



LCBS-2023-03-15-BDC-DefinitionOfBusinessDevelopmentCompanies.pdf

DISCLAIMER - I am not a Financial Advisor and do not work for any Brokerage Firm. The opinions given are of my own and are not to be used as professional advice. These are my findings and can hopefully help you to make informed decisions on investing. Consult a Broker or Lawyer before making any investment.

As we plan out how to invest our money to get our maximum returns, we need to make use of a special group of stocks making up the REITs category. If you do not have some money invested in Real Estate, this is a very effective method to make money. We did an article explaining REITs a while back. [Read about Reits here.](#)

Today we are going to talk briefly about Business Development Companies. Many of these are tied to Reits, but they also provide capital for other business uses besides Real Estate.

What Is a Business Development Company (BDC)?

A business development company (BDC) is an organization that invests in small and medium-sized companies as well as distressed companies. A BDC helps these firms grow in the initial stages of their development. With distressed businesses, the BDC helps the companies regain sound financial footing.

Similar to [closed-end investment funds](#), many BDCs are public companies whose shares trade on major stock exchanges, such as the American Stock Exchange (AMEX), Nasdaq, and others. As investments, they are high-risk but offer higher rewards.

I try to find solid companies that provide financing that is being sold at a discount and also show dividends of 8% or more.

BDCs are much like private equity funds for small businesses. While private equity funds tend to be restricted to high-net-worth and institutional investors, Block Development Companies are publicly traded on the stock market and available to anyone with a brokerage account. What is even greater, is they are transparent and easy to research. Like all stocks, these may or may not go up in price. However BDCs do normally pay dividends, and those are the ones I try to buy.

Business Development Companies make debt and equity investments primarily to small or mid-size companies. They are very much like REITs in how they perform. BDCs were created by congress to encourage investing in the real economy. They benefit from having preferential tax treatment as they pay no income tax as long as they pay out at least 90% of their net income to investors.

BDCs and Reits are two of the best dividend stocks regarding yields. By not having to pay income tax, they can pass on higher returns to the shareholders.

I encourage you to read more about Business Development Companies and consider purchasing some of them to round out your complete portfolio.

I read a good article this past week recommending what they considered 5 of the best BDCs. All were good, and I purchased 4 of the 5. (All are doing well by the way.) You might look at these. Be aware here in March we are having a roller coaster ride on the stock market,

so buy on down days if you decide to buy. Every dollar you buy at a discount is more money that should return to you as the stock comes back to the normal range. I try to never buy when a stock is near its 52-week high.

Business Development Companies to consider.

MAIN – Main Street Capital. It pays a monthly dividend and is considered the blue-chip BDC. They provide financing to middle-market companies, typically with \$10 million to \$150 million in yearly revenue.

ARCC – Ares Capital. They are the world's largest BDC with over \$10 billion of capitalization. ARCC is well diversified with money in Software, Healthcare, and various Professional services with no more than 7% in any one sector.

ORCC – Owl Rock Capital - A newcomer in BDC stocks which just started trading in 2019. They have paid a steady stream of income dividends with current rate above 9%. They are well diversified in thier portfolio with mainly software, insurance, and food and beverage companies.

HTGC – Hercules Capital. Hercules acts more like a venture capital company. HTGC is the largest BDC focused on venture capital financing. Currently showing a 9.7% rate of return.

TPVG – Triple-Point Venture Growth BDC Corp. They are the smallest of the BDCs mentioned here today. They have a market cap of \$441 million and are a bit more speculative than the others mentioned. Triple Point's portfolio is mainly invested in debt instruments, mainly floating-rate instruments.

All of these are just examples of Business Development Companies. Don't buy them based on reading about them here, but study and be sure they make good sense for your investment portfolio. I think everyone can gain by having a fully diversified portfolio, and that means a combination of Full Market Stock Indexes, Bonds, CDs, Dividend Growth Stocks, Preferred Stocks, Reits, and Business Development Companies. We have articles on all of these in the link below on Investment Articles.

Have a great day!

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