



BDC Dividends Are Eye-Popping And Might Be Cut, But Are Worth Looking At

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Chuck Jaffe, in The NAVigator podcast, interviewed Bryce Rowe, senior equity research analyst for business-development companies at National Securities. Read the Q & A below as Bryce says that the current market turmoil has dropped prices while jacking up yields to massive levels. While he expects BDCs to dramatically trim those enormous distributions, he suggests that the



Bryce Rowe

compelling values and strong payouts make it a good time to carefully consider adding business-development companies to a portfolio for income and diversification.

The podcast can be found on AICA's website by clicking here: <https://aicalliance.org/alliance-content/pod-cast/>

CHUCK JAFFE: Bryce Rowe, senior equity research analyst for National Securities is here and we're talking business-development companies in today's mixed up markets now on The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds and business-development companies. The NAVigator is brought to you by the Active Investment Company Alliance, a unique organization that represents all facets of the closed-end fund space, from users and investors to fund sponsors, creators, and research companies. Today my guest is Bryce Rowe, he is senior equity research analyst for business-development companies at National Securities. If you want to learn more, go to NationalSecurities.com. They're on Twitter @Your_National. Of course, if you're looking to learn more about closed-

end fund investing, if you're looking for excellence beyond indexing check out the Active Investment Company Alliance, AICAlliance.org, they are behind The NAVigator. Bryce Rowe, welcome to The NAVigator.

BRYCE ROWE: Thank you, Chuck. Glad to be here and certainly glad to be here in these certainly interesting times.

CHUCK JAFFE: They are particularly interesting times, I think, for the closed-end fund and business-development company space, because Lord knows they are changing; discounts, and valuations, and more. I'd like a little perspective from you, you've been in the industry a long time. When you look at what's happening now, how does this compare in the BDC space to the 1987s, or the internet bubble, or maybe it's the financial crisis of 2008. Is history in any way, shape, or form any sort of guide for what people should be thinking BDCs will do now?

BRYCE ROWE: That is a good question, Chuck. I think from a BDC perspective, there really were not many BDCs that existed certainly in 1987, in the early 2000s. Even in the great financial crisis there were less than twenty, less than fifteen, so it's really hard to look back historically and have true context with respect to business-development companies specifically. Back in the great financial crisis I actually covered small cap banks in addition to BDCs, and saw a lot of volatility, saw a lot of people struggling to understand what might happen within loan portfolios of the bank sector and how well capitalized banks were or were not. So there is some similarity for me in how I've approached this particular period now covering the business-development company space all by itself. The other piece of perspective that I would bring is, I feel that this go around things have happened really, really quickly. We've seen declines in stock markets and declines in particular stocks, much steeper and quicker than we might have seen back in the great financial crisis. So there is some similarities and differences between the two times from my perspective.

CHUCK JAFFE: We may have put the cart ahead of the horse a little bit, because when we talk about declines, the BDC space, it's been even uglier than the general market. The Wells Fargo BDC Index is down just about forty percent, not from where the market peaked, but from a little bit after the market peaked. So it actually is down from the market's peak even more than forty percent. But that also has made it that -- I was looking at some of your research talking about BDCs that have good track records and where a dividend yield of nine

or ten percent is low, where we're looking at eighteens and seventeens. People don't trust a dividend of seventeen or eighteen percent in general. Should they? Can they? Is this that kind of a buying opportunity?

BRYCE ROWE: That's a really good question. You know what's interesting even from the research that you might have seen from us a couple days ago, we've had further declines in BDC stock prices. Which means you have even higher dividend yields. To the extent as of this morning, there were BDC dividend yields in the thirty, maybe even forty percent range.

CHUCK JAFFE: We should point out that we are talking with the market still open on Thursday the 19th, just in case the market is moving as wildly as it has should move those. But still, thirty percent dividends? Forty percent dividends?

BRYCE ROWE: Right.

CHUCK JAFFE: Are those viable? Are those something where you could look as an analyst and go, "This is or will be a buying opportunity"?

BRYCE ROWE: I think that the market is telling you, with yields that high, that there are going to be some dividend cuts. Now you're going to have to clearly look at each company in particular, but investors should expect dividend cuts if you have dividend yields that high. I don't necessarily look at it in a bad light. The way that we try to approach dividend yields that high is, number one, how much of a runway does a company have in terms of being able to earn the dividend? Is there some amount of time that they can go before a dividend has to be cut? But that being said, I think investors should fully expect dividends to be cut, or at least partially cut, if you've got dividend yields that high. It's not a big concern of ours because we think that valuations at this point are reflecting some level of bad news.

CHUCK JAFFE: That's important, because under general circumstances if I'm owning BDCs and I watch dividends cut and the valuations are even close to what I would expect them to be, I'd be thinking, "Bad sign. Maybe need to look elsewhere." But what you're saying is, the valuations are so cheap, the dividends being cut, they'll still be cut down to what we would consider high levels. It's not like they're going to be cut from forty percent to two percent presumably, right?

BRYCE ROWE: Right. Yeah, if you cut from forty to ten, then that's a seventy-five percent cut, but you're still left with a relatively attractive dividend yield of ten percent, relative to history at least. That particular BDC is going to be in a better position to preserve capital or preserve

book value per share, which is really the number one thing that we start with when we look to evaluate BDCs.

CHUCK JAFFE: Should people be waiting to see some of that action before buying if we know that anytime a dividend is cut it winds up having a negative impact? If I'm looking at BDCs right now should I be saying, "Hey, they'll be more attractive after they cut their dividend"? Are the times we live in right now that unusual for the BDC space that we'd say, "Yeah, wait for them to cut before you buy"?

BRYCE ROWE: I don't have a perfect answer for that. Our approach to advising people is number one, trying to understand what their level of risk aversion is. If you have an investor that is more risk adverse or a little more conservative than the next one, then you might wait for that dividend cut activity before jumping in. I think the better approach might be to have some pool of money that you've set aside to invest in the space and then put that money to work gradually over the course of a couple months or whatever the timeframe may be. Then the other thing that we would recommend is not to concentrate in one particular BDC. Try to get a basket of BDCs that you're comfortable with, so that you're not taking concentration risk with one particular company. Not betting the farm, so to speak, on one particular company.

CHUCK JAFFE: Obviously discount levels have grown as the market has slipped. Are there discount levels that you would say are too grand? Is there a spot where, "Hey, if it's discounted this much, that is an excessive sale"? Or is bigger discount, lower price always going to be your better deal because of how much cushion it gives you?

BRYCE ROWE: Higher discounts, lower price to book ratios, lower priced NAV ratios, it really depends. Historically in more normal times the valuation will reflect how well a BDC has performed fundamentally over time. By that I mean how well a BDC has been able to preserve capital NAV per share over time. Now today you do have some specific examples where discounts are super wide, even on companies that have been able to preserve capital over the course of time, over the course of a couple cycles. So there are points where discounts are too wide and too high to pass up, but in other cases those discounts may truly reflect what is a subpar performer.

CHUCK JAFFE: What we're ultimately saying is tread carefully. There's a lot going on that makes it that the normal signs are not necessarily suspended, but you just have to make sure that they're real in these conditions.

BRYCE ROWE: I think so. Tread carefully, know what you're buying, and make sure you get good advice on what you're buying. That's probably the best advice that I can give.

CHUCK JAFFE: Bryce, thanks for giving that advice. We appreciate you joining us.

BRYCE ROWE: All right, Chuck. Thank you for having me.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I am Chuck Jaffe and you can learn more about my work and my show at MoneyLifeShow.com. To learn more about closed-end funds and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. On Facebook and LinkedIn @AICAlliance. Thanks to my guest Bryce Rowe, senior equity research analyst for National Securities. Follow National on Twitter @Your_National and learn more online at NationalSecurities.com. The NAVigator podcast is available every Friday. Please look for us and subscribe wherever you find your favorite podcasts. We hope you'll join us again next week.

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