

March 16, 2020

**CHASE  
INVESTMENT  
COUNSEL**

CORPORATION

350 Old Ivy Way, Suite 100  
Charlottesville, VA 22903-4897  
Phone: 800-293-9104  
Fax: 434-293-9002  
www.chaseinv.com



**Derwood S. Chase, Jr.**  
Founder & Chairman Emeritus

**Peter W. Tuz, CFA, CFP®**  
President & Portfolio Manager  
Senior Security Analyst

**Robert (Buck) C. Klintworth, CMT**  
Senior Vice President &  
Portfolio Manager

**Clay J. Sefter, CMT**  
Vice President, Research Analyst &  
Assistant Portfolio Manager

**Jennifer L. King, IACCP®, CIPM**  
CEO & Chief Compliance Officer

## Market Commentary

**INTRODUCTION** – Chase Investment Counsel Corporation uses a “bottom up” investment process combining fundamental analysis (the what) and technical indicators (the when) in making judgements about both market timing and stock selection. We focus on mitigating risk.

While our latest quarterly Market Commentary was just sent on February 13<sup>th</sup>, the outlook has changed significantly. The coronavirus is much worse. It's more widespread and very contagious. We had hoped that our health system would be more effective in controlling its spread. Unfortunately, the Center for Disease Control was very late in shipping test kits and most health centers are just now receiving minimal supplies and can only test high risk people. Now that the President has declared it a national emergency and increased distribution of test kits to be utilized by drive thru testing locations to better protect health care professionals and the general public we'll be able to accelerate identification, treatment, and isolation of those infected. Hospitalization and ventilators are only available for the most vulnerable. The testing delays will enable the virus to spread further and faster and appear to increase the death rate. Simultaneously, the economy will be more impacted by mandated and self-quarantined consumers and workers, supply chain shortages, and many cancellations. It now seems likely that it will reduce economic growth significantly and involve many earnings shortfalls by businesses and consumers for at least two quarters. The impact may trigger a recession or at least a significant slowdown regardless of the \$1.5 trillion monetary expansion by the Federal Reserve and other emergency government programs to help people and businesses that are seriously affected.

At the February highs there were few signs of a major stock market top. The recent economic data was healthy and stock leadership was still broad based. While fully priced then, if you took out just 10 stocks, the heavily weighted large cap mostly technology super growth stocks, the remaining S&P 500 stocks were only about 5% above their normal historical P/E range. That seemed reasonable in a very low interest rate economy. Since then, the Black Swan coronavirus combined with the Russian decision to stop cooperating with OPEC and increase oil production to deliberately cause a 25%+ decline in crude prices in an attempt to bankrupt U.S. shale oil producers, has already caused panic selling resulting in the fastest 20% decline by the S&P 500 in

stock market history. By Thursday, March 12, it had wiped out about a trillion dollars of stock market value. The resulting consumer and business retrenchment in the U.S. with many weaker economies abroad certainly increases the possibility of a worldwide recession. At best we're confronted with very disturbing uncertainties.

Since equity prices are determined by the forces of Supply and Demand, we pay particular attention to Lowry Research's Market Trend Analysis. They indicate that the magnitude, spread, and intense selling on last week's market plunge is unprecedented in their 82-year history. They would normally expect a three-week plunge to have its greatest impact on short-term indicators but this one has even affected their longer-term indicators. For instance, the percentage of NYSE issues trading above their 30-week moving averages dropped to 2.4%, its lowest level in ten years. Lowry's Average Buying Power Ratings, a long term overbought/oversold indicator, reached 25, its lowest level since March 5, 2009. Then too, 80% of their large

cap Operating Companies Only and 91% of their Mid-Caps were down 20% or more from their 52-week highs, the most in over 10 years. All of those prior oversold readings came at stock market lows and were followed by substantial rebounds or new major uptrends. Historical precedents suggest the probability of at least a substantial rebound rally. While we may be close to that, it's clear we haven't tested a final bottom yet, much less built a base for recovery. Lowry believes that it is very important that none of the signs that have accompanied a bull market top in their 95-year history were present at the February 19<sup>th</sup> high. At the end of last week, Lowry's short-term index was only one point below registering a short-term buy. Our all equity clients are about 20 to 25% in cash equivalents, while our balanced portfolios have benefited from already having a sizable portion invested in cash equivalents and high-quality fixed income securities and are now about 45% in equities. The stocks that we hold are high-quality companies with consistent and growing earnings, which tend to be more likely to protect capital during market selloffs. There is still considerable uncertainty regarding how badly and how long business in general will be negatively impacted. The best source we have still thinks the coronavirus will last longer and be more widespread than the stock market is anticipating. While we expect the market will start building a bottoming base soon, the considerable uncertainty which exists suggests it's too soon to expect any resumption of the long-term uptrend.



Derwood S. Chase, Jr.  
Founder & Chairman Emeritus



Peter W. Tuz, CFA, CFP®  
President



Buck Klintworth, CMT  
Senior Vice President



Clay J. Seftor, CMT  
Vice President

Chase Investment Counsel Corporation is the oldest independent investment counsel firm domiciled in Virginia. We're not in the brokerage business, but act as portfolio managers and purchasing agents for our clients. As Barron's described us in 1972, we're located "Far from the Madding Crowd" in Charlottesville, Va. Besides Derwood Chase, we have an excellent "next generation" group of officers that average 49 years of age and over 18 years of experience. Three of our officers have MBAs, one is a CFA and two are CMTs. We recognize that markets are driven by company fundamentals as well as technical factors which reflect investor sentiment.

In addition to our own research, and that from several brokerage firms, we utilize over 40 independent research sources selected with the benefit of over 50 years experience. Our investment process was developed over more than 50 years and is rather unique in combining fundamental and technical analysis to mitigate risk and build diversified, high quality, reasonably priced growth oriented portfolios. We manage large, mid-cap, and all-cap equity oriented portfolios as well as balanced funds for individuals and trust clients (minimum normally \$1 million) in 15 states. We also indirectly serve about 2,000 investors through our mutual fund product. As a smaller firm, we have a particular advantage in managing portfolios since we don't need huge marketability to acquire or eliminate stock positions promptly without significantly affecting the market. We are not in the brokerage or banking business and do not have the conflicts of interest and the other priorities those businesses involve.

## OUTSIDE DIRECTORS

**Stuart F. Chase (1994)**, *Chairman, Chase Investment Counsel Corporation*

**Edwin T. Burton (2004)**, *Visiting Professor of Economics at the University of Virginia.*

**Robert J. King (2010)**, *Retired Investment Executive*

**Luis Alvarez, Jr. (2013)**, *CEO, University of Virginia Law School Foundation*

**Stephen K. Moore (2014)**, *Chief Economist, The Heritage Foundation*