



CLARK CAPITAL  
MANAGEMENT GROUP, INC.

Second Quarter 2008

# THE navigator™ REPORT

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## IT'S OFFICIAL



The first half of 2008 is, thankfully, over. And what a first half it was with the **S&P 500 plummeting 11.9% for the six months and 2.73% for the quarter**. And, of course, all the naysayers had to remind us that the month of June was the worst June since 1930. Every major equity index declined for the first half and the decline was not confined to the U.S. **The MSCI World Total Return Index dropped 13%**; its worst first-half performance in its 38-year history. Except for slight gains in bonds, only gold and commodity indexes were able to produce positive results – and double digits at that.

But wait, isn't this a presidential election year? I thought that the presidential election year was supposed to be very positive with all the political rhetoric promising better things to come. That is what's supposed to happen, but it seems that everyone and everything you hear is negative on everything from the war in Iraq to the price of oil. All the talk of recession, higher oil and gasoline prices, lower housing values, record high foreclosure rates, etc., etc., etc. have put this wonderful country of ours into a total funk! Our political candidates are not helping matters either, especially with Senator Obama predicting economic ruin unless he is elected. Of course, not to be outdone, Senator McCain is pretty much doing the same thing. Come on guys; let's hear the positives along with the negatives.

But, are things really that bad? The Gross Domestic Product (GDP) is positive and growing although under 1%. The GDP has to go negative for two quarters to be in an official recession. Unemployment is 5.5% which, while not great, is still low by historic standards. The weak dollar has helped

U.S. exporters and our multinational companies. Health care and agriculture are doing well. Home foreclosures are concentrated into just four areas, Florida, California, Phoenix, and Las Vegas, and are the result of overbuilding. But being honest, I guess when we all pull up to the pump and deposit a large amount into the oil producing countries' pockets it cannot help but make us angry. And pump money we do to the tune of **\$700 billion** that will be sent abroad this year to purchase oil. I suppose we will have to learn to drive more fuel efficient vehicles like our European friends who have endured fuel costs even higher than we have today for many years. On a recent trip to Germany I was paying 1.45 euro/liter of gasoline. This works out to be 6.30 euro/gallon for locals and if you are paying in dollars it is over \$10/gallon.

As an aside, few of us have any inkling of what the word billion means. I found this in Bert Dohman's *Wellington Letter* and thought it of interest:

A billion seconds ago it was 1959.

A billion minutes ago it was the time of Christ.

A billion hours ago our ancestors were living in the Stone Age.

A billion days ago no one walked on the earth on two feet.

And, as stated above, we will be sending **\$700 billion** this year to the oil producing countries to keep our economic engine running. Wealth beyond imagination! It's time to do something about it!!!! Would Washington please wake up and come up with an energy policy.

## OFFICIAL BEAR MARKET

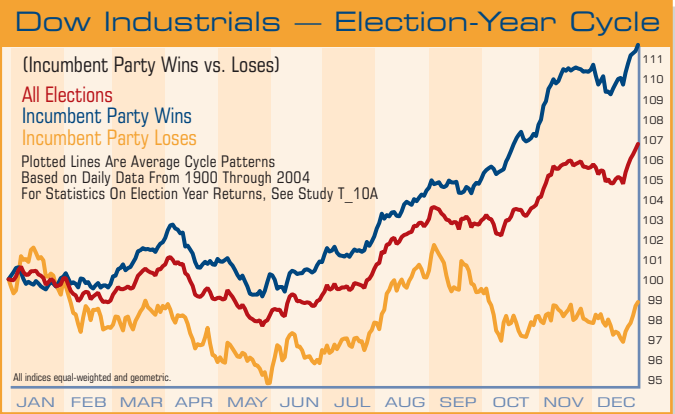
It is now official! We are in a bona fide BEAR Market!! By bona fide I mean a market, as measured

by a major index, that has declined by at least 20% from a major identifiable peak. While the market has been down since the top on October 9, 2007, most major averages had not declined enough to qualify as a BEAR market until the past several days. Some individual sectors (as measured by ETFs of each sector) such as financials (down 19% for the quarter, 30.9% for the year and 51% since the top), homebuilding (down 38% since the top), and real estate (down 28.5% from the top), have been in their own bear markets for many months and have declined by far more than 20%. Even Warren Buffet and his Berkshire Hathaway are feeling the pain as the stock is down more than 21% from the peak. But now that the Dow Jones and the S&P 500 have entered bear market territory the question becomes: "How long will it last and how far down will it go?"

According to Ned Davis Research there have been 33 cyclical bear markets since 1900. **The average decline for the Dow Jones Average was 26.9% over 363 days.** Since 1980 there have been seven cyclical bear markets with a median decline of 24% over 204 days. Our current bear was born on October 9, 2007, is now 272 days long, and has declined by 20.7% on the Dow Jones Average. **So, just maybe, we have suffered long enough but might have a little more downside to go before we get at least an intermediate term upswing.**

Stock markets often go up and down in relative relation to prior movements. These relative movements are referred to as retracement levels. When a market moves up or down it will quite often stop at various retracement levels and these levels give us an idea of how far markets might move. Also, when a level is penetrated, the next level becomes a new target level. We completed a five-year bull market at the top

on October 9, 2007, so now we watch for various levels of decline or retracement of that bull market in the current cyclical bear market. The market decline in March stopped at the 38.2% retracement level and a very nice advance followed during April and May. Then came the June debacle and that decline broke



convincingly through the 38.2% level so the next target for the decline would be the 50% retracement level. **That level is about 1170 to 1190 (depending on how you measure) on the S&P 500 and 10700 to 11000 on the Dow.** Now these levels are not cast in stone and the market does not have to go that low. But that would be a logical level for the decline to stop. If the 50% level is penetrated, the next retracement level is 61.8% of the prior advance and that would be 1090 on the S&P 500 and well under 10000 for the Dow. I don't even want to think of that possibility. The potential for a rebound will be discussed later in this issue.

#### HOW DID WE DO?

It is always hard to give results in this context because of our extensive offering of investment solutions. Before getting into specifics, I can say that our



**CNBC "Squawk on the Street" - April 14, 2008**  
Harry Clark, President and CEO of Clark Capital Management Group, shares his views with Mark Haines and Erin Burnett on CNBC's "Squawk on the Street" on the market, he believes a bottom is in place.



**CNBC's "Squawk on the Street" - June 8, 2008**  
Sean Clark, CIO of Clark Capital Management Group, explains to Mark Haines and Erin Burnett on CNBC's "Squawk on the Street" how he believes investor sentiment is effecting the market.

solutions are performing extremely well. The thing that we cannot control is the return that the markets give us. What we can control is the risk we take by participating in today's markets and, as you know, preserving capital is of paramount importance in any investment program.

The Navigator Unified Solution (UMA) account results ranged from positive 1% to a loss of 1.7% (net of fees) for the quarter while the S&P 500 lost 2.71%. Year-to-date results range from down 2.1% to down 6% compared to the S&P 500 losing 11.90%, a significant outperformance. Our Navigator Unified Solution combines mutual funds, separate account managers, exchange traded funds (ETFs) and alternative asset classes such as currencies, commodities, hedge funds, and our Sentry put strategy in one account. The account provides broad diversification among asset classes and features specific style, sector, and country allocations.

The Navigator Master Programs also provided great performance and results for the quarter ranged from positive 0.50% to a loss of 2.80% and for the year to date results range from a loss of 4.60% to negative 8.30% compared again to the S&P 500 loss of 11.90%.

Our ETF programs all showed positive results for the quarter, net of fees, and have losses for the year to date of much less than the S&P 500.

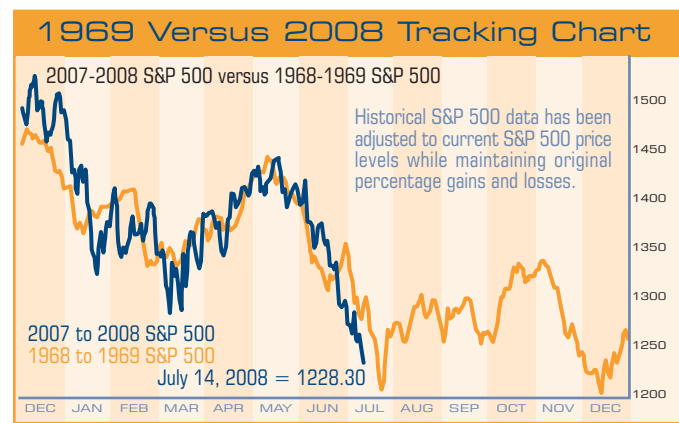
Beside the great results above, another standout is our Global Opportunity Program which is a totally unrestricted UMA. That means it can go anywhere in the world, to any asset class, including alternative asset classes and inverse investment vehicles. It gained 3.63% for the quarter (S&P 500 lost 2.71%), lost 1.05% year to date (S&P 500 lost 11.90%), and gained 2.82% for the past year while the S&P 500 lost 13.10%. **That is a 15.92% (net of fees) difference over the past twelve months in a very difficult market.**

One of the reasons that the Unified Solution accounts

did so well is that they were invested in commodities and gold in the alternative sleeve of the account. As stated above, these are the only two asset classes that showed double digit return so far for the year.

### OIL...OIL...OIL...OIL...OIL

If it was not such a serious matter, it would be funny how such a small word can cause such massive upheaval and world turmoil. All of us feel the effects of rising oil prices and I wonder what toll it is taking on our economy. Many market writers say that the price of oil is in a bubble and that the bubble, like other bubbles in technology, silver, soybeans, housing, etc., will eventually burst and we will see oil come down in price. Some say that oil is only worth about \$60/barrel. I wish! But this does not change the fact that we are sending massive amounts of our wealth to the oil producing countries. The Energy Information Administration estimates that we will hand OPEC \$850 billion next year. Meanwhile environmental concerns are preventing oil com-



panies from drilling for new oil fields that we know exist. In 1990 President Clinton signed a law to prevent drilling in the Arctic National Wildlife Refuge (ANWR). If we had developed that oil resource, we would have in excess of 20 billion



#### Bloomberg TV's "Morning Bell" - June 23, 2008

Harry Clark, CEO and President of Clark Capital Management Group, appears on Bloomberg TV's "The Morning Bell" with Betty Liu and discusses the current market situation.



#### Bloomberg TV "Final Word" - July 9, 2008

Sean Clark, Chief Investment Officer of Clark Capital Management Group, appears on Bloomberg TV's "Final Word" with Matt Miller and gives his views on the current market.

new barrels of oil in our reserves. **By the way, how many realize that the ANWR region of Alaska is the size of a postage stamp on a football field?**

I am all for the oil bubble bursting and the price moving lower, but I just don't see how it can happen. Yes, we are using less oil because of our slowing economy but how about the developing countries using ever more? Meanwhile exports from Mexico, our third largest source of imported oil, are at a nine year low. Also Venezuela has production problems, Nigeria is in civil war, and Libya is pulling back exports. Meanwhile 6.6 million new vehicles hit the road in China this year with an estimated 10 million expected next year. And India is expected to grow faster than China! In 2008 the emerging countries, China, Russia, India, and parts of the Middle East, will consume more oil than the U.S. Unfortunately I do not see any other way for the price of oil to go but up. Is there an answer? Yes. We must allow development of new oil fields now, develop alternative energy sources now, and we should be making our voices heard to our legislators everywhere. All that aside, here is a shocking fact: between the U.S. and Canada we have more oil reserves than all of OPEC combined. How so? Tar sands in Canada and shale oil in the U.S. With the price of oil at the present level these sources will start to help our supply situation because it is becoming more and more economically feasible to extract that oil. We will be watching for investment vehicles, and discussing them here, to include in our alternative investment portfolio. Meanwhile let's hope that the current price of oil is indeed a bubble and that maybe it will burst sooner than later.

#### WHAT ABOUT THE REST OF THE YEAR?

Of course this is the million, or billion, dollar question. The short answer is "excellent." Everything is pointing to at least an intermediate market low being near. The market is at or close to the average decline for a bear market and there are things that have happened consistently in the past to indicate that indeed we may be near a turning point. I will mention just a few. Unemployment statistics have been horrific and when the level of unemployment has moved higher as it has today it has **always indicated that a turn in the market was near.** Consumer sentiment is at a record low and this also has, in the past, **consistently pointed to a nearby market bottom.** There have only been two prior years when the market has experienced a double digit decline during the first six months of an election year: 1932 and 1940. Both times the market experienced a **significant recovery over the following six months.** And, very importantly, every time a major bank has folded such as IndyMac did just the other day; **it has been the catalyst for a significant market rally.**

The chart on page 2 from Ned Davis Research shows what has happened historically when the incumbent political party has been retained or boot-ed from office. The chart speaks for itself. The chart on the next page shows how the market is following a pattern similar to that of 1969 quite closely. This correlation shows that a rally could be imminent but that the election outcome might not be to the markets liking. It will be an interesting rest of this year.

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have been prepared utilizing a methodology consistent with industry standards. 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 Clark Capital for the referenced program. Historical performance is available upon request.