Solid Cash Flow Value Investing: An Exclusive Interview With Steven C. Demas Of The Archer Funds

THE WALL STREET TRANSCRIPT

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67 WALL STREET, New York - November 19, 2010 - The Wall Street Transcript has just published its TWST Investing Strategies Report offering a timely review of the sector to serious investors and industry executives. This special feature contains expert industry commentary through in-depth interviews with public company CEOs, Equity Analysts and Money Managers. The full issue is available by calling (212) 952-7433 or via The Wall Street Transcript Online.

Topics covered: Undervalued Assets With Potential - Top-down Approach - MLP Investing Strategies - Value-driven, Long-only Strategy

Companies include: Coca-Cola (KO); Interpublic (IPG); Wilmington Trust (WL); ACE (ACE); AIG (AIG); AXA (AXA); Abbott Labs (ABT); AntarChile (ANTARCHILE); Asatsu (9747); Atrium Real Estate Limited (ATRIUM); BP (BP); Bank of America (BAC); Baxter (BAX); Becton, Dickinson (BDX); CR Bard (BCR); Chesapeake (CHK); Citigroup ©; Colbun (COLBUN); Cubist (CBST); and many more.

In the following brief excerpt from just one of the many interviews in this Investing Strategies report, an experienced money manager discusses the outlook for investors.

Steven C. Demas joined Archer in April 2009 as a Portfolio Manager. Mr. Demas was previously employed at Morgan Stanley (MS), where he served as a Vice President from 2000 to 2009 and a Sales Manager from 2007 to 2009, leading over 50 financial advisers. From 1994 to 2000, Mr. Demas was employed by Raffensberger & Hughes/National City Investments as a Financial Adviser.

Although Mr. Demas has no prior experience managing a mutual fund, he has had substantial experience managing non-discretionary brokerage accounts. During his tenure at Morgan Stanley, he managed accounts representing over $100 million. Mr. Demas graduated from Indiana University in 1989 with a business degree in marketing.

TWST: How has the fund performed over this year? How does the 2010 performance compare to your benchmarks?

Mr. Demas: We are up just around 4.0% year to date. I don't want to dismiss the question for what our returns are, but returns are really secondary. We are a preservation-of-capital story. We know our returns are going to come. During the fourth quarter of 2009, Archer was ranked in the top 1% out of 3,800 balanced funds. I know looking at one quarter isn't a long-term indicator, but our returns come in spurts. Investing in undervalued companies takes patience. Eventually they find the spotlight.

That quarter, it was NutriSystem's (NTRI) turn and a couple of health care names. It only takes a couple of

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companies to pull the whole portfolio in the top quartile when you have 32 holdings. We're heavy energy and utilities right now, and when these cash-cow companies run, so will our returns. Our energy holdings have held us back this year, but they have become more attractive since the BP (BP) explosion, and we have been adding to our positions. It takes discipline to be a good value investor.

TWST: To continue with Morningstar, the last thing I found on your Web site was the annual report from February. So I was looking at the holdings through Morningstar, and it appears that you are pretty heavily invested in health care. What do you see there?

Mr. Demas: We see an aging population and some health care companies producing a lot of cash flow. Some of the larger holdings are Johnson & Johnson (JNJ), Baxter (BAX) and Abbott Labs (ABT). One of my favorites in health care is a smaller company called Cubist (CBST), it's a billion-dollar drug company that's producing a lot of free cash flow and has accumulated $10 a share in cash. They have a drug, Cubicin, which treats MRSA, Methicillin-resistant Staphylococcus aureus, a bacteria that is difficult to treat. This super bug continues to develop resistance. I came across MRSA from interviewing a pharmacist. In the chain of command, Cubicin is the last line of defense. If you've contracted the staph infection, it could take your limb, it could take your life, and the application is expensive.

This is a company that I can't put a price target on because they have a patent challenge by Teva Pharmaceuticals (TEVA), a generic company, and when the case goes to court April of 2011, pending the outcome, it could be undervalued.

TWST: They also listed you as heavily invested in financial services. Would you speak to your rationale there?

Mr. Demas: We weren't; we are now. One of the reasons we underperformed in 2009 was we got out of the financials in 2008 and never got back in. We saw no catalyst to get back into banks. We sold Bank of America (BAC), AIG (AIG) and Citigroup © early in 2008, as their balance sheets were deteriorating. We still lost a little bit of money. We started coming back into financials late 2009 and early 2010, specifically into banks that paid back TARP. There were 140 bank failures in 2009 and 142 bank failures this year; it's still ugly right now. We are really studying this area. We have been leaning towards some of the big money centers, and we've been investing, so I can't really mention any specific names. I would say that the banks we like are the ones accumulating deposits and market share. When lending comes back, these are the banks that are going to lead the way. They will also be the ones that bring their dividend back first.

TWST: How do you use REITs in the portfolio these days? It looks like you have some fairly sizable REIT stakes.

Mr. Demas: That's the specialty of John Rosebrough, who has been studying REITs, I think, probably his whole life. We like the asset class. REIT's are great anchors for our balance fund. Rent collecting is a great business. From the funds perspective, we love the dividends, and we like the total return. Government Properties Income Trust (GOV) is one of the REITs we own now. It basically leases to government tenants; it's 99% leased and pays a 6% dividend.

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