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Gundlach: High-Yield Stocks Not so Attractive

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04/10/12 - 08:38 AM EDT

NEW YORK (TheStreet) -- Investors still running into so-called "safe" high-yielding stocks may want to reconsider, says Patrick Gundlach, portfolio manager for the **BMO Small-Cap Growth Fund** ([MRSCX](#)). Gundlach says that trade has gotten awfully crowded and there are better values to be had in small-cap names like insurance software provider **Ebix** ([EBIX](#)).

"Their customer base has certainly been getting a lot stronger over the past couple quarters since the financial meltdown, and while Ebix is not a household name, this company has been one of the strongest growth companies over the last decade. It's had strong double digit growth, year in and year out and we think there's a lot of room left for it to run," says Gundlach.

First You Screw Up, Then Lie and Finally Die

The \$593 million fund, which garners 4 stars from **Morningstar**, has returned an average of 28.6% annually over the past 3 years, outpacing 87% of its Morningstar rivals in the small-cap growth category.

Another stock Gundlach is bullish on is quartz countertop maker and recent IPO **CaesarStone** ([CSTE](#)). And while one might think this would be a play on a housing recovery, Gundlach says that's not the case.

"People are tempted to think of it as a housing play, but that would just be a great bonus for them if housing came back. In fact, it's a market share gain, it's an adoption gain. Quartz countertops are gaining share in the United States. CaesarStone had a lot of success in Israel and elsewhere abroad and they are bringing that success here to the US," says Gundlach.

A more controversial name in Gundlach's portfolio is small-business lender **American Capital** ([ACAS](#)), a company which was chastised for excessively selling stock to fund its operations prior to the financial crisis.

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"There are a lot of misconceptions about it. This is a company that had liked to sell stock but what people don't realize is that they've been buying back stock for the past three quarters. They have been cleaning up their balance sheet dramatically. Book value has been growing and they trade about \$6 below their net asset value," says Gundlach.

As for his skepticism surrounding what many investors consider blue-chip names, most notably those in the consumer staples sector, Gundlach advises caution, warning that in many cases the companies may not have the fundamentals to support those high dividend yields.

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"They may look attractive on the surface, but these stocks have been hiding places. The fundamentals are not necessarily that strong. We try to invest in companies where the fundamentals are strong and we think that will be rewarded," says Gundlach.

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