Market Commentary

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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.

The mandated response to control the coronavirus and the huge lockdown of our economy is causing a recession more serious than any since the 1930s. It appears that irreparable damage has been done to many, especially small, businesses. With over 60% of the U.S. economy comprised by the service sector, which inherently involves social contact, many of those businesses will fail or close permanently. Others will be slow to recover due to consumer fear of the danger from the virus as well as the new do-it-from-home business and social culture that has evolved. Moreover, federal bailouts and other assistance will motivate some employees to delay their return to work. The resulting recession could last well into 2021. Investors have been bombarded by negative news, record declines in corporate earnings, 40 million unemployed, corporate debt of $10 trillion (an all-time high) with its credit quality at an all-time low and declines in both business and consumer confidence. Obviously, parts of the stock market must be looking way ahead to a substantial economic recovery. For instance, Money Map recently pointed out that the Nasdaq composite's ten biggest companies increased their market value by $900 billion during the rally off the bottom while the remaining 2,600 or so other companies in that index lost a total of $300 billion. That put those top 10 companies at a whopping 29 times estimated 2021 earnings.

Recent stock market action has been extraordinary. We had a 20% loss by the S&P 500 Index in only 19 trading days followed by a huge rally off the March 23 low. Equity prices are determined primarily by the forces of Supply and Demand. We pay particular attention to Lowry Research's Market Trend Analysis. We had a 90% Upside Day on May 18th followed by two 80% Upside Days based on the NYSE all-issues data, as well as by Lowry's Operating Companies Only (OCO) Index. Then on May 26th Lowry's had an intermediate trend Buy signal when their Buying Power Index crossed above their Selling Pressure Index. In addition, all the OCO segments: large, mid, and small-cap Advance-Decline Lines reached new recovery highs which confirmed a much improved breadth picture. That means that the April-May trading range has been resolved to the upside. Accordingly, Lowry's believes that the intermediate uptrend is alive and well and any pullback should be viewed as an opportunity to buy.

A number of factors support the likelihood of a further market rise. Bearish sentiment is often a good contrary indicator. For instance, a recent American Association of Individual Investors survey of thousands of investors indicated that more than 50% were bearish. That's only the third time more than 50% were bearish in the past decade. With so many investors already bearish the market is running out of additional sellers. After the two previous times that occurred, July 2010 and April 2013, the S&P 500 Index rose over 17% during the next twelve months. Similarly, when Stansberry Research recently analyzed investor sentiment by looking at Net Equity Mutual Fund Flows they found that the six-month rolling average outflows from equity mutual funds around the world were $40 billion, the largest they'd been in 25 years. They noted that buying after the four previous large outflows would have resulted in average one-year gains of 20%. They also pointed out that in April the S&P 500 Index rose 13% in just one month, the first one month rise of more than 10% since 2011 and only the 12th one-month double digit gain since 1950. Nine of those 11 previous 10% gains were followed by further gains over the next year which averaged 11% after six months and 12.2% after one year.

With the Governors in several major states slowing the reopening of their businesses and a number of smaller ones permanently closed, we expect progress in restarting economic activity and certainly getting back to 2019 levels will take longer than many investors currently expect. When that becomes apparent it leaves the stock market vulnerable to a significant correction later this year or next, especially since its unlikely that the Federal Reserve Bank will still be injecting trillions of dollars of monetary stimulus in to the economy. With the numerous uncertainties we believe it is still prudent to retain modest cash reserves in most equity portfolios and our balanced portfolios are now about 55% in equities. While we have been investing in companies which are able to continue their good growth even in a more stay-at-home (out of the crowds) or work-from-home environment, those are the same companies that are most fully priced in this market and therefore the most vulnerable to any unexpected market decline.

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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 60 years and is rather distinct 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 11 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

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