

DICK DAVIS DIVIDEND DIGEST

Hand-Picked Income Ideas from the Best Minds on Wall Street

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TOP PICKS 2011 MID-YEAR UPDATES

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Gladstone Capital Corp. (GLAD)

“Gladstone Capital Corp. (GLAD 9.59 Nasdaq – yield 8.80%) is the most conservative of the Business Development Companies, which lend money to small businesses, and pass through all Net Investment Income (NII) as dividends. Gladstone invests primarily in fully collateralized senior debt. Since our January recommendation, portfolio growth has improved, with 14 new loans put on the books. The company has \$80 million outstanding on its line of credit so has room for further growth. The stock trades at a premium to other BDCs, but this is justified by its quality. It has a conservative balance sheet (under 15% leverage), strong management, and the dividend is covered by NII. Notwithstanding these attributes, nor an overall strong quarterly report, showing portfolio growth and unchanged credit rating on its loans, the stock fell sharply in May after this report. The problem was a 55 cent decline in Net Asset Value, due to changes in the valuation of its investments. These quarterly valuations, by S&P, use public stock values as one of its criteria. These tend to be volatile and not necessarily reflective of the likelihood of eventual loan repayment. With a more-than \$2 decline in the stock price, it’s a great buy at the current price. At [\$9.59], it’s trading nearly 20% below NAV, at 12 times earnings, and yielding [8.8%].”

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