CHASE INVESTMENT COUNSEL CORPORATION

PRESERVING & GROWING WEALTH
Since 1957

MARKET COMMENTARY

Derwood S. Chase, Jr.
Founder & Chairman Emeritus

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, CFP®
Senior Vice President &
Portfolio Manager

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

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. In an effort to mitigate risk during a volatile stock market, we look at both the positive and negative factors influencing the stock market and attempt to make prudent portfolio decisions designed to help our investors continue to meet their long-term financial objectives without taking on too much risk.

Most investors seem aware of the numerous negative factors: restrictive monetary policy with several 0.50% interest rate increases by the Federal Reserve Board (FRB) starting next month, mortgage rates now up to 5.25% reducing the affordability of new housing, numerous supply shortages worsened by shutdowns in China, and the war in Ukraine. Most economists still believe that economic growth will slow, but not turn into a recession in the next year. The negatives already seem recognized by the substantial declines experienced by many overly popular stocks. Nevertheless, we expect high volatility to continue with current multiples vulnerable to unexpected earnings shortfalls. One negative which may be underestimated is inflation. The March annualized 8.5% rise in consumer prices is the highest since the long downtrend started in 1981. However, even that high rate doesn't tell the whole story because over the years the government has adjusted the way it calculates inflation. If calculated the same way as it was in the early 1980s, today's rate would be over 15%. If the FRB places too much emphasis on reducing inflation, they could create a recession and a serious bear market in stocks. Already the government is currently running the largest budget deficit outside of World War II and has a much higher debt to gross domestic product (GDP) ratio of 125%. Ultimately to avoid a recession the FRB will have to restart quantitative easing to support the economy and the stock market. That further easing could create a massive rally in risk assets and hard assets as well as stocks of companies that are able to raise their prices and maintain profit margins in such an environment.

From a technical perspective, as recently as April 20th some Lowry's indicators, mostly short-term, had improved enough to provide reasons for incremental optimism. However, that optimism was quickly reversed by a new intermediate trend sell signal thanks to the substantial decline on April 21st. Then on Friday, April 22nd, some indexes registered their largest one day closing loss in two years. On April 21st the market triggered a fifth Hindenburg Omen (HO) technical market breadth indicator and as Robert McHugh, editor of Main Line Investors explained, out of the 57 Hindenburg Omens since 1885 only 34 had five or more observations after which a stock market crash occurred within four months 32.4% of the time. There is an HO on the clock only 4% of the time. Clearly the stock market correction is continuing, and it could become a more prolonged Bear Market.

From a positive perspective, there are signs that many investors may already be too cautious. The Bank of America monthly survey of global institutional fund managers indicates they increased their cash positions to 5.9% in March. That is the highest level since April 2020 which was early in the COVID-19 pandemic, and which turned out to be the worst time to hold cash and a good time to buy stocks. The most recent American Association of Individual Investors (AAII) survey found that only 15.8% of individual investors were bullish,

PRESERVING & GROWING WEALTH
Since 1957

the lowest reading since 1992. Then too, among investment newsletters the percentage of bears exceeds bulls by 1%. In only two brief periods has that net percentage been negative and both times stocks rallied shortly thereafter. JP Morgan Chase has a very good predictor of market rallies which uses the CBOE Volatility Index (VIX), sometimes called the market's "fear gauge". When investors panic and send the VIX up more than 50% higher than its one-month moving average, the indicator predicts a market rally which is just the opposite of what most are expecting. That indicator has signaled 21 rallies since 1990. Within the six months after each time that indicator was triggered the S&P 500 gained an average of 9%. Its only false signal was during the 2008 global financial crisis when the extreme market fear was justified, and the S&P 500 was still down 33% six months later. The recent VIX signal triggered on January 25 suggests that the markets should be higher in six months or by July 25th.

One way to reduce risk in balanced portfolios is to reduce equity exposure and offset with investments in fixed income (bonds). We normally limit bond maturities to less than three years and are now averaging about two years in order to avoid the volatility risk associated with long term bonds which can wipe out many years of their higher interest income in just a few weeks. For example, the ***iShares*** 20+ Year Treasury Bond Fund (TLT) is now experiencing its second worst decline in history, down 23% since December 3, 2021.

Compared to other investments in an inflationary period, equities still seem to be relatively attractive, but it has become much more of a stock pickers market. In the equity portions of portfolios, we have reduced risk by placing less emphasis on higher multiple rapid growth stocks and placing more emphasis on reasonably priced moderate growth companies with better defensive qualities.

Derwood S. Chase, Jr. Founder & Chairman Emeritus	Peter W. Tuz, CFA, CFP® President	Buck Klintworth, CMT, CFP® Senior 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 58 years of age and over 26 years of experience. Three of our officers have MBAs, one is a CFA and one is a CMT. 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*
Craig T. Redinger (2021), *Attorney*

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.