



CLARK CAPITAL  
MANAGEMENT GROUP, INC.

Fourth Quarter 2008

# THE navigator™ REPORT

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## IS IT FINALLY OVER ?



If the above raised questions in your mind, they would most probably be: “*Is the Bear market over?*” or “*Is the Recession over?*” The quick answers to these two questions are “Yes” and “Almost!” Now, if you believe me, then you have to read no further and you can go on to do things that you enjoy more than reading stock market projections or economic prognostications. But if you are even a little bit curious as to why I say “Yes” and “Almost,” then I guess you will just have to persevere and read on.

Now, because I stated that the Bear Market is “Over” and the Recession is “Almost” over you might think that I have a crystal ball. Don’t I wish!! But, unfortunately, neither I nor anyone else has the proverbial crystal ball. But anyone interested enough in the markets to look back has the next best thing to a crystal ball or a market map and that is market HISTORY. As we all know, the stock and bond markets of today will never replicate markets of the past. But we don’t need a perfect match; we need a “rhyme” or a market with underpinnings similar to today. And, believe it or not, although things seem drastically worse today than ever, they really are not. If you are in doubt please refer to the prior *Navigator Report* for the third quarter of 2008. If you don’t have it, you may access this Report on our website at [www.ccmg.com](http://www.ccmg.com). There you will see all of the terrible Bear markets of recent years along with commentary on how bad things were during several of the worst ones. You may be amazed at some of the similarities to today, especially if you look at the 1973-74 market and the economy surrounding those years.

Last year was the worst year in the equity markets (S&P 500), since at least 1931. I say “at least” because most averages from here and abroad have actually set new records for decline. Some far worse than in 1931. The S&P 500 lost 37% (total return), while the Dow Jones Average lost 33.5%. NASDAQ lost 40.5% and the Value Line Composite lost 48.7%. Foreign markets, for the most

*(continued on page 2)*

## MADOFFED

I feel certain that all readers have heard about the Bernie Madoff scandal which, it seems, cost investors \$50 billion. A very sad affair and one that affects all of us in the investment arena. I bet that a lot of investors, after hearing of that mess, thought to themselves; “Can this happen to my money?” Well, apparently it can to a degree because since the Madoff “Ponzi” scheme was uncovered, two more have come to light; one for \$50 million in Suburban Philadelphia and one for \$17 million in Boston.

The question remains, “How can this happen in this day of regulation and supervision of the securities industry?” And my answer is, “I have no idea.” I know how this firm is regulated and I have no idea how anyone could subvert the process.

One of our favorite sub-advisors, Louis Navellier, gives several red flags to make investors aware!

- If it’s too good to be true, it is!**
- Don’t give your money directly to any manager; only to a bona fide custodial firm.**
- If questions are discouraged, you should be too.**
- Selling while socializing is suspicious.**
- Be sure the advisor and seller are licensed.**

In the case of Madoff the returns were totally steady through all markets, too good to be true. Money was given directly to his firm, not a recognized custodian. He would not entertain questions. If an investor questioned, he was denied entrance into the investment.

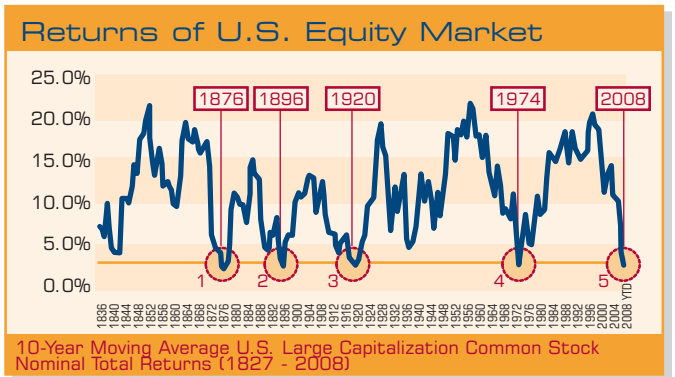
In our case, clients have always made investment checks payable to our custodian Pershing, division of the Bank of New York Mellon, or Schwab. When your assets are held by a reputable custodian, only you have access to the funds. We cannot touch or move your money. Our only authority is to invest your assets under the mandate that you have given to us.

part, lost more than the U.S. indices with Hong Kong losing 48%, Japan losing 44%, China losing 52.23%, emerging markets losing 47% and European countries losing between 34% for Switzerland and 61% for Austria. The bottom three were Austria at -61%, Greece at -65.50%, and Ireland at -66.21%. South American countries did better than both the U.S. and European markets.

As a point of reference as to how bad things really were, consider that Berkshire-Hathaway and Warren Buffet lost 44% or \$10 billion during this period. When Mr. Buffet was asked to comment on the loss he smiled and said "What Loss?" As far as he is concerned he did not lose because he had not sold and you cannot lose until you sell an asset. He feels that if you hold good assets you will win over time and recover any loss that might occur. If you look at his record you will see that he is absolutely right!

*As far as I can tell the only positive returns anywhere in the world were in U.S. and Global Treasury Bills, Notes and Bonds, the U.S. Dollar, Gold, and Collectible Rare Coins.*

global stock markets lost about one half of their value in this Bear market or about \$30 trillion. The U.S. portion of that loss stands at about \$7.2 trillion. Put another way, at least in the U.S., market returns for this decade have been wiped out. The chart below shows the return for the U.S. equity market based on large-cap stocks. **It shows that only four other times since the early 1800s have large-cap stocks had no return over a ten year period.** *It also shows that the periods following such an instance have had very good returns going forward. So there is hope!*



## THE 2008 BEAR

The Bear market of 2008 began on **October 9, 2007**. The S&P 500 declined **51.9%** to the low on **November 20, 2008** including the 7th worst quarterly return ever (S&P 500) during the past quarter: -22.5%. **It ranked third in terms of Bear markets — behind the 86% loss during the Bear that ended in 1932 and the 60% loss that ended the Bear of 1937.** Both of those occurred during the Depression and were much longer: 33 months and 60 months compared to the 2008 Bear which lasted 13 months. I am considering October 10, 2008 as the panic low and November 20, 2008 to be the absolute low. While the S&P 500 lost 51.9% during that time, other indices lost even more with the NASDAQ down 54%, the Russell 2000 (small-cap stocks) down 55% and the Wilshire 5000 (index of all stocks) declining 52.7%.

According to Bloomberg, a market information firm,

Last year witnessed a radical departure from history as the average election year return since 1928 has been 9.1%. Jim Stack of InvesTech Research tells us that "Only three election years since 1928 have seen any part of a recession and 15 of the last 20 election years have experienced market gains." The worst election year over the past 80 years, until now, saw a loss of 16%.

## WHAT LIES AHEAD ?

We have been in a **bottoming process** since the November 20th low. Market bottoms are never announced by the media, no one rings a bell, and you never really know until after the fact. **The bottoming process takes time.** It took six months after the 2000-02-03 Bear market which had three distinct bottom points before rising into the 2007 top in October. The chart below, from InvesTech



**CN8's "Money Matters"**  
**October 9, 2008**

Harry Clark, CEO of Clark Capital Management appears on CN8's "Money Matters" and discusses the current market situation.

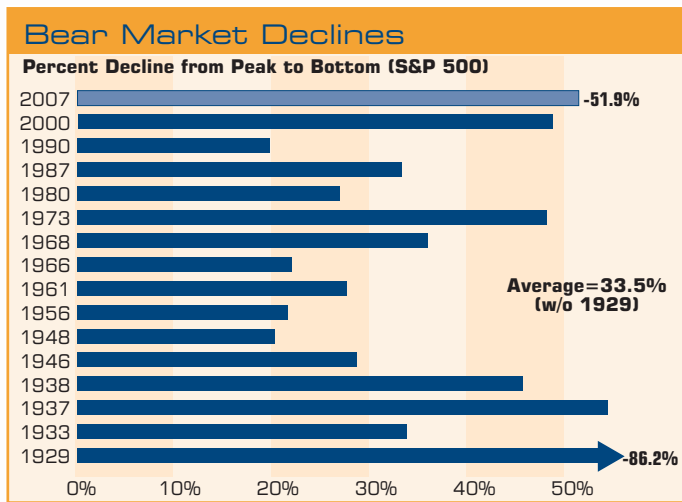


**CNBC's "Squawk on the Street"**  
**October 22, 2008**

Sean Clark, CIO of Clark Capital Management appears on CNBC's "Squawk on the Street" and discusses the current market situation.

Research, compares the current Bear market to all the others since 1929. What makes this one seem more devastating is that it ran its course over a 13 month period; a very short period for such a large decline. Many indicators, some that have only been active once or twice before, at major market turning points, have given signs of a major bottom. These indicators are based on valuation, psychology, and monetary factors and have proven accurate over many decades. Some of these are shown in the third quarter *Navigator Report* discussed earlier.

which was an advance of about 100%. Remember that the Dow Jones made a slight new all time high in 2007. Then came the cyclical Bear of 2007-08 that dropped 51.9% and eclipsed the prior Bear of 49% and became the worst since the Depression. So, indeed, if that cyclical Bear market ended on November 20th, we should expect a cyclical Bull market to be next. Following that line of thinking, what will come after the cyclical Bull market? Another cyclical Bear market which, hopefully, will end the secular or long-term, Bear market that began in 2000. Confused? That's ok because the markets are usually confusing. For now, what can we expect when this brand new cyclical Bull market develops? A word of caution: there should, and will be, several tests of the November bottom. There could even be a slight new low but this would not negate the coming cyclical Bull market. However, a severe break of the low would not be good and would require rethinking the immediate future.



Even though our economy and stock markets have been decimated by the recent housing slump and credit crisis there is a light at the end of the tunnel. There will be a recovery and it will be very profitable when it gets under way. As a recovery relates to the economy, there have been ten recessions since the Depression and all of them have been during cyclical Bear markets. Some recessions began before the market was at the Bear level (down 20% or more) and some after it had already been classified as a Bear market. Almost all cyclical Bear markets ended at about four months before the end of a recession. The stock market is a discounting mechanism and will predict a coming recovery in the economy. If we are correct, and the cyclical Bear market ended on November 20th, the recession, which began in December 2007, should end somewhere near the end of March. If the recession extends into April, it will become the longest since the Depression. The chart below shows the length of recessions since 1900 and is from Jim Stack and InvesTech Research.

So, if November 20th was the market bottom what can we expect in way of a recovery and what does this mean in terms of our present economic situation and recession?

First, let's look at an overview of the past decade from a high level. Ned Davis Research defines markets in terms of "secular" or longer term and "cyclical" or shorter term movements. He believes that we entered a long-term secular Bear market at the top on March 24, 2000 with the S&P 500 topping at 1527.46. A secular Bear market (long term) will encompass cyclical Bear and cyclical Bull markets (short term) The first cyclical Bear was from the top in 2000 to the bottom in 2003. **That decline was 49%, based on the S&P 500, and was the worst decline since the Depression at that time.** Next came a cyclical Bull market from the low in 2003 to the high on October 9, 2007

As you can see on the chart on the next page, our current recession is one of the worst on record but historically, if indeed the bear market ended on November 20th, the recession's end should be at hand.



**CNBC's "World Wide Exchange"**  
**December 24, 2008**

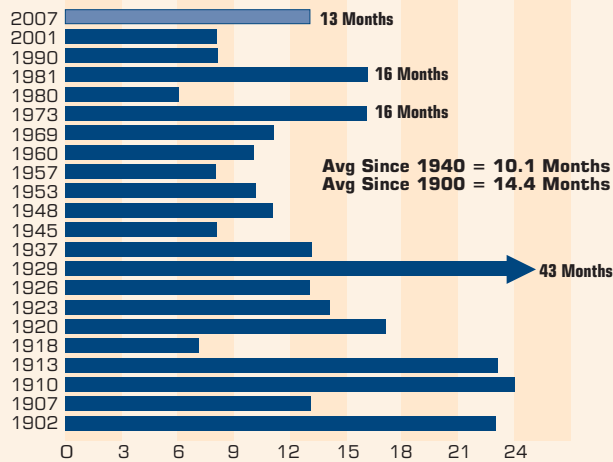
Harry Clark, CEO of Clark Capital Management appears on CNBC's "World Wide Exchange" and discusses the current market situation.



**CNBC's "Squawk on the Street"**  
**December 31, 2008**

Sean Clark, CIO of Clark Capital Management appears on CNBC's "Squawk on the Street".

### Length of Recessions



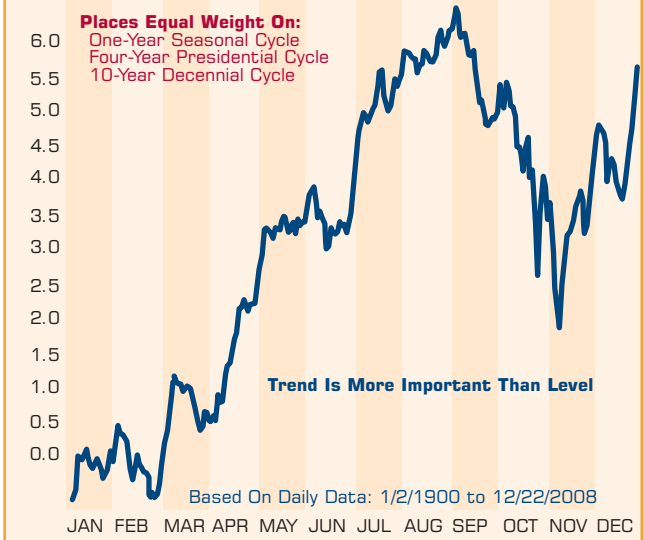
There have been ten waterfall declines (similar to the one that we experienced in early October to the panic low on October 10th) since 1929. **The average recovery from those declines has been 64% on the Dow Jones Average.**

There have been two prior Bear markets that have many similarities to 2008, 1938 and 1974. The total declines were similar: 51.9%, 45%, and 49% respectively. They all occurred nine years into a secular Bear market, were of similar duration, 1.1 years, 1.9 years, and 1.1 years. They all bottomed ten to 11 months into Recession and in the case of 1938 and 1974 ended three and four months before the Recession ended. **The cyclical Bull markets that followed rose 60% following the 1938 bottom and 51% after the 1974 bottom.** They both lasted about 7.5 months. **Does this mean that we can expect such a rally? I believe so, especially if Congress passes the economic stimulus package as proposed.**

The next chart, from Ned Davis Research shows his expected market path for 2009 based on several historical patterns. This pattern is typical for the ninth year of a decade and the first year of a president's term.

Another good sign that we are near a Bear market bottom is the amount of cash in the sidelines. Untapped investment money now stands at 51% of the entire market capitalization. There have only been three other

### DJIA Cycle Composite for 2009



times in recent years when cash available for investment was this high: 28% in 1982, 20% in 1991, and 27% in 2003. All three times resulted in tremendous Bull markets once this money rushed back into the markets. **Perhaps the passage of the fiscal stimulus package will prove to be the catalyst to start the process.**

### SUMMARY

We could be near the start of the next leg up in the equity markets and it will be a wild ride once it begins. **Ned Davis expects a move of 60 to 72%** which would take the Dow Jones to the 12,000 to 13,000 range and the S&P 500 to 1200 to 1300. Let's temper that prediction somewhat and expect a potential 40% move, far below prior happenings. That would put the Dow Jones at 10,500 and the S&P 500 at 1050.

Don't forget: these are projections based on certain things coming to pass. If the lows are broken and if the economy does not seem to respond, we could potentially go much lower. **That is why we have our Sentry Strategy of put protection in place!! That strategy will not prevent loss but will mitigate the damage if things go haywire.**