CHASE INVESTMENT COUNSEL CORPORATION

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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.

News of a new strain of Covid, the Omicron variant, sent global equity markets tumbling on November 26th. As a result, one of our key technical sources moved from a buying indicator to a selling indicator. The move came from Lowry Research, a division of CFRA Research. The move to a sell indicator reverses a buy indicator that Lowry's gave on October 8th. Lowry's still believes there is not enough evidence of a major top in markets and we are rather in a short-term pullback that will lead to buying opportunities in the near future.

However, also on November 26th, another technical source we receive, Dr. Robert McHugh's U.S. Market Forecast Report, moved to a new sell signal as well. McHugh cites a technical indicator called the Hindenburg Omen, an indicator that takes into account new 52-week highs in stocks, new 52-week lows, the overall trend of the market and a shift in market sentiment. According to McHugh, we have seen three Hindenburg Omens within the past 30 days. Historically, this has been an indicator of the potential for sharp market declines. There have only been four instances of three or more Hindenburg omens within 30 days since 1986 and, in three cases, market declines of 14% or more occurred within a month. The S&P 500 Index ("S&P 500") closed at 4594.6 on November 26th putting the market down roughly 1% as of December 2nd.

This disagreement between these and other sources of research we receive, don't strongly suggest to us that a major correction (15%-20%) is imminent. As long term investors, we need to expect a market decline of 20% or more to reduce our equity exposure substantially. The evidence for such a move is not compelling at this time. We realize that we tend to miss market tops and bottoms by 5% or more by following our indicators which tend to lag markets both on the way up and down but we hope we capture major trends and get most of a market's upside while preserving capital in down markets.

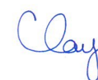
It is clear by recent market action and by indicators we follow, we are no longer in the highly speculative market that began in January and involved stocks such as GameStop and other "meme" stocks. According to Yahoo Finance that speculative market involved 28% of all Americans who bought at least one share of the most-popular "Meme" stocks (AMC Entertainment, GameStop Corp., Blackberry LTD, Nokia, OYJ or Castor Maritime Inc.).

With more investor skepticism in markets now, we don't believe we are near a final market top, often characterized by a "melt up" of many equities. Investor skepticism over valuations is warranted but overlooks to some extent the tremendous progress companies have made in boosting earnings and, especially, cash flows. Over the past 25 years, S&P 500 corporate earnings have increased by 6.5 times. Cash flows, after deducting corporate operations and capital

expenditures, have increased by roughly twice that amount. Since 1995, S&P 500 cash flows have grown from about $100 billion to more than $1.3 trillion annually. Much of this is due to the changing leadership in corporate America. In the early 1990s many of the country's leading companies were capital intensive energy and industrial companies such as Exxon-Mobil and General Motors. Today's leaders are companies like Microsoft, Google and Apple. Microsoft, for example, has produced more free cash flow in the last 12 months ($56 billion) than Exxon-Mobil did during the entire decade of the 1990s ($46 billion). Investors recognize this and have been willing to pay significantly higher multiples for companies with the ability to generate high cash flows compared to earnings because those cash flows can be used for acquisitions, dividends, share buybacks and other activities that could lead to stock price appreciation.

Compared to other investments, equities still seem to be relatively attractive. Bonds do not. We have recently seen Federal Reserve Board chairman Jay Powell discuss slowly ending the enormous program of purchasing billions of fixed income securities to expand the money supply and keep interest rates at very low levels. In addition, massive government spending and growing inflation, further suggest interest rates may go up and hurt fixed-income investments, especially long-term bonds.

While recognizing that equities are risky but remain more attractive that longer-term bonds, we are trying to reduce risk both by diversifying into what we believe are lower risk equities and by adding to short-term bond and cash positions at this time depending on the varying risk appetites for our clients. We currently have short-term bond/cash positions of about 30% for many clients.



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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.

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