

Top 18 Stock Picks for '08

14 Top Gurus Reveal Their Favorite Investment Ideas



Gladstone Capital (NASDAQ: GLAD)



Adrian Day

Adrian Day is a British-born writer and money manager who has made a name for himself searching out unusual opportunities around the world. He was a pioneer in this country promoting the benefits of global investing, with two books on the subject. A graduate of the London School of Economics, he is Chairman and CEO of his own money management firm, Adrian Day Asset Management, where he specializes in global diversification and gold equities for individual and institutional clients. A frequent speaker at international seminars, and well known by many in the financial world, Adrian Day has been interviewed by Money, Straits Times, "Good Morning America", CNN, FNN, BBC, and quoted in other leading publications and programs.

There's an old saying on Wall Street that "when they raid the house of ill-repute, even the piano player goes to jail." And so it is with any finance company. In the half year since the credit crisis came to the fore, all finance companies, strong and weak, have seen their stock prices slammed. Digging around the debris, we have found several very solid companies with yields that are now mouthwatering. In particular, I like the Business Development Companies, companies that lend money to small and medium-sized businesses, usually private companies; they avoid tax at the corporate level by passing on net income to investors for yields that have traditionally been high. Right now, however, because of the sharp decline in stock prices, yields on these companies range from 9% to over 14% and they are solid dividends with potential to grow in the coming years. For the investor who is willing to be patient and not be overly concerned about fluctuating stock prices, these companies now represent an outstanding buying opportunity.

My recommendation is for one of the lowest yielding of the group. **Gladstone Capital** (GLAD, Nasdaq, 16.90) is the most conservative of the group, with the lowest risk, while, with the stock price under \$17, its yield of virtually 10% is nothing to sneeze at.

Investors do have some concerns about the group, but they are largely unfounded. First, the entire financial sell-off was sparked by the sub-prime crisis, but Gladstone has no exposure to sub-prime or indeed residential real estate of any time. Second, given the huge and sudden write-downs by major Wall Street firms, there are concerns as to the valuations placed on company investments, particularly the equity holdings, and all the more so since most of them are private companies with little information in the public marketplace.

Valuations of private companies are subject to differences (cash flow, assets, public comparables and so on) but

concern about systematic overvaluation of holdings is not valid. Like many, Gladstone uses an independent outside firm to value its investments; Gladstone undertakes its own valuations more frequently.

Credit quality of the investments remains high, with all companies paying on time. Clearly, in a weakening economy, one would expect some deterioration. However, credit crises have traditionally been good environments for these companies since they are able to lend to better quality companies at higher returns than in periods of easy credit, thereby laying the groundwork for growth in the next upswing in the cycle.

The dividend is secure. The oldest of these companies, Allied Capital, public since 1960, has never once cut its quarterly dividend. The biggest "risk" in the near term is *growth*; Gladstone's dividend has been static now for eighteen months largely because of the slow pace of new investments reflecting Gladstone's conservative stance against a background of high prices. But a current solid 10% yield, with potential to grow over time once the company makes more investments as prices come down, is very attractive.

Adrian Day Asset Management is a private investment management firm catering to the discriminating, globally minded investor. The firm creates customized investment plans that address individual differences in objectives, time horizons, tax considerations and risk tolerances. Adrian Day Asset Management specializes in responding to each individual's investment needs, offering a personal touch that is not often found with other companies.

For more information on Adrian Day Asset Management, please visit www.AdrianDayAssetManagement.com.