



# Market Commentary

4TH QUARTER 2013

## Economic Summary

### *The Quietest Bull Market*

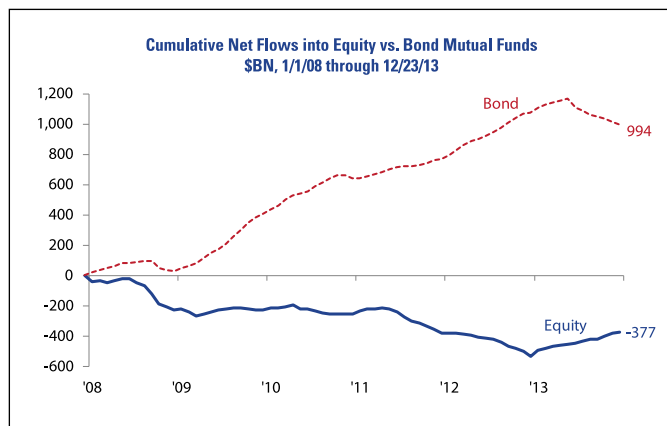
2013 was a very good year for equity investors. It seems the stock market rally was underappreciated though, as inflows into equity mutual funds were only modestly positive. It was the first year of net inflows since 2007. There is still a lot of money invested in bond funds that could make its way back into stocks (CHART 1).

In 2013, the stock market had its best performance since 1997 with all the major indices up significantly (CHART 2).

With the economy showing some signs of strength, stocks in general may continue to do well in 2014 – no guarantees of course. It is possible the U.S. will experience 3.0% real GDP growth in 2014, up from 1-2% in recent years. If so, it could finally bring down the stubbornly high unemployment rate. Any increased hiring may be positive for consumer spending and household formation. In our opinion, corporate profits should continue to grow about 5%.

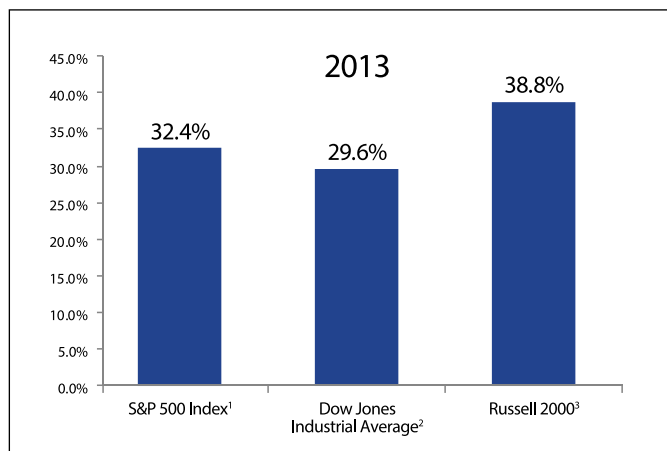
### *Fed Starts to Taper*

The Federal Reserve recently announced that it would reduce its bond buying program (QUANTITATIVE EASING) from \$85 billion per month to \$75 billion. This modest tapering is a tiny step in the right direction. The sooner the Fed stops its bond buying, the better. We feel having interest rates set by supply and demand instead of Fed intervention is much healthier for our economy.



**Chart 1**

SOURCE: STRATEGAS RESEARCH PARTNERS  
"QUARTERLY REVIEW IN CHARTS", JANUARY 3, 2014



**Chart 2**

### **Past performance does not guarantee future results.**

<sup>1</sup> The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general.

<sup>2</sup> The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

<sup>3</sup> The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index. You cannot invest directly in an index.

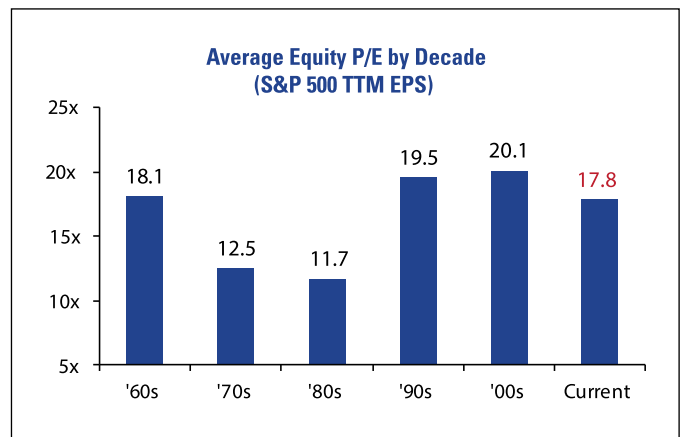
## Economic Summary (CONTINUED)

We have said on many occasions that interest rates will rise as the economy strengthens. Well, they rose in 2013 and the backup in rates caught some bond investors by surprise as their bond prices fell. Interest rates will continue to rise over time and inflation is likely to rear its ugly head again. Inflation will be a much bigger problem in the next three-to-five years than it has been in the last three years.

In a rising interest rate environment, investors need to be cautious with their bond investments. We feel that maturities should be short and quality kept very high. Holders of long maturity bonds and high-yield (JUNK) bonds may suffer capital losses that could be substantial.

For the above reasons, we continue to believe that carefully selected stocks of sound companies with good managements will produce attractive returns. With the stock market reaching new highs, many financial market observers and pundits are asking if the stock market is currently in a bubble. The short answer is no. Valuations, as a whole are reasonable, especially considering the low interest rate environment which warrants higher P/E ratios (CHART 3).

There are specific stocks (E.G. AMAZON.COM, TESLA, TWITTER, ETC.) and some sectors (CLOUD COMPUTING, E-COMMERCE AND SOCIAL MEDIA) with stock prices that are totally disconnected from underlying fundamentals. These speculative, high-flying stocks could very well be in bubble territory and it would not be surprising to see their prices decline 50% or more at some point. We believe the stocks in our portfolios are not similarly vulnerable. Our research focuses on world-class companies with rock-solid balance sheets and long histories of increasing revenues, earnings and dividends. Our portfolios are loaded with companies that we believe have strong business fundamentals.



**Chart 3**

SOURCE: STRATEGAS RESEARCH PARTNERS  
"INVESTMENT STRATEGY REPORT", DECEMBER 23, 2013

**Past performance does not guarantee future results.**

## **Economic Summary** (CONTINUED)

### ***Political Gridlock Will Continue***

The political arena will be buzzing with activity in 2014, especially as the fall mid-term elections approach. No doubt the debt ceiling will be raised (AGAIN) and meaningful entitlement or tax reform is unlikely. The disastrous rollout of Obamacare will continue to grab headlines. Democrats will try to focus on immigration reform and raising the federal minimum wage to deflect attention from Obamacare. Republicans will campaign heavily on the problems of Obamacare, which are numerous. In the mid-terms, Republicans should retain the House of Representative and have a decent shot at reclaiming control of the Senate. The many governors' races across the country will be worth watching, too.

### ***Could Keystone XL Finally Get Approved?***

The long-awaited approval of the Keystone XL pipeline is still a possibility, although remote under the current administration, but hope springs eternal. Regardless, the surge in domestic energy production continues to be a tailwind for the economy. Manufacturing activity is picking up as companies are moving capacity back to the U.S. due to relatively low energy prices, thanks mostly to fracking.

#### **Past performance does not guarantee future results.**

Schwartz Investment Counsel, Inc., a registered investment adviser established in 1980, serves as investment adviser for Ave Maria Mutual Funds. The Adviser invests in securities only if they meet the Funds' investment and religious requirements, and as such, the returns may be lower or higher than if the Adviser made decisions based solely on investment considerations. The Funds' method of security selection may or may not be successful and the Funds may underperform or outperform the stock market as a whole. All mutual funds are subject to market risk, including possible loss of principal. Dividend paying companies may eliminate or reduce their dividend payments.

***Request a prospectus, which includes investment objectives, risks, fees, expenses and other information that you should read and consider carefully before investing. The prospectus can be obtained by calling 1-866-283-6274 or it can be viewed at [www.avemariafunds.com](http://www.avemariafunds.com).*** Distributed by Ultimus Fund Distributors, LLC.