CHADD GARCIA ON THE AL KRESTA SHOW (AVE MARIA RADIO) APRIL 20, 2021

Al Kresta: Good afternoon, I'm Al Kresta with the latest nearly two trillion dollars stimulus complete, Democrats are eyeing another potential stimulus worth three trillion or more, which would also address issues related to infrastructure, a rather elastic understanding of infrastructure. Do we know the long-term effects, though, of such intense government spending? Joining me to help us understand this is Chadd Garcia, portfolio manager for the Ave Maria Focused and the Ave Maria Growth Funds. He holds a Master's in Business Administration from Harvard Business School. And you can follow the work that the Ave Maria Funds are doing at www.avemariafunds.com, or you can call toll free at 1-866-AVE-MARIA, one of our sponsors here on "Kresta in the Afternoon". Chadd, good to have you back. Thanks.

Chadd: Thanks for having me on, Al. How are you doing?

Al Kresta: Doing great, thank you. Let me ask you about this. First of all, do we have in our economic history of the United States, any example of such large-scale government spending intended as stimulus? I mean, do we have anything going back to the New Deal or any other time?

Chadd: Well, I would say World War II was a large amount of government spending, but it wasn't for the purpose of stimulus.

Al Kresta: Right.

Chadd: It was for the purpose of defending the free world.

Al Kresta: Yeah, yeah, yeah.

Chadd: This would be a big one, on top of the $1.9 trillion front end loaded stimulus package that we already had this year and the stimulus package that we had last year.

Al Kresta: Yeah, yeah. I can't think of anything in at least my experience, that comes close to this. So that would take us back into the heart of the Cold War. What is the economy, what is the state of the economy now, which is problematic, such that the stimulus is meant to be an answer to that problem?

Chadd: Well, we still haven't reopened the economy fully. Top wage earners are doing quite well because those people could adapt well to a work-from-home environment. Middle wage earners are in a recovering economy. The bottom quartile wage earners are still challenged. And those people you might expect, because they would be, a lot of them would be employed and in hospitality or in restaurants that are highly affected by the shutdowns, particularly in some of the blue states.

Al Kresta: Are the vaccinations driving a reopening of these sectors of the economy?

Chadd: It seems to be. Right now, in the U.S., we have 33% of Americans are fully vaccinated, 50% of adults are partially vaccinated. We're vaccinating 4 million people a day. If you look at some states that have remained opened, like Florida and Texas, for example, Open Table is a service where you can make restaurant reservations - they're seeing restaurant reservations at pre-COVID levels.

Al Kresta: Wow. Ok, OK. So, with this, assuming that this stimulus is coming, will those segments of the economy really benefit from it?

Chadd: I would say yes. But more importantly than the stimulus that's coming is just the reopening of the economies that have shut down. Yeah. So, if you look at state states like California, New York, California, Michigan, I hear.

Al Kresta: What I'm wondering is, where does this money go? That's what I'm trying to figure out. It goes into industries, businesses that apply for it, or is this something which is directly spent by government, because they're talking about this infrastructure? So, is this money directly aimed at roads and bridges and you know?

Chadd: What we have, they proposed a $4 trillion dollar infrastructure package and, you know, we don't know what's going to make it through Congress and get passed. Right. But assuming they get everything they want, and there's a lot of items that are not what I would call pure infrastructure, so if you look at the largest amount of money spent, $400 billion is to be spent on home care. The next largest amount would be affordable housing, presumably making older homes and buildings energy efficient. The third largest amount would be roads and bridges. That to me is traditional infrastructure, followed by high-speed broadband. You know, why the cable companies can't provide that is beyond me, but they do a pretty good job of it, followed by improvements to the electric grid. OK, well, that that seems like it's infrastructure, but they want to tie in clean energy mandates. Yeah, they want to do some work on the public schools to make them more energy efficient. They want to do some work on our railways. I don't know why our rail companies can't do that. They seem to be doing a pretty good job, and their stocks have done quite well. So, they make money. Our water transportation system they want to do some work on, they want to spend money on domestic manufacturing, research, and development. That seems like something that private companies should be doing. They want to spend money on the National Science Foundation. They want to spend money on supply chain support for our companies. Again, that seems like something that companies should be doing themselves. And then there is some provision for disaster resilience, presumably building up stockpiles of pharmaceutical products and vaccines, et cetera.

Al Kresta: Now, does anybody worry that using such an elastic definition of infrastructure threatens the public understanding and words mean something? And it just, I know this is a political question, not an economic question, but it does bother me that we're using the word “infrastructure” in such a rubbery way here. It seems to create misunderstanding, misleads people. And what it does, it sets a precedent for the use of that term in the future, which enables those in power to slip by, under public scrutiny, programs that generally public may not be willing to spend money on.

Chadd: I agree that if you add up what they want to spend, it's more than half the $4 trillion dollars that are going to items that that have nothing to do with traditional infrastructure spending. I think that if Biden would want a quick win, you know, he can work with the Republicans in Congress to pass a more traditional infrastructure bill, I think that there would be support for that, right?

Al Kresta: Yeah, I agree. And it would also have the advantage there of demonstrating some bipartisanship. So, I think that this, from a political point of view, is kind of rubbery. The definition of infrastructure is just not good for a number of levels for the nation. How have earnings bean, first quarter earnings?

Chadd: Well, we're about a week and a half into the earnings season. And, you know, most of the companies that I follow closely and own in the funds I manage, report later. But that being said, their earnings thus far have come out pretty strong to the point where analysts are upping their 2021 and 2022 estimates.

Al Kresta: And what do you attribute that to?

Chadd: First off, the massive stimulus package that we had at the beginning of year, which is $1.9 trillion. And then secondly, the vaccine rollout, which really started to happen in January. And, you know, right now we have 50% of the adults partially vaccinated in the U.S.

Al Kresta: Fear of these covid variants. Is that slowing down the reopening?

Chadd: I don't think it's slowing down the reopening, but I think that it raises the question of, after we get the U.S. and Europe and developed nations vaccinated, you know, what would the focus be for developing nations? Because right now, developing nations are getting hit pretty hard with COVID. And aside from it being the right thing to do to help those countries get vaccinated, if we do get them vaccinated, then that's going to slow down new variants popping up. Yeah, yeah. I don't think it's slowing down. I don't think the variants are slowing in the U.S. or the U.K. Mainland Europe is maybe one to two months behind the U.S. and the U.K. But it does raise the question of how are we going to get the emerging economies vaccinated? Because, you know, if we don't, and then that's the breeding ground for new variants.

Al Kresta: Exactly. Exactly. Do you fear that with all this massive government expenditure, as well as strong economic growth, that inflation is inevitable?

Chadd: It's this inflation you're talking about. We're certainly going to have inflation over last year. I mean, it was a year ago today that oil prices were negative. So just compare prices of goods and services from this year to last year, you're going to have another base effect of, you know, overlapping the shutdown with you're still shutdown with covid. In the next year, is it reasonable to see inflation? I think so, because you had supply chains that were stopped and now the economies have been reopening. I think that's stressing supply chains. Right now, microchips are hard to get. GM had to shut one of their plants down, because they couldn't get enough microchips to supply their auto manufacturing. Tesla had shut its plant down for a week. So, I think that's going to cause inflation in the short run. Question is, is it going to cause inflation in 2022, 2023? Kind of long-term structural inflation, where you see the cost of wages going up or you see the cost of housing going up. I mean, if you see that, then that's more of a serious issue. But, in the last decade, it seems like inflation. You know, despite the strong stimulus that we've had coming out of the great financial crisis, it seems like inflation has been moderated by the advances in technology that we've seen.

Al Kresta: Is this a good time for investors to be thinking about getting into the market?

Chadd: Well, you know, everybody's different and has different needs, but if you're a long-term saver-investor, I don't think the right approach is trying to time the market. Now, I believe time spent in the market is more important.

Al Kresta: Very good. Yeah. Yeah. So, basically, if you're going to get into the market, get in for the long term and any time's a fairly good time to get involved, if you have the long-term perspective.

Chadd: Well, the eighth wonder of the world is compound interest. So, the longer you can have your money compound for you, the better off you'll be.

Al Kresta: In a note that you sent me, you said that regarding inflation, there are a couple of different approaches, and that some of them have commodity exposure. What does that mean for the Ave Maria Funds?

Chadd: So, if you looked at our funds, the Value fund, which has done quite well, it's your day. And one of the reasons why that's done well, they've had some large bets on the energy complex, and they've done quite well with that. And so that's one approach to dealing with inflation. Another way to deal with inflation, which this approach we mainly take in the Ave Maria Focused Fund and in Ave Maria Growth Fund is to buy companies that have high returns on invested capital. And what that means, or said another way, is that they don't require much investment to grow. And if you combine that with pricing power, those types of companies tend to do well in inflationary environments, because they can raise their prices and they require minimal capital to.

Al Kresta: The capital is already invested there, and that enables them to generate higher returns.

Chadd: Well, think about a software company. We have Adobe and Autodesk and Microsoft in in the Focused fund, and once they create the software, it doesn't really cost too much to sell incremental copies of it, particularly now with downloads. In the past, you had a CD-ROM, now your customers are download it.

Al Kresta: When you look over consumer inquiries, Google, for instance, what are people shopping for?

Chadd: Well, right now, hotel searches are on Google are at a 10-year high. So that's indicative to me that people are ready to get back to normal and they're ready to start traveling again, once the vaccines are fully rolled out and we're almost there in the U.S. We own four companies that are based in Europe in the in the Focused Fund. One of them is an online travel agency called eDreams. I was talking to the CEO last month. And, you know, the UK has done quite well with their vaccine rollout and that caused their government to set time definitive end dates to their lockdowns. With respect to travel, they opened up travel as of May 31st this year. And the CEO of the online travel agency was telling me that the bookings post May 31st for the UK were up materially.

Al Kresta: So, let people know (there's just a minute or two left here), let people know why the Ave Maria Funds are a good choice for them when they want to get into the markets when they want to invest.

Chadd: Well, our goal is to generate acceptable returns in a morally responsible way. So, if you're a Catholic and you want to invest in a manner that does not violate your conscience, then Ave Maria Mutual Funds are a good choice. We have a zero-tolerance policy for companies that would violate our moral screens, which means we don't invest in companies that produce or distribute contraception, pornography, donate to the Planned Parenthood or participate in abortions or participate in embryonic stem cell research.

Al Kresta: Good. And how do people get in touch with you and monitor the work you're doing?

Chadd: Then call us at 866-AVE-MARIA or find us online at www.avemariafunds.com.

Al Kresta: Very good. Chadd, thanks so much. Good talking with you again. We'll talk soon. Chadd Garcia, portfolio manager for the Ave Maria Focused and Ave Maria Growth Funds. And again, you can follow their work there, www.avemariafunds.com or call toll-free at 1-866 AVE-MARIA. I'm Al Kresta.

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