



## CHADD GARCIA ON THE AL KRESTA SHOW (AVE MARIA RADIO)

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**Al Kresta:** Good afternoon. I'm Al Kresta. And virtually every news program you turn on will take a look at the current economic woes of our country. And inflation is kind of the lead story there. The Consumer Price Index rose to 9.1%. That's a 40-year high. Now you have to ask yourself why, right? This is what we all want to know? Well, to help us understand why, we've got Chad Garcia, Vice President, Schwartz Investment Counsel, Inc. and lead portfolio manager of the Ave Maria Focused Fund and Co-Portfolio Manager of the Ave Maria Growth Fund. He's also responsible for equity research functions for the firm and can follow the work at [www.schwartzinvest.com](http://www.schwartzinvest.com) and also at [www.avemarifunds.com](http://www.avemarifunds.com). Chad, good to have you back.

**Chadd Garcia:** Nice to be on, Al.

**Al Kresta:** When we say the consumer price index rose 9.1% in June, it's a 40-year high. I mean, first the first thing you think of, you don't have to know anything and say, well, that doesn't sound good. What does it what does it indicate? I mean, what's it measuring?

**Chadd Garcia:** Well, you know, it's not good every week when you go to the to the gas station and put gas in your car. I mean, the cost of living is going up.

**Al Kresta:** And this this is kind of the report. Everywhere you go, people are preoccupied with inflation is high. Is there any good news?

**Chadd Garcia:** 9. 1%. That's a scary number. It's a 40-year high.

**Al Kresta:** It's almost reaching double digits.

**Chadd Garcia:** So, the bad news is inflation is high. So, is there any good news? And I think that the good news is, is that there is some evidence that inflation is peaking, if not starting to reverse.

**Al Kresta:** Okay. Give me some advice.

**Chadd Garcia:** As you look out into the into the markets, the commodity markets, WTI, which is the West Texas Oil is around \$100 a barrel. In March, it was around \$124 for a peak. Brant crude, which is a little bit trades internationally, is on the same trajectory in the US. Natural gas is around 730 per million BTUs, which is down from its peak of 930. Corn is around \$7 a bushel, which is plenty high. I think break even for corn is four, four and a quarter a bushel depending upon what part of the country you're in. And that's down from a high of \$8. And then getting to numbers where it's easy for everybody to understand, the average price for regular gasoline is \$4.50 a gallon, which is down from just over \$5.

**Al Kresta:** Yeah. Yeah. Do you expect other commodity prices to drop?

**Chadd Garcia:** I do. And I expect some of these commodities that we just discussed to continue to drop. And more importantly, although it will take some time, it should start flowing through to the goods that we consume every day. So, it does seem like there's some relief.

**Al Kresta:** Well, I want to come back to that. But where did inflation come from in the first place?

**Chadd Garcia:** Well, you know, there's been a fair amount of populism in American politics. And whenever there's populism, there's usually pressure on central banks to keep rates low. And we've certainly seen that in the Trump years. Trump was often putting pressure on the Federal Reserve to keep rates low. And then as we went through COVID, the central bank, the Federal Reserve, was forced to take rates down to zero in order to dampen the effects of the COVID shutdowns. And I think they did an admirable job, and they got us through that without massive unemployment. But as we came out of that, you know, we got a new administration. That administration wanted to get some of their plans

through. And they put through a \$1.9 trillion American rescue plan, which was way overdone. We didn't need it. And the bank at that time was still a little bit soft on their on their quantitative easing. They were doing QE for the time, which made sense because the bank probably wasn't going to start tightening until the Chairman got either replaced or reappointed. And the Chairman got reappointed and after that, he started hiking rates.

**Al Kresta:** Yeah, when interest rates are low down to zero, that increases borrowing, doesn't it?

**Chadd Garcia:** Yes. And it puts more money into the economy. That's where you get part of too much money chasing too few goods. And then when you when you go back to the American rescue plan, I mean, this came right at the at the end of COVID-19, you know, the US COVID deaths per day peak in the first quarter of '21 and then fell sharply. And that created a massive demand for spending on goods which caused inflation, which caused the supply chain issues that we saw as essentially people pulled a demand for goods forward and that that demand full forward raised the price for goods which contributed to the inflation and we're seeing that abate.

**Al Kresta:** So, demand is outstripping supply at this point.

**Chadd Garcia:** It had on goods, but now it's reversed. So, people are stopping spending money on goods. If you look at if you look at Target who reported their earnings in May, the demand for home goods and for clothes in their CEO's words dropped substantially.

**Al Kresta:** Yeah. Okay.

**Chadd Garcia:** And so, the retailers were left with a lot of inventory and prices are starting to come down. Interestingly enough, that is switching now to services. So, services such as leisure travel when went away during COVID and now that's coming back. And so, you're seeing the abnormal demand for goods go away. And now you're seeing abnormal demand for services.

**Al Kresta:** Pick up again. Is there any is the supply chain problem supposed to be fixed any time soon?

**Chadd Garcia:** I think the supply chain problems will take time to play out. But if the abnormal demand goes away for consumer goods, that's going to help fix the problem. I think long term companies are going to rethink their supply chains, and this will take several years to play out. But in the past, let's call it 30 years. There was a big offshoring movement to get supply chains to places where goods can be made, quote unquote, the cheapest right without thought about how durable that supply chain is. I think what you're going to see now is companies think about the durability of their supply chain and probably move it away from what's, quote unquote, cheapest to places that are friendly to our government and places where the supply chain is much more secure and reliable.

**Al Kresta:** How should long-term investors deal with first of all, do you think we have a recession coming or some people think we've been in a recession? What should we do?

**Chadd Garcia:** Well, we've certainly been in a bear market for stocks because of the interest rates raising. Now, we haven't been in a recession where economic growth slows for two quarters.

**Al Kresta:** And?

**Chadd Garcia:** That's not likely to happen this year. There is some risk that it happens in 2023.

**Al Kresta:** Okay.

**Chadd Garcia:** But how should investors deal with the possibility of a recession? I don't know anyone who can time the market successfully. And the name of the game is investing is to remain invested. You call it investing instead of trading. It's important to put money to work in consistent intervals. So, if you're an investor and you get paid twice a month and you invest from your paycheck, continue to do that. And you especially want to be putting money to work and investing when stock prices are low, which coincides when it's more most painful to do so. Yeah, because that's when the sentiment is horrible.

**Al Kresta:** You have a story about Warren Buffett when you were at Harvard Business School.

**Chadd Garcia:** Well, when I was at Harvard, Warren came to visit. He comes every two years. And somebody asked him if there were any deals in the market. And he said there were many deals in the market. It was like shooting fish in a barrel after the water had been drained out and the fish stopped flopping. So, I feel that way today. I look at the companies in the Ave Maria Focused Fund. They are performing remarkably. The underlying businesses of them, they I expect them to continue to perform remarkably in the future. And the only thing that's changed is, is their stock price is lower today than it was six months ago. So, I think there are plenty of bargains out there.

**Al Kresta:** What about how's the Growth Fund doing?

**Chadd Garcia:** It's down along with the market. The growth stocks are a little bit more interest rate sensitive. Yeah, because they're growing companies. So, a lot of their earnings are out in the future and the interest rates are how you discount that back. And so, it was impacted with the market. S&P is down about 6% a day. So, it was down in line with that, maybe a little bit more. Yeah, but if we get the holdings of the company like the holdings of the Focused Fund are quite strong and so. If we get any relief in inflation, then I expect that to be a very good setup for growth companies. Right now, the Fed is worried about inflation and investors are worried about the Fed. If we get any inflation relief, then those worries will go away rather quickly.

**Al Kresta:** Yeah. Now, you just launched the Ave Maria Focused Fund back in May of 2020, right? Correct. So, you're off to a great start then.

**Chadd Garcia:** Yes. Yes, I'm quite happy with the portfolio. We have 17 companies in the portfolio. It took us time to get it fully deployed. It took us all of 2020 to get it to get it deployed into the type of companies that we want to hold in that portfolio. And it's built out now and we're pretty excited about it. I met with one of the management teams of the business last week. I went up to New York to meet with them and I asked them about how business was going, and they said that they were giddy, which made me excited because when people ask me, "how are the businesses and the fund doing?" I said, well, I look at how well they're doing, and I get giddy. So, they use the same word that I use.

**Al Kresta:** Very good. How do people get a hold of you and learn more about the Ave Maria family of funds?

**Chadd Garcia:** Well, they can find us on the web at [www.avemariafunds.com](http://www.avemariafunds.com) or give us a call at 866-AVE-MARIA.

**Al Kresta:** That's 866-AVE-MARIA, and what was the website again?

**Chadd Garcia:** [www.avemariafunds.com](http://www.avemariafunds.com).

**Al Kresta:** That's all pretty simple. All right, Chad, thanks much.

**Chadd Garcia:** Have a good day.

**Al Kresta:** You, too. Chad Garcia again is Vice President for Schwartz, Investment Counsel Inc. and lead portfolio manager of the Ave Maria Focused Fund and Co Portfolio Manager of the Ave Maria Growth Fund. I'm Al Kresta.

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