CLARK CAPITAL
MANAGEMENT GROUP, INC.

THE navigator REPORT

Second Quarter 2009

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A PAUSE TO REFRESH OR SOMETHING ELSE?

As you may be aware, the equity markets have been stalled in neutral, and even reverse, for the past four weeks. What does this mean? Is the bull market, that began on March 9th, over? Will the most severe bear market since the 1930s resume and cause even more angst? **Or is the cyclical bull market that began on the low of March 9th just catching its breath?**

To review, the worst bear market since 1930 ended, in my opinion, on March 9th, with the S&P 500 closing at 676.53 and the Dow Jones Industrials closing at 6547.05.

I had described that low point as the **"buy of a lifetime"** and as a **"generational bottom"** in the last Report. The S&P 500 had declined 56.8% from the high in October 2007 to the low on March 9, 2009. This was just shy of the 60% bear market in 1938 and it became the third worst bear market of the century after 1932 and 1938. The low on March 9th was a twelve-year low. Interestingly, there have been only two other twelve-year lows and they were in 1932 and 1974. Those lows were both generational lows and those lows were never touched again. **I believe that the March 9th low will also never be touched again.**

The internal bottom of the market actually occurred in October 2008 when net new lows on both the New York Stock Exchange and NASDAQ reached historic levels and escalating fear and panic sent indicators to levels last seen in 1930. A Waterfall Decline ensued with tremendous volume and the largest ten day loss in history. That was the beginning of the end for the 2008 bear market. The market then began a bottoming process that included several new low prices but improving internal market statistics to the final bottom on March 9th.

PALLISER BAY ASSET MANAGEMENT JOINS CLARK CAPITAL

Palliser Bay Capital Management has joined the firm as an institutional asset management division. Palliser Bay, a Division of Clark Capital Management Group, manages $126 million.

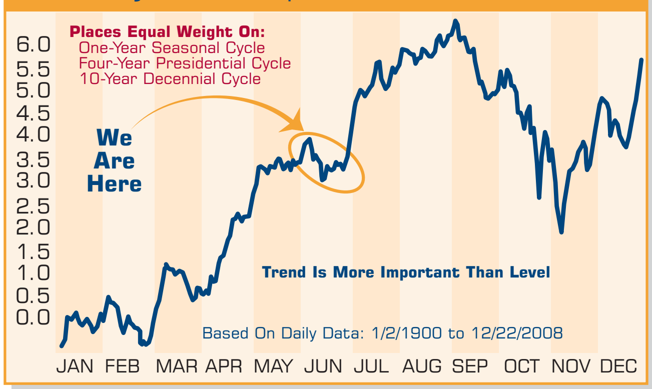
Palliser Bay brings a top-notch experienced professional team to grow our institutional presence. Dr. Gary Schlarbaum, CFA has been in the investment industry since 1980 and is widely recognized for both his studies on investor behavior and his successful investment career. Philip Mendelsohn, CFA has over 13 years of investment experience and is regarded as a highly skilled "best of breed" portfolio manager. Each organization brings complementary asset management strengths to the equation, which will deliver great benefits to our clients.

Palliser Bay, a Division of Clark Capital Management Group, is headquartered in Radnor, PA, just outside of Philadelphia. Palliser Bay was formed to provide exceptional institutional asset management solutions to our clients through a partnership with the seven founding members and Clark Capital Management Group.

There have been ten prior declines that were described as "waterfall" and the ensuing bull markets averaged gains of 65% over seven months. Since the decline in 2008 was more devastating than most, we expect a rebound that is larger than most.

So far, the gain from the bottom to the recent top has been 41.9% on the S&P 500 and 34.4% for the Dow Jones. A minor market top occurred on June 12th with the S&P 500 at 946.21 and the Dow Jones at 8799.26. The minor correction over the past four weeks has been well within bounds of retreats during cyclical bull markets and as of today the S&P 500 and the Dow Jones have retreated by 7% and 7.42% respectively. During the first six months of cyclical bull markets following waterfall declines, double digit declines are very rare and this time is no exception.

DJIA Cycle Composite for 2009

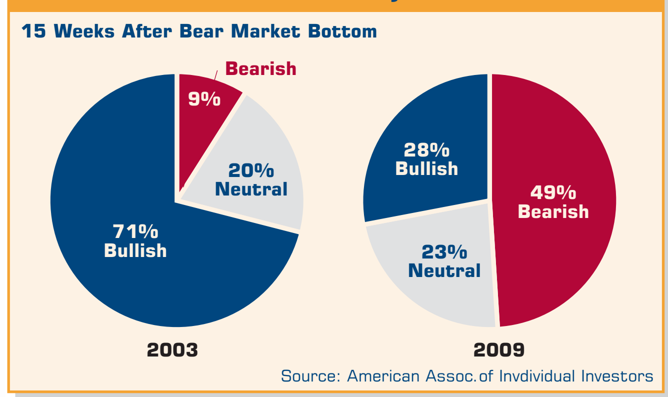


You can see from the chart that we are at a point where a consolidation is normal. **As stated in the last report, we are expecting the market to reach 1100 to 1200 on the S&P 500 before any major correction is possible.** To reach 1100 on the S&P 500 from today, the market will have to advance 25.12% and to reach 1200 it would require a move of 36.5%. In my opinion, this is not a very far reach!! If we look at the prior high of 946.21 of four weeks ago, the gains only have to be 16.25% and 26.82% respectively. In terms of a move from the market bottom of March 9th, it requires a rally of 65% to reach 1100 and 80% to reach 1200. These gains should be possible by late October. The 65% gain would be the average gain over the prior ten cyclical rallies after a waterfall decline but 80% should be possible. The average duration of these rallies is about seven months and that puts us into late September for the current rally to end. Stay tuned!!

MORE EVIDENCE

Bull markets are said to "climb a wall of worry" to reach their full potential. Well we indeed are in a "wall of worry" period where most investors are still hesitant to get involved for fear of a continuation of the prior bear market. The American Association of Individual Investors Sentiment Survey is shown below and shows a comparison to this recovery versus the 2003 recovery at this stage.

AAII Sentiment Survey



You can see that bearish sentiment is 49% at this stage compared to only 9% following the 2003 market

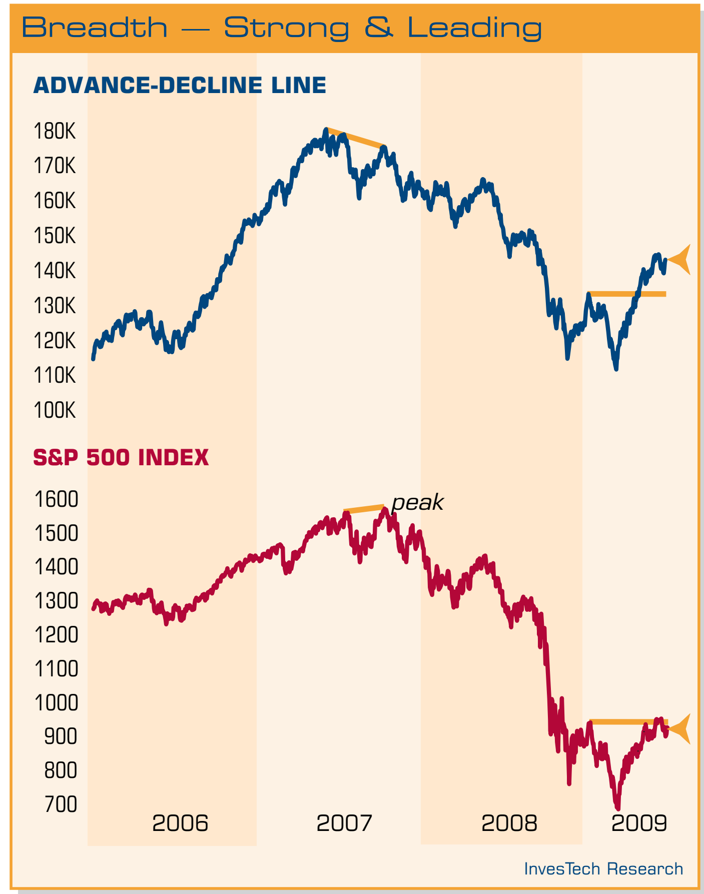
IN THE NEWS

Harry Clark, CEO of Clark Capital Management Group, appeared on CNBC's "Closing Bell" on April 22, 2009.

Sean Clark, CIO of Clark Capital Management Group, appeared on CNBC's "Squawk on the Street" on May 11, 2009.

bottom. This is a tremendously bullish number!! You might think this statement is crazy but the higher the bearish sentiment the more likely that the current bull market has much further to go. This is because when the majority of bears realize that they are wrong and that this recovery is the real thing, they will panic and invest some of the massive cash hoard that is on the sidelines. That cash hoard is presently at about $4 trillion and is the highest ever. The prior high cash level was in 1982 when the massive bull market of 1982 to 2000 began.

One of the most important indications of potential market movement is breadth. Market breadth measures all stocks in an index and determines how many are moving higher or lower. Overall market breadth declining warned of the impending market top in the fall of 2007. The failure of market breadth to move lower gave an indication of the bottom to come in March 2009. The following chart is courtesy of Jim Stack and InvesTech Research. Notice how market breadth is leading the index higher.



WHEN WILL THE RECESSION END?

IT HAS ENDED!!!!! I believe that when the economic board that measures recessions issues their conclusions, it will show that the recession ended in June!

The Economic Cycle Research Institute (ECRI) has an exemplary record of economic forecasting. The ECRI has researched every prior recession and recovery and have developed their "Weekly Leading Index." When the rate of growth of this index is above zero it indicates expansion in the economy and when below zero it indicates contraction.

A level of +10 would indicate an extremely strong economic recovery. During the depths of the recession the Index fell to -30 compared to -20 during the recession of 1974 — a truly worst case indication. As of this date, the Index has been moving higher for nine weeks (longest streak in 20 years) and is now at +4, the first time it has turned positive in over two years. This is but one of many indications that the economy is improving and will eventually entice the individual investor and small institutions, which have not participated to date, to move back into the equity markets.

UNEMPLOYMENT

Jobless claims actually decreased in the last reporting period but that might be a fluke. Don't be fooled by the rise in the unemployment number or expect to see the rate of unemployment drop anytime soon. This is truly a lagging indicator and it historically has lagged by an average of seven months. The

Harry Clark, CEO of Clark Capital Management Group, appeared on CNBC's "Closing Bell" on May 26, 2009.

Sean Clark, CIO of Clark Capital Management Group, appeared on CNBC's "Squawk on the Street" on June 18, 2009.

worst case was following the 1991 recession when the jobless rate kept increasing for twenty months.

LONGER TERM

When the current cyclical bull market runs its course there will be a correction. As you can see from the chart on page two, that correction could come in October or so and then we should see a rebound later in the year. If the market follows the 1974 market as it has so far, that correction will be in the magnitude of 12 to 14% over a one-month period.

But what can we expect over the next several years? As you might remember from a prior Report, we not only established a twelve-year low but also a ten-year low in the overall market. This is in addition to large-cap stocks also making a ten-year low, which is significant. There have only been four prior times **in history** when large-cap stocks have had no return or a negative return over a ten-year period. The average gain over the ensuing ten years, all four times, has been 14.7%.

Since 1929 there have been muted, less than 5%, returns for 91 out of a possible 715 rolling ten-year periods. The last ten-year return was -3%. Muted market returns have historically been followed by 10 years of great returns. The average annual return over the following ten years has been 15%. The lowest return has been 8% per year and the highest return has been 19%. This average return closely approximates the 14.7% mentioned earlier that occurred every time large-cap stocks had zero or negative return over a ten-year period.

CONCLUSION

In conclusion, we expect the current rally to continue higher after this pause that should refresh. Our target is in the 1100 to 1200 range on the S&P 500 and 11,000 to 12,000 on the Dow Jones Industrials by later this year. This will be followed by a correction that I do not believe will be so severe. Returns over the next several years should be very good as the country monetizes the huge amount of capital being expended to combat the recent economic crisis. Inflation will become a concern but not until late 2011 into 2012.

In terms of our performance, I think you will be pleased when you review your Consolidated Household Statement. In most cases, we significantly outperformed during the bear market and continued to perform well this year.

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