CHASE INVESTMENT COUNSEL CORPORATION

Year-End 2018

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By now, well into the first week of 2019, most investors know markets fared poorly in 2018. After a strong start that saw a peak in many indices as the third quarter ended and the fourth quarter began, markets fell sharply. There was a 13.52% drop in the S&P 500 Index, a 15.89% drop in the Russell 1000® Growth Index, a 15.99% drop in the Russell Midcap® Growth Index and a 16.33% drop in the Russell 3000® Growth Index.

Markets seem likely to continue their volatility in early 2019 at least. Several data points from Jan. 2-Jan.4, 2019 suggest why: Apple, Inc. warned that sales in its December quarter would be weaker than expected due primarily to a slowdown in sales in China. Fourth quarter sales for General Motors dropped about 2.9% from year-ago levels while Ford's December sales dropped 8.8% from December, 2017. Delta Airlines warned of softer than planned revenues due in part to a slowdown in December business travel. However, December employment data was stronger than expected suggesting all is not bad with the economy.

Last year's results are in: The S&P 500 Index fell 4.38%. The Russell 1000® Growth Index fell 1.51%. The Russell Midcap® Growth Index fell 4.75% and the Russell 3000® Growth Index fell 2.12%. Other price changes for notable asset classes include a 19.0% drop in the price of oil and a 4.0% drop in the price of gold. Bitcoin, the investment fad of a year or so ago, fell from $14,770 to $3,729, a drop of about 75%.

The phrases "risk-on" and "risk-off" were heard a lot last year. For the first nine months, risk was generally "on." However, in Q4, risk was "off," as less volatile sectors showed strength as the following table shows:

Sector	Q418		Full Year 2018
Utilities	+1.4%	Health Care	+6.5%
Real Estate	-3.8%	Utilities	+4.1%
Consumer Staples	-5.2%	Consumer Dis.	+0.8%
Health Care	-8.7%	Info. Tech	-0.3%
Materials	-12.3%	Real Estate	-2.2%
Financials	-13.1%	Consumer Staples	-8.4%
Comm. Services	-13.3%	Comm. Services	-12.5%
Consumer Dis.	-16.4%	Financials	-13.0%
Industrials	-17.3%	Industrials	-13.3%
Information Technology	-17.3%	Materials	-14.7%
Energy	-23.8%	Energy	-18.1%

Facebook, Apple, Amazon, Netflix and Google, collectively known as the "FAANG" stocks lost the mojo that made them market leaders for much of the past two years. All fell significantly in the fourth quarter, although Netflix and Amazon had very strong results for the full year.

Stock	Q418	Full Year 2018
Facebook (FB)	-20.3%	-25.7%
Apple(AAPL)	-30.1%	-6.8%
Amazon (AMZN)	-25.0%	28.4%
Netflix (NFLX)	-28.5%	39.4%
Alphabet (GOOGL)	-13.4%	-0.8%

By most accounts, the U.S. economy remains the envy of the world. The U.S. GDP grew 3.4% in Q318, 4.2% in Q2 and 2.2% in Q1. The U.S. gained 312,000 new jobs in December 2018, far outstripping estimates of 182,000. The nation's unemployment rate was 3.9% and hourly wages rose 3.2%. S&P 500 Index earnings are expected to be about $157.41 per share in 2018, up 19% over 2017 levels, driven largely by tax benefits but also by solid revenue growth of 7.6%.

So what's the problem? In a nutshell, growth is slowing.

All the stuff, good and bad, that happened in 2018 is old news. What we believe 2019 will bring with certainty is slower growth in the United States and probably slower growth in both China and Europe. Earnings for the S&P 500 Index in 2019 are now estimated at $172.47, a 9.6% rise over 2018 levels on revenue growth of 7.6%. Historically, these would be great numbers. Given the recent news from Apple, they will probably be revised lower soon. In any case, they represent a slowdown from the tax-driven 2018 figures.

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Noted economist Gary Schilling now believes there is a 2/3 chance for a recession in 2019. The stock market may have already told us this with its fourth quarter drop. So might the "yield curve," which is simply the difference between short-term and long-term interest rates. It inverted, or changed its shape so that short-term (two year) rates were higher than longer term (five-year) rates several weeks ago. Again, this is historically another sign of a recession. The fact that long-term (10 year) rates have fallen from a peak of 3.23% in November to under 2.6% today also is worth watching.

The potential for plenty of headline risk both in the U.S. and abroad is also high. With the new year, the Democratic Party controls the House of Representatives, increasing the potential for various investigations of the Trump Administration. The growth rate of China's economy is clearly slowing and the economies of Europe are under pressure due to the impact of Brexit and of budget pressures in Italy.

With the big fourth quarter swoon, the U.S. stock market is reasonably valued at this time, with the S&P 500 Index (2,531.85) selling for about 14.6x estimated earnings. This compares to a price/earnings (P/E) ratio of about 17x for the S&P 500 Index at year-end 2017. The current valuation is much closer to historical averages. This should be cause for some optimism at least.

A lot can and will happen between now and 12/31/2019. Please contact us to discuss your investment needs.

Regards,

Peter W. Tuz, CFA, CFP®

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.

The Russell Midcap® Growth Index is a market capitalization-weighted index that measures the performance of those Russell mid-cap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000® Growth Index.

The Russell 3000® Index is a capitalization-weighted stock market index, maintained by FTSE Russell, that seeks to be a benchmark of the entire U.S stock market. It measures the performance of the 3,000 largest publicly held companies incorporated in America as measured by total market capitalization, and represents approximately 98% of the American public equity market.

As of January 3, 2019, the Chase Growth Fund held 0.0% Apple Inc., 0.0% General Motors Company, 0.0% Ford Motor Company, 0.0% Delta Airlines Inc., 0.0% Facebook, Inc., 5.5% Amazon Com Inc., 0.0% Netflix, Inc. and 4.8% Alphabet Inc. Fund holdings and sector allocations are subject to change and should not be considered a recommendation to buy or sell any security.

As of January 3, 2019, the Chase Mid-Cap Growth Fund held 0.0% Apple Inc., 0.0% General Motors Company, 0.0% Ford Motor Company, 0.0% Delta Airlines Inc., 0.0% Facebook, Inc., 0.0% Amazon Com Inc., 0.0% Netflix, Inc. and 0.0% Alphabet Inc. 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 funds' investment objectives, risks, charges and expenses must be considered carefully before investing. The Statutory and Summary prospectuses (CHASX/CHAIX or CHAMX/CHIMX) 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.

EPS=Earnings Per Share.

Price earnings ratio (P/E) is the price of a stock divided by its earnings per share.

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Mutual fund investing involves risk. Principal loss is possible.

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