MARKET COMMENTARY

DERWOOD S. CHASE, JR.
FOUNDER & CHAIRMAN EMERITUS

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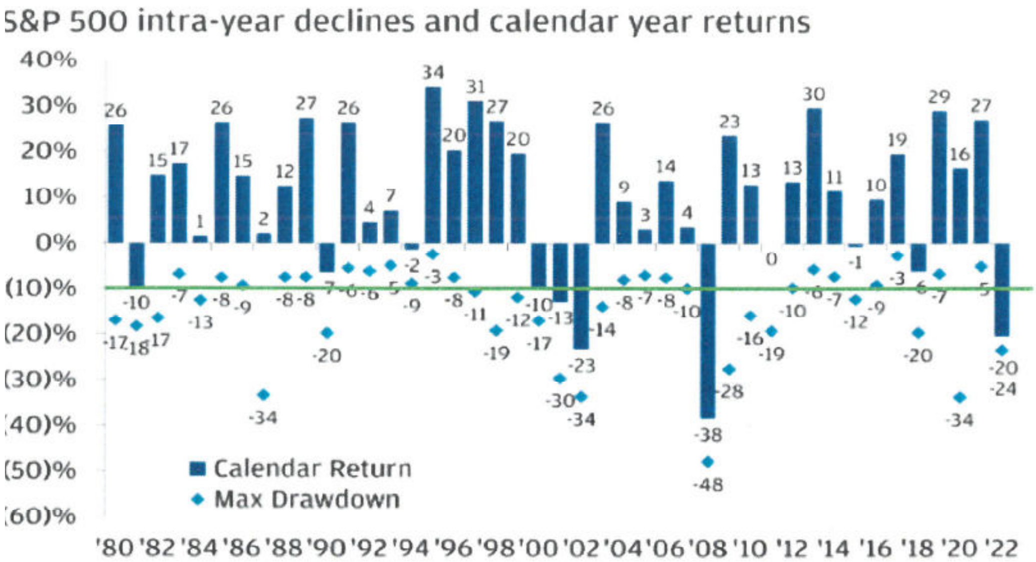
INTRODUCTION – Chase Investment Counsel Corporation uses a "bottom up" investment process combining fundamental analysis (the what) and technical indicators (the when) in making judgements about both market timing and stock selection. We focus on mitigating risk. In an effort to mitigate risk during a volatile stock market, we look at both the positive and negative factors influencing the stock market and attempt to help our investors continue to meet their long-term financial objectives without taking on too much risk.

Historically, the Dow Jones Industrial Average Index and S&P 500 Index ("S&P 500") end their best six months at the end of April, the Nasdaq best eight months still run through June. Recently, many analysts recognize increasing signs of weakness. For instance, Lowry Research calls attention to their Buying Power and Selling Pressure Indexes, their key measure of investor Demand and Supply, which have negatively converged with the June 14 crossing of the Selling Pressure above Buying Power warranting caution. On March 28, Lowrys Percent of Operating Companies Only Stocks within 2% of their 52-week highs were at 39%, but by June 13th that measure had declined to 12% providing evidence of very selective Demand, even more so when compared to just Large Cap stocks which were at 55% on April 1st. McHugh's Main Line Investors U.S. Market Forecast Newsletter refers to even more serious technical and statistical concerns which suggest the possibility of a major trend turnaround near the end of June or early July as they see three independent cycle analytical model turn dates occurring simultaneously: the Bradley, the Phi, and the Fibonacci Cluster models all predict a turn then. Their interpretation is that stocks are rising in a final wave count to complete large degree patterns. Then too, on June 13th the stock market generated an Official Hindenburg Omen (H.O.) warning with its second observation (now a third on June 17th) within 30 days. That warning means the stock market is at a 23% chance of a crash during the next several months, significantly higher than normal. The last H.O. was September 12, 2023, which only preceded a mild 6.7% decline by the 30 Dow Jones Industrials to its October 27th lows. Every stock market crash since 1986 has occurred with an H.O. on the clock. McHugh also mentions that lengthy (over 500 day) inverted yield curves such as the 740 day one we have now has led to 50%+ stock market plunges the last three times it occurred in 2007, 1974, and 1929.

U.S. GDP is expected to grow 2.5% in 2024 and 1.9% for 2025 according to a May survey of economists by the Federal Reserve Bank of Philadelphia. Wall Street analysts expect the average S&P 500 company earnings to grow 5.6% this year and 13% next year. We are only 50 months into the current expansion which began in May 2020. The past four U.S. expansions dating back to 1982 have lasted from 73 to 128 months. 73 would take us to mid-2026. For long term perspective, the chart below from Stansberry Research shows that the S&P 500 Index over the past 43 years has only been down 10 times for the whole year and it was down by more than 10% (shown by the green line) only four times even though the maximum intra-year drawdown has exceeded 10% in 21 years. With numerous negatives a conservative emphasis on equities may seem justified, but since 1897 the Dow 30 has risen 78 times in the first half of the year and 73% of those times it also rose in the second half.



Last year 66% of the S&P 500's 26.3% gain was from the very large gains by the mega-cap seven which are now very fully priced. This year the deployment of generative Artificial Intelligence (AI) across enterprises, governments, and other organizations is accelerating the growth of a much broader segment of our economy which should help cushion any serious market correction. While there are substantial investment funds on the sidelines, high interest yields are rewarding those risk averse investors for their heavy emphasis on T-bills and short-term government bonds.

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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 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 1,700 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.*
Luis Alvarez, Jr. (2013), *CEO, University of Virginia Law School Foundation*
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