

Identifying Business Development Corporations Worth Keeping Vs. Those To Avoid Right Now - Part IV: Market Cap Between \$100M And \$200M

Feb. 23, 2017 7:41 PM ET | **SuRo Capital Corp. (SSSS), PTMN** | ABDC, ACAS, ACSF... | 51 Comments

Summary

- After examining the effects of higher rates/yields periods on mortgage and equity REITs, it's time to do the same drill with BDCs.
- Unlike equity REITs that have shown (almost across the board) negative effects, BDCs suppose to react more favorably to periods of increasing rates/yields.
- This analysis should provide a good indication regarding the resilience of different types of BDCs to higher rates/yields - a very probable theme for 2017.
- Each article in this five-part series will focus on a smaller sub-group within the BDCs segment, based on market cap.
- This article is focusing on BDCs with market caps greater than \$100 million and smaller than \$200 million.

Background

Last month, I started a series of articles that solely focuses on the resilience and performances of certain yield-starving instruments during periods of rising rates and yields.

The series started with [an analysis](#) of [mortgage REITs](#) ([REM](#), [MORL](#), [MORT](#)), "mREITs" hereinafter. In total, 40 names across 4 different types of mREITs (Commercial, Residential, Hybrid/Special and Traditional/Agency) have been part of this analysis.

From mREITs, I moved to equity REITs ([VNQ](#), [IYR](#), [ICF](#), [RWR](#), [SCHH](#), [XLRE](#)), "eREITs" hereinafter. In total, 146 names across 13 different eREITs' sub-groups have been part of this analysis:

Part I: [Residential eREITs](#)

Part II: [Data-center and storage eREITs](#)

Part III: [Small-cap \(*\) hospitality eREITs](#)

Part IV: [Large-cap \(**\) hospitality eREITs](#)

Part V: [Large-cap \(**\) healthcare eREITs](#)

Part VI: [Small-cap \(*\) healthcare eREITs](#)

Part VII: [Industrial eREITs](#)

Part VIII: [Triple-Net Lease eREITs](#)

Part IX: [Small-cap \(*\) Malls and Shopping Center eREITs](#)

Part X: [Large-cap \(**\) Malls and Shopping Center eREITs](#)

Part XI: [Specialized Commodities-Related and Housing eREITs](#)

Part XII: [Government-Related & Infrastructure eREITs](#)

Part XIII: [Specialized Diversified/Hybrid and Leisure eREITs](#)

(*) Small-cap = Below \$3 billion market cap

(**) Large-cap = Above \$3 billion market cap

It's now time to move to the third segment of yield-starving instruments: Business Development Corporations ([BDCS](#), [BDCL](#), [BIZD](#), [BDCZ](#), [LBDC](#)), "BDCs" hereinafter. Unlike mREITs and eREITs, the BDCs coverage is being cut into five pieces based on market caps of the publicly traded BDCs. The 56 names spread out across 5 different categories, solely based on their market caps:

- [Above \\$1 billion](#)
- [\\$300-\\$1 billion](#)
- [\\$200-300 million](#)
- \$100-200 million
- Below \$100 million

Risk Management And The Market Timing Myth

I've been accused of "market timing" a couple of times before. Last month, in [this article](#), I wrote that:

Neither at the fund nor elsewhere I'm trying to time the market. Instead, I'm either **adjusting to the ever-changing landscape or implementing long-term decisions over short-term intervals.**

If such radical changes, such as the ones we are witnessing over the past three months, don't cause an investor - any investor for that matter - to (at least) think about the new/extra risks and high level of uncertainty - I wonder how such an investor defines "risk management" because, as far as I am concerned, this investor has no idea what risk management is about.

Adjusting to the ever-changing landscape has nothing to do with market timing. Not only that an adjustment to macro changes is an essential part of risk management but describing such an adjustment as an attempt to time the market is either a misleading statement or, even worse, an acknowledgement of not understanding what basic principles of risk management are.

Yesterday, I read an article that I could easily put my name (and I wish my name was) on it; Lance Roberts is one of my favorites among macro analysts on SA. Lance isn't only a balanced and thorough writer, but he is also brave/genuine enough to express unpopular views in a very elegant, easy to understand, manner.

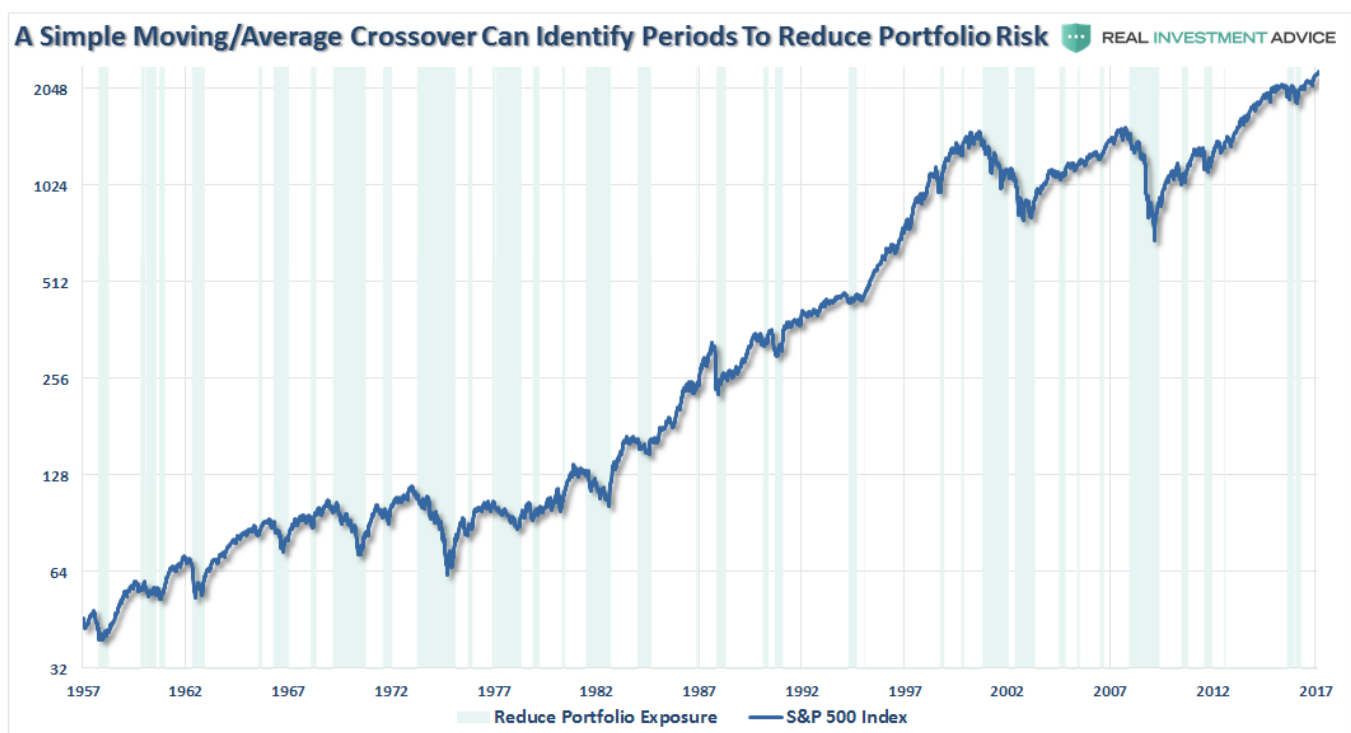
In his last piece, "[You Can't Time The Market?](#)" Lance is claiming the following:

It never ceases to amaze me that investors still believe that somehow they can invest in a portfolio that will capture all of the upside of the market but will protect them from the losses. **Despite being a totally unrealistic objective this "fantasy" leads to excessive risk taking in portfolios which ultimately leads to catastrophic losses.** Aligning expectations with reality is the key to building a successful portfolio. **Implementing a strong investment discipline, and applying risk management, is what leads to the achievement of those expectations.**

Along his article, Lance is using the work of *Brett Arends* and a study conducted by **Javier Estrada** to show that the "You can't time the market" myth is only half of the story while the other (perhaps more important) half is being ignored/hidden by Wall Street intentionally:

The reason that the finance industry doesn't tell you the other half of the story is because it is NOT PROFITABLE for them. **The finance industry makes money when you are invested - not when you are in cash. Therefore, it is of no benefit to Wall Street to advise you to move to cash.**

Lance is using the below chart to show that even by only using a very basic form of price movement analysis, e.g. a simple moving average, investors may get signal warnings ahead of/during periods it would be wise/warranted to reduce the level of risk within one's portfolio:



Lance concludes with the following important message and action items:

I am not implying, suggesting or stating that such signals mean going 100% to cash. What I am suggesting is that when "*sell signals*" are given that is the time when individuals should perform some basic portfolio risk management such as:

- *Trim back winning positions to original portfolio weights: **Investment Rule: Let Winners Run***
- *Sell positions that simply are not working (if the position was not working in a rising market, it likely won't in a declining market.) **Investment Rule: Cut Losers Short***
- *Hold the cash raised from these activities until the next buying opportunity occurs. **Investment Rule: Buy Low***

By using some measures, fundamental or technical, to reduce portfolio risk by taking profits as prices/valuations rise, or vice versa, the long-term results of avoiding periods of severe capital loss will outweigh missed short term gains.

Small adjustments can have a significant impact over the long run.

Not only that I couldn't say it better myself, but I find this article to be a must read for anyone who is convinced (or busy with self-convincing) that such type of risk management has, one way or another, anything to do with market timing.

Risk management is all about constantly assessing the market, the potential risks and rewards. Such an assessment may lead an investor to reduce/increase the level of risk/s, but that has nothing to do with "market timing" rather with a sound analysis of the risk/reward that is being offered at a given point in time.

Retrospectively, we are all very clever because we may judge an investment decision based on its performance. Risk management is about judging an investment decision before it's being taken. **It's the reasonable judgement and the quality of the risk management that determine the well-being of a portfolio, not its performance!**

Nobody likes to lose money and a positive performance is crucial but for itself, performance can't and doesn't measure the quality of risk management. **Proper risk management may lead to decent performance, not vice versa!**

Do you judge any of the following as sound-reasonable investments?

1. Betting on a single number while playing the roulette?

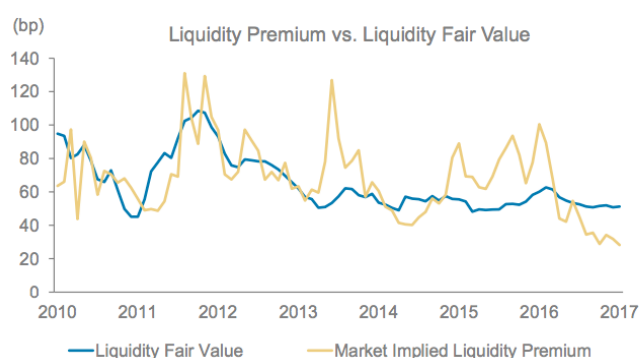


2. Picking a stock out of the pink-sheets?

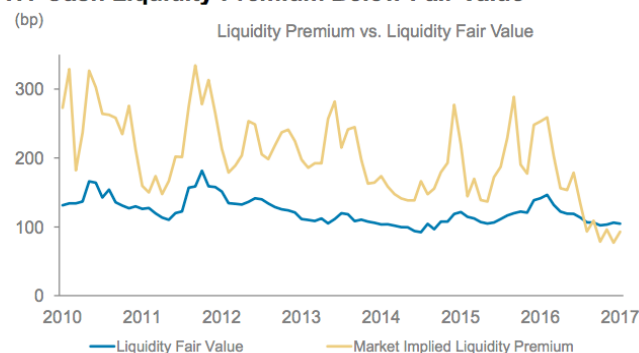


3. Jumping into a market that is clearly super-rich and overvalued?

IG Cash Liquidity Premium Below Fair Value



HY Cash Liquidity Premium Below Fair Value



Source: Morgan Stanley

Sure thing, any of these examples may end up with a profit, perhaps a huge profit. Nonetheless, the end result - as large as it may be - won't change the lousy risk/reward profile of any of these possible investments prior to taking it!

Although risk management is an ongoing process and any investment should be assessed regularly, this process starts prior to making an investment decision and it can't be judged by the end result of that investment decision. Surely, in a perfect world a sound risk management should lead to sound performance but that is neither guaranteed nor operates in a linear line.

BDCs Are Better Positioned Than REITs

My current risk management analysis dictates that I should be neutral (at best) when it comes to equities and negative when it comes to credits. On the other hand, I still like many names - especially those that are [part of my A-Team](#) - so I'm not adopting a "let's sell everything" approach rather a [long-short](#), more balanced, approach. I'm doing so by [hedging \(selling short\) the H-Team](#) against my long A-Team positions.

In total, there are six BDCs that are [part of my A-Team](#):

- Main Street Capital (NYSE:[MAIN](#)): [Part I](#)
- Ares Capital Corporation (NASDAQ:[ARCC](#)): [Part II](#)
- Gladstone Investment Corporation (NASDAQ:[GAIN](#)): [Part VI](#)
- Newtek Business Services, Inc. (NASDAQ:[NEWT](#)): [Part VIII](#)
- Hercules Technology Growth Capital (NASDAQ:[HTGC](#)): [Part IX](#)
- Prospect Capital Corporation (NASDAQ:[PSEC](#)): [Part X](#)

Each and every one of those has a portfolio that is mostly linked to floating-rate loans. This feature is one of the most important features I'm looking for when holding a BDC or a REIT these days, [while expecting](#) higher (short-term) rates and higher (long-term) yields.

BDCs, eREITs and mREITs are not the only instruments that benefit from a growing economy. Principally, any stock and any company does. What differentiates this trio is that they respond differently to rates, yields and credit spreads.

In a very simplistic way, here are the implications of these features on the three yield-starving segments:

	Higher (Short-Term) Rates	Higher (Long-Term) Yields	Widening Spreads (Steepening Yield Curve)
Business Development Corporations	Positive (Floating-rate loans generate more income)	Less meaningful but surely not negative (Positive if there are loans/assets linked to longer-term yields)	Positive (Pay low-fixed rates, earn higher-floating rates)
Mortgage REITs	Negative (More expensive self-financing)	Mixed effects: Negative for BV (short term), Positive for NII (long term, assuming widening spreads)	Positive (Better profitability out of a wider NII)
Equity REITs	Negative (More expensive self-financing)	Negative (More expensive mortgages/tenants financing, Lower valuations of tangible assets)	Less meaningful but surely not positive

This simple table, comparing the effects of rates, yields and spreads on BDCs, mREITs and eREITs is basically all you need to know. Naturally, there are more moving pieces/factors that should be taken into consideration, but if you understand the basic concepts, all is left to do is to decide which camp you belong to.

On one side, there are those who believe that yields have run their course and that there is little upside from here or even a significant downside, possibly back to 2% yield the US Treasury 10-Year ("UST10Y"), or even below that.

On the other side, you have those that expect the UST10Y to cross the ([crucial](#), per Bill Gross of Janus Capital) 2.6% level, on its way to the 3% ([crucial](#), per Jeffrey Gundlach of DoubleLine Capital) mark.

If you read my [high convictions for 2017](#), you already know which camp I belong to. As such, my main message is for you to watch out, pay close attention to the [macro environment](#), and **remain very mindful of risk management at all times!**

The next part of this series, Part V, will focus on BDCs with a market cap smaller than \$100 million.

Methodology

In total, we now have 5 categories of BDCs (sorted according to order of publication):

1. Market cap greater than \$1 billion (11 names): [ACAS](#), [AINV](#), [ARCC](#), [CODI*](#), [FSIC-OLD](#), [GBDC](#), [HTGC](#), [MAIN](#), [NMFC](#), [PSEC](#), [TSLX](#)
2. Market cap greater than \$300 million and up to \$1 billion (13 names): [BKCC](#), [FDUS](#), [ECC*](#), [FSC](#), [GSBD](#), [MCC](#), [PFLT](#), [PNNT](#), [SLRC](#), [TCAP-OLD](#), [TCPC](#), [TCRD](#), [TICC](#)
3. Market cap greater than \$200 million and up to \$300 million (11 names): [CPTA](#), [CSWC](#), [FSFR](#), [GAIN](#), [GLAD](#), [MRCC](#), [NEWT](#), [OXLC](#), [SUNS](#), [TPVG](#), [WHF](#)
4. Market cap greater than \$100 million and up to \$200 million (12names): [ABDC](#), [OTC:ACSF](#), [CMFN](#), [GARS](#), [GECC**](#), [GSVC*](#), [HRZN](#), [KCAP](#), [MVC](#), [OFS](#), [SAR](#), [SCM](#)
5. Market cap smaller than \$100 million (9 names): [EQS](#), [FULL**](#), [HCAP](#), [MFIN](#), [OHAI](#), [RAND](#), [SVVC](#), [TINY](#), [XRDC](#)

*While technically this is not a BDC, the company operates similarly to few/many BDCs, distributes a steady dividend periodically and keeps the dividend yield in line with levels that most BDCs pay out.

****Acquired the assets of Full Circle Capital and began trading as Great Elm Capital in November 2016**

Over the past five years, we have witnessed three periods of rising rates/yields:

- Period I: 4/26/2013 - 12/27/2013
- Period II: 1/30/2015 - 7/3/2015
- Period III: 7/8/2016 - 12/15/2016

For each type/classification of BDCs, there are three charts that show the performance of the relevant companies (belonging to the sub-group) during the three periods - three charts per group, one chart per period.

Then, the average return for each group during each period was calculated in three different ways:

- Average based on all the observations (of all the companies that were publicly traded) during the period.
- Average that excludes the best and worst observations that were recorded during the period.
- Median or average of the median (if it comprises two observations).

By excluding the best and worst, we "soften" the "bumps" that may occur due to specific/extreme news/events that may have affected a certain company. In other words, we avoid temporary "noise."

After receiving three different averages, I calculated an equal-weighted average for all three averages. By doing so, I believe the data is more reliable and less affected by temporary specific news, events or returns that one or two companies may have gone through the examined period.

Bear in mind that this is a relative drill - an attempt to point out at specific types and names of BDCs that perform more or less favorably during periods of higher rates/yields. Therefore, more than an accurate mathematical-scientific result, I'm mostly interested in presenting the trends and the different performances of various types of BDCs. That way, we will be able to draw better conclusions regarding each sub-group's relative strength compared to other sub-groups within the BDC segment.

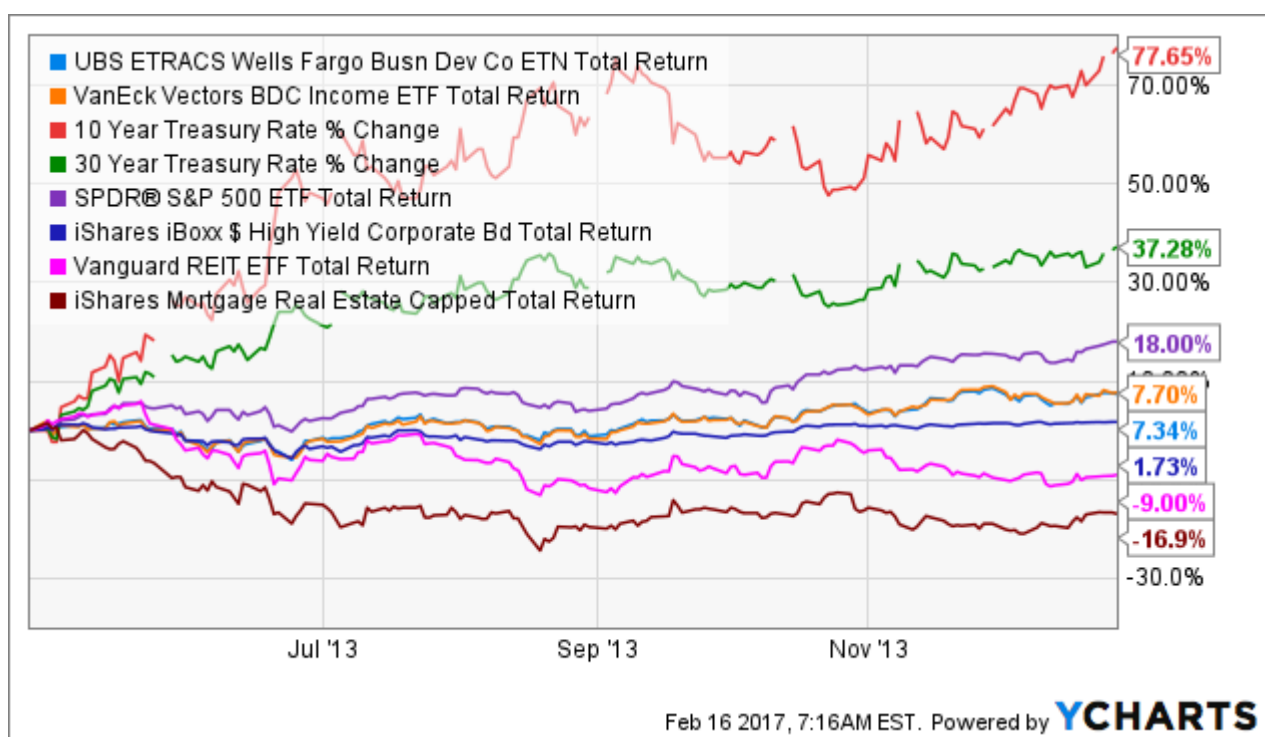
Comparisons

Before presenting the charts for the specific BDC sub-group that this article is focused on, it's worthwhile to take a closer look at how the main - best comparable ETFs have performed during the three periods (of higher rates/yields) that we examine:

- Equities: The SPDR S&P 500 Trust ETF ([SPY](#))
- High Yield: iShares iBoxx \$ High Yield Corporate Bond ETF (NYSEARCA:[HYG](#))
- mREITs: iShares Mortgage Real Estate Capped ETF (NYSEARCA:[REM](#))
- eREITs: Vanguard REIT Index ETF

Here are the charts showing how the main BDCs' ETFs (NYSEARCA:[AND](#)) - and other relevant benchmarks - performed while the US Treasury 10-Year and 30-Year yields ([UST](#), [TLT](#), [TLH](#), [PST](#), [TBF](#), [TBT](#)) rose:

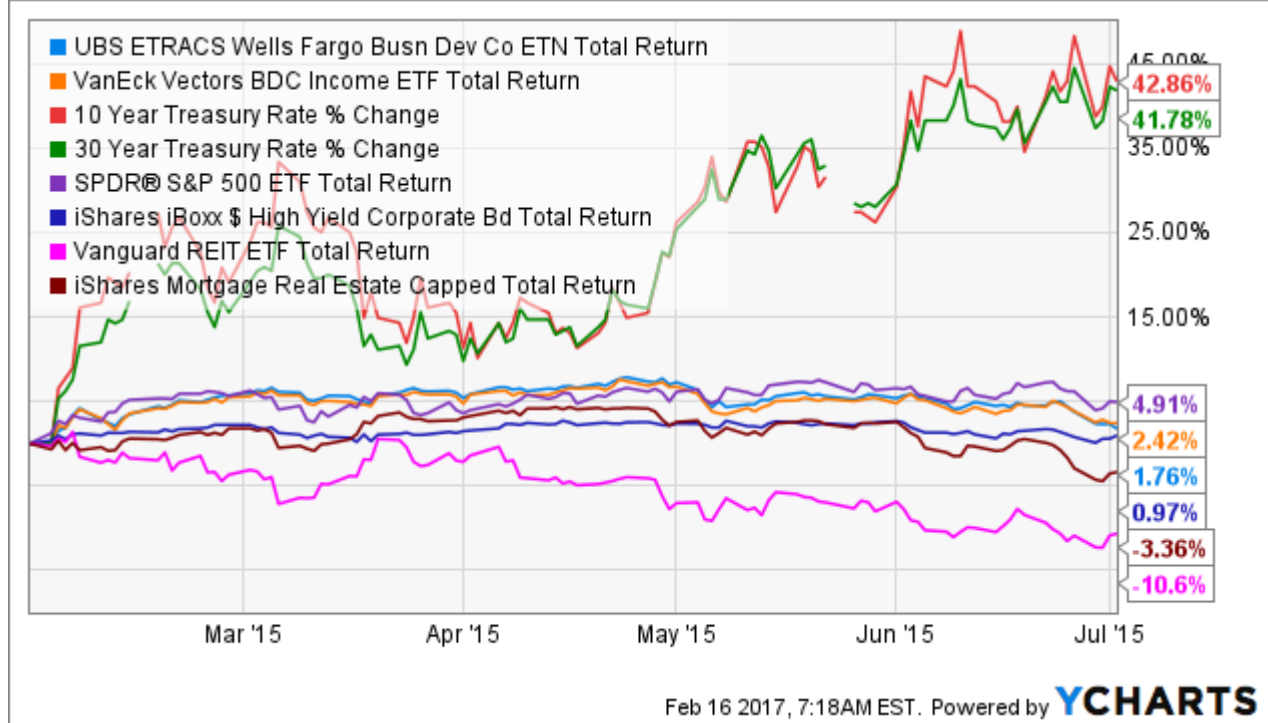
Period I: 4/26/2013 - 12/27/2013



Interestingly, not only did BDCs outperform both types of REITs, they also managed to deliver a very nice positive return of ~7.5%. It's worthwhile noticing that HYG, which also posted a positive return, albeit small, are more closely correlated to the HY space rather to their yield-starving counterparts - eREITs and mREITs.

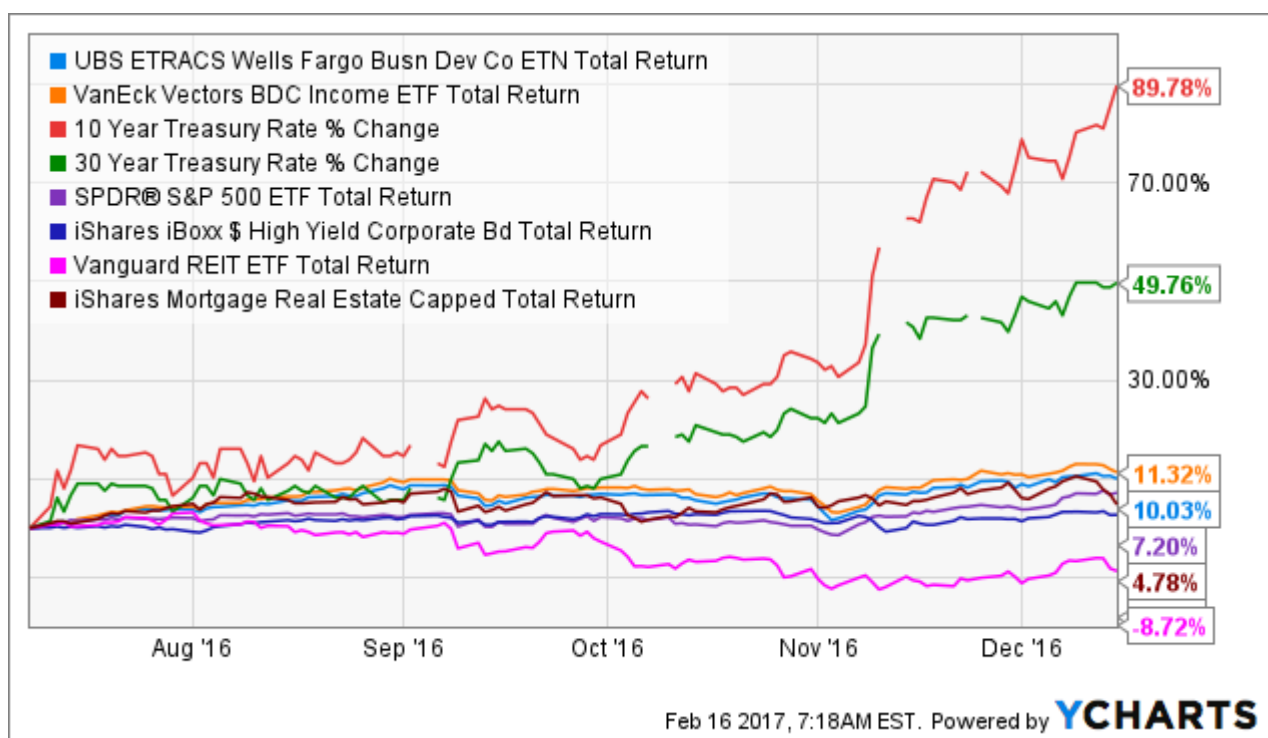
The first examined period's results definitely strengthen the perception that rising rates/yields are actually beneficial for BDCs. Let's see how things look during the second period of rising rates/yields:

Period II: 1/30/2015 - 7/3/2015



Once again, we see a very similar picture: While both eREITs (mostly) and mREITs struggle, BDCs managed to end the second examined period with a positive return of ~2.1%, not too far away from the ~1% performance of HYG (though more than doubling it). The second period revalidates what we've experienced during the first period. So far so good, but will the third period reaffirm these interim conclusions?

Period III: 7/8/2016 - 12/15/2016



Ladies and gentlemen, we have a "full house!" Three periods, three positive total returns, three decisive results of clear outperformance. With its circa 11% return, the BDC segment proves it's not only resilient, but actually benefit from periods of rising rates/yields.

Looking at the three periods of rising rates/yields, the performance of BDCs (7.5%, 2.1%, 10.7%) is miles ahead that of mREITs (-16.9%, -3.36%, 4.78%) and, especially, eREITs (-9%, -10.6%, -8.72%).

As a matter of fact, the combined ~20.3% return of BDCs during the three periods of higher rates/yields is much better than the combined performance of the HYG, and it's not too far from the combined return posted by the SPY.

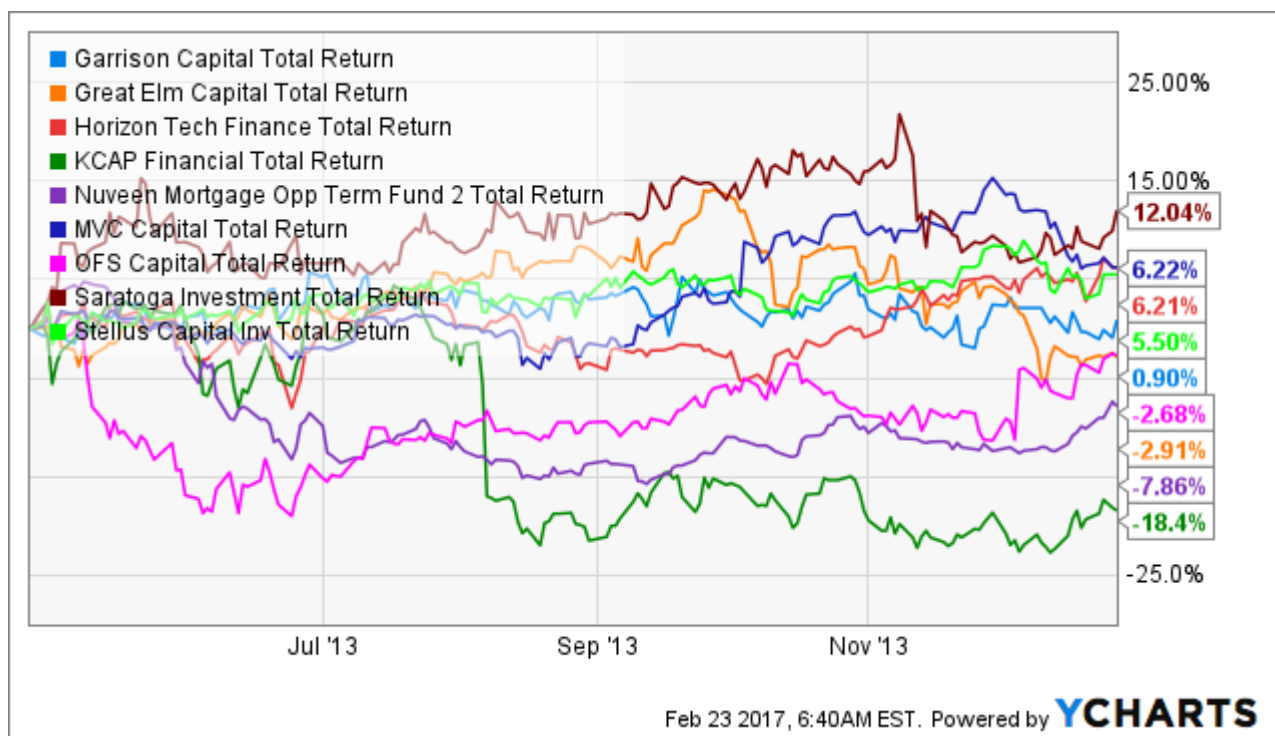
Clearly, this should come as no surprise to anyone who tracks and understands BDCs. I have written a couple of times about the relationship between rates/yields to BDCs' prices. The bottom line here is that these two are positively correlated, and the former is beneficial for the latter.

Now, knowing that BDCs are able to perform during periods of increasing rates/yields, the question that remains is: Can we identify specific BDCs, names or sub-groups, that perform better than others during periods of rising rates/yields?

Specific BDCs - Charts and Analysis

Within the BDC segment, the sub-group that this article is focusing on is BDCs with market caps greater than \$1 billion ("BDCw200M>MC>100M")

Chart 1: BDCw200M>MC>100M, 4/26/2013 - 12/27/2013



Please note the following:

(*) Although not presented in the above chart, the 58.75% performance of GSVC during the first examined period is included in the below calculations.

(**) This chart contains no data regarding ACSF, CMFN and ABDC because these stocks only started trading January, February and May 2014, respectively).

(***) Full Circle Capital ([FULL](#)) announced a merger with Great Elm Capital in June 2016. The FULL symbol traded until November 3rd 2016. The new merged company started to trade in January 2017 under the symbol GECC. The performances in this analysis are, therefore, those of FULL although they are being presented under the symbol of GECC.

- Average including all observations: 7.29%
- Average excluding best and worst observations: 3.61%
- Median: 5.50%
- **Average performance of all three averages: 5.47%**

After the great performances of BDCs with market caps [greater than \\$1bn](#), [between \\$300M to 1B](#) and those between \$200M to \$300M the 5.47% might be seen as disappointing. Nonetheless, it's important to note that the 5.47% (achieved over 245 days) is 8.25% in annual terms. Not as great as the double-digit total returns we've witnessed with the other sub-groups but far from disappointing either.

GSVC (which isn't a BDC per se but rather a VC-like corp.) was performing phenomenally during this period but I believe that the 5875% stunning total return may be a bit misleading. Take a look at GSVC total return from mid-May 2012 to early-October 2013:

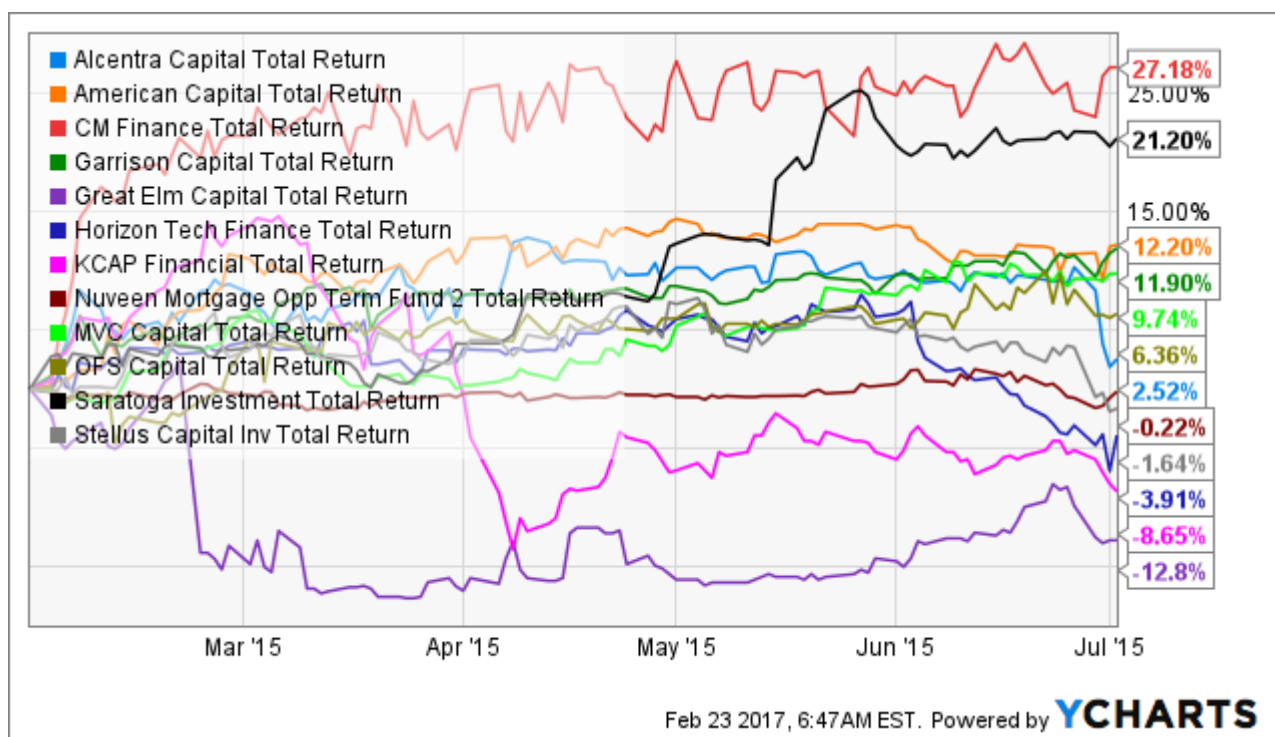


It seems as if we have an almost perfect mirror image here; the collapse of 2012 turned (or led) into the rally of 2013. In light of this, it seems better to look at the median performance of this sub-group as being a more representative figure.

KCAP, a BDC that I really don't like (and you all know how hard it is for a BDC to get to that status in my mind), was the clear outperformer during this period with its -18.4%. Spoiler alert: It doesn't look much better further down the road. FULL/GECC and OFS complete the trio of negative total returns, but in their cases the return was ~15% that of KCAP.

In total, 6 out of the 9 names recorded positive total returns with only one name (aside of GSVC) - SAR - recording a double-digit total return during the first examined period of rising rates/yields. Spoiler alert: It continues to look nice further down the road for SAR. Co-author *Richard Lejeune* wrote a [nice piece](#) about SAR recently.

Chart 2: BDCw200M>MC>100M, 1/30/2015 - 7/3/2015



Please note the following:

(*) Although not presented in the above chart, the 12.88% performance of GSVC during the second examined period is included in the below calculations.

(**) Full Circle Capital ([FULL](#)) announced a merger with Great Elm Capital in June 2016. The FULL symbol traded until November 3rd 2016. The new-merged company started to trade in January 2017 under the symbol GECC. The performances in this analysis are, therefore, those of FULL although they are being presented under the symbol of GECC.

- Average including all observations: 6.42%
- Average excluding best and worst observations: 6.26%
- Median: 8.05%
- **Average performance of all three averages: 6.91%**

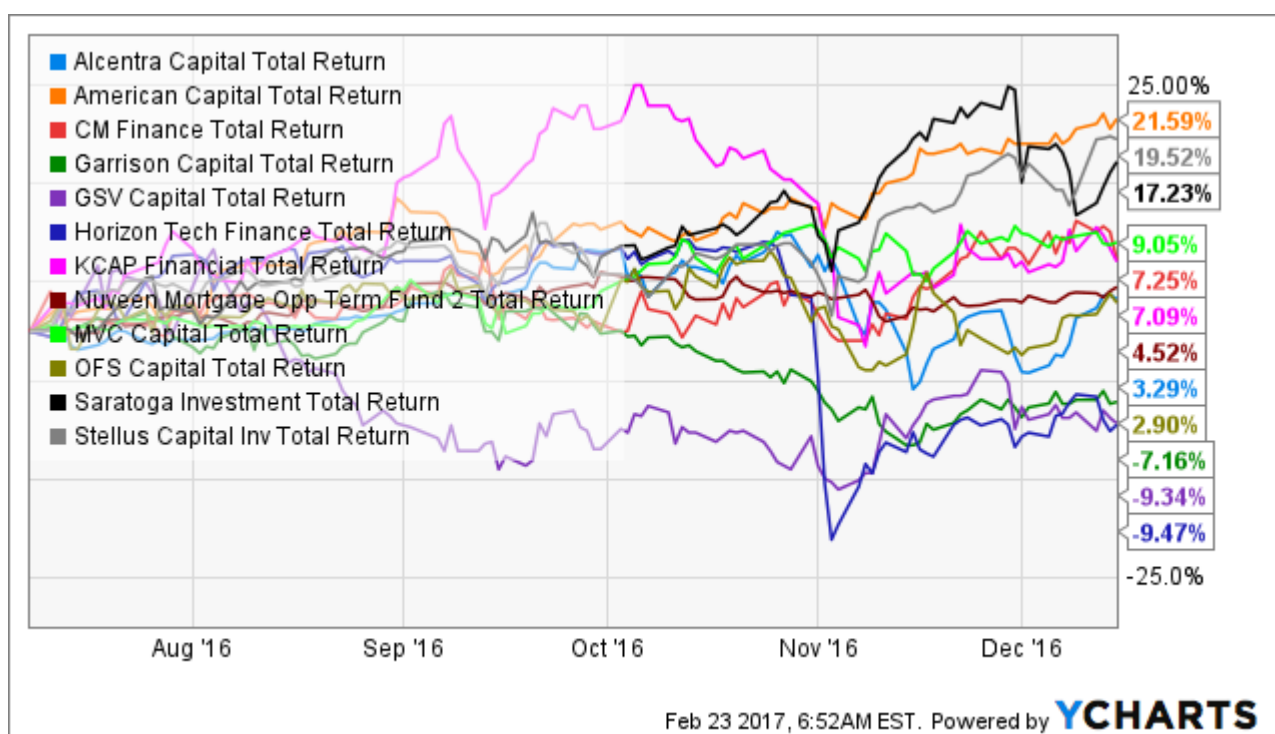
The second examined period of rising rates/yields saw the sub-group posting better total return, on average, than the first period. Since the second only contains five months while the first period spans over eight months, the annualized return during the second period (17.16%) was more than double the performance during the first period (8.25%, annualized).

GSVC continued to perform well, but those were CMFN (27.18%) and SAR (21.2%) that outperformed during this period. Together with ACSF and GARS this sub-group has five (out of twelve) names that recorded double-digit positive total returns during the second examined period (with MVC being very close to join this club with its 9.74% total return).

FULL/GECC was the only name to post a double-digit negative total return. This was the second negative return for this name, an "achievement" that KCAP shares (and even exceeds, when looking at the average performance thus far).

HRZN and SCM joined FULL/GECC and KCAP to form a quartet of negative total returns during this period.

Chart 3: BDCw200M>MC>100M, 7/8/2016 - 12/15/2016



Please note the following:

(*) Full Circle Capital ([FULL](#)) announced a merger with Great Elm Capital in June 2016. The FULL symbol traded until November 3rd 2016. The new-merged company started to trade in January 2017 under the symbol GECC. The performances in this analysis are, therefore, those of FULL although they are being presented under the symbol of GECC.

Although not presented in the above chart, the flat performance of FULL during the third examined period (till and including 11/3/16) is included in the below calculations. During that period FULL didn't pay (what used to be monthly) dividends. (The last distribution was paid in March 2016.)

- Average including all observations: 5.16%
- Average excluding best and worst observations: 4.98%
- Median: 5.19%
- **Average performance of all three averages: 5.11%**

Another solid period. This time, the 5.11% average total return is the equivalent of an annualized 12.05% total return. Not a superb performance but still a very good return.

Although GSVC posted its first negative return (-9.34%) during this third examined period, it still managed to end this analysis with the best average total return (20.76%).

Out of the pure BDCs, ACSF took the lead this time, recording a back-to-back double-digit positive total returns. Although CMFN couldn't match the back-to-back it did exceed when it comes to the average total return.

SCM (19.52%) and SAR (17.23%) weren't too far behind CMFN's 21.59% impressive performance during this period. In the case of SAR this was the third consecutive double-digit positive total return - the only name to achieve this among this sub-group.

On the other side of the spectrum for this period, aside of GSVC, we have HRZN (again...) and GARS. I've owned GARS for a while, hoping this company would become a turnaround story. It never did, and I bailed out with a small loss. This analysis strengthens my decision.

On top of SAR, MVC was the only name to record positive total returns during all three periods of rising rates/yields. Nonetheless, SAR returned roughly twice as much during each and every period. ABDC (though through anemic returns), ACSF and CMFN also delivered a clean sheet of only positive returns but this trio did so only through (the last) two periods.

BDCw200M>MC>100M - Main Results and Findings

First of all, let's put the data we have gathered from the above charts into a table:

Ticker	Name	Mkt cap	Period 1	Period 2	Period 3	Total/Average
ABDC	Alcentra Capital Corporation	173.62M	N/A	2.52%	3.29%	2.91%
ACSF	American Capital Senior Floating	127.50M	N/A	12.20%	21.59%	16.90%
CMFN	CM Finance Inc	140.31M	N/A	27.18%	7.25%	17.22%
GARS	Garrison Capital Inc.	160.02M	0.90%	11.90%	(7.16%)	1.88%
GECC	Great Elm Capital	143.33M	(2.91%)	(12.80%)	-	(5.24%)
GSVC	GSV Capital Corp	117.22M	58.75%	12.88%	(9.34%)	20.76%
HRZN	Horizon Technology Finance Corp	131.71M	6.21%	(3.91%)	(9.47%)	(2.39%)
KCAP	KCAP Financial, Inc.	152.16M	(18.40%)	(8.65%)	7.09%	(6.65%)
MVC	MVC Capital	195.49M	6.22%	9.74%	9.05%	8.34%
OFS	OFS Capital Corporation	140.42M	(2.68%)	6.36%	2.90%	2.19%
SAR	Saratoga Investment Corp.	134.24M	12.04%	21.20%	17.23%	16.82%
SCM	Stellus Capital Investment	177.59M	5.50%	(1.64%)	19.52%	7.79%
Total number of observations:			9	12	12	33
Total number of negative observations:			3	4	3	10
% negative observations:			33.33%	33.33%	25.00%	30.30%
Total number of positive observations:			6	8	8	22
% positive observations:			66.67%	66.67%	66.67%	66.67%
Best performance (out of all active companies during the period):			58.75%	27.18%	21.59%	20.76%
Worst performance (out of all active companies during the period):			(18.40%)	(12.80%)	(9.47%)	(6.65%)
Normal average (based on all observations):			7.29%	6.42%	5.16%	6.29%
Modified average (excluding best & worst observations):			3.61%	6.26%	4.98%	4.95%
Median:			5.50%	8.05%	5.19%	6.25%
Average of the above three results:			5.47%	6.91%	5.11%	5.83%
"Verdict" regarding the relevant period performance:			GOOD	SUPERB	VERY GOOD	VERY GOOD

There are a few immediate results that catch the eye regarding BDCw200M>MC>100M performance during periods of increasing rates/yields:

1. Another solid performance by BDCs with market caps between \$100 to \$200 million. The average annualized return of 11.74% is lower than the one we've seen in other sub-groups but it's still an impressive performance.
2. The success rate, while positive, has also fallen short of previous articles. From the 87.1% of [BDCs with market caps greater than \\$1bn](#), through the 84.4% of [BDCw300M>MC>200M](#), and even the 81.1% of the [BDCw1B>MC>300M](#) we now reached 66.7%. Unsurprisingly, the average total return goes hand-in-hand with the success rate.
3. Five out of the twelve names succeeded in recording positive returns through each and every examined period. While ABDC, ACSF and CMFN did that only over (the last) two periods (in which they traded), MVC and SAR managed to do so over all three examined periods of rising rates/yields.
4. GSVC finished with best average total return (20.76%) but it was SAR that impressed the most by posting a positive double-digit total return through each and every period, making for an average return of 16.82%.
5. GSVC and SAR weren't alone in averaging a positive double-digit total. Nonetheless, while this duo did so while trading throughout all three periods, ACSF (16.9%) and CMFN (17.22%) did that only through the last two periods.
6. Three names posted two negative total returns and they are also the names that underperformed the sub-group with the worst average total returns: KCAP (-6.65%), FULL/GECC (-5.24%) and HRZN (-2.39%). Those were the only names to finish this analysis with an average negative total return. GARS and OFS weren't much far ahead, but they did manage to end up on a positive note.
7. Bottom line: GSVC and SAR are the winners; KCAP and FULL/GECC are the losers. Here is how it looks (for these names) from a total return perspective since the US elections:



Bottom Line

The bottom line is very easy and very clear:

- Over the past few months, I've explained a couple of times why I believe that [mREITs are better positioned than eREITs](#). Over the last couple of months, I've also written many times that BDCs are better positioned than REITs. If you haven't understood why I say so and where I'm coming from - this article clarifies the matter and clears the way. BDCs are not risk-free instruments, not at all, but it's important to know which hand to play when; 2017 seems like the right time to play the BDCs-hand.
- Over the past few months, I've explained a couple of times why I believe that [many eREITs are overvalued](#). Although most BDCs trade at or near their 52-week highs, it's safe to say that (unlike eREITs) BDCs are not overvalued. The growing economy, positive sentiment and near-term possible legislation create an almost perfect setup for BDCs to keep flourishing. Although BDCs aren't immune to losses, especially if the market as a whole goes through a correction, they still offer an attractive risk/reward profile.
- BDCs with market caps between \$100 to \$200 million performed solidly during periods of rising rates/yields but, admittedly, they are not the best in class. Although none of the names of this sub-group is part of [the A-Team](#) - and rightly so - I wouldn't rule it out. Obviously, the smaller it gets (market-cap wise) the more risky (and apparently less profitable) it turns too. Nevertheless, since the BDC segment is developing and growing, the small-caps of today night be the medium-caps of tomorrow, etc.
- When it comes to BDCw200M>MC>100M we see clear inter-sub-group separation: The four best names (GSVC, SAR, ACSF and CMFN) followed by four medium names (MVC, SCM, ABDC, OFS) and then the bottom-worst four (KCAP, GECC, HRZN and GARS). From here it's quite simple: Stick to the winners and avoid the losers. Usually it works well...
- 10 observations (or ~30%) out of the total 33 observations of BDCw200M>MC>100M ended up with negative returns. If we exclude the results of KCAP and FULL/GECC from the data this (negative) rate falls to ~22%. On the other hand, 10 out of the 32 observations ended up with double-digit positive total returns with three names (SAR, GSVC, ACSF) accounting for 7 out of these 10.

This is only the fourth piece out of a five-part series covering BDCs during periods of rising rates/yields. As such, please do bear in mind that the above-mentioned are only interim conclusions. Final-decisive conclusions regarding the entire BDCs segment will be drawn only when this five-part series comes to an end.

Only after analyzing all types of BDCs will I be in a position to better differentiate between right ("resilient BDCs") and wrong ("under-threat BDCs") when it comes to investing in BDCs during periods of rising rates/yields.

One should always be mindful of [changes in the landscape](#) that may change the attractiveness of a certain investment/instrument. Nonetheless, as it looks now, there won't be many "wrong-doers" among the BDCs segment during periods of rising rates/yields.

BDCs are for real! **B**ear with me, **D**o your own due diligence, **C**reate wealth and **S**tay tuned!

This article was written by



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Disclosure: I am/we are long ARCC, GAIN, HTGC, NEWT, PSEC, NMFC, PNNT, TCPC, ABDC, AINV, MRCC, TPVG, TBT. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

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