



THE FIVE BIGGEST MISTAKES FOR NEW CEF INVESTORS: HOW TO ATTEMPT TO AVOID THEM

Beginner CEF Skill Level

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Today's Goal?

Closed-end funds (CEFs) are the oldest fund structure, yet they are the least understood or held by US investors.

- *What are the five common mistakes for new CEF investors?*
- *What should a new investor to CEFs focus on first?*
- *What should be avoided until you gain experience in CEFs?*

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What is a CEF?

- Oldest US Fund Structure – 1893
- Best Known for Income, International & Municipal Bonds
- Discounts & Premiums to Net Asset Value
- Ability to Use *Two Unique* Types of Leverage
- Fixed Capitalization (no redemption pressure)
- Intraday Trading (Control in Price Execution)
 - Stop Loss, Limit & Good Till Cancelled Orders
- Most CEFs Listed on *The New York Stock Exchange*
- Some Unique Asset Classes: (*Covered Call / Senior Loan*)
- A Diversified & Professionally Managed Pool of Assets



More info: http://www.cefadvisors.com/closed_end_funds.html

Who Invests in CEFs?

Investment Company	Number of US Households	Percentage of US Households
Open-End Funds	46.2 Million	39.4%
Exchange Traded Funds	3.3 Million	2.8%
Closed-End Funds	2.1 Million	1.8%
All Mutual Funds	51.6 Million	44%
Total US Households	117.3M	100%

	All US Households	Closed-End Fund	Mutual Fund
Ave Age of Head	49	54	50
Income	\$49,800	\$87,500	\$80,000
Assets	\$75,000	\$500,000	\$200,000
Four Year Degree	31%	63%	46%
Retired	29%	55%	25%



Current Closed-End Fund Options

2011 Ended with **632* US listed Closed-End Funds**

- 52 US Equity Funds
- 106 Specialty Equity Funds
- 65 Non US Equity Funds

223 Total Equity Funds

- 153 Taxable Bond Funds
- 105 National Municipal Bond
- 150 State Specific Municipal Bond

408 Total Bond Funds

Assets of Closed-End Funds by Type, End of period

Millions of dollars

	3Q 2011	2Q 2011	2010	2009
Total Equity	95,083	99,106	95,204	86,067
Domestic	60,001	62,823	58,965	51,571
Global	35,082	36,283	36,239	34,496
Total Bond	141,569	142,141	138,058	133,467
Domestic Taxable	47,914	49,161	47,255	42,408
Domestic Municipal	79,230	77,748	75,839	77,399
Global	14,425	15,233	14,965	13,660
All	236,652	241,247	233,262	219,534

Source: ICI

Source: CEFA's CEF Universe Report 12/30/11 (cefuniverse.com)

www.CEFadvisors.com



Five Biggest CEF Mistakes

1. Buying a CEF on the IPO
2. Only buying a CEF at a discount
3. Only buying a CEF because of yield
4. Buying a selection of CEFs and holding them “forever”
5. Buying a CEF at a high premium or high relative premium



IPO Pitfalls

1. Most CEFs trade at a discount to NAV over time
2. IPO NAV is often 4.5% - 5% lower than IPO price
 - Selling commission for broker & firm
3. How will the fund perform compared to its peers?
4. How will the fund trade compared to its peers?

Closed-End Fund Historical IPOs

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Number of IPOs	19	17	13	2	40	21	47	50	48	77
Average Assets In \$ millions	\$316	\$451	\$200	\$131	\$690	\$506	\$452	\$462	\$591	\$209
Total New CEF IPO Assets in \$ Billions	\$6.0	\$7.7	\$2.6	\$0.3	\$27.6	\$10.6	\$21.2	\$23.1	\$28.4	\$16.1

10 Year Average: 33.4 Funds per year, \$401M Ave Fund, \$14.4 Billion Per Year



2011 Closed-End Fund IPO's

19 funds* raised **\$6.002 billion** in new closed-end fund assets

The Average CEF IPO was: **\$315.8 million**

Date	Ticker	Name	Investment Objective	Size	2011 Mkt Perf
1/20/11	OXLC	Oxford Lane Capital Corp	Senior Loan	\$36.5M	-24.0%
1/26/11	ACP	Avenue Income Credit Strategy	Senior Loan	\$135M	-15.7%
1/26/11	BGX	Blackstone/GSO LS Credit Inc.	Senior Loan	\$250M	-8.5%
1/31/11	GNT	GAMCO Nat. Res. Gold & Income	US Equity-Covered Call / Commodity	\$370M	-25.0%
2/23/11	JMF	Nuveen Energy MLP Total Return	US Equity-Master Limited Partnerships	\$443M	-7.7%
2/24/11	AFT	Apollo Senior Floating Rate Fund	Senior Loan	\$300M	-15.1%
3/28/11	BCX	BlackRock Resources & Commodities	US Equity Commodity	\$875M	-27.7%
4/26/11	IHD	ING Emg Mkts High Dividend Equity	Emerging Markets Equity	\$385M	-27.2%
5/25/11	HEQ	JH Hedged Equity & Income Fund	US Equity-Covered Call	\$280M	-22.4%
5/25/11	SMF	Salient MLP & Energy Infrastructure	US Equity-Master Limited Partnerships	\$140M	-1.9%
5/26/11	JSD	Nuveen Short Duration Credit Opps	Senior Loans	\$200M	-8.5%
6/13/11	EMO	ClearBridge Energy MLP Opps	US Equity-Master Limited Partnerships	\$540M	-0.9%
7/29/11	DPG	Duff & Phelps Global Utility Fund	Global Equity-Utilities	\$735M	-4.7%
8/26/11	INF	Brookfield Global Infrastructure Income	Global-Infrastructure	\$155M	-8.8%
9/27/11	FIF	First Trust Energy Infrastructure Fund	US Equity-Master Limited Partnerships	\$345M	+3.5%
10/27/11	GEQ	Guggenheim EW Enhanced Equity	US Equity-Covered Call	\$175M	-10.8%
10/27/11	TTP	Tortoise Pipeline & Energy	US Equity-Master Limited Partnerships	\$250M	-4.2%
11/23/11	BUI	BlackRock Utility & Infrastructure	Utility-Covered Call	\$310M	-0.3%
12/12/11	KIPO	Keating Capital Pre-IPO Fund*	Venture Capital / Private Equity	\$77M	-12.9%

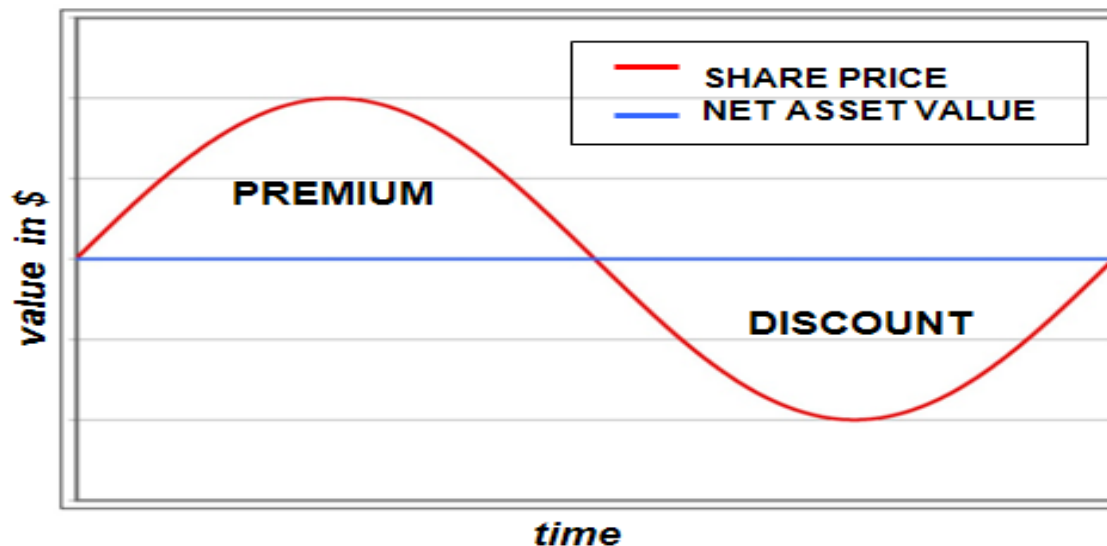
Sources: CEF Association (cefa.com), yahoo finance, Telemet Data

Average IPO Loss -11.73%



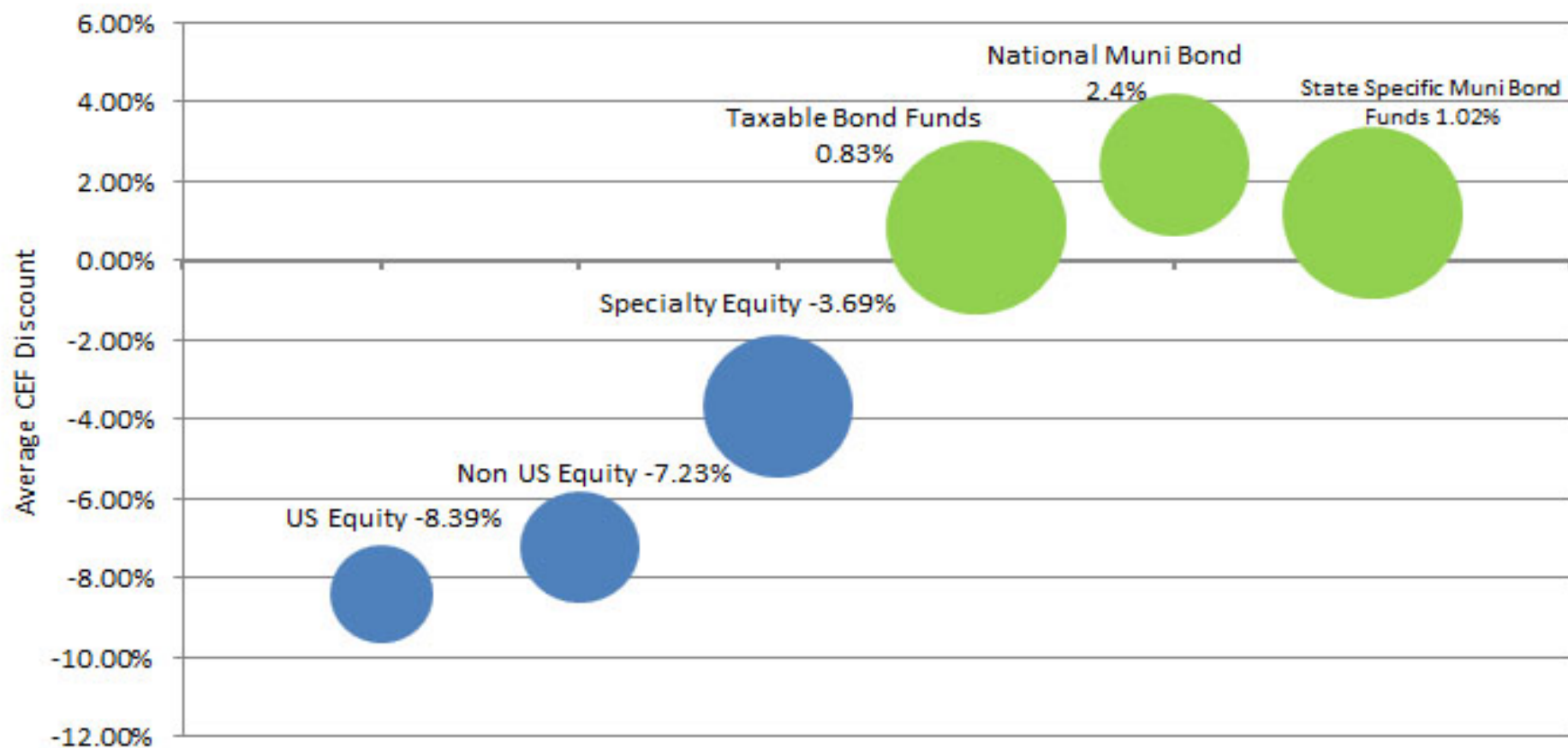
CEF Discounts / Premiums

- CEFs are often known for their ***'infamous' discounts***. The discount is the feature built into CEFs that make them unique & potentially quite lucrative.
- We believe that CEFs historically trade at discounts because they can, and you have to price this into the value of the fund.

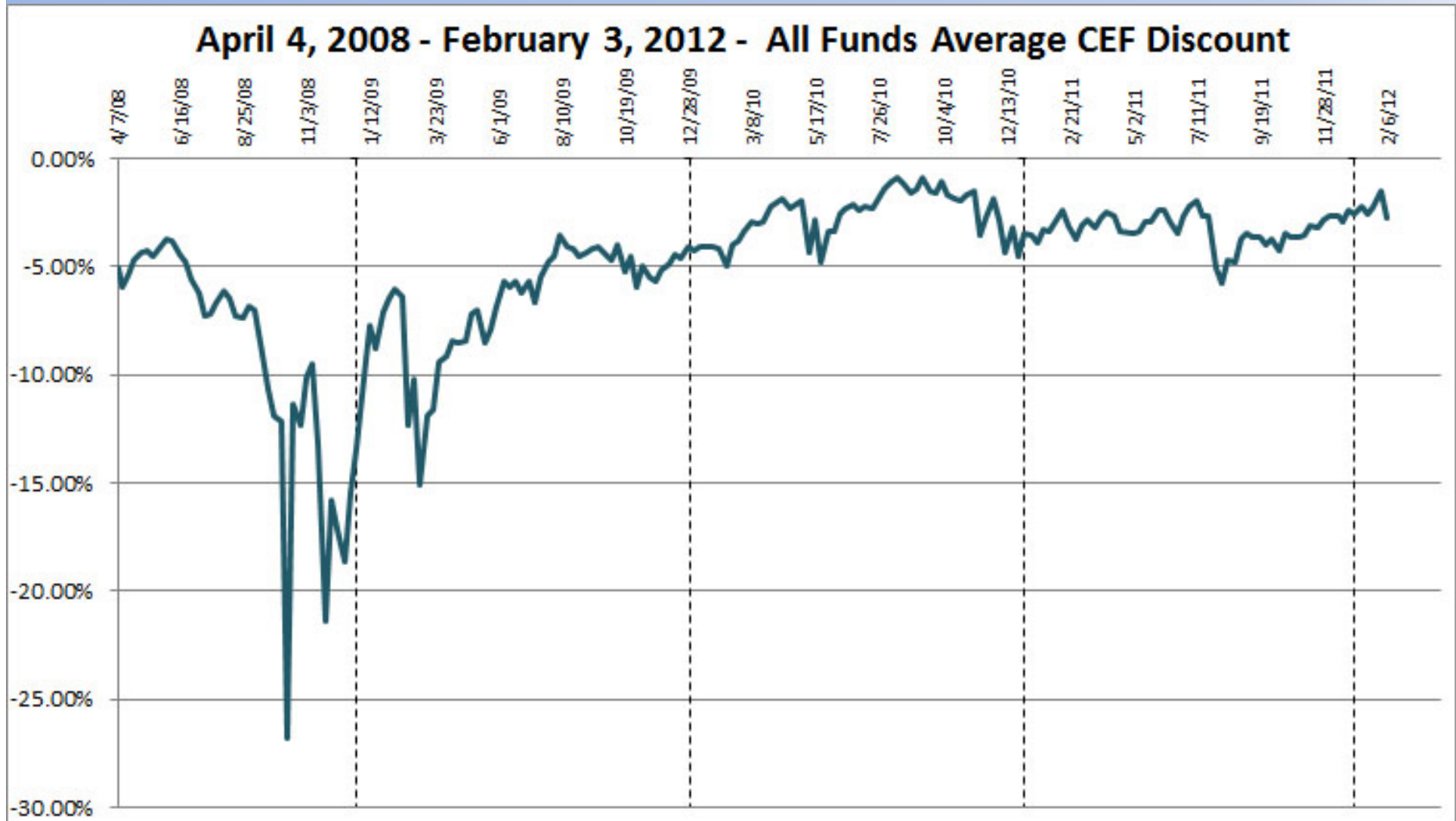


Current CEF Discounts

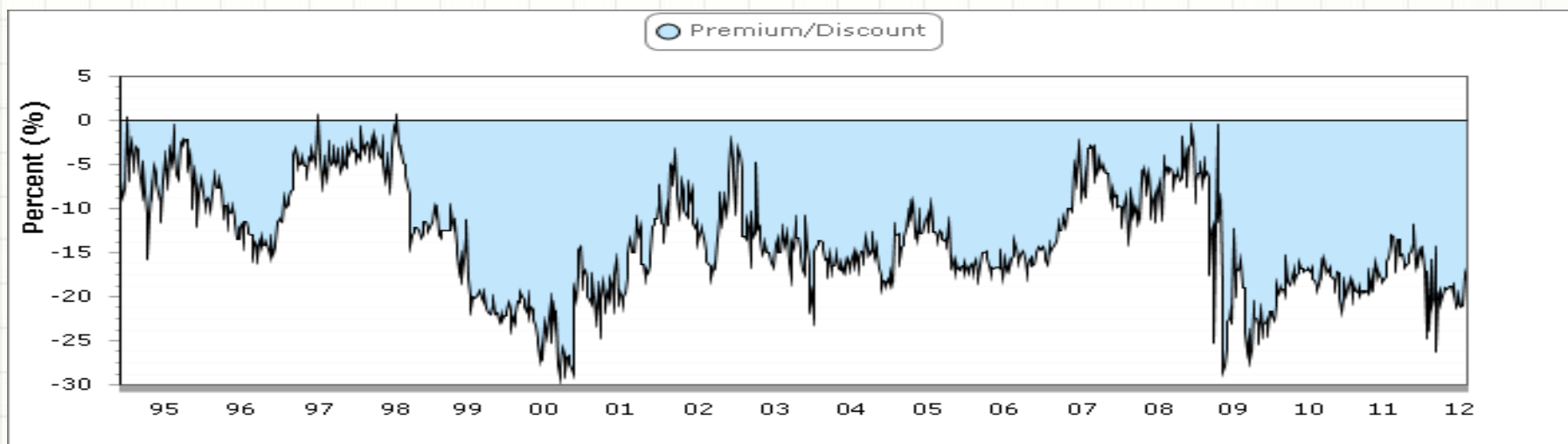
Current Average CEF Discount - 02/03/12



Historical CEF Discounts



Buying a 'Discount'



Relative Discounts

Relative Discount: The current discount/premium of a closed-end fund vs. the fund's historical discount/premium. This data point is intended to help identify relative value for the fund vs. the absolute value of the current discount/premium.



As of 12/5/2011

Period	Avg Discount
6 Month	1.18%
1 Year	1.58%
3 Year	-3.99%
5 Year	-5.14%

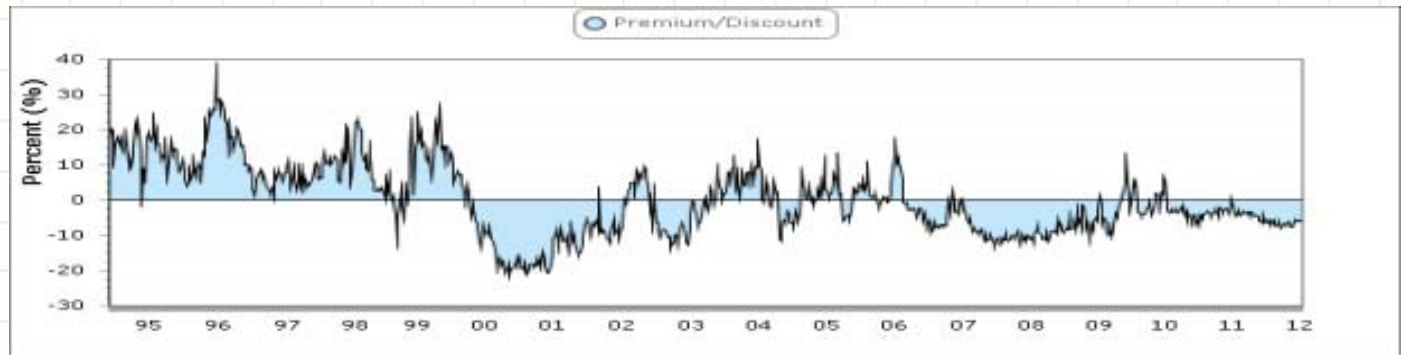
Templeton Emerging Markets Income Fund: NYSE: TEI

Chart Source: CEFconnect.com



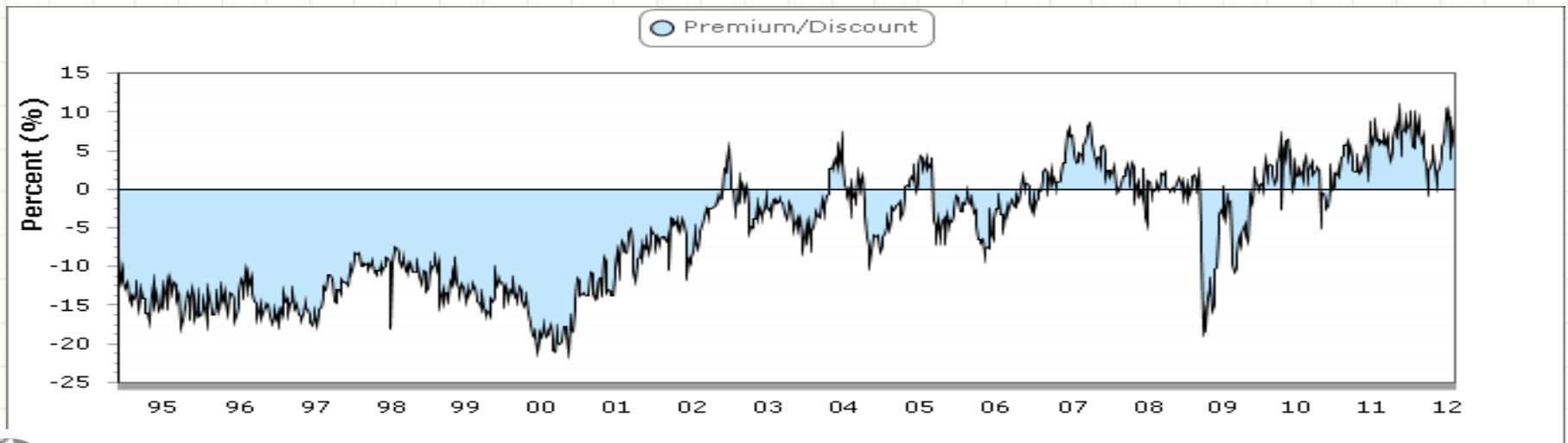
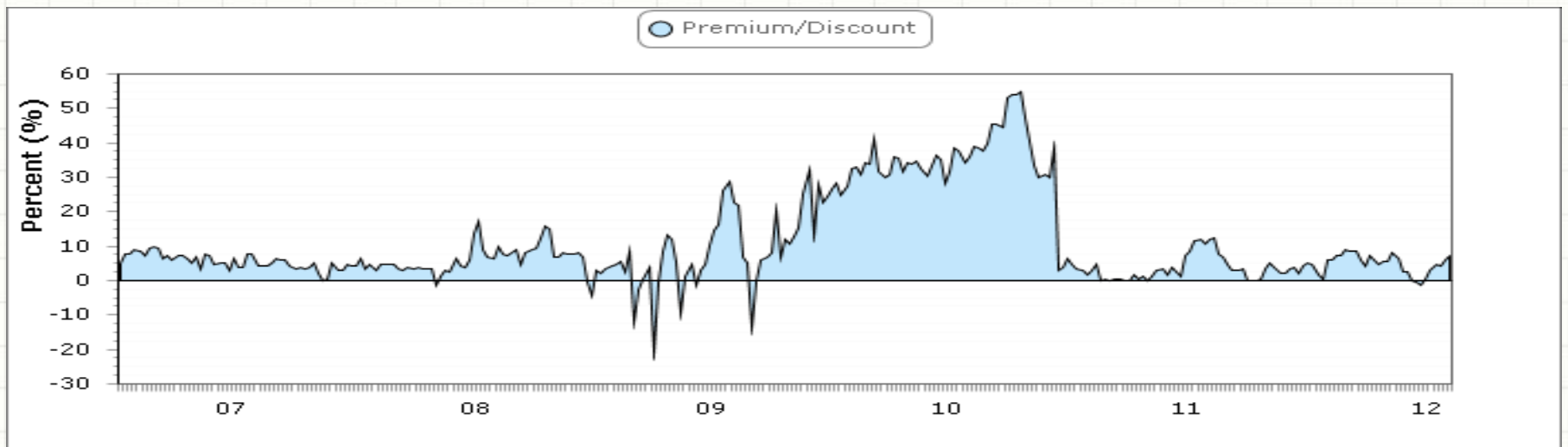
Why Not Buy & Hold?

- Fund have a normal historical Discount / Premium Range



- A Reversion to Mean is Common for CEFs
 - Based on Fund Policy's
 - Based on Market / Sector Conditions
- Dividend Cuts & Premiums are a Painful Risk

Why Not Buy & Hold?



Premiums: A Worst Case Scenario

	AGD	AOD
6/18/10 – Monthly Dividend	\$0.11	\$0.12
6/18/10 – Premium	+38.5%	+31.5%
6/19/10 – Monthly Dividend	\$0.06 (-45%)	\$0.055 (-54%)
6/25/10 - Premium	+2.96%	- 4.25%
Relative Pricing Change	-35.5%	-35.8%



Actual CEFA Swap Outcome

December 12, 2011 vs. Jan 23, 2012

- CEFA owned **Tortoise North American Energy (TYN)**
- **TYN** NAV: \$25.08 and Mkt Pr: \$24.01 = **4.9% discount**
- Purchased **Kayne Anderson Midstream (KMF)**
- **KMF** NAV: \$25.79 and Mkt Pr: \$22.54 = **12.6% discount**
- **KMF's** NAV perf: +6.6% and mkt perf: +12.6%
- **TYN's** NAV perf: +3.3% and mkt perf: +6.8%
- Allocation Alpha was **+5.8%**

Note: Example it not the typical outcome for a swap



What Should You Look at First as a New CEF Investor?

- Relative Discounts
- NAV Performance vs. Peers
- Realistic & Sustainable Dividends

Summary & Review

- The IPO is usually a bad entry point for a fund
- Discounts are normal
- Dividend aren't always earned
- Closed-end funds can trade irrationally
- Income is a significant factor in CEF pricing
- What is making up the dividend? Is it sustainable?
- Major dividend cuts are the most painful CEF only risk
- Total return is the best way to measure your results
- CEFs take some monitoring to reduce your risk



QUESTIONS?

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