CHASE INVESTMENT COUNSEL CORPORATION

Tariffs? Really.

350 Old Ivy Way, Suite 100
Charlottesville, Va 22903-4897
Phone: 800-293-9104
Fax: 434-293-9002

Peter W. Tuz, CFA
President &
Senior Security Analyst

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Call it the comeback of Reed Smoot and William Hawley. The two long-dead U.S. Senators were the prime authors of the 1930 legislation that bears their names. The legislation placed import duties on nearly 900 products imported into the U.S. and led to a global trade war that lasted for several years. It is often cited as one of the reasons the Great Depression lasted as long as it did.

Who knew tariffs would become a market issue in this year as well?

It takes seven words to describe equity market action in 2018's first quarter: Volatility was up, markets were mostly down. After a rousing January, and a weak February, March ended on a weak note with the S&P 500 Index down 0.8% for the quarter. Other indices performed in a similar manner. The Dow Jones Industrial Average (DJIA) was off 2.4%. However, growth continued to trounce value stocks with the Russell 1000® Growth Index up 1.4% versus a 2.8% loss for the Russell 1000® Value Index. There was no clear distinction between the performance of small stocks versus larger stocks in the quarter. Looked at sector by sector, data suggests a somewhat broader picture of a weakening market. Only three sectors rose in the quarter, consumer discretionary, technology and telecomm, due mostly to the strong January which we have all but forgotten. Only four sectors, consumer discretionary, technology, telecomm and financials outperformed the S&P 500. The other seven sectors lagged the broader market with the weakest generally being interest rate sensitive groups and other so-called "defensive" sectors such as consumer staples. Nor were lower beta stocks any help in the quarter.

Sector Performance

	Q4 17	Q1 18	% Change	Beta
SPDR: XLY - Consumer Discretionary	98.69	101.29	2.6%	0.95
SPDR: XLK - Technology	63.95	65.42	2.3%	1.25
SPDR: XTL - Telecomm	68.32	68.88	0.8%	0.98
SPDR: XLF - Financials	27.91	27.57	-1.2%	1.17
SPDR: SPY - S&P 500	266.86	263.15	-1.4%	1.00
SPDR: XLV - Health Care	82.68	81.4	-1.5%	0.92
SPDR: XLI - Industrials	75.67	74.29	-1.8%	1.02
SPDR: XLU - Utilities	52.68	50.53	-4.1%	0.27
SPDR: XLRE - Real Estate	32.94	31.08	-5.6%	0.51
SPDR: XLB - Materials	60.53	56.94	-5.9%	1.03
SPDR: XLE - Energy	72.26	67.41	-6.7%	0.87
SPDR: XLP - Consumer Staples	56.89	52.63	-7.5%	0.59

Note: excludes income

Equally important was the tremendous rise in volatility that occurred in the first quarter of 2018 after well over a year of benign market action. This is shown in the following table.

Qtr.	1%	-1%	Total
Q4 16	2	0	2
Q1 17	1	1	2
Q2 17	1	1	2
Q3 17	2	2	4
Q4 17	0	0	0
Q1 18	12	11	23
Total	18	15	33

The table shows the number of "volatile" days for the S&P 500 since the 2016 presidential election, with volatility defined as a move up or down by more than 1%. What is most amazing is the near total lack of volatile days from election day until the end of 2017. Contrast this with the surge in volatile days in this year's first quarter, 23 in total. Markets were open 61 days in the first quarter, so the 23 +/- 1% days represented about 38% of all trading sessions. In addition, during the first quarter, we also saw the first down 4% day, down 3% day and down 2% day since the election.

(over)

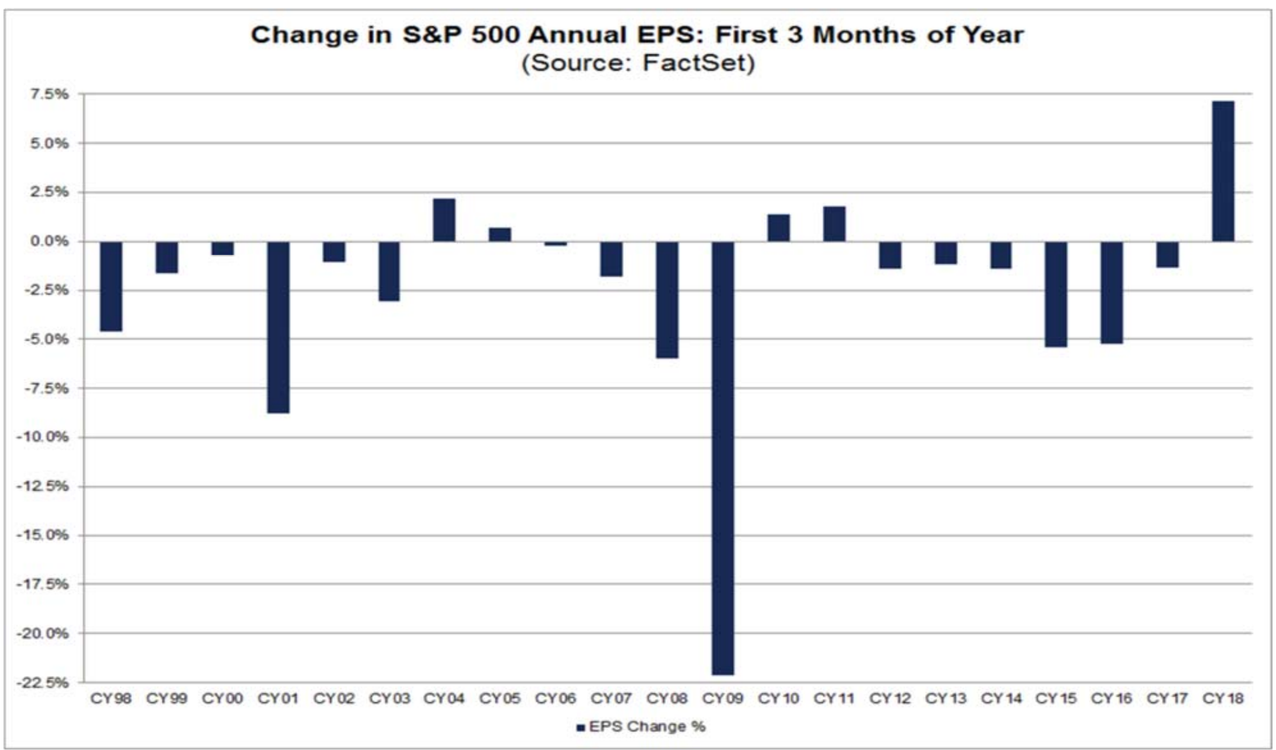
Tariffs? Really.

There are several reasons most often cited for the rise in volatility and the decline in markets that occurred as January waned. They all sound good. Fear of trade wars is at the top of the list. Rising interest rates would rank second and a general feeling of unease due to turmoil in the Trump administration and government by tweet would rank third. Lately, all this has been enough to offset the generally good feelings caused by the late December passage of the new tax laws and what appears to be a strong economy. The tariffs threat may not stick and could lessen as a threat going forward.

Despite their recent price action, the "FAANG" stocks (Facebook, Inc, Amazon.com, Inc, Apple Inc, Netflix, Inc and Google (Alphabet, Inc)), market leaders for 2017, as a group performed reasonably well with only one, Alphabet (GOOGL) underperforming the market and others dramatically outperforming the market. Near the end of the quarter, data security issues at Facebook, and more recently political worries about Amazon, led to weakness in those stocks.

	12/31/17	3/31/18	% Chg.
Facebook	$176.46	$159.79	9.5%
Amazon	$1,169.47	$1,447.34	23.8%
Apple	$169.23	$167.78	-0.9%
Netflix	$191.96	$295.35	53.9%
Google	$1,053.4	$1,037.14	-1.5%

Markets tend to correct themselves. One oft-cited reason for the weakness in equity markets is the rising interest rate environment – with 10-year U.S. Treasury bonds falling in price from year-end and boosting interest rates from 2.40% to about 2.90% a few weeks ago. With the recent market weakness, 10-year yields have fallen back to the 2.74% range. We will soon enter first quarter earnings season. It will be the first for most companies since the new tax laws were passed in December. What is notable about this year is the tremendous growth expected because of the lower corporate tax rates as the graph below, courtesy of Factset, illustrates. In most years, analysts have been too optimistic at the start of the year, only to lower their numbers as the year progresses. This year is the opposite. Estimates have grown by 7.5% for the full S&P 500 as 2018 has progressed. As of April 3, the consensus estimate for the S&P 500 stands at $157.77, up from $147.24 at the start of the year. This puts the market at about 16.5x estimated 2018 earnings. While no bargain, this is not exceedingly expensive.



With three days of trading in the second quarter, the market has added two more +/-1% days, one up and one down. More importantly this was the first time since June 27, 2016 that the S&P 500 closed below its 200-day moving average, an important data point in technical analysis and sometimes a sign of further weakness ahead. That time, the market recovered and was back above its 200-day moving average in one day. This time, it has also recovered after one day. Will it stick? Stay tuned.

Regards,

Peter

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Volatility is a statistical measure of the dispersion of returns for a given security or market index.

The S&P 500® Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general.

The Dow Jones Industrial Average is an unmanaged index of common stocks comprised of major industrial companies and assumes reinvestment of dividends.

The Russell 1000® Growth Index contains those securities in the Russell 1000® Index with a greater-than-average growth orientation. Companies in this index tend to exhibit higher price-to-book and price-to-earnings ratios, lower dividend yields and higher forecasted growth rates.

The Russell 1000® Value Index measures the performance of those Russell 1000 companies with lower price/book ratios and lower forecasted growth values.

You cannot invest directly in an index.

Index performance is not indicative of fund's performance.
Past performance does not guarantee future results. Current performance can be obtained by calling 888-861-7556.

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Click here for the top ten holdings as of the most recent quarter end and performance to the most recent quarter- and month-end for the Chase Growth Fund.

Click here for the top ten holdings as of the most recent quarter end and performance to the most recent quarter- and month-end for the Chase Mid-Cap Growth Fund.

Fund holdings are subject to change and should not be considered a recommendation to buy or sell any security.

Earnings growth is not representative of the fund's future performance.

EPS=Earnings Per Share.

Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.

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