



Market Commentary

3RD QUARTER 2015

Economic Summary

The world lost a notable and likeable sports figure last month. Yogi Berra passed away at the age of 90. A star baseball player and colorful manager as well, he was perhaps best known for his unusual grasp of the English language. Even more noteworthy than his memorable expressions or his accomplishments in baseball are some less publicized aspects of his personal life. Yogi and his wife Carmen were married for 65 years! They spent countless hours and considerable money on the Yogi Berra Museum & Learning Center which seeks to inspire integrity, excellence, sportsmanship and humility – values sorely lacking these days.

Much of the world seems to be going the other direction, especially if you watch TV news or read the newspaper headlines. It's getting louder, less respectful, and more dysfunctional. Talking heads on TV constantly yell over each other. Presidential candidate Donald Trump mocks his Republican opponents like a high school bully while President Obama regularly displays his incompetence in entirely nonpresidential ways. Politics has always been messy, but it seems to be sinking to a new low. Speaker Boehner's resignation and the drama surrounding his replacement are other examples.

The stock market activity in recent months has created its own noise. Words like "crash, soar, plummet and skyrocket" fill the headlines. The media's favorite word though is "volatility." With all of this noise and short-term focus of the market pundits, it's important to look at the big picture. In our opinion, the long-term direction for stock prices is up.

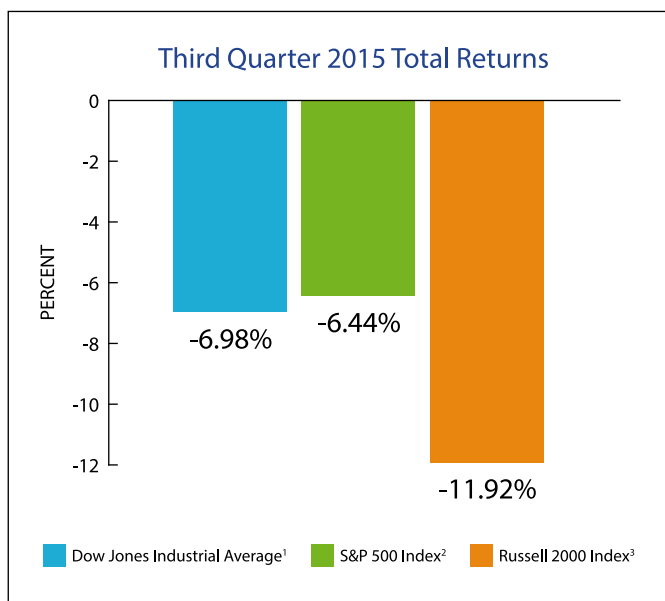


Chart 1

SOURCE: MORNINGSTAR DIRECT

Past performance does not guarantee future results. You cannot invest directly in an index.

¹ The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

² 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.

³ The Russell 2000[®] Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000[®] Index.

Economic Summary (CONTINUED)

Short-term predictions are simply guesses. If someone claims to know what the stock market will do in the short-term, they are either very naïve or they think you are. As always, we recommend avoiding the noise and focus on long-term investment objectives and long-term investment opportunities.

“It’s déjà vu all over again” – Yogi Berra

The Federal Reserve chose not to raise rates at its September meeting. This was not entirely surprising but the explanation was a bit confusing. Starting with former Fed Chairman Bernanke and continuing with Janet Yellen, the Fed has tried to be more transparent. Unfortunately, they have not done what they previously said they would do! The explanation lies in the Fed’s most recent self-imposed third mandate – to go along with the previous dual mandate of price stability and full employment. Our friend Jason Trennert from Strategas Research Partners describes the third objective as “the concept of social justice and concerns that someone, somewhere on the planet, may be feeling economic discomfort.” The stock market reacted negatively to the Fed’s announcement and the 3rd quarter was the worst quarter for stocks in five years (CHART 1).

Historically, the 3rd quarter performance for the S&P 500 has been the lowest on average while the 4th quarter has been the highest (CHART 2). Will this pattern hold true this year? Who knows! (SEE “NAÏVE” ABOVE). With half of S&P 500 companies being down 20% or more from their 52-week highs, there are many more buying opportunities than there were just months ago. When stock prices have declined, there is less risk and future expected rates of return are higher.

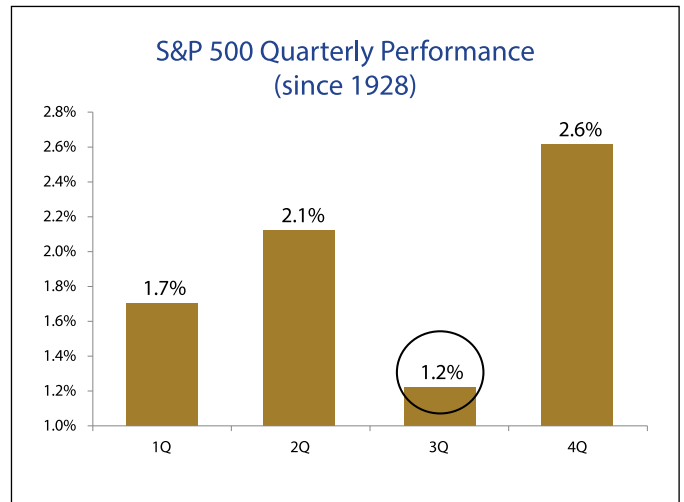


Chart 2

SOURCE: STRATEGAS RESEARCH PARTNERS,
“QUARTERLY REVIEW IN CHARTS”, OCTOBER 1, 2015

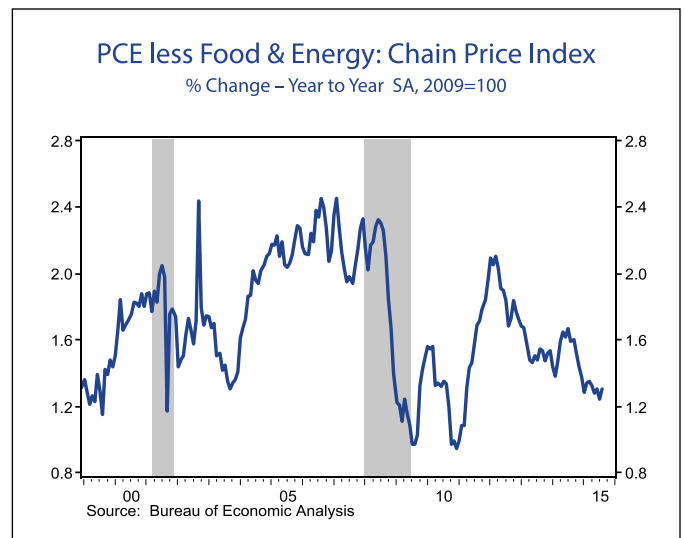


Chart 3

SOURCE: STRATEGAS RESEARCH PARTNERS,
“QUARTERLY REVIEW IN CHARTS”, OCTOBER 1, 2015

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Economic Summary (CONTINUED)

“A dime ain’t worth a nickel anymore” – Yogi Berra

Core inflation has actually been declining recently and is currently running just above 1% (CHART 3).

Even with interest rates so low for such a long time, inflation has been almost non-existent. The Federal Government has been a huge beneficiary of low rates with respect to net interest costs (CHART 4). Additionally, the brief period of U.S. Government austerity from the sequester is essentially over as government spending is beginning to contribute positively to GDP (CHART 5).

Other reasons to remain optimistic regarding stocks include:

1. Lower gasoline prices work with a one-year lag to boost consumer spending
2. Global monetary policy remains very accommodative
3. Shareholder activism and rising M&A activity
4. Earnings outside of the energy sector have been fairly resilient

Purchasing shares of great companies at discounted prices is the essence of value investing. If you’re worried and frustrated about the stock market today, here’s what Yogi might say:

“90% of this confusion is half mental!”

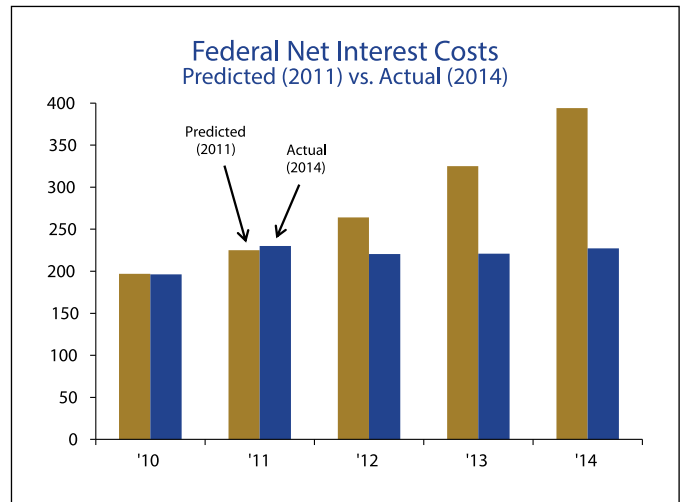


Chart 4

SOURCE: STRATEGAS RESEARCH PARTNERS,
“QUARTERLY REVIEW IN CHARTS”, OCTOBER 1, 2015

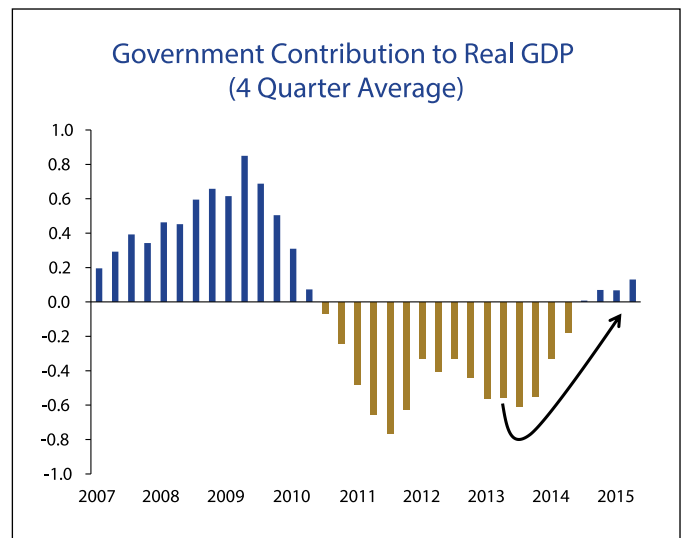


Chart 5

SOURCE: STRATEGAS RESEARCH PARTNERS,
“QUARTERLY REVIEW IN CHARTS”, OCTOBER 1, 2015

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