STAYING AFLOAT

With uncertainty plaguing the market, our stock pickers play it safe in 2013.

By Spencer Campbell
Feature

Table: Panelists' Picks for 2013

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Headquarters</th>
<th>Industry</th>
<th>Mkt.</th>
<th>Price on 11/26/12</th>
<th>52-week Range</th>
<th>One-year change</th>
<th>Source: Yahoo Finance</th>
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</thead>
<tbody>
<tr>
<td>BB&amp;T Corp.</td>
<td>BBT</td>
<td>Winston-Salem</td>
<td>Financial services</td>
<td>NYSE</td>
<td>$28.70</td>
<td>$21.17-$33.99</td>
<td>39.0%</td>
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<tr>
<td>Cree Inc.</td>
<td>CREE</td>
<td>Durham</td>
<td>Semiconductors</td>
<td>Nasdaq</td>
<td>31.92</td>
<td>20.32-32.88</td>
<td>33.8</td>
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<tr>
<td>Duke Energy Corp.</td>
<td>DUK</td>
<td>Charlotte</td>
<td>Energy</td>
<td>NYSE</td>
<td>61.31</td>
<td>59.37-59.84</td>
<td>8.2</td>
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<tr>
<td>Harris Teeter Supermarkets Inc.</td>
<td>HTS</td>
<td>Matthews</td>
<td>Grocery stores</td>
<td>NYSE</td>
<td>36.49</td>
<td>35.72-44.40</td>
<td>(3.7)</td>
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<tr>
<td>Hatteras Financial Corp.</td>
<td>HTS</td>
<td>Winston-Salem</td>
<td>Real estate</td>
<td>NYSE</td>
<td>26.42</td>
<td>24.40-29.67</td>
<td>17.9</td>
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<tr>
<td>Krispy Kreme Doughnuts Inc.</td>
<td>KD</td>
<td>Winston-Salem</td>
<td>Doughnut shops</td>
<td>NYSE</td>
<td>9.33</td>
<td>9.36-9.33</td>
<td>47.6</td>
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<tr>
<td>Piedmont Natural Gas Co.</td>
<td>PNV</td>
<td>Charlotte</td>
<td>Energy</td>
<td>NYSE</td>
<td>30.28</td>
<td>28.77-34.38</td>
<td>5.0</td>
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<tr>
<td>Reynolds American Inc.</td>
<td>RAI</td>
<td>Winston-Salem</td>
<td>Cigarettes</td>
<td>NYSE</td>
<td>42.93</td>
<td>39.23-46.68</td>
<td>13.3</td>
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<tr>
<td>RF Micro Devices Inc.</td>
<td>RFMD</td>
<td>Greensboro</td>
<td>Semiconductors</td>
<td>Nasdaq</td>
<td>4.19</td>
<td>3.52-6.39</td>
<td>(25.6)</td>
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<tr>
<td>SPX Corp.</td>
<td>SPW</td>
<td>Charlotte</td>
<td>Industrial equipment</td>
<td>NYSE</td>
<td>69.06</td>
<td>56.54-78.44</td>
<td>23.6</td>
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<tr>
<td>Triangle Capital Corp.</td>
<td>TCAP</td>
<td>Raleigh</td>
<td>Financial services</td>
<td>NYSE</td>
<td>24.71</td>
<td>16.78-26.52</td>
<td>61.6</td>
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<tr>
<td>VF Corp.</td>
<td>VFC</td>
<td>Greensboro</td>
<td>Apparel</td>
<td>NYSE</td>
<td>157.28</td>
<td>126.24-168.86</td>
<td>27.1</td>
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</tbody>
</table>

*adjusted for splits and dividends

PANELISTS’ PICKS FOR 2013

Bobby Edgerton can’t predict the stock market’s behavior. Luck, he claims, plays a bigger role than most analysts admit. So the president of Raleigh-based Capital Investment Counsel Inc. clings to certainties where he can: “I do the numbers so I can buy a company on the cheap.” That worked well last year, when he edged out Frank Jolley to win BUSINESS NORTH CAROLINA’S Hot Stock competition, and he’s sticking with the strategy this year.

The rules go like this: Five professional stock pickers select three companies from BNC’s Top 75, the magazine’s annual ranking of the largest publicly traded ones based in the state. The panelist whose trio of stocks has the highest average total return wins. In last year’s contest, which ended Nov. 25, Edgerton’s picks posted a 36.7% return, bettering Jolley by 0.2 percentage point. The thin margin of victory shows how much the panel improved compared with the previous year, when three of the five members finished with negative returns. Nobody did this time, with four beating the S&P 500.

Edgerton owes his victory to Mooresville-based Lowe’s Cos., whose stock price increased nearly 60%. “Lowe’s had fallen to around $20 per share, meaning the market was valuing the entire company at around $20 billion. Its property, plant and equipment was worth more than that.” He’s hoping that Mathews-based Harris Teeter Supermarkets Inc. offers the same sort of value in 2013.

“The stock market values it at $18.8 billion. Its P/E is at $2 billion. I’ve only got a year, but I figure at some point I’m going to make money on Harris Teeter.”

Jolley is high on Harris Teeter, too. The president of Rocky Mount-based Jolley Asset Management LLC likes its value, but he also chose it for the security the grocery industry provides, “I’m playing defense right now.” So is his competition — most members of the panel selected safe, high-dividend stocks.

That might sound counterintuitive considering their banner returns last year, but though most Top 75 companies boast strong balance sheets, our pros are uncomfortable with the amount of uncertainty in Washington, D.C. So in addition to commenting on their stock selections, we asked each to explain what the recent elections mean for investors. “We have some issues out there that are tempering optimism,” Jolley says. “And they’re more visible today than they were last year.”
ON THE ELECTIONS
The results are not positive, but good companies adapt. Corporations sit on $2 trillion in cash as a hedge against an anti-business regime. If you're going to tax millionaires, we need more of them.

CREE INC.
The first thing one always notices is Cree's balance sheet. Cash fluctuates between $700 million and $1 billion, not a penny of debt and no defined-benefit pension plan. Its normalized cash flow is $270 million. Margins have declined because of tight inventory management, but the light-emitting diode business seems solid.

HARRIS TEETER SUPERMARKETS INC.
This upscale supermarket chain sells at eight times cash flow, and market value is below its property, plant and equipment value of $2 billion. Its cash flow in 2011 was $272 million, and it sold its industrial-thread business for $180 million, resulting in its strongest balance sheet ever. Cash exceeds debt by $100 million. The move to more urban stores is a positive.

RF MICRO DEVICES INC.
This designer and manufacturer of radio-frequency chips for the cellphone industry has $250 million cash and $107 million of debt. The interest note on its long-term debt is only 1%. The profit drop it experienced last year created a great buying opportunity. Each new generation of cellphone offers more function, hence more business for RF Micro.
FRANK JOLLEY  President, Jolley Asset Management LLC, Rocky Mount

ON THE ELECTIONS
The first two years of a four-year presidential term tend to have the worst returns. Administrations implement unpopular measures, such as tax hikes. That cycle seems likely to repeat itself.

LAST YEAR’S RESULTS
Company (exchange-ticker) | Total return
--- | ---
Lowe’s Inc. (NYSE-LOW) | 58.3%
Coca-Cola Bottling Co. Consolidated (Nasdaq-COKE) | 31.1%
Nucor Corp. (NYSE-NUE) | 20.0%
Average | 36.5%

HARRIS TEETER SUPERMARKETS INC.
This Southeastern supermarket chain sold its American & Efird Inc. industrial-thread operations to a private investment firm in 2011 to concentrate on its grocery-store business. The stock trades at about 14 times its 2013 estimated earnings and is down approximately 19% from its 2012 high of $45.31.

P/E RATIO 22.9  YIELD 1.6%  BETA 0.77

PIEDMONT NATURAL GAS CO.
The stock offers good total-return potential as it pays a healthy dividend yield, and its current share price is approximately 13% below its 2012 high of $34.74. Plus, the regulated natural-gas distributor, which has operations in North and South Carolina and Tennessee, has increased its dividend every year since 1978.

P/E RATIO 19.9  YIELD 4.0%  BETA 0.54

REYNOLDS AMERICAN INC.
The second-largest producer of cigarettes in the nation, it also has a strong presence in smokeless tobacco. Its strong cash flow allows for share repurchases and a continually rising dividend. The stock has declined approximately 9% from its 52-week high and offers excellent total-return potential for investors.

P/E RATIO 17.6  YIELD 5.4%  BETA 0.42
LARRY CARROLL  President, Carroll Financial Associates Inc., Charlotte

ON THE ELECTIONS
I don't see any significant impact based on who's president. We will see a number of compromises in the next six to 12 months, but the issues of slow growth in the U.S. and recession in Europe haven't changed.

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<thead>
<tr>
<th>LAST YEAR'S RESULTS</th>
<th>Total Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company (exchange-ticker)</td>
<td></td>
</tr>
<tr>
<td>Park Sterling Bank Inc. (Nasdaq-PSTB)</td>
<td>46.1%</td>
</tr>
<tr>
<td>Nucor Corp. (NYSE-NUE)</td>
<td>20.0</td>
</tr>
<tr>
<td>Hatteras Financial Corp. (NYSE-HTS)</td>
<td>17.8</td>
</tr>
<tr>
<td>Average</td>
<td>28.0%</td>
</tr>
</tbody>
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KIRKY KREME DOUGHNUTS INC.
This is a great turnaround story. Since bottoming out at about $1 in 2009, the stock and the company have come a long way. CEO Jim Morgan shows real talent in leading companies through big changes. I think the turnaround is going to continue — its stock can do well this year regardless of what the economy and markets do.

P/E RATIO 4.1  YIELD na  BETA 1.08

HATTERAS FINANCIAL CORP.
This mortgage real-estate investment trust, which is managed by Winston-Salem-based Atlantic Capital Advisors LLC, invests in securities backed by government-sponsored enterprises. The yield has fallen to around 12%, but I don't anticipate high market returns this year. If Hatteras yields more than 10% on the current price, I'll be satisfied.

P/E RATIO 7.5  YIELD 12.0%  BETA 0.15

TRIANGLE CAPITAL CORP.
This business-development company is a dividend play. Triangle specializes in mezzanine financing for venture-capital and private-equity deals, and I'm buying for the high yield. Modest expectations for equity markets have me looking for above-average current income — Triangle Capital fits that strategy extremely well.

P/E RATIO 11.6  YIELD 8.3%  BETA 0.60
JOHN WOODARD  President, Woodard & Company Asset Management Group Inc., Advance

ON THE ELECTION
The Federal Reserve under Ben Bernanke has implemented quantitative-easing programs that have deferred or prevented deflation. The cost has been increased debt burden and weakening of the dollar.

LAST YEAR’S RESULTS

<table>
<thead>
<tr>
<th>Company (Exchange-broker)</th>
<th>Total Return</th>
</tr>
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<tbody>
<tr>
<td>Family Dollar Stores (NYSE-FDO)</td>
<td>27.3%</td>
</tr>
<tr>
<td>Duke Energy Corp. (NYSE-DUK)</td>
<td>6.7%</td>
</tr>
<tr>
<td>Piedmont Natural Gas Co. (NYSE-PNY)</td>
<td>2.9%</td>
</tr>
<tr>
<td>Average</td>
<td>12.3%</td>
</tr>
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</table>

BB&T CORP.
This is a reliable and well-managed financial institution, whose earnings have steadily increased since 2008. BB&T raised its dividend 25% after passing the government’s stress test for banks in March, and the current yield is attractive in this low-yield environment. Analysts anticipate earnings of nearly $3 per share in 2013.

DUKE ENERGY CORP.
As a utility, Duke is safe. It boasts a slightly above-industry-average yield, and earnings growth should continue moderately. This all-weather equity is a core holding for portfolios looking to mitigate volatility while providing solid income. One caution: Rising interest rates in an inflationary environment could negatively impact the stock.

PIEDMONT NATURAL GAS CO.
Piedmont Natural Gas has an improving balance sheet. Natural gas is cheap, clean-burning and abundant in the U.S. These factors will lead to continued conversion to this resource. Its dividend was hiked in 2012, and the stock currently has a good yield. Both demand for its product and the continued transition to natural gas support the stock and its dividend.
ON THE ELECTIONS
The gridlock in Washington won’t have a big effect on equity markets in 2013. We believe markets will return to focusing on fundamentals, which are favorable, and the Fed will remain accommodating.

Novare Capital manages about $520 million for approximately 200 families and a bank’s trust department. This is Olmstead’s first appearance in BNC’s Hot Stocks contest.

BB&T CORP.
The housing market will continue to improve, meaning BB&T will benefit from increased business in its mortgage-banking operations and an improved loan portfolio. Also, expect to see the financial institution offer more share repurchases and announce a significant dividend increase during the next 12 months.

P/E RATIO 11.0 YIELD 2.8% BETA 1.10

SPX CORP.
SPX is a diversified industrial company whose products include flow-control and electrical power-generation equipment. We expect 2013 to be a big year for the company due to benefits from recent strategic portfolio actions, significant improvement in its electrical-transformer businesses and large share repurchases.

P/E RATIO 19.2 YIELD 1.5% BETA 1.82

VF CORP.
The world’s largest apparel manufacturer has a diversified portfolio of 35 brands including The North Face, 7 For All Mankind, Wrangler and Timberland. Our investment team likes its ability to deliver strong growth internationally, its cash-flow generation and attractive valuation compared with its peers.

P/E RATIO 17.9 YIELD 2.2% BETA 0.96