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**CHASE  
INVESTMENT  
COUNSEL**

CORPORATION

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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.

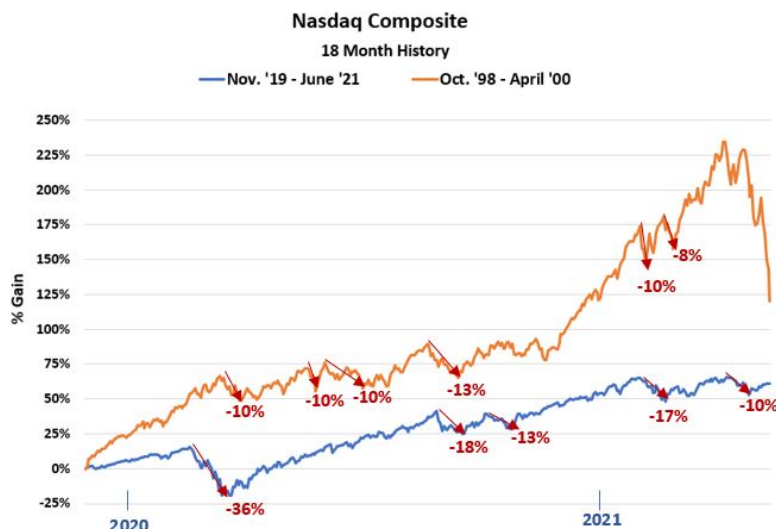
The Dow 30 and S&P 500 historically start their four seasonally weak/flat months while the Nasdaq is already in its six. Inflation is much higher than the official government core figures which exclude huge increases in food, energy, and anything made with hard commodities like copper and lumber. Many companies have announced price increases and cost pressure on profit margins. The overall market has been consolidating with only the Nasdaq having even a 10% correction. Finally, in May both Consumer Confidence and Consumer Sentiment declined, primarily due to inflation fears.

The stock market is still responding to the Federal Reserve’s continuing zero interest rate policy while providing excess liquidity and making large monthly purchases of Treasury securities. Congressional fiscal stimulus money is flooding into assets of all types. Easy credit availability at low interest rates for both consumers and businesses should keep the strong recovery going and corporate earnings increasing. Historically growth stock Price/Earnings (P/E) ratios have been restrained in periods of higher inflation. Between 1973 and 1979 when inflation averaged 5.1%, McDonalds stock went nowhere pricewise while its earnings increased from \$1.20 to \$4.80 per share and its P/E multiple declined from 75 times to nine times. Admittedly, most of the high quality growth stocks we own (Microsoft, Google, Nvidia, Amazon, Applied Materials, etc.) aren’t at that high P/Es and have stronger protective moats, but they are vulnerable to higher inflation rates and major market declines.

Lowry’s measure of key Demand and Supply stabilized during the last two weeks of May. Fresh all-time highs in both the NYSE all-issues and Lowry’s Operating Company Only Adv-Dec Lines were recorded on May 27. Lowry now believes the probabilities favor an eventual resumption of the bull market advance. A new Lowry’s short-term Buy signal was registered on May 27.

For many years I described our style as value oriented growth. The current inflation does not appear to be transitory. Under our process, as higher inflation continues, we expect to gradually invest in more value oriented growth stocks. Remember that during the decades of the 1970s and 1980s when inflation rates averaged much higher (7.4% and 5.1%, respectively), annualized gains of value stocks were 12.2% and 20.2% respectively compared to 3.4% and 15.8% for growth stocks as measured by the Russell 1000® Value and Russell 1000® Growth Indexes. Without some growth, value stocks don’t generally perform well as investors in energy stocks have experienced during the six years prior to the recent crude oil price recovery.

The adjacent chart compares the last 18 months of a typical major bull market (orange line) with the latest 18 months through May 31st (blue line). There is still significant room for a more dynamic “melt up” climax of the current bull market similar to most others. We prefer companies with good profit margins that require little additional investment capital, have significant repeat business and are protected by patents, strong moats or some competitive advantage. We are reducing portfolio risk with diversification and by maintaining about 35% emphasis on short-term governments, good-quality bonds, and cash equivalents in balanced portfolios. We monitor numerous technical indicators for any serious threat to the continuation of the market’s intermediate upward trend.



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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 accounts for individuals and trust clients (minimum normally \$500,000) in 11 states. We also indirectly serve about 1,800 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*

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The opinions expressed herein reflect those of Chase Investment Counsel Corporation and are subject to change without notice. Past performance does not guarantee future results. For further information please contact us at (434) 293-9104, (800) 293-9104 or [derwood@chaseinv.com](mailto:derwood@chaseinv.com).