



CLARK CAPITAL
MANAGEMENT GROUP, INC.

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THE *navigator*™ REPORT

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ARE WE THERE YET?



This question applies to several problems plaguing us today. “Are we there yet?” as in: “Is the bottom in sight for the protracted downturn in the housing market?” “Is the bottom in sight for the current credit crunch?” “Is the bottom in sight for the downturn in the economy?” And last, but certainly not least: “Is the bottom in sight for the current quasi bear market in stocks?”

Since each of the first three items directly affects the fourth, let’s look at each one to try to get a handle on when we might expect the crazy stock market to regain some semblance of sanity.

This is great news! When the powers to be, financial pundits and especially national news publications, tout or shout recession, we usually are at the half-way point.

HOUSING

First let’s look at the housing market as it stands today. The charts on the following pages speak volumes. Even though these charts are from the U.S. Census Bureau, they are used with permission from James Stack and his excellent publication “Investech Research” (www.Investech.com).

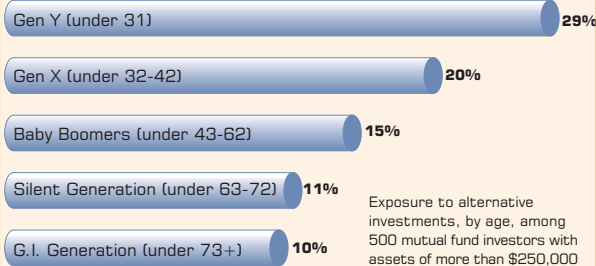
As Mr. Stack and the charts tell us, both Housing Starts and Building Permits have fallen from 24-year highs to 17-year lows. And while there seems to be no evidence that the decline is ending, it seems to me that

CCMG AND ALTERNATIVE INVESTMENTS

One of the buzz words in the Investment Arena these days is “Alternative Investments.” Many clients have asked if we get involved with this asset class. The answer is a definitive, Yes!

So what are Alternative Assets? They are assets that do not correlate with the market in general. Traditionally portfolios would be diversified between Large-cap, Mid-cap, and Small-cap stocks with potentially some international stocks included and, in some cases bonds. The correlation of the stocks range from 0.70 to 0.94 of the S&P 500’s 1.00. This means if the S&P 500 declines, these asset classes will also decline. The one exception is that bonds are non-correlated at about 0.07. The Puts that we use in the Sentry Strategy have a correlation of -1.00 and that is why we utilize them as downside protection. Other asset classes that are not as correlated to the general market are Emerging Markets, Hedge Funds, Real Estate, Currency, and Commodities. But these asset classes, in addition to being non-correlated can also increase the potential for profit while also helping to soften market losses.

Youth Likes Alternatives



The chart above shows how newer generations have embraced Alternative Assets while those nearing retirement should be but have not.

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Our Navigator Unified Solutions all have a portion of the program invested in Alternative Asset classes and the amount ranges from 13% to 18% depending on the style of the allocation. Current positions are (as a % of the amount in the Alternative space):

Absolute Strategies (Hedge Fund)	15%
Alternative Solutions Fund (Hedge Fund)	15%
Powershares DB Energy ETF (commodity)	5%
U.S. Natural Gas ETF (commodity)	5%
Street Tracks Gold Trust ETF (commodity)	10%
Currency Shares Euro ETF (currency)	10%
Currency Shares Swiss Franc (currency)	10%
Currency Shares Japanese Yen (currency)	10%
ProFunds Rising Rate (Inverse Treasury)	10%
DJ Wilshire Intl. Real Estate (REIT)	5%
Cash	5%

This investment grouping is available to existing clients who wish to participate in this asset class at \$50,000. Contact your Financial Professional with your interest.

it is nearing the point where similar declines in the past have reversed. It might just be wishful thinking but, as I am sure you have heard before, the stock market is a leading indicator of things to come and home builder stocks have reversed and recovered about 30% of

their losses. In addition, the overhang of unsold housing has at last started to decline. So after two years, possibly we are going to see this drag on the economy and the stock market start to dissipate.



CREDIT CRUNCH

Now for the credit crunch. The drag from the credit crunch is not quite so easy to get a handle on or to dismiss as nearing an end. As discussed here before, the credit crisis began with the demise of the sub-prime mortgage market. Sub-prime mortgages had been packaged into various investment grade products using extensive leveraging. They have pretty



Bloomberg Television - April 9, 2008

Bloomberg Television anchor, Nat Miller interviews Harry Clark, President and CEO of Clark Capital Management Group about the Boeing Company. Mr. Clark discusses the implications to shareholders of the delay in the first flight and deliveries of the 787 Dreamliner.



CNBC Squawk on the Street - April 3, 2008

Sean Clark, CIO of Clark Capital Management Group, discusses current market trends on CNBC's Squawk on the Street.

much gone belly-up causing massive write-offs by major banks and financial institutions. We have all heard of these massive write-offs and the affect has been to weaken the entire financial system. The whole mess has prompted the Federal Reserve Bank (Fed) to take unheard of drastic action in an attempt to protect the financial system and to restore confidence. But so far lending by major institutions has not returned to any semblance of normalcy and without borrowers and lenders getting back to business our economy will not get back to business.

As discussed in the prior Navigator Report, the Fed lowered rates several times during late 2007 in an attempt to stem the problem. And, as you know, I was very critical of the Fed Chairman, Mr. Bernanke, for not going far enough in lowering rates to arrest the problem. *I still believe that if he had not been asleep at the switch for the prior year and had lowered rates more aggressively, the problems we now face might have been ameliorated.* To show just how bad the situation had become, consider that since **1914** the Fed had never cut rates **twice within two days**. Now they have cut rates twice in two days — not once but **TWICE** in January and March. **Unheard of panicking by the Fed!!!**

As to the Fed being pro-active up to this point, they had NOT been even mildly pro-active. Consider that on January 22nd, stock markets were in free-fall before their opening, prompting the Fed to cut rates before the markets opened! (By the way, that day was, so far, the panic low on the markets as we will discuss

later.) Then on Sunday, March 16th, in the face of the pending failure of a major Wall Street institution and with Asian markets in free fall, the Fed again panicked and announced an unprecedented rate cut on Sunday!!! This was followed two days later with a cut of the Federal funds rate. **Again a panic by the Fed!** Talk about reasons to lose confidence in our central bank!

But wait, in addition, the Fed instituted the bailout of the major Wall Street institution referred to above, Bear Stearns. They invoked a little known law, which had last been used in the depression year of **1932**, to guarantee \$30 billion of paper at Bear Stearns. While this was unprecedented, I do believe that if the Fed had not stepped in and arranged the so-called “bailout” of Bear Stearns, other major players could have succumbed and crumbled. Mr. Bernanke said in testimony before the Senate Banking Committee, Bear Stearns’ *“failure could also have cast doubt on the financial positions of some of Bear Stearns’ thousands of counterparties and perhaps of companies with similar businesses.”*

Interesting how rumor of pending failure could actually cause failure, which was the case with Bear Stearns. It almost happened to Lehman Brothers but the SEC stepped in and stopped the short sellers from prevailing. Now realize that the Fed has done things that have not been done since 1914 and 1932! Are things that bad? The answer is “Yes!” Moving forward, the most recent cut to the discount rate was .75%, occurring for the first time ever when the rate was already below 4%. In addition, the Fed opened the dis-



CNBC's World Wide Exchange - March 27, 2008

Sean Clark, CIO of Clark Capital Management Group, discusses current market trends on CNBC's World Wide Exchange.



CNBC Squawk on the Street - March 19, 2008

Harry Clark, Chief Executive Officer of Clark Capital Management Group, explains he feels the market has hit a bottom, noting that last week we experienced the third highest level of bearishness among investors in history.

count window to other institutions in an attempt to pump money into the lending system and free up the banking system.

Finally, the Fed is being a bit proactive and actually imaginative. They have arranged significant auctions to pump money into the banking system. I might have to stop criticizing Mr. Bernanke. I believe that the Fed has finally awakened to the severity of the problems and are determined to do all that is necessary to get the banking system back in the business of lending. Will the Fed cut rates again? I believe the answer is yes! As of today, the 2-year T-note is trading at an interest rate of 1.70% while the Federal funds rate (which is 0.25% below the discount rate) stands at 2.25%. The Federal funds rate should be at nearly the same level as the 2-year T-note, so I expect a minimal cut at the April 30th meeting of the Federal Reserve Board headed by Mr. Bernanke. I say minimal because the plunging dollar has finally caught the Fed's attention and too large a cut in April might jeopardize the fragile bottom the dollar seems to be making.

THE ECONOMY

The question of the day seems to be whether or not the economy is in recession. To fulfill the definition of a recession, the economy must experience two consecutive quarters of negative growth using the Gross Domestic Product (GDP) as the proxy. There seems to be a consensus that the economy began to weaken in late October or November of the last year.

In actuality, leading indicators have been negative for five of the past six months. GDP for the fourth quarter of 2007 was 0.6% which is not a negative number. It is widely expected that GDP for the first quarter of 2008 will be negative but I believe it will be a very close call. The big question remains, "Will the GDP be negative for the second quarter of 2008?" Even if the first quarter is negative, it will not technically be "recession." It would require both the first and second quarters to show negative growth for it to qualify as a recession. A good way to measure the strength of an economy or the weakness of a recession is by the number of jobs gained or lost. The chart on the next page from the Labor Department and The Wall Street Journal shows the job loss in the last recession and recent months of job growth as a way to gauge recessions. **If we are going to have a real recession, many more jobs will have to be lost to prove it.**

Mr. Greenspan, our prior Federal Reserve Chairman, made an interesting comment that this recession might be deeper than the last two have been. Also Martin Feldstein, who heads the National Bureau of Economic Research, says that things are very bad and getting worse. Even Mr. Bernanke, who has steadfastly refused to use the "R" word, recently said "Recession is possible....there's a chance that for the first half as a whole there might be a slight contraction." Even several news magazine covers are touting recession! This is great news! When the powers to be, financial pundits and especially national news publications, tout or shout recession, we usually are at the

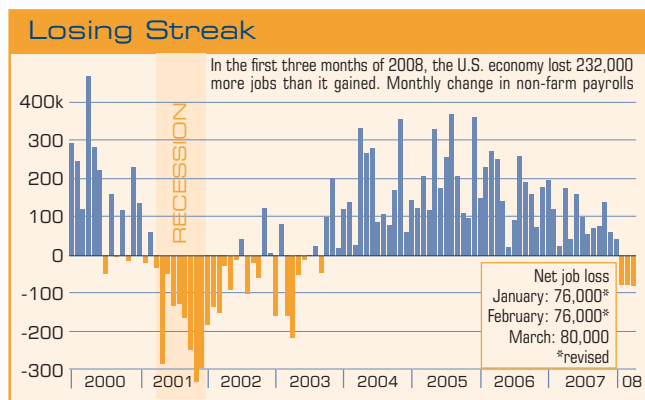


CN8's Money Matters Today - March 11, 2008
Harry Clark, CEO and President of Clark Capital Management Group, is on the air with Mary Caraccioli on CN8's Money Matters Today.



CNBC Squawk on the Street - March 8, 2008
Sean Clark, CIO of Clark Capital Management Group shares his current views with Mark Haines and Erin Burnett on CNBC's "Squawk on the Street".

half-way point. If we can avoid any more major hiccups such as another major institution going under, I believe we could be out of the woods by the end of summer or early fall. The average recession lasts 10 months and if the economic slowdown, or whatever you call it, began in November, it should, barring any drastic occurrence, be over by early Fall.



THE STOCK MARKETS

So what does all this mean for the quasi Bear Market that we have been experiencing since October 9, 2007? I say “quasi” because, as of the end of the first quarter, the S&P 500 and the Dow Jones are down 17.9% and 16.19% respectively from their highs. This does not quite qualify for a typical 20% bear market decline. However, the NASDAQ, which peaked on October 31, 2007, has declined into bear market territory, sliding 23.88%. Semantics, yes,

because it sure feels like a real bear market. *The first two months of 2008 were the worst two months since 1933 and the second worst two-month start to a year ever.* Financial and home builder stocks seem to have been in a bear market all their own. Home builder stocks, as measured by the home builder exchange traded fund (ETF), peaked May 22, 2007 and had declined by 55% into January of 2008. It appears that the ETF might have bottomed at that point because it has rallied by 30% since that low. Financial stocks, again as measured by the financial ETF, peaked in May, 2007 and have declined by 38% to date. Of course, some individual financial stocks have declined by far more than the ETF which is a large basket of financial institution stocks.

You might remember that last year the theory was that the rest of the world would “decouple” from the U.S. and would not follow the U.S. markets. Well that theory was total hogwash as the rest of the world, again, caught a cold when the U.S. sneezed. While the S&P 500 has declined 9.92% and the Dow 7.4% for the quarter, China is down 34%, India 22.9%, France 16.2%, Great Britain 11.7%, and Russia 10.3%. Only two countries in the world, Mexico and Taiwan, had gains for the first quarter of 2008.

You might recall that I said in the fourth quarter *Navigator Report* that the market was undervalued by 45% on the Fed’s valuation model and that the undervaluation would likely put a floor under the market and prevent a drastic decline. Well that model now shows the market to be 50.6% undervalued which is more



CNBC Squawk on the Street - February 21, 2008

Sean Clark, CIO of Clark Capital Management Group discusses market insight on a CNBC “Squawk on the Street” segment. He mentions that there are a lot of factors favoring the market including pessimistic investor sentiment, reasonable valuation for stocks, the election, and economic news. These points are all bullish and prove room for growth and opportunity ahead.



CNBC Worldwide Exchange - February 21, 2008

Harry Clark, founder of Clark Capital Management Group, discusses the rising oil prices and predicts that the swell in price will ultimately have a minimal impact on the economy. Harry also touches on the technology sector being a poor investing choice in a bear market which was shone a few weeks ago.

undervalued than at the bottom of the bear market of 2000-02. Again, I believe that this will prevent any kind of major further decline.

WHAT NEXT?

In the believe it or not category, there have only been two declines in the eighth year of a decade since the 1880s. The market, as measured by the S&P 500, declined 6.6% in 1888 and 0.7% in 1948. Other than the two down years, the average return for all years ending in 8 since the 1880s has been 22.1%.

Is there any chance for this year to even be slightly positive? Yes, I believe there is a very good chance! Let me explain! I believe that the stock market made a panic low on January 22nd. I say a panic low because there were many indications of panic that day. For instance, the AAI (American Association of Individual Investors) ratio of bears to bulls exceeded 2 to 1. The average gain after that much pessimism during the next twelve months has been 21.75% with never a decline. The Gambill ratio of insider buying reached 25% and the market has been up 22% over the following twelve months. When T-bill yields have fallen under 1.5%, indicating a massive flight to the safety of government paper, the market has averaged a gain of 23.3% over the next twelve months. The chart on the facing page shows that bottom and the two retests since.

That low has been tested successfully twice, the

last being March 20th, the day the Fed had to bail out Bear Stearns. Major market bottoms are quite often made on some drastic event and the Bear Stearns debacle was such an event. A few days later, UBS announced a major write-off of sub-prime related assets and at the same time announced a major funding. This seemed to put the financial mess to rest, at least for the moment, and the whole **MOOD OF THE MARKET CHANGED!** From that day on, news that would previously have sent the market into a tailspin hardly had any negative effect.

Remember, market bottoms are never an "event" but rather they are a process. It takes time for this process to form the bottom. I believe that we are in the midst of that process today. As I have said before, markets of the past often rhyme with present day markets. Such is the case of today and the decline of 1990. That decline was almost exactly the same in duration and depth as ours today. The first test of the 1990 bottom was seven weeks after the initial bottom which is the exact same timing seen in today's market. In addition, background issues such as oil, inflation fears, the economy, interest rates, and the dollar all held the same significance as today. The big stories of 1990 were the savings and loan debacle and Iraq. Even the action of Citicorp mirrors today's action of that institution. Then, as now, bad real estate loans were a problem; they had to raise capital from a Saudi prince; they had to sell off part of the bank; they had to cut the dividend. Sound familiar?



CNBC Squawk on the Street February 5, 2008

Sean Clark, CIO of Clark Capital Management Group shares with CNBC audiences that two negative economic reports indicate that the economy is in a slow-growth period. Sean asserts that we will see negative growth in the current quarter but should avoid an outright recession.



CNBC Squawk on the Street - January 28, 2008

Harry Clark of Clark Capital Management Group explains on CNBC's "Squawk on the Street" that the stock market should bounce back from our low by the summer of 2008.



WHAT ARE THIS YEAR'S POSSIBILITIES?

If indeed the market has bottomed, as I believe it has, we can look for a significant rally to develop. **Market bottoms formed during recessions are particularly rewarding to those who resist the urge to sell as the market declines and fear builds.** If the parallel with 1990 were to continue, we could look for a jump of **27%** over the next six months as we saw in 1990.

The chart on the next page from Ned Davis Research, shows that the average recession lasts ten months and that the stock market usually bottoms at the mid-point of the recession. Coincidentally, the recession is usually acknowledged by the press and others at about the halfway point as this one was. That is why I said in the last *Navigator Report* that I expected a market bottom at about the end of March.

The average market recovery over the past ten recessions has been **15.2%** over three months, **23.0%** over six months, **28.1%** over nine months and **34.2%** over twelve months! The smallest gain over the next six months was 9.8% following the recession of 1957 and the largest six month gain was 41.6% after the 1981-82 recession. There is only one negative return in the third, sixth, ninth, or twelfth month following the low point of a recession and that was in the twelfth month following the bottom of the 2001 recession. That was followed by a tremendous market advance. So, you see, there is hope yet for this year to turn positive.

WHAT COULD GO WRONG?

Any of the factors discussed above could, literally, blow up in our faces. Housing could, and some say it will, continue to decline for years to come. I believe this to be unlikely!

The credit crisis could continue and possibly cause another casualty of a major player. While this is indeed possible, I believe that the Fed has enough weapons at its disposal to bail out potentially disruptive situations that would jeopardize the stability of the banking system.

The U.S. economy has always been very resilient because the U.S. consumer has always been there to support the economy. Consumer Confidence is now at a thirty-year low and, most likely, is at the low point for



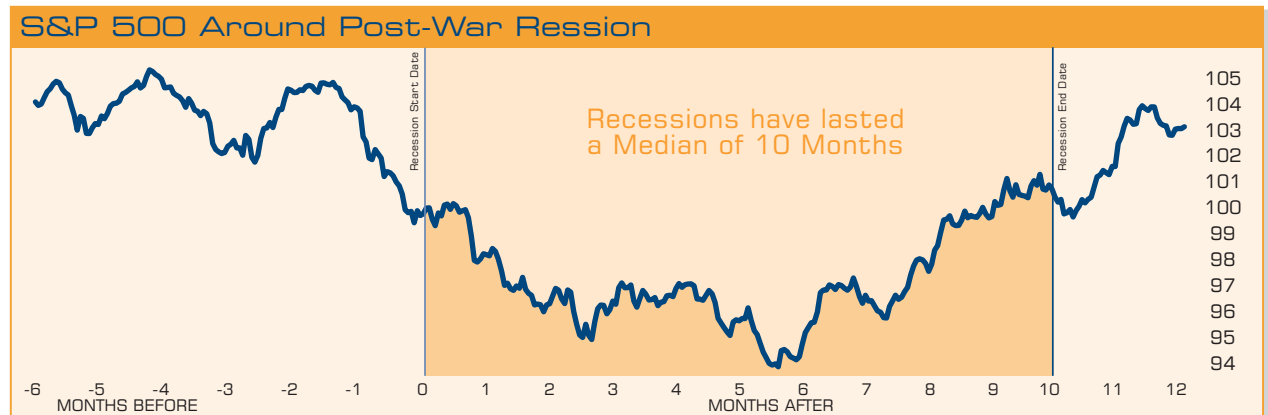
CNBC Power Lunch - January 22, 2008

Harry Clark, Chief Executive Officer of Clark Capital Management Group, discusses the benefits of buying domestic stocks versus buying foreign stocks in the current volatile market.



CNBC Europe Tonight - January 10, 2008

On January 10, 2008, President and CEO, Harry Clark appeared on CNBC Europe Tonight explaining to audiences that Fed Chairman, Ben Bernanke, said nothing new in his recent announcement. Harry also feels that he has not been aggressive enough and it shows.



this cycle. Improvement in Consumer Confidence will go a long way toward pointing to the end of the recession if indeed we really have one.

The only real danger I can see to an economic and stock market recovery is if the Fed has lost control of the economy. **The Federal Reserve Board has lowered rates eight times over the past several months in the attempt to stem the credit crisis and the economic downturn.** They will most likely lower rates one more time at the April 30th meeting. There have only been three times in the history of the Fed when the market has been lower after eight cuts in the discount rate than it was when they began cutting rates. Those times were 1929-1932, 2000-2002, and today.

I mentioned earlier that the market was 50.6% undervalued based on expected earnings and current rates. While this is true, if rates were to move sharply higher and earnings sharply lower, this undervaluation could evaporate. However, this is unlikely because if corporate earnings were in free fall the Fed would be lowering rates even more.

CONCLUSION

I am writing this letter on April 3rd and the market just had a 391 point up day. Yesterday was the **best start to a second quarter in the last 75 years.** Let's hope that this is a portent of things to come. But even if the stock market has seen the bottom for this cycle, there will be major bumps in the road. There will be more financial revelations of how dumb some high level people in major institutions acted with no thought to risk and there will be more write-offs of bad debt. The other side of the coin is, however, that all the debt that is being written down will some day have some value. When that happens, those institutions will be looking much better as the values are added to earnings.

As mentioned before: a market bottom is not an event but a process that takes time and patience. I believe that this year could still be a profitable year for us all.

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