



CHADD GARCIA ON RELEVANT RADIO – MORNING AIR SHOW

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John Morales: Want to switch gears and talk about money issues that are on the minds of many Americans. On Sunday, Democrats in the Senate voted along party lines to pass the so-called Inflation Reduction Act. All 50 Democrats voted for the bill while all 50 Republicans voted against it. Vice President Kamala Harris broke the tie vote. The question is, what is this bill all about and how is it going to affect us? Will it really reduce our record inflation? Joining us now for much more perspective is Chadd Garcia, Vice President of Schwartz Investment Counsel, Inc., the lead portfolio manager of the Ave Maria Focused Fund and the co-portfolio manager of the Ave Maria Growth Fund. Good morning, Chadd. Thanks so much for joining us once again. It's good to be with you.

Chadd Garcia: Good to be with you.

John Morales: Chadd. As you know, this issue of inflation and our economy is on the minds of so many Americans these days. Finally, on Sunday, the Senate Democrats got their big bill passed. Can you explain to us what this so-called Inflation Reduction Act means that has been presented by the Democrats?

Chadd Garcia: Sure. Sure. Well, I'll give you my three takeaways on it, and then we can go into some of the specifics. But the first one is that it's not likely to help inflation. So that's one of the negatives of the Inflation Reduction Act. One of the positives is that it's taken a balanced approach to our transition to renewable energy. If you look at what's come out of the Democrats in the last couple of years and their actions towards the oil and gas industry, it's been let's put this industry out of business, which that has not helped or our recent inflation issues. That's hurt it. And I think they've may have learned a bit of their lesson there. And so, while this bill is going to fund a lot of the transition to renewable energies, it also recognizes that the oil and gas industry is going to be with us for decades

and we're going to need it in the meantime. And then the last takeaway is that the costs are of this bill are likely to be more by the by the middle class.

John Morales: Now, why do you feel and you're not the only one, there's a lot of people who are agreeing with you that it's not likely to make a dent in the inflation situation. That we have this record inflation.

Chadd Garcia: Mm hmm. Well, let's go through some of the issues with the with the bill. So, one of the first ways that the bill is increasing government revenue is by putting a 15% corporate minimum tax on companies with book earnings higher than \$1 billion. And so, companies, they keep two sets of books. They have the financial reporting books that managers use to understand what's going on with their business and run it. And investors use to understand the business and decide if they're going to invest in it. And then they have the tax books. The tax depreciation, which is what you can write off, is governed by its own set of rules. And currently the government gives industries tax breaks on new money that they put to work in their business. So new investments and new investments in the businesses are deflationary. So, what they're saying is that while we're giving you these breaks, because we want business to invest in their businesses and come up with new products and services and bring down their prices. For companies that are larger. We don't we want to take that away. So that's not going to be disinflationary. That's going to be inflationary. If you look at the costs for this, they're going to give \$80 billion to the IRS to bolster their enforcement and audits. That is likely going to be going after small businesses. They are imposing a 1% tax on share repurchases so companies can return money to shareholders in two ways. They can do it via dividends, or they can go into the markets and buyback their stock. Investors typically take their dividends or their money that they receive from share repurchases and reinvest it into other companies. Those companies can go out and fund innovation and investments. So, this is going to be inflationary. It's not going to be disinflationary. And then another example of this. Targeting the middle class and less on the wealthy is that in the end, they decline to eliminate the carried interest tax loophole for private equity. And so private equity funds invest by buying whole companies and take it in private. And if they make it an investment return, they earn a fee on that. That fee is currently taxed as a long-term capital gain, which is a shorter which is which is a much smaller amount than current income is taxed

at. And so, they could have funded a good part of this by eliminating that loophole. But they preserved it for what essentially are wealthier taxpayers.

John Morales: The Republicans have pushed back big time, saying that the Democrats are going to pay for this bill in the mid-terms in November. And they also argue that the measure does little to tackle higher prices, that it's actually going to exacerbate the current inflation crisis. What do you think, Chad?

Chadd Garcia: At best, it's going to be neutral on inflation. It could be inflationary, but at best it's going to be neutral. It's not going to lower inflation. I mean, there are some provisions, if you look at Medicare is going to be able to negotiate drug prices, which they haven't been. That was the trade off with the drug companies to get them to support Obamacare when that was passed. And so that's being removed. So that would be disinflationary. But there's all kinds of provisions in here that are some of them are going to be inflationary. Some are the best. This is going to be neutral.

John Morales: What about the spending on the climate initiatives? I know you thought that they have more of a balanced approach with this aspect of the bill.

Chadd Garcia: Well, they have a balanced approach with respect to having provisions that help the oil and gas industry, too, which is recognizing that that's going to be with us for a while. But some of their spending, there's going to be an investment tax credit for green energies. In the past, these credits apply to wind and solar, and now it's going to be based on technology that meets certain emission criteria. So, they're not going to pick winners and losers. I think that's pretty wise of them. There's going to be a carbon capture tax credit, which is helpful because it shows that oil and gas industry can coexist with the transition to sustainable energy. The one kind of boondoggle I think in there is that there's going to be an extended tax credit for electronic vehicle purchases and they seem to have carved out Tesla because Tesla likely because Tesla doesn't have any union workforce, but that tax is going to be a 70 \$500 tax credit for people that purchase certain electric vehicles.

John Morales: Chadd, a final minute that we have. Just your quick thoughts on the IRS agents. They're looking to spend \$80 Billion to hire tens of thousands of agents. Is this a little concerning for a lot of folks?

Chadd Garcia: Well, they're going to want a return on their investment. So, the way that they get the return is going to be through increased audits and enforcement.

John Morales: People think that obviously that means the IRS is going to be going after small businesses more than ever before.

Chadd Garcia: I would think that that would be the target.

John Morales: Which again, would be concerning to anybody that's a small business owner.

Chadd Garcia: Well, an average audit costs somebody \$20,000 in attorney and accounting fees, regardless of if they're if they file the taxes correctly or not. And so that expenses will have to those expenses will have to be bore by the business and pass along in the prices of their goods and services as well.

John Morales: Chadd. Time will tell if the Inflation Reduction Act actually does what it claims. As always, thanks so much for being with us.

Chadd Garcia: Great to be with you.

John Morales: Chadd Garcia, Vice President of Schwartz Investment Counsel.

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