CHADD GARCIA ON DAVE DURAND SHOW (RELEVANT RADIO) AUGUST 7, 2021

Dave: Welcome back to the Dave Durand Show. As promised, we have Chadd Garcia. We've been getting emails from people saying, "hey, who is that guy that talks about finances?" And his name is Chadd Garcia, and he's with Ave Maria, and he's been providing really good advice about monthly, or so, on the program about making sure that you're investing with good conscience, which is very important. And not only investing with good conscience, but actually to be able to invest effectively. And so, we're going to go through some really important questions that I think is important for somebody to actually share. But Chadd, I love it, because we have people e-mailing asking this. If you can just take 30 seconds to remind them of, you know, who you are and how they can actually get a hold of you, would be a good way to do this. And then we're going to dive into the topic.

Chadd: Sure, sure. My name's Chadd Garcia. I work for Ave Maria Mutual Funds. We are the largest Catholic family of mutual funds in the U.S. We have about three billion under management with six different fund strategies. Yeah, you can find us at www.avemariafunds.com or 866-AVE-MARIA.

Dave: All right. Terrific. Well, you know, as we dive in here, I think some people might look at themselves as the exceptional investor, and savvy and effective with a long history. But most people, even people who make a lot of money, will find themselves to feel pretty inadequate when it comes to properly managing their finances. So, you know, I'd love to dive into just basic common mistakes. And I know you've highlighted four particular mistakes that people make. So, would you be able to just kind of share some ideas what those mistakes are? And also, people who basically come from humble beginnings who, you know, find a way to be more responsible with their finances than even some people who might have earned more and finished in a better place.

Chadd: Right. Well, every now and then you hear a story in the news. I remember a couple of a secretary out of the Chicago area and a janitor, I believe, was out of New Hampshire or Vermont, and they lived very humble lives. And the toys in their life they passed, and they ended up leaving several millions of dollars to charity. And their neighbors and friends and family were surprised, because there were no outward signs of wealth. And then conversely, there's similar stories where you have somebody with an Ivy League education and they have high income jobs, and they can't control their impulses, and spend too much money and then, you know, end up bankrupt. And so, you know, what lessons can we take from the secretary in Chicago and the janitor in the Northeast and apply to ourselves, so, how do they amass such wealth? And I think, you know, one quick aside is that, you know, wealth is often hidden and not displayed. You know, the secretary and the janitor didn't have high incomes, but they paid themselves first and they invested throughout their entire lives. So, they let the power of compounding work for them. So, I think investors, you know, the first mistake an investor can make is not saving enough or, you know, not starting early. You really want the power of the compounding to work for you. Compounding being earnings on top of earnings.

Dave: Yeah, I want you to get into that a little bit more, I mean, just even if you could take, you know, an example of what that looks like over that period of time. A person makes an investment at whatever age, and we've seen a lot of these graphs and what that means. But it seems like every time you see that, it's pretty overwhelming with what comes back. Interestingly enough, though, because we're on Relevant Radio, it does make sense to interject something that I think is important. When you look at that person who has maybe the Ivy League background and doesn't have to be Ivy League, but a person who basically has the opportunity for prestige to be associated with either their education or their title or their power or the income that they have. And that person, not always, but sometimes, in fact, even quite often will finish life with less than somebody else who came from more modest terms. You know, there's a classic saying that you never see a U-Haul being towed behind a hearse, right? You can't take it with you. That's true. But at the same time, there's many good things you can do with it. And people who have this attachment to their prestige, that is an impulse that's very difficult. In other words, I need to buy this car, because if I have that car, that says the story of who I am. OK, I need to wear this label or have that kind of watch, because if I have it, it

means that I will be honored and respected the way that I should. And that's where I get my honor and respect. So, I'm going to hang on to this forever. And I will not be detached from it. Of course, Catholic teaching is, we need detachment. What does that mean? It means you can have that actual nice watch and that same car and wear that label, but not look at it as your identity, nor look at it as something that you need to retain in order to be who you are, and you would just never let it go. You've got to have this sort of thing. Or, that you would have that at the cost of not being able to be charitable to those people around you, to support others. In other words, it's all vain glory, right? So, there's this kind of important prudential virtue, justice-oriented type of thing that matters, I think, for a person, even before they enter into this idea of, you know, not saving enough or not beginning early enough. I would imagine, Chadd, that while most people are investing in your funds, you're not working with them directly as a financial adviser. You know, you would be at least, you know, in association, keenly aware of the fact that having high virtue helps an investor.

Chadd: Yeah, I would agree with that, because, I mean, go back to the secretary versus the Ivy Leaguer in the earlier examples. I mean, if you are able to control your impulses, then you're better able to start saving early and continue, you know, having a long investment history. So, you asked for some examples of what the power of compounding is. Well, if you make seven percent compounded in return for 30 years, you're going to end up with a little over seven times your money. If you extend that another decade, if you make a seven percent return over 40 years, you end up with 15 times your original investment - and that's not including if you invest every month, that's just on the starting principle. If you make a 20% return for 10 years, then that gets you to about six times your money. So, what it shows is that even with modest returns, you can have extraordinary results if your time horizon is long. And so, I know that when people start out earlier in their career, they're not making as much. And it may be harder to temper your impulses and to save. But usually the earlier you start, the better.

Dave: Yeah, it is an interesting thing too, I mean, a lot of people kind of imagine that "oh, if I had a windfall and I put it away, what do I get?" But is that really, is that idea of taking whatever portion you're able to, and even on a monthly basis, being able to put something new in, because of you? You know, let's just take a thousand dollars, for example, not monthly necessarily. Some people do it a month later. It depends on what

their income levels are at - some more, some less, and some substantially less, you know, each to their own ability. Right. But people will think about that $1,000 example and they'll say, "OK, we'll play that out, you know, 40 years, and I could get use of 20 times a return on that if you were at seven percent or something, in that ballpark. So, wow, that's twenty thousand dollars. Yes. Well, if you think about that, what if you did a few hundred dollars every single month? OK, and you take that two hundred dollars times that 20 times return every single month over a period of 10 years. In other words, we're talking about 120 deposits here, right? This idea that consistently doing this, of course, you get a bit of the classic dollar cost averaging effect, although, how does that affect a mutual fund?

Chadd: Just like it would any other.

Dave: Just like anything else?

Chadd: Yes, because an investor presumably would be putting their money in, you know, in increments, and then so the mutual fund is valued at the value of its holdings at each day. So, when new money comes in, it buys in at the at the asset value of the fund at the end of the day.

Dave: So, let's talk about mistake number two, Chadd. This this one this one is a big one, I think, for a lot of people. And, you know, it's being forced out of the game, et cetera. Talk more about how that gets in the way.

Chadd: Well, one of the cardinal rules of investing is to be able to survive. So, people that are forced out or are usually forced out for a couple of reasons. One, an investor is investing into speculative or risky investments, or they take on leverage, so they take on a loan based on the holdings of their portfolio in order to amplify the returns. And when you amplify your returns with leverage, you also amplify your risk. And so, if you have a large down draw in the market, you know, you may be forced to sell. So, you know, the mistake number two is, don't be forced out of the game. You know, be prudent in your investments.

Dave: Yeah, and, you know, there's, I think, a reverse side of that, where people feel as though they take such an over-conservative stance, that they never enter the game. And so, you know, we talk about on this show all the time, and Kevin, our producer, would tell you that, virtue is one of the things that comes out most. And of course, the bedrock of all virtues, at least it's the charioteer of the rest of the virtues, the cardinal virtues, is prudence, which is the mastery of decision making. And to know how much should I invest? How much should I not? And to be able to take action like that, really is an essential thing. So, it's an interesting thing how, you know, the topics that we talk about regarding leadership and everything else, they really come full circle and they land right here, even in this side of each one of our financial lives, which is really an essential part of being good stewards. So, we are onto mistake number three. Chadd, what would that be?

Chadd: Well, I think that your point was a pretty good segue into, that is, being too scared to be an investor. And so, mistake number three is selling at the bottom. So, if you if you have a big down draw on the market, and you know this is, of course, under the assumption that you're not going to need the money for a long time, you're a long-term saver, the mistake is selling at the bottom and not getting back in, or just selling in general. And, you know, this mistake I saw personally with my in-laws. Now this happened before I met them, but my father-in-law bought his farm in the early 80s when interest rates were high. So he was, you know, very frugal that the high interest rates forced him to start a second business. And then, you know, over the next couple of decades, he did quite well, where he had a sizeable nest egg to invest. And he got into the market right at the height of the tech bubble. And a couple of months after he got into the market, the market fell. He sold at the bottom, and he hadn't bought stocks for, you know, probably a decade and a half after the crash of the other tech, the tech market in early 2000s. They're lucky that they're in a nice place with their businesses and their farm. They accumulated a nice nest egg. They don't need the money, they can be long-term investors, in lieu of being in cash and being in annuities. My wife and I talked them into getting back into the market, which they did via some of our funds, as well as some index funds and a couple of individual stocks. The importance of holding in a down draw - continuing to invest if you're not going to need the money and you're a long-term investor. And when we had the crisis in 2020, when Covid first hit and there was a massive U.S. drawdown in the market, they held pretty firm. So, they learned the lesson.

Dave: Yeah. You know, it's an interesting thing, because there's a classic saying, you know, "buy low, sell high". But I notice in your notes, it's really more about not selling at the bottom. And I've heard this over the years, too, that really, it's more about don't sell low. In other words, if you're into dollar cost averaging, you know, you're just going to basically not try to time the market, you're going to consistently buy. It means that at times you will buy high. I've seen some statistics, too, where if people bought at the worst time, in other words, the high times of the market over and over and over again, and they just were consistent, they always did it and they never stopped, they didn't go sell, that they still accumulated pretty incredible wealth, as opposed to people trying to time the market. And I'm sure you're familiar with that sort of thing, but it just kind of stands out. Would you say, by the way, that it is much more about don't sell at the bottom as opposed to worrying too much about the buying side?

Chadd: Well, it depends on your strategy. If you're exposed to a general market or to a mutual fund, I think it's more about time in market as opposed to time in the market. Yes. So, the time that you spend in market's going to generate you more returns than trying to pick the best time to enter or exit. You know, with respect to individual stock investors like what we do here, I mean, I have some colleagues, you know, that run some other funds and they focus on - they take a value, what they call a value approach. So, they're looking to buy something that's worth a dollar for 50 cents. And then when it gets up to a dollar, they sell it, and they go on and look for the next one. In the Ave Maria Focused Fund and Ave Maria Growth Fund, which are the two funds that I'm closely, you know, most closely associated with and co-run, we look for companies that are going to grow their earnings over a long period of time and we worry about paying a reasonable price for them and then letting them grow their earnings for a long period of time.

Dave: Yeah, I mean, all that makes sense. I think, too, if a person, first of all, has the time to, you know, look at this on a regular basis, it's going to be a little bit different. When you put it in the hands of professionals like yourselves, and it's just like, "You know what? I'm going to send that check out every single month and it's going to be managed effectively. And I'm not going to sit there and get too worried or anxious looking at whether or not, you know, my stock market cap is red or green and what's happening

there.” We have only about 45 seconds left. Mistake number four, trading too much! Talk about that,

Chadd: Trading too much. The more you trade, the more chance to introduce error, the higher cost of your trading commissions and fees, and the most likely higher tax ramifications.

Dave: Yeah. I can't believe how fast this went. There are so many things that are important. And in fact, I want to hold over to next week, how to avoid some of these particular mistakes. So, when we're back in a couple of weeks talking, let's talk about that. Great advice today. You've been listening to the Dave Durand Show. It's just great to be with Chadd. It's great to be with all of you on a regular basis. If you want to be part of the discussion, you can email me at Dave@relevantradio.com. Look forward to talking to you next week.

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