AVE MARIA
MUTUAL FUNDS

**CHADD GARCIA ON RELEVANT RADIO – MORNING AIR SHOW**

**JULY 22, 2022**

**John Morales:** Chadd Garcia joins us today. He's Vice President and Lead Portfolio Manager and Co-Portfolio Manager for Ave Maria Mutual Funds. He does a lot of great financial work and is going to help us kind of not be too scared looking at the inflation numbers and all of that. Chadd, good morning. Great to have you along today.

**Chadd Garcia:** Good morning. There's no inflation in baseball, so are you sure you don't want to stick with baseball topic?

**John Morales:** Yeah, I'd love to. Although you know, the prices for the players as the trade deadline comes and figuring out if that expensive free agent needs to stick around and is worth it or we if we've got to unload him by the deadline. Yeah. Always an interesting conversation. So, baseball salaries could be affected by inflation a bit as well. Although I did notice the last major league game, I was too they are a little more liberal at throwing baseballs into the stands for the fans and so that maybe could be a good thing. But my goodness, Chadd, when we hear those latest inflation numbers, for someone who deals with money very closely, what does that make you think?

**Chadd Garcia:** Well, last month, the Consumer Price Index rose 9.1% in June, which was a 40-year high. And so, I was probably around eight years old. Last time inflation was that high. And I remember the topic being kicked around in the media, but I didn't really know what it was. But so yeah, it is, it is a bit scary. So, the bad news is inflation is high. And that leads to the next question. Is there any good news? And it seems like inflation is peaking, if not starting to reverse.

**John Morales:** Well, that would be good news. What are some of the indicators that tell us that is actually happening?

**Chadd Garcia:** Sure. If you look at oil prices, the West Texas oil, the WTI is right around $100 a barrel and it peaked in March above $124 and then came down a little bit after the after the Ukraine invasion sunk in a bit and then went back up in May. So that's good. That's down around 20%. If you look at some of the other commodity prices, natural gas is down a similar amount. Corn is below $7 per bushel break even for our farmers, depending upon where you get in the in the corn belt is about $4 to $5 for bushels. So, they're doing really well, but that is down from above $8. And then something that's a little easier for everybody to understand is that the average price for gas is around $4 or $4.50 per gallon, which is down from a high of $5.02.

**John Morales:** How long before especially the gas prices, we can see those and that's probably really what keeps inflation forefront for us as we're driving by an advertisement every day lit up in neon that shows how expensive life can be. But we know that gas prices can drive increases for so many other things with almost everything we consume involved in being transported by truck at one point or another. How soon before some of the positive effects of that decrease in gas prices will come about?

**Chadd Garcia:** Well, it's happening now, so the prices seem to have peaked in May with the commodities. And in June, the inflation was still going up. So, you can see gas prices are down. You know, since May, but it'll take a little time for the rest of the rest of it to work through the economy. And it's probably going to come from two factors. Number one, the Federal Reserve is increasing interest rates, which is taking liquidity out of the market. So, inflation is just too much money chasing too few goods. And so, the Federal Reserve is taking money out of the economy. So that's going to help lower inflation. The other part of that would be demand destruction. And so, if people are consuming less goods because the prices are high, or I think in this case people consumed a lot of goods coming right out of COVID and they probably brought demand, pull, demand forward. And so, like, how many TVs do you need or how many Peloton bikes do you need? I think people have stocked up on the goods that they wanted to buy and will be out of the market for a lot of goods for a period of time.

**John Morales:** Talking inflation, helping to understand it and looking for some hope that it might be getting better. With Chad Garcia from Ave Maria Mutual funds as Morning Air continues. If you have questions, our number is 888-914-9149, 888-914-9149. Big political football to kick around is what caused all of this. Is it all Vladimir Putin's fault or were some of those conditions there ahead of time? Like you mentioned, part of it might have been just, you know, the exercise of pent-up demand after people being kind of closed up and not able to be out getting things. During the COVID shutdown.

**Chadd Garcia:** Monetary policy has been pretty relaxed from the Fed for quite some time. This goes back several, several years. But I think what made inflation more acute is that coming out of Covid, which I think the Fed did a really good job of making sure that unemployment wasn't too high with their strong monetary policy actions. But with the new Biden administration, they wanted to get their plans done. And they passed a $1.9 trillion American rescue plan, which was really overdone, and that led to an abnormally strong demand for goods. There is pent up demand and people had liquidity and people pulled demand forward. Procurement officers at companies get scared because they see their shelves going blank and they probably over hire which contributor over purchase, which contributes to inflation. And there you go. And then the next part, you mentioned Putin. Oil prices started to increase as soon as Putin started putting troops on his border. And they certainly ran up quite a bit higher once he invaded Ukraine. And then I think the final the final action that really contributed to the recent inflation was just the I wouldn't say the end of COVID, but the peaking of COVID in the US. So, US COVID deaths per day peaked in the first quarter of 2021 and then they fell sharply. And that created a massive reopening demand. People called it revenge spending. You know, that led to interesting turn.

**John Morales:** Yeah, I can see that. I can see that interesting term. I want to ask you a little bit more about the Putin effect, though. We don't know what will happen in Ukraine yet. We, you know, hear rumblings about maybe some more pressure on Ukraine to try and settle the conflict a little bit. We're not sure how wild Vladimir Putin will get. There is the danger of really having Russia clamp down on energy supplies for Europe in the winter and what might that mean?

**Chadd Garcia:** I think that if you look at what's happening in Europe, there are Europeans feeling the brunt of this because they say Italy relied too heavily on energy from Russia. And so, if you look at the UK, Boris Johnson is out and he's a Russian hawk. If you look at Italy, Draghi lost his coalition earlier in the week. He offered to resign and then kind of pulled back that offer. And then yesterday he resigned. The president of Italy disbanded their parliament and in France, Macron lost his majority. And so, I think the Europeans support for Ukraine continuing to fight for their eastern regions is losing support, and that may cause Europeans to kind of soft pedal, giving the Ukrainians more weapons. And so that that may cause the Ukrainians to come to the table. And the carrot that the Europeans may dangle in front of Ukraine is admission into the European Union, which gives them a legitimate status as a as a standalone country, as opposed to, like a former arm of Russia. Now, if inflation continues to roll over, which it looks like it's doing, that's going to lower energy prices and then put pressure on the Russians to come to the table. So, you may see by the end of the year, both parties come to the table and Russia annex part of the eastern Ukraine and Ukraine. Enter the EU.

**John Morales:** Be interesting to see, too, in terms of, you know, response to using Russian energy, as China has no qualms about using plenty of Russian energy, nor India. And that could keep things rolling for Russia as well. But, you know, speculation at this point. How about Wall Street? We know that the market gets ahead of what we hear in the news on most issues, which also makes us scratch our heads sometimes. But how is the stock market reacting to perhaps a peak in getting better in inflation now?

**Chadd Garcia:** Well, the Fed is worried about inflation and Wall Street is worried about the Fed. We know that the Fed is going to take liquidity out of the market by doing some quantitative tightening and raising interest rates. And the market this year has reacted strongly. And I think it's a bit oversold. However, it does look like inflation is peaking and if that's the case, we should get it. We should get a nice relief rally this this month. The market is up 5%, which was down about 20% year to date prior to this to this rally. So, it seems like the market is getting ready for a relief rally.

**John Morales:** How is the financial guy? Do you help folks? You know, just relax and stay strong for the long haul when markets are as crazy as they've been?

**Chadd Garcia:** Well, I'm a fund manager, so I focus my time on running the mutual funds. I don't give advice to individuals, but when friends and family call and ask me for my thoughts, the most important thing about investing is to remain invested. And if you continue to put money to work in regular intervals, if you if you're on a roller coaster, the only people that get hurt are the ones that try to jump off. Yeah. If you get your paycheck twice a month and you put money in the market with that paycheck twice a month, then continue to do it. And, you know, you especially want to be putting money to work when stock prices are low, which coincides with times when it's usually more painful to put to put money to work. That's the times when the headlines are bad and the market is horrible, but that's when you really want to be print money to work or make sure that you continue to put money to work during those times.

**John Morales:** And maybe to repeat that for people to realize they hear this and, you know, whether they're active investors or just kind of, you know, letting that 401(k) kind of go on its own with the work managed funds and the like. But if we're setting aside every month a set amount of money and, you know, to look at some time in the very distant future when we need to withdraw it for retirement, but knowing that that certain amount of money, that same amount of money each month actually ends up, you know, buying more stocks when things are down.

**Chadd Garcia:** Let me give you a little example. I think it was Albert Einstein that said that compounding is the eighth wonder of the world. And to give you an example of how that works, I was looking at Warren Buffett, who some considered to be the greatest investor of all time, his history with Berkshire Hathaway. He's been involved with that company for 57 years. And throughout those 57 years, the S&P generated an annual return on average of ten and a half percent, and Warren generated a return of 20.1%. So not to too much higher than the S&P 500. They're certainly investors who in a year end, any single or handful of years have generated much higher returns in 20% but spread across those 57 years. Warren's total return was 3.6 million percent versus the S&P's total return of 30,000 percent up. So that just shows you the power of compounding. So, they call it investing for a reason. You buy, use and buy, mutual funds and you hold them, and you let them compound for you over time.

**John Morales:** I think of, you know, not waiting it out. Back when we were in our early twenties, you know, doing radio. But one of the guys I worked with, one of his friends, was involved in investment and thought we ought to be, too. So there was a group of folks related to the radio station and spouses that started this little investment club back about 1986, 87. And we're learning how to research different funds and things like that and what would be a great stock to, you know, take a run at and then that mini crash back when the market was relatively tiny in 1987, you know, and we all lost like $250. They're like, oh, this isn't very fun. So, I mean, that wasn't designed to be, you know, the bulk of our retirement money forever or investing enough to, you know, have smooth sailing in the latter half of our lives. But yeah, people just fell away because, oh, this is this is no fun. We lost a few hundred bucks there.

**Chadd Garcia:** Times like that are aren't a good lesson to stay out of the market or trying to time the market. That would be a bad lesson to take from those times. But a good lesson to take from those times is to live within your means and save money. Because there's times when the market doesn't act well and the economy, you know, gets a little challenged.

**John Morales:** Well, very good, Chadd. It's been fun chatting with you this morning. It's, you know, a big thing people are wondering about when is it going to get a little better? When I go to the gas station and the grocery store, etc., and oh, my, do I even dare to, you know, crack open either via mail or look on the computer to see how the investments are going? But he finally, if folks would like to find out more about the work you do with Ave Maria Funds, how can they get ahold of you?

**Chadd Garcia:** They can give us a call at 866-AVE-MARIA or find us on the web at www.avemariafunds.com.

**John Morales:** Very good. Chadd Garcia with Ave Maria Mutual Funds. Thank you, Chad. Great chatting and look forward to doing it again soon. Lord willing, we continue with morning air.

## IMPORTANT INFORMATION FOR INVESTORS

***Performance data quoted represents past performance, which is no guarantee of future results.***

**Schwartz Investment Counsel, Inc., a registered investment adviser established in 1980, serves as investment adviser for Ave Maria Mutual Funds and invests only in securities that meet the Funds' investment and religious requirements.** *The returns may be lower or higher than if decisions were based solely on investment considerations. The 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. The thoughts and opinions expressed in this podcast are solely those of the person(s) speaking as of May 27, 2022.

**Request a prospectus, which includes investment objectives, risks, fees, charges and 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.** Distributed by Ultimus Fund Distributors, LLC.

200-163-101522 / 15382105-UFD-07/29/2022