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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.

Most investors are aware of the numerous negatives and uncertainties that are impacting the stock market. The annual inflation rate was 7% in December. The Federal Reserve is expected to raise short term interest rates by 0.25% quarterly three or four times in 2022. Russia is threatening war with the Ukraine and China and Taiwan relations seem to be worsening. Then too, critical shortages of semiconductors and other components are restricting the economy and the production of several companies we are invested in.

Investors Intelligence reports that their survey of Investment Newsletter editors' Bears had risen to 25%, near-term Correction to 38.4% while Bulls had fallen to only 34.9% by January 27th. Most of the major stock market indexes have fallen below their 50- and 200-day moving averages. The S& P 500 was down 9.8%, the DJIA 30 down 7.2%, and the Nasdaq down 16.8% from their November closing highs by January 27. That's close to the initial correction that Dr. Robert McHugh's Market Forecast Report was calling for at the time of our December 2nd Market Commentary. Even after the strong rally at the end of January it was the worst month for the S&P 500 and the Nasdaq 100 since the crash of March 2020. Every down January, except 2021, since 1950 was followed by either a new or continuing Bear market, a 10% correction or a flat year. Using intra-day S&P highs and lows it has already satisfied a 10% correction.

The S&P 500 declined 5.3% this January. A successful retest of its lows will be particularly important. After several months of internal deterioration Lowry's Supply and Demand and other core indicators supported our further increase of defensive measures including raising more cash for some clients. It will be particularly important to monitor breadth participation and Demand intensity during short-term rallies. We may not have seen the end of this long-term Bull market, but since 1950 the Stock Trader's Almanac documents that when their S&P 500 January Indicator Trifecta with an up Santa Claus Rally (a rise in stock prices during the last 5 trading days in December and the first 2 trading days in the following January) followed by both a down First Five Days and a down January there now have been only nine down Januarys. Seven were followed by down years which averaged –9.4%, but last year actually rose 11.4%. Short-term rallies with weakening indicators would add to the case that we may have seen the end of the long market rise and should take a fully defensive stance.

Investor skepticism over valuations is certainly warranted but comparing price/earnings to historical norms unadjusted for the level of interest rates makes no sense. It overlooks 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 ExxonMobil 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 ExxonMobil 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 financing internal growth/acquisitions, dividends, share buybacks and other activities that could lead to stock price appreciation.

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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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