CHADD GARCIA ON RELEVANT RADIO – MORNING AIR

JUNE 23, 2023

Speaker1: Chadd good morning. Thanks for joining us today.

Chadd: Good morning. Glad to be back with you.

Speaker1: You got a fancy pool or just the inflatable type there?

Chadd: We have we have an in-ground pool, which many people do in Florida. It does get warm here. So, it is nice to have that luxury.

Speaker1: Yeah. Chadd is Vice President of Schwartz Investment Counsel and lead portfolio manager of the Ave Maria Focused Fund and a regular guest here on Morning Air giving us a look at a crazy time in the markets. You know, we've got kind of tech stocks related to AI going up, but yet we've got people thinking, you know, for the last year that there's a recession right around the corner. You know, job numbers are still good, but there's a lot of churn in that market, too. What can you tell us to calm us down? Or maybe we need to not be too calm about all of this, Chadd.

Chadd: Well, I think it is prudent to be calm. When we started the year, we began the year with a with a banking crisis. We had three large banks fail, and that certainly spooked the market. But if you look at what's happened since then, the stock market has continued to its progression upward. And so, it is it is good to be prudent and calm and not overreact to information. The Federal Reserve, which started raising interest rates to deal with inflation, they started that in March of last year, finally paused, which is given the market a little bit of breathing room. I think the Fed is doing a couple of things with the pause. Number one, they're giving some more time to let the past interest rate raises work their way through the economy. And then, the Treasury is going to need to issue a fair amount of new debt to rebuild their coffers that they spent leading up to the debt ceiling limits that were raised in June. And they're going to be doing that over the next month. So, I think the Fed has given them a little bit of better rates, you know, as they refill the cash coffers.

Speaker1: What are some of the key indicators? You know, we're seeing kind of a mix of some of the historic main indicators about how the economy is going in general. And, you know, we're finding kind of unusual times. And then even, you know, the last couple of years dealing with inflation, something we haven't had to battle this hard since the 80s.

Chadd: Yeah, we haven't. But we also had massive fiscal stimulus put into the economy during Covid. And what that's led to is the net worth of individuals in the country being at the highest levels in three generations. And even now, three years after Covid, US households have about $1 trillion in excess savings and the job market is strong. And so that's what has been behind the inflation that we've been experiencing. Now, the Fed did raise rates dramatically starting last year, and the prices of goods and services are coming down. The one item that they're really focused on, and it's been harder for the Fed to get down, is services. Core services, ex-housing and services are primarily made up of not goods, but labor. And so, with a hot job market and inflation, labor rates have been going up. So, people have been getting paid more. And that makes inflation stickier because it's harder to adjust wages down after you've taken them up. So that's what the Fed is focusing on. So, I think what you're going to see is the Fed, after this brief pause is going to continue to increase interest rates until they see an unemployment start to trend up a little bit, which should bring down the labor rates.

Speaker1: Time and time again, we see with employment numbers, they seem almost counterintuitive to us in terms of how the market does when the employment numbers come out.

Chadd: Well, when we have strong employment numbers, usually that's a good thing. But if in the past year when you've had strong employment numbers, that has usually caused a quick sell off in the market because people anticipated that the Fed was going to continue to raise rates and higher interest rates are like gravity for stocks. It'll higher the interest rate that pulls down stock prices as investors have risk free alternatives to invest in.

Speaker1: With just the turmoil in the markets and just the unusual situation the past couple of years, do you find more cash on the sidelines just waiting for the safest path forward?

Chadd: There is ample cash on the sidelines, which is the long term bullish for the market. There's also a lot of institutions are short the S&P. So, they're betting that the that there is going to be a recession and the market will go down. But I don't know if a recession is necessarily a bad thing. If you look at recessions historically that have been severe, usually there are surprises. This recession is not going to be a surprise0. It's going to be the most anticipated recession in history. The market had a very bad year last year. And so there may be a lot of pessimism and that's already built into prices. There some on Wall Street that I think have an interesting thought is that we may experience what they call a non-recession recession. So. if you look at the typical definition of a recession, it's a contraction in the gross domestic product of a country. So. the GDP is all the goods and services that an economy will produce, and that's made up of the price of those goods and services times the volume. Well, if inflation contracts, the price is going to go down. So. the GDP numbers may look negative, but if the volume of the goods and services produced don't go down, the recession may be fairly benign.

Speaker1: Now, we live in a time where technically we had a recession not that long ago, but the government wouldn't acknowledge that. But yet the technical definition was there. Might some of that be involved in the future here?

Chadd: Yeah, well I think the government’s goal is not to create a recession. Their goal is to tame labor wages. And so, I think that's what they're going to be looking for and not too worried on if there's a technical definition of a recession or not.

Speaker1: Now, with a real one, you know, being talked about forever, it seems here, like you said, the most anticipated one. What are some good strategies to be ready in case we have kind of a soft one or a moderate one coming up? But with all this advance warning, we'd almost feel dumb if we weren't prepared to some degree.

Chadd: Right. Well, it's always good to have emergency funds on the on the side, and that's a great thing to build up. And then other than that, with respect to investing, I would just keep your same strategy. If you put money into the market on payday, then keep doing that. Don't get too upset if there's a recession because if there is a recession in the market is lower. You want to be buying stocks when the stocks are cheaper.

Speaker1: And, you know, that's something that is always recommended. We've had, you know, financial advisors on before that said, “hey, don't be scared, there's some great bargains to be had here.” You know.

Chadd: I spoke with a woman who told me that the only people who get hurt on roller coasters are the ones that try to get off. And I thought that was an apt analogy for investing in stocks.

Speaker1: Now, one of the other, you know, parts of all the kind of odd parts up in the air spinning on those plates at the same time this time around is the debt ceiling business. We heard a lot about that. That was kind of declared the big news story for a long time, but they always figured it out. What does that mean for us with the higher debt ceiling?

Chadd: Well, it just means that we can fund the expenditures that the government has planned on spending. And so, you know, the government lays out their budget and the budget require more debt than they need to fund it. And so, it's a good thing that we didn't default on the government debt that would have wreaked havoc on not only the US economy, it would have also wreaked havoc on the global economy. But that being said, the level of government spending is unsustainable, and the market is going to force discipline on them at some point, or politicians are going to force discipline on themselves and curtail the spending that they are doing. But that takes leadership and courage, which is often not found in Washington and certainly not today.

Speaker1: It’s a challenging thing as we kind of kick that debt can down the road for future generations. Is that kind of what it is, though? We just, you know, I mean the US economy a big enough thing the US government a big enough thing that we've been able to get away with this. And does that look like the plan for the foreseeable future?

Chadd: Well, it's a strong economy we have. A ton of innovation. We have. The government has taxing power, I think that investors who are buying the government debt are happy to take that risk on that the economy is going to continue to do well for several decades. But that being said, we're at 123% debt to GDP and we will need to rein that in, particularly as the baby boomers reach older age and become heavy users of Medicare. And those health insurance, the health expenses are going to continue to pile up. And at a time when baby boomers are possibly taking money out of the out of the market. So, we will need to deal with this in the coming decade.

Speaker1: Chadd, as we talk about the baby boomers and so many, you know, easing or not into retirement age, not all retiring as people seeming to want to work, some needing to, but many wanting to work a little bit longer, at least in a in a part-time fashion. Now, the savings rate ticked up with a lot of kind of money flowing from the government to individuals during Covid and the recovery from that. But how is the saving rate in general for retirement for us doing?

Chadd: Well, Americans overall don't save enough and invest enough. And I think they are counting on Social Security and other government programs. So those are certainly areas for improvement, for Americans to take more responsibility for their own retirement as opposed to relying on government programs, particularly as they start to get taxed heavier.

Speaker1: And one more question for you here, Chadd. In the summertime, often a time of summer jobs or, you know, between years in college jobs, kids trying to pile up some money to pay that really high tuition bill and the like. But for younger people with maybe those summer jobs and getting a little more income than their, you know, allowance might have been providing the past couple of years, what are some good ways to start young people with some financial wisdom, you know, and spending wisely and saving wisely as well?

Chadd: Well, I think it would be good for them to have the practice of taking 10%, at least of their income and investing into the future. And even teenagers can start IRA plans and learn the benefit of deferring taxes to the future because you can make those contributions to an IRA and do it on a tax- free basis.

Speaker1: Chadd Garcia with Ave Maria Mutual Funds, we thank you so much for your good service. And we long for that good pool, as we talked about at the beginning of the segment. But thanks for guiding us through some of these tricky financial times here. And we really appreciate having you on.

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200-175-101524 / 17077359-UFD-06/30/2023