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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Using a Value-Minded Approach to Investing

ERIC M. TEAL is Chief Investment Officer and Managing Partner of Queens Oak Advisors. He has overall responsibility for the firm's investment strategy and results. Previously, Mr. Teal was the Chief Investment Officer of a regional bank and led the organization's Capital Management Group for over 10 years. Mr. Teal received a B.A. degree in economics and international studies from Rhodes College and an MBA from the University of Memphis. He also studied at the London School of Economics.

SECTOR — GENERAL INVESTING

TWST: Could you tell me a little bit about the firm?

Mr. Teal: We are a wealth and asset management firm that focuses on tailored solutions for individual and institutional clients. We develop financial planning and asset allocation approaches for high net worth investors and manage value equity and bond strategies for institutional and individual investors.

TWST: Does the firm have a unique investment philosophy?

Mr. Teal: Yes. We strive to preserve and grow our clients' capital over a long-term horizon by really focusing on fundamental principles, including owning undervalued investments.

TWST: I understand that you have a more holistic approach that involves risk, return and portfolio construction.

Mr. Teal: Yes. We tend to look at portfolio construction on a holistic perspective for clients, managing investments for conservative — as well as aggressive — investors depending on their risk and return objectives.

TWST: Did you want to highlight a stock that you find interesting right now?

Mr. Teal: At this point, we are attracted to bank stocks after many years of under-owning financials. We think that large-cap banks are well-positioned to grow their net interest margins and realize higher reinvestment yields — even at this point — in the later stages of the economic cycle. So we favor some of the largest banks and superregionals that we think are best positioned in this environment, including **PNC Bank** (NYSE:PNC) and **BB&T** (NYSE:BBT).

TWST: Maybe you could get into some detail on both of those banks.

Mr. Teal: PNC is a superregional bank with high credit quality, has benefited from solid net interest income growth and rising margins. They have solid capital ratios, and they have really done an exceptional job of competing against nonbank competition. **PNC** has a well-diversified revenue stream, including wealth management and Treasury management. We believe that their exposure and expansion, particularly in the Southeast, positions them well moving forward — and find the valuation attractive. Finally, they've been able to be really disciplined about expense growth, which we think is important at this stage in the cycle.

TWST: Have they largely grown through mergers and acquisitions, or has it been more organic over the years?

Mr. Teal: Since the financial crisis, they've primarily grown organically. Prior to that, they had significant growth through M&A activity. We find their capital deployment, including share repurchasing and payout ratio, disciplined and attractive for investors relative to other financials.

TWST: Do you think that they might continue to expand in the next couple of years?

Mr. Teal: Yes. I think continuing to fill in areas along the East Coast would be their expansion strategy. And they're very disciplined about headcount and branch closures as well. So we believe it's one of the best-run banks in the regional category.

TWST: You mentioned a second bank too?

Mr. Teal: Yes. **BB&T** also has had decent net income growth and margin expansion. Like **PNC**, their credit quality has remained exceptional. They have done a good job of controlling noninterest expense. They have continued to expand in the Southeast but also rationalizing their branch strategy. Their capital ratios remain strong. And we find the investment thesis compelling for **BB&T**.

TWST: Do you think that more generally with superregional banks — given where the national economy and the stock market are right now — that they're going to get a lot of accounts and money in from businesses and business activity?

Mr. Teal: I think that commercial loan growth will continue to decelerate as it has in previous quarters. **PNC** and **BB&T** have relatively conservative lending strategies, which we think is prudent during the later stages of the economic cycle. Both of the banks will tend to benefit from a fall in FDIC assessment expenses, and we think that both are in very good positions for a pickup in loan repricing that's set to occur in future quarters. And finally, these banks are reinvesting their securities portfolios at higher yields, driving some pickup in their portfolio. So I think the operating leverage in both banks remains positive and that they're well-positioned to grow earnings moving forward.

TWST: Are there any other sector besides banks you care to mention?

Mr. Teal: Outside of financials, we have generally become a bit more defensive in our value strategy. For example, within retail, we have emphasized the dollar stores and favor **Dollar General** (NYSE:DG), given it's a company that does well even in volatile economic conditions. But given the multiyear wage increases and tax reform, we think that the dollar stores can work in an improving economic scenario as well as an economic slowdown. And so we continue to like the operational side and the targeted customers within the dollar store industry and believe that the spending behavior of the consumer bodes well for the sector.

Highlights

Eric M. Teal discusses Queens Oak Advisors. Mr. Teal aims to preserve and grow client capital over a long-term horizon. He does this by focusing on quality and value. Mr. Teal also uses a holistic approach to portfolio construction and manages investments based on each client's risk and return objectives. After many years of under-owning financials, Mr. Teal is currently attracted to bank stocks. Within retail, he is emphasizing dollar stores as he has become more defensive in his strategy. He is also warming up to consumer staples.
Companies discussed: PNC Financial Services Group (NYSE:PNC); BB&T Corporation (NYSE:BBT); Dollar General Corp. (NYSE:DG); Amazon.com (NASDAQ:AMZN) and Hershey Co. (NYSE:HSY).

Mr. Teal: Finally, we've begun to warm up to consumer staples after many years of underweighting. Regarding the staple stocks in particular, we've invested in **Hershey** (NYSE:HSY), and really, we see a lot of organic growth opportunities within this food company. We believe that the shares right now are trading at slightly below fair value. They have a little less pricing power than they've had in the past, but they've been very disciplined in regard to expense management. And we continue to like the growth in the chocolate category as well as some of the new products that **Hershey** plans to bring to market.

So after years of flat or poor relative performance for consumer staple stocks, we've looked hard to find a good investment that might do well within the sector and not be subject to the increased volatility that we've seen in the stock market over the past year. We believe that the lower volatility of **Hershey** as well as an attractive dividend yield provide us a favorable investment thesis for the company.

TWST: Did you want to maybe give an example of one of their new products that you find interesting and promising?

Mr. Teal: The thins category is a new product that is similar to the minis that came out from **Hershey's** a few years ago. Both are related to new snack sizes and healthier lifestyles. Reese Thins, for example, are something that I think many consumers will find satisfying to experience.

TWST: Changing direction a little bit, part of who you work with are institutional investors. As you talk with them and you look at next year, 2019, what are some of the issues that they're looking at that are concerns?

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TWST: From what I understand, with some of the dollar-type stores, if the economy isn't as strong or there's a lot of volatility and people are concerned about spending on retail, they will go to the dollar stores, or when the economy is better, you've always got the people that are looking for those kinds of low-price items.

Mr. Teal: Yes, precisely. And we believe that they're less susceptible to competition from online retailers like **Amazon** (NASDAQ:AMZN). Folks that tend to frequent the dollar stores do so for comparison shopping and favorable pricing that you can only find within that dollar store industry.

TWST: Are there any other sectors or companies you care to mention?

Mr. Teal: I think some of the chief concerns will be the emerging and international investments and how they will be impacted with an ongoing trade war with China and how widespread that slowdown might ripple through international markets. Over the last several years, investors have been really taught to focus on global asset allocation, and at this point, we still favor domestic allocations over global equities. And we think that investors have underestimated the volatility that accompanies international investments, particularly emerging-market equities and bonds. So we do favor domestic stocks over international, and we strongly favor value over growth at this stage of the economic cycle. All of which, I believe, bodes well for our value-minded approach to investing.

TWST: Sometimes, the anxiety over not having a trade agreement might cause some volatility and concern among investors regarding whether to invest in foreign companies. Maybe there's more to it than just that. There are risks and volatility with some of these foreign companies, especially in emerging markets, so investors in the United States might want to invest in domestic companies?

Mr. Teal: Yes. We're not exactly sure how the trade war scenario plays itself out with the Trump Administration. Nevertheless, we believe that investors have been oversold about the need to invest outside of domestic markets. There is a role for international allocations, but even professional asset allocators tend to chase historical returns at the wrong time. And so the U.S. economy, we believe, is in the best position going forward. And allocations to international and emerging markets are for long-term aggressive investors who are comfortable with the volatility associated with the asset class.

1-Year Daily Chart of PNC Financial Services Group

Chart provided by www.BigCharts.com

TWST: I would think that would also be an issue for people who might be in their retirement years or close to retirement where they don't have a long time to make up for a very volatile environment and they want less volatility in the equities that they choose. Would that be fair to say?

Mr. Teal: Absolutely. If the investment horizon is not long enough, then they would not be in a position to withstand a protracted downturn. And we believe that this is probably under-communicated to investors because they often forget how frequent financial crises occur within international and emerging markets. And so we believe that the domestic markets that have greater quality, transparency and relative attractive valuations bode well for investors at this stage.

TWST: Is there anything we didn't bring up you care to mention, either about the firm or some trends out there?

Mr. Teal: Well, I think we touched on it, but it bears repeating, and that is the return to the value investment style as opposed to the growth investment style that's been in favor for the last several years. The stock market, like in the late 1990s, has been driven by a handful of high growth technology stocks, known as FAANG. They have lofty growth expectations and high valuations that might become challenging at some stage. We don't pretend to know precisely the inflection point or when the expectations get re-priced, but we have found that by focusing on quality and value that we're able to help preserve and compound our clients' capital over a long-term horizon with less volatility and greater margin of safety.

TWST: Thank you. (ES)

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