

## BEST MUTUAL FUND AWARDS

### Contrarian Pin Oak Equity Rises To The Top

BY SCOTT LEHTONEN

Financial stocks had a strong surge in 2016 and Pin Oak Equity Fund (POGSX) was primed for that industry move, which helped drive the fund up 19.25% on the year.

That was enough to surpass the S&P 500's 11.96% gain in 2016. The fact that Pin Oak Equity also beat the S&P 500 in the past three, five and 10 years means the fund joined the rare club of IBD Best Mutual Funds 2017 Award winners.

It won top honors for being among the top five among its blend fund peers, large-cap peers and overall U.S. diversified equity funds tracked by Morningstar Inc. Blend funds have substantial investments in both growth and value stocks.

How did Pin Oak Equity achieve this extended high level of performance? By maintaining a long-term perspective and a willingness to go against the crowd, says fund manager Mark Oelschlagel, who has navigated Pin Oak Equity to the forefront of long-term performers.

"We don't try to beat the benchmark in a given year," he said. "We try to beat it over a long period of time, and if we do that the short term takes care of itself."

The fund has 42.5% of its assets in financial stocks at year-end, a big overweight vs. the S&P 500's 14.8%, which is the main reason for the fund's drastic outperformance in 2016.

The overweighting extends back to 2010-11. Oelschlagel was drawn to his positions by their low valuations. But he acknowledges that the call on financials was a bit premature: "The rise in rates and stocks took longer than expected, but the good news is the fund performed well while we waited."

The top three holdings of this 35-stock fund at year-end were all financials: **Charles Schwab** (SCHW), **Bank of New York Mellon** (BK) and **Wells Fargo** (WFC). Together they accounted for about 17% of assets. Coming into 2016, the fund had existing positions in these stocks and significantly added to them throughout the year.

The fund's conviction in Schwab — its biggest position, at 6% — comes as the company transitions from a traditional brokerage house into an asset gatherer. Its assets under custody are closing in on \$3 trillion. The revenue derived from commissions are relatively small at about 10%. It makes most of its money from other services. **TD Ameritrade** (AMTD) and



**Pin Oak Equity Fund was able to maintain a high level of performance the past 10 years by maintaining a long-term perspective and a willingness to go against the crowd, says fund manager Mark Oelschlagel.**

**E-Trade** (ETFC) have much more exposure to commission reductions, which have swept the industry this year. The latter brokerages derive about 40% and 23%, respectively, of their revenue from commissions.

It wouldn't be called conviction unless there were some rough times to endure. During fall 2016, Wells Fargo came under fire over a customer account scandal that forced the retirement of Chairman and CEO John Stumpf. Although Oelschlagel was "disappointed to learn how widespread" it was, the fund concluded that Wells' unethical sales practices didn't have a significant impact on the firm's overall financial success.

All told, Schwab rose 20% and Bank of New York Mellon 15%, while Wells Fargo lagged with a 1.1% gain.

Looking forward, Oelschlagel has begun to trim his financial positions a bit because the risk/reward is no longer as compelling as in the summer 2016.

Pin Oak's focus on long-term prospects has also led it to take large position in **Amazon.com** (AMZN) and **Alphabet** (GOOGL).

Amazon exemplifies many of the aspects of quality that Oelschlagel seeks in a stock. Last holiday season, Amazon shipped more than 1 billion items worldwide, which the retailer called its best year ever. According to a Slice Intelligence report, Amazon's share of the U.S. e-commerce market during the 2016 holiday season was 38%, compared with No. 2-ranked **Best Buy's** (BBY) 3.9% market share.

Geopolitical events like Greece's referendum in July 2015, Brexit in June 2016, and last

November's surprise election results speak to Oelschlagel's point that the future is uncertain and maintaining a "healthy respect" for the unknowable is crucial to avoiding the many pitfalls in the fund management business.

In each of those cases, the consensus opinion got the outcome wrong, leading to high market volatility over the short term. And then just like that the storm ended, the market corrected course and headed inexorably higher.

The fund is able to use the market's overreaction to short-term news to add to or start positions in stocks that the fund considers long-term winners with constructive fundamentals.

"We're good at taking advantage of the fallout when the market gets overly focused on the short term and loses sight of the long term," Oelschlagel said. "That is where we make our hay."

#### Portfolio Management

Using a combination of top-down and bottom-up approaches has helped the fund achieve its outperformance in the four periods. The fund examines the general market and the economy, which leads it to certain sectors.

Once the fund identifies the right sectors, Pin Oak Equity then uses a variety of valuation metrics to determine the attractiveness of a stock. Those include free cash flow yield as well as price to earnings and price to book ratios. The fund also looks for the hallmarks of a quality business, such as scalability, barriers that prevent potential rivals from entering its market, potential pricing power and other competitive advantages.

Several years ago, Washington, D.C., became embroiled in fights over the federal budget that could reduce government spending across the board, particularly in defense contractors. Pin Oak Equity took advantage of this growth scare to look for attractive opportunities in the aerospace/defense sector, like Lockheed Martin (LMT) and Raytheon (RTN). From 2013 to 2014, these two stocks would rise 109% and 88%, respectively.

The fund's portfolio is not simply a matter of buying and holding. Conviction is essential. The fund is "constantly re-evaluating our thesis (on each stock) and whether it still makes sense. Sometimes stocks take a long time to pay off ... sometimes it happens quickly — you just don't know."

## Looking Ahead

While Oelschlager keeps his hand on the eject button, he's held on to many positions a long time. Pin Oak has a lower turnover ratio, and an average holding period is about six years. Over that time, short-term fluctuations can be ignored as long as the long-term

thesis remains intact.

Due to the general market's strong performance into March, opportunities are more difficult to find right now. But with an eventual pullback inevitable, the fund continues to look for attractive valuations.

"We don't try to predict the market, but we do get a sense of the risk/reward in the

market. ... We're a little concerned about the amount of optimism right now in the market as it has totally flipped from the way it was a year ago when everybody was nervous."

While the market action may remain unpredictable, the fund has a track record of handling it adeptly.

*Mutual fund investing involves risk, including possible loss of principal. Small cap investments typically exhibit higher volatility. Emerging markets involve heightened risks related to the same factors, in addition to those associated with their relatively small size and lesser liquidity.*

**To determine if this Fund is an appropriate investment for you, carefully consider the Fund's investment objectives, risk factors and charges and expenses before investing. This and other information can be found in the Fund's prospectus which may be obtained by calling 1-888-462-5386. Please read the prospectus carefully before investing.**

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Pin Oak Equity Fund (POGSX) seeks long-term capital growth by concentrating investments in stocks the manager believes are underappreciated by the market, irrespective of market capitalization. **Expense Ratio: 1.08%** Strategy: The Fund invests primarily in common stocks of U.S. companies that the Adviser believes possess prospects for growth that are underappreciated by the market. The Adviser invests with a long-term focus and seeks to keep the Fund's portfolio turnover to a minimum relative to its peers. Risks: The Fund's share price will fluctuate. You could lose money on your investment in the Fund and the Fund could also return less than other investments. The Fund is subject to principal risks including equity securities risk, foreign securities risk, investment focus risk, large cap risk, management risk, market risk, mid cap risk, and small cap risk.

You cannot directly invest in an index.

The S&P 500 Index is a commonly recognized market capitalization weighted index of 500 widely held equity securities, designed to measure broad U.S. equity performance.

Free cash flow yield is an overall return evaluation of a stock, which standardizes the free cash flow per share a company is expected to earn against its market price per share.

Price to Earnings Ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings.

Price to Book Ratio (P/B ratio) is a ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

Brexit is an abbreviation for "British exit," referring to the UK's decision in a June 23, 2016 referendum to leave the European Union.

Morningstar, Inc. categorizes Pin Oak Equity Fund as a U.S. Large Blend Equity Fund. Pin Oak ranked #10 out of 1,454 funds on a 1-year basis, #16 out of 1,365 funds on a 3-year basis, #15 out of 1,283 on a 5-year basis, #2 out of 1,122 on a 10-year basis, and #212 out of 905 on a 15-year basis. Rankings based on 03/31/2017 performance.

Top Ten Holdings as of 03/31/2017 include Alphabet, Inc. – Classes A&C, The Bank of New York Mellon Corp., PepsiCo, Inc., The Charles Schwab Corp., GlaxoSmithKline PLC – Sponsored ADR, Twenty-First Century Fox, Inc. – Class B, Paychex, Inc., Wells Fargo & Co., Capital One Financial Corp., The Travelers Cos., Inc. The top ten holdings are subject to change.

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#### **Fund Performance as of March 31, 2017**

	Quarter	Annualized			
		1 Year	3 Year	5 Year	10 Year
Pin Oak Equity Fund	3.69%	26.06%	11.10%	14.62%	11.25%
S&P 500 Index	6.07%	17.17%	10.37%	13.30%	7.51%

**The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, please call 1-888-462-5386.**