CHASE INVESTMENT COUNSEL CORPORATION

Coronavirus And The Markets

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With the first quarter about two-thirds over, it appears to be a battle between plentiful liquidity and low interest rates and fears about how COVID-19 (the rapidly spreading coronavirus that originated in China) will affect the world economy.

Until February 19, 2020, liquidity and low rates were winning. Markets reached new highs and the coronavirus problem seemed to be contained to China. On February 25th, things changed. The virus popped up in significant numbers in places like Italy, Iran, Japan and South Korea. Markets reacted in a strongly negative manner. Over the past three days, major indices have slipped dramatically. The S&P 500 index is down about 8% from its February 19th high. For the year, the S&P 500 index is now down about 3.5%. After a year like 2019 when the S&P 500 and the Russell 1000® Growth rose 31.5% and 36.4% respectively, a pull-back was not unlikely.

From a technical point-of-view, markets have broken through their 50-day moving average on high volume but remain above their 200-day moving average – barely. We will probably see a test of this soon, remaining above this trend line is a good thing, falling below it is not. After sharp moves down like the one we've experienced, there is no clear precedent for what the immediate future holds: sometimes you get a recovery, sometimes a pause of several days/weeks/months until a new trend emerges and sometimes a new move down.

It's too early to tell what will happen this time. The quickly spreading coronavirus is having a rapid and negative affect on the outlook for 2020 earnings. The victims range from the fairly obvious such as travel related companies including cruise lines, airlines, hotel and casino companies. United Airlines, for example, says business conditions are changing so fast it no longer feels comfortable giving any financial guidance regarding 2020. Other victims have been a little less obvious – Apple is being hurt by both difficulties in building products (mostly done in China) as well as selling products. Coca-Cola believes China weakness in Q1 will hurt earnings by a few pennies per share. Microsoft warned about slowing computer sales. Another somewhat overlooked factor that will hurt earnings this year is the growing strength of the U.S. dollar versus other currencies.

No one knows how long or severe the economic impact of the current epidemic will be.

After the SARS and Zika virus scares of several years ago, sell-offs were followed by new rallies. However, those illnesses didn't seem to spread as rapidly as this one. According to UBS, during a 38-day trading period during the height of the SARS virus in 2003, the S&P 500 index fell by 12.8%. A similar move occurred during the Zika virus scare at the end of 2015 and into 2016, the S&P 500 index fell by 12.9%.

Will this happen again? Our view is that it is highly probable and could last several months.

We take several steps to attempt to protect capital in markets like this. The first is to raise cash and change the asset allocation to more cash/bonds and less equities. Secondly, trimming extended and overvalued stocks, reducing or eliminating laggard stocks and companies susceptible to earnings issues, and searching for stocks showing good relative strength in a weak environment.

As always, if you'd like to talk about current market conditions, please don't hesitate to contact us.

Regards,

Peter   Buck   Clay

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The S&P 500® Index is a broad based unmanaged index of 505 stocks, which is widely recognized as representative of the equity market in general.

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.

As of February 26, 2020, the Chase Growth Fund held 0.0% United Airlines Holdings Inc., 4.0% Apple Inc., 0.0% The Coca-Cola Company, 5.9% Microsoft Corp and 0.0% UBS Group AG. Fund holdings and sector allocations are subject to change and should not be considered a recommendation to buy or sell any security.

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.

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The Statutory and Summary prospectus (CHASX/CHAIX)contain this and other important information about the investment company, and may be obtained by calling (888) 861- 7556. Read carefully before investing.

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

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Mutual fund investing involves risk. Principal loss is possible.

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