

FIRST QUARTER 2006

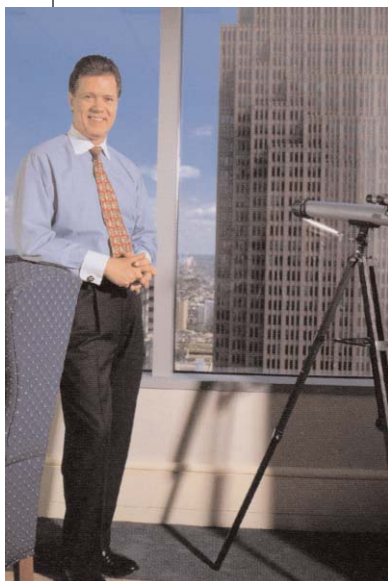
**STILL CAUTIOUS FOR NOW  
STILL BULLISH LATER**

As you might recall from the year-end Navigator Report, we were expecting a decline during the first part of the year followed by a very good buying opportunity later in the year. We featured a chart of the Presidential Election Cycle that shows that the second year, this year, is typically the weakest of the four years by far. The second year will usually have a decent beginning followed by a scary correction that leads to an extremely good buying opportunity late in the year. So we are "still cautious." *In the short-term, we are awaiting a good decline and are "still bullish" in the intermediate and longer-term once the correction has run its course.*

**The last time the market suffered a 10% or more correction was in 2002. We are overdue!**

I am sure you have heard all the hype over the past weeks about the major indices hitting new five-year highs. While that might be the case, the new highs are

by very small margins and the market hit an interim high way back on January 11th. Since then there has been very little progress. *From January 11th to April 7th, the Dow Jones Average has gained all of 0.70%, the S&P 500 has gained 0.10%, and the Nasdaq has gained 0.56%. Nothing to write home about. Ninety percent of the entire first quarters' gain occurred during the first eleven days of the year.*



**HARRY J. CLARK, CFP** PRESIDENT / CHIEF EXECUTIVE OFFICER

**CCMG IN THE NEWS**

March 16, 2006  
**CNBC "Power Lunch"**



As yesterday's stock market rally has hit multi-year highs today, Harry Clark, President and CEO of Clark Capital Management, says that a lot of things point to a good market down the road but remains cautious and feels a correction is coming fairly short-term.



March 14, 2006  
**Bloomberg TV**

Sean Clark, Chief Investment Officer at Clark Capital Management, says that Clark has been defensively positioned regarding stocks and expects the market to see between a 10-15% correction into the mid-term elections.



March 13, 2006  
**The Christian Science Monitor "How to Beat the Midas Curse"**

Paul Binnion, Executive Vice President of Clark Capital Management, says parents typically do not pass the values involved in the creation of wealth when passing money down to successive generations.



While the first quarter of this year is not anything to feel all warm and fuzzy about (especially since the market has been essentially flat since January 11th), it was still the best in seven years, believe it or not. Both the S&P 500 and the Dow Jones Industrials rose 3.73% while the Nasdaq rose 6.1%. It was the best first quarter for the Dow since 2002 and for the S&P 500 since 1999. Four of the past five years have experienced losses in the first quarter. The best first-quarter gain of the past 30 years was in 1987, when the gain was 20.9%. The famous market crash of that year wiped out that entire gain plus some.

## PROBLEMS REMAIN

While the market has seemed resilient of late, the same problems that have inhibited returns for the past year or so are still evident today. These problems include a Federal Reserve Board that seems determined to raise rates until we all cry uncle, commodity (especially metals) prices going through the roof, crude oil passing the \$70/barrel mark, a cyclical bull market that is getting very long in the tooth, a four-year cycle due to bottom later in the year, slowing earnings growth and the prospect of slowing economic growth later in the year. Not to mention the housing bubble losing some air in various parts of the country. WOW! Sounds awful! But none of these problems are new, insurmountable, or particularly devastating in their potential to cause trouble. **The market needs a pause, a correction to clear the air and get going again.** Unfortunately no one rings a bell and tells us that a market decline is coming; we have to look at the weight of the evidence, past history, and internal stock market action to give us clues as to when to be defensive. "Defensive" – now there is an interesting word. What does it mean in the context of our various investment programs? I will explain that later when I discuss the "Good News."

Since the secondary bear market bottom in March 2003 (primary bottom was in October 2002), the market has moved higher with very little in the way of corrections for the better part of 36 months. The following chart, *courtesy of James Stack and his Investech Research*, tells the story. Jim also tells us that there have only been three other periods in the S&P 500's 78-year history with longer runs without at least a 10% correction. Those periods are:

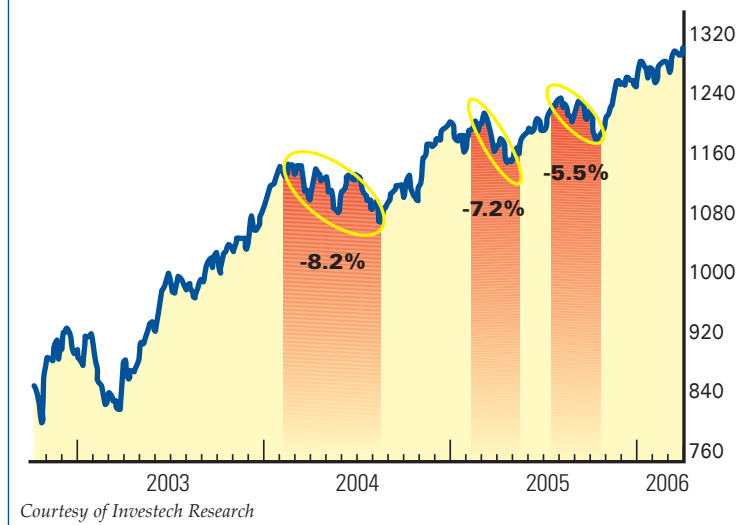
Oct. 1962 - Feb. 1966...39 months

July 1984 - Aug. 1987...37 months

Oct. 1990 - Oct. 1997...83 months

**This cyclical bull market is the sixth longest of the 34 cyclical bulls since 1900**, according to Ned Davis Research. Historically, dating back to 1928, the S&P 500 has endured an average of three 5% or more corrections per year, one 10% or more correction per year, one 15% or more correction every two years, and a 20% or more correction every 3 years. **The last time the market suffered a 10% or more correction was in 2002. We are overdue!**

## S&P 500 Market Downturns



## INTEREST RATES, YIELD CURVES AND OTHER WORRIES

We all know that the Federal Reserve Board has raised interest rates 15 times in succession to 4.75% for Federal Funds. The futures market is pricing in a 100% chance of another 0.25% increase on May 10th and a 50% chance of still another at the June meeting. If both of these increases occur, it will put the Federal Funds rate at 5.25% after 17 increases. Yes, the increases began from a historically low yield but even so the Fed has never raised rates this often, over this length of time, or to this extent. The Fed Funds rate is what governs other rates such as the discount rate, currently at 5.75%. That will move to 6% with the next increase in Fed Funds. I mention this because **Ned Davis Research has documented that when the discount rate reached 6%, a bear market had already begun in every case except in 1929.** The last time this occurred was in 2000 when the discount rate reached 6% on 5/16/2000. The market peak that year for the Dow Jones was on 1/14/2000 and for the S&P 500 was on 3/24/2000. Reason to be defensive?

One of the current hot topics of the day deals with the "yield curve." This is nothing more than a plot of interest rates for various time periods such as 90-day T-Bills, 2-year T-Note, 10-year T-Note and 30-year T-Bond. When the interest rate of short-term maturities moves up toward that of longer-term maturities it causes concern that the economy is going to stall and enter recession. If the shorter-term maturities move above the longer-term, it is called an inverted yield curve. The yield curve today is not inverted! There have been seven recessions since 1960 and all were preceded by an inverted yield curve. The problem is that this is not a very good tool to help in dealing with the stock market. The lead-time before recession begins averages 13 months and varies from 7 to 20 months.

James Stack measures yield differentials another way. He compares the rate on the 90-day T-Bill to that of the 10-year T-Note. When that differential goes below 0.50% for at least four weeks in a row, caution is advised. That differential has been less than 0.50% for more than four weeks. While this indicator has preceded every recession for the past 40 years it also has had a lead-time of between three and 20 months so it has little immediate predictive value except to say “be cautious.”

## FIRST THE NOT SO GOOD NEWS THEN THE GOOD NEWS

We know that last year (2005) was one of only three years in the Dow's history when it recorded a single digit return. Volatility was also historically low. When this occurs the following year is most often much more volatile, meaning the market should have much larger ups and downs during the remainder of this year. Yes! The first quarter was a good one, no matter how you look at it, even though the gains in the major averages took place mostly in the first two weeks of the year.

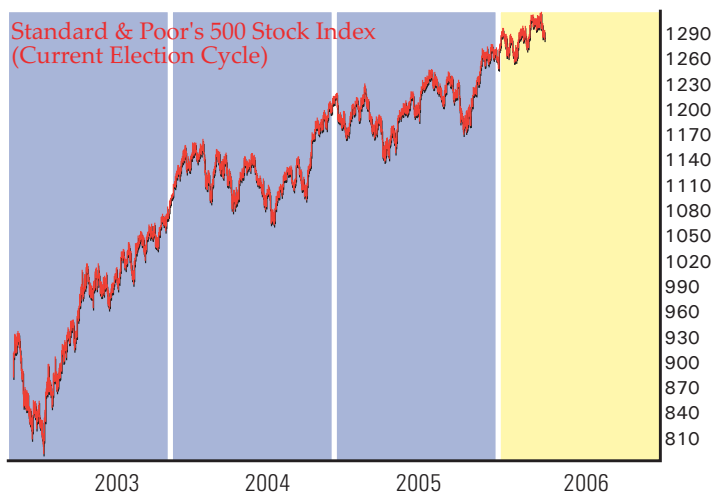
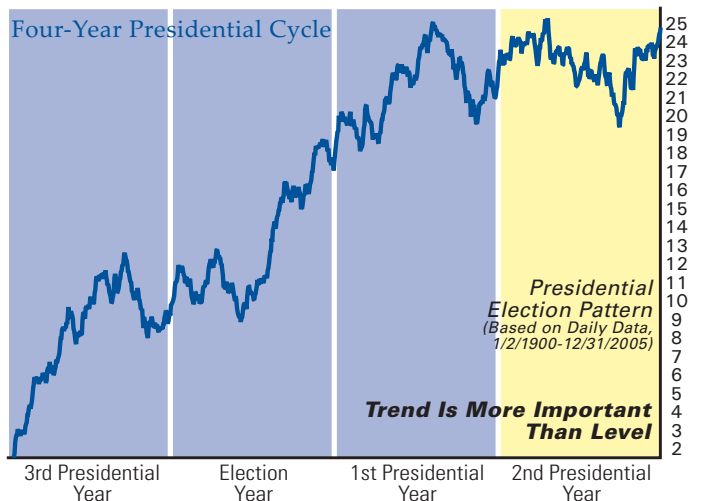
The year-end Navigator Report featured several charts. One showed the Dow Jones Four-Year Presidential Cycle, another showed the Four-Year Equity Cycle, another showed how the market reacts following the last of a series of interest rate increases, and finally a table detailed the market rise following a low point during a year such as this year – I mean the fourth year of the Equity Cycle and the second year of the Presidential Election Cycle. If you do not have that newsletter at hand you can see and print it from our website CCMG.com by going to the Navigator Report section. If you want to get a good understanding of what is being said here, you really should refer to the charts in that report. When you look at these charts, you will see why I point out the reasons to be “defensive” for a while longer.

Of course “defensive” means different things to different people and to our various investment programs. Our allocation programs use cash (either 30% or 100%) as a way to be defensive. Our “Style Preferred” program depends on being in the right place (large growth, large value, small growth, small value) in the market to minimize decline. The Master Program and ETF Core & Explore programs use our Sentry Strategy which buys S&P 500 index puts as protection. We can be “defensive” in many ways. Our Premier Portfolios will raise cash and write call options to garner some downside protection.

Below are additional charts from *Ned Davis Research* to further illustrate our anticipation of an upcoming good market correction followed by (in my opinion) one of the best buying opportunities of the next several years.

While most market commentators believe that the market will skyrocket when the Fed finishes raising rates, history shows that in 75% of the cases the market experienced a drop averaging about 12%. Yes, we can expect a celebration rally for a

### Dow Industrials Four-Year Presidential Cycle versus S&P 500 Index Current Election Cycle



Courtesy of Ned Davis Research

couple of days that might total 2% or 3% before the market declines. And yes, 25% of the time the market did advance. But when you put together the fourth year of the Equity Cycle, the Presidential Election Cycle, the history of the market following the last in a series of rate increases, and the longevity of this current cyclical bull market, the conclusion must be that a decline is in the offing.

Now the GOOD NEWS! After the market goes through the decline that we are expecting, the table in the last newsletter shows that **since 1934 the ensuing rally has averaged 51% to the high of the following year, or 2007!** Not bad! The smallest rally of 14.7% occurred in 1946 while the largest of 87.1% occurred in 1954. In the past decade the

rallies were 41.2% in 1990; 41.6% in 1994; and 58.4% in 1998. All spectacular moves.

But first the chart below details the best guess from Ned Davis Research for the rest of the year. And, of course, it is a guess but is based on history and the present state of the market.

While I said earlier that there is a 75% chance of a market decline when the Fed finished raising rates, there is also a 25% chance that the market will rally if the perception is that the Fed got it right this time. By "got it right" I mean that they did not overshoot and cause an economic slowdown as they have in 86% of the prior rate increase cycles! The market will have its ups and downs over the next months but I believe that a very good buying opportunity lies ahead.

**So sit tight, avoid market commentators, enjoy the coming summer months and look forward to a very pleasant rally late this year.**

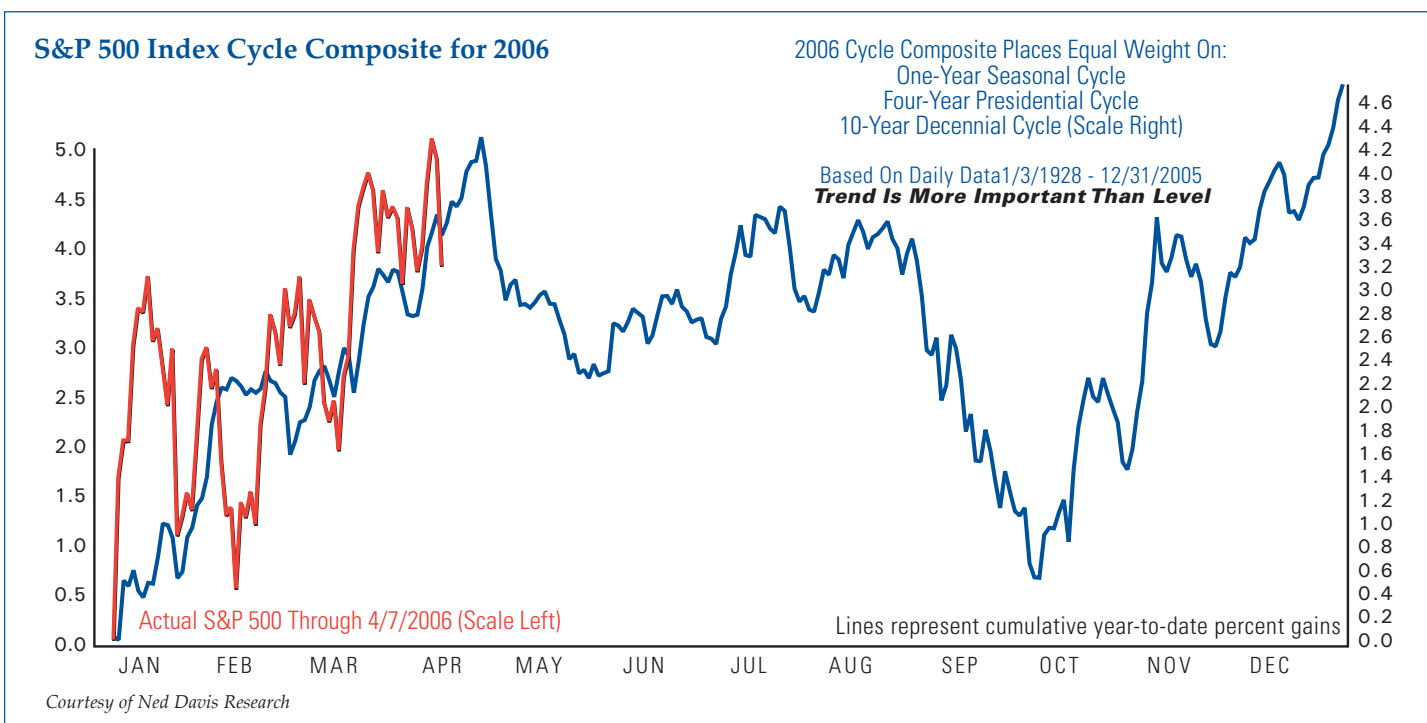


February 3, 2006

**CNN Money**

**"Good January, Good Year?"**

Harry Clark, Chief Executive Officer at Clark Capital Management, believes there is going to be a great buying opportunity in 2006, but first expects pain as 2006 is the 2nd year of the presidency and the stock market often follows the four-year cycle of the presidency.



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