believe it is important enough to show here again. Notice that the market actually does rally after the last rate increase by about 3% before the decline begins. Surprised? You should not be. **The two most important factors driving the markets are Investor Psychology and Federal Reserve Policy.** Yes, there are some occasions when the market has rallied, the last time was in 1994 when the Fed reached their target and stopped. Notice the rally during the fifth month from the last increase! The fifth month is usually where the Fed comes to the rescue and begins to lower rates again and the whole thing starts over. Maybe the new Federal Reserve Chairman will take a more moderate approach than Mr. Greenspan. I do not believe that this boom and bust interest cycle is necessary.

I mentioned the Presidential Election Cycle earlier in this Report and will bring it up again now. The stock market has a tendency to sell off during the second year of a president's term. Nothing to do with the markets, it is a political thing. The party in power tries to get all the unpopular policies done then so they can look good in the third and fourth election year. This is a pretty normal and repeatable event as you can see in the chart below.



Notice the low in each case above and compare this low to the low on the chart of the Dow following interest rate increases. Again, nothing is cast in stone; things can change. There have been years when the decline either did not happen or was very mild. The most important thing to take from this data is that the markets will have a substantial rally following some sort of a bottom next year.

One more piece of information to help keep our feet firmly planted in the cautious camp deals with mutual fund cash ratios. When mutual fund managers are very bullish, as they are now, they seem to spend all their cash on stocks. Cash ratios at the funds are the lowest they have ever been in history, under 4%. Cash levels were at 4% in March of 2000 as the market was preparing to decline by 50% on the S&P 500. The only other time that cash levels were this low was in late 1972 just before the 1973-74 bear market pared 48% from the S&P 500. **Scary, but factual and realistic!**

I guess I have been sufficiently negative enough for one newsletter, so maybe a positive item is in order. Look at the chart to the left again. The average gain enjoyed by the market, after the low in the second year of a presidents term to the high of the following year is in excess of 50%. Make you feel better? In any case, the markets are always a puzzle waiting to be solved. Investors, who don't push for the last percent gain and use caution when caution is advised, will always do better in the long term. The markets can be remarkably profitable for those who can preserve capital in questionable times and can therefore utilize that capital when the opportunity presents itself. **That opportunity becomes closer every day.**

Program Review

ETF with Sentry

This program is our newest offering and utilizes the fastest growing new financial product in years as the investment vehicle: ETF's, meaning exchange traded fund. These are securities, traded every day, all day, on major stock exchanges. They feature extremely low expense ratios of between 0.10% and 0.30% and are mostly index based. We employ them in a "Core and Explore" strategy with a protective overlay utilizing S&P 500 index puts. The minimum account size is $125,000. The "Core" section is allocated using CCMG strategic models while the "Explore" section uses Ned Davis Research top three to four sectors. These allocations are subject to change at any time and are actively managed. There are two portfolios available, U.S. Core & Explore and Global Core & Explore. One uses only U.S. sectors while the Global adds an international exposure to the Core portion. S&P 500 puts are utilized in the attempt to provide downside protection while allowing for upside participation.

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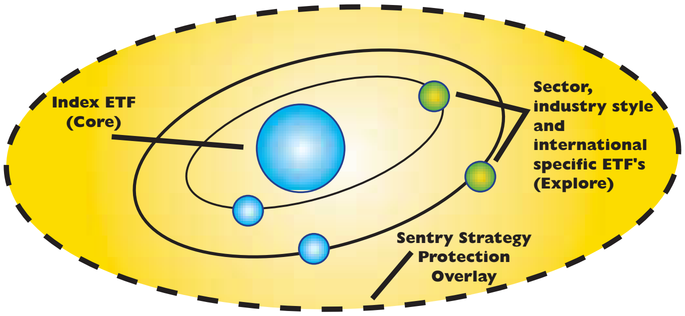
"Core & Explore with Sentry"



What's New at CCMG

There are a lot of new faces here as well as two that are now missing. Cheryl Bloch, an employee of fifteen years, has retired. Cheryl lives in the city, very close to the office, and you always knew she would be here even if there were two feet of snow. You might remember her by her distinctive voice, "just a moment please." We wish her well in retirement and thank her for her years with us. Jenny Weston Clark, Brendan's wife in our Business Development group, has also left us (we think temporarily but she will not say) to have a child. The new addition is Madelyn Grace and she is my ninth grandchild. Still more to come I think! Denise Clark Williams, our COO and Chief Compliance Officer has two children, Andrew 10 & Matthew 8. Colene Clark Bittone, head of our Client Service and New Business area has three children: Ryan, 11, Kelsey, 10, and Tori, 8. K. Sean Clark, CFA is our Chief Investment Officer and has three children; Amanda, 6, Kieran, 3 and Brinley, 1. Brendan Clark just had his first daughter Madelyn. That makes nine grandchildren with more to come.

One missing face, Elizabeth Schoenberg, a Senior Portfolio Manager, has reappeared after having twins. Can you imagine having four children under the age of 5?

There are several new faces also:
Beverly Smith has replaced Cheryl Block.
Kristin Millar and Christine Zambito (Krissy & Chris) have joined our in-house Business Development Group, to replace Jenny Clark and work with Jeff Boyanoski.

Bonnie Steczynski joined our New Business Group and David Rikard joined the Portfolio Administration Group. Both come to us from Edward C. Rorer, a fine advisory firm who moved to the suburbs.

And finally, Tom Hatton joined us from PNC in operations and performance reporting and joins his wife Frances, a long time member of the firm.

And, we are moving! The firm moved from the 51st floor of One Liberty Place to our present office on the 34th floor of the Mellon Bank Center 14 years ago, because of space requirements. We are moving back to the 53rd floor, One Liberty Place, at the first of the year, again because we need more space. There will be pictures of the new office on our website which is ***www.CCMG.com.*** Don't forget! You can also access your account, and other information about the firm and our programs on the website. Clients sign in to the site using your account number and the last four numbers of your social security number as the password.

Summary

The market is having the expected correction as this letter is being finished. We expect a market bottom later in October or early November and we are expecting a good year-end rally to give 2005 a slightly positive finish. Next year is another story, as you might have gathered from earlier pages, and we will have much more to say about that at year-end. Health, happiness and a joyous upcoming holiday season to all!

Harry J. Clark

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All CCMG performance figures in this Report are net of fees and expenses. Past performance is not a guarantee of comparable results in the future. The sited data have been prepared utilizing a methodology consistent with industry standards.

*Some CCMG allocation accounts are managed through the use of tactical and strategic asset allocation methods and utilize buy and sell indications produced by these methods to determine when clients should be invested in equity securities. When a buy allocation is generated clients' accounts are invested in equity securities, and, conversely, when a sell allocation is generated their accounts' equity positions are liquidated and invested in money market accounts and other cash equivalents. The performance data cited reflects the effects such buy and sell allocations would have had on an investment in the market indices discussed for the time periods indicated. The buy and sell allocations used in such information are actual allocations generated by CCMG's methods during the periods portrayed. Client accounts may or may not have been invested in the referenced indices during the periods portrayed. The cited performance data assumes the reinvestment of all dividends and capital gains distributions, and reflects the deduction of the maximum management fee charged by CCMG for the referenced program. Historical performance is available upon request.