Published by
Closed-End Fund Advisors

THE SCOTT LETTER:
CLOSED-END FUND REPORT

Vol. XII, No. 1 | *A Global View of the Closed-End Fund Industry* | January/Feburary 2012

THE SCOTT LETTER is intended to educate global investors about closed-end funds. Closed-end funds can be a valuable and profitable investment tool. To learn about closed-end funds, visit our web site, www.CEFAdvisors.com, and in particular, read our article, *What Are Closed-End Funds*. Feel free to forward this newsletter to anyone who you believe could benefit from information on closed-end funds or global portfolios.

– George Cole Scott
Editor-in-Chief

IN THIS ISSUE:

Adams Express Commits to New Distribution Policy and Extends Share Repurchase Program

Douglas G. Ober has been Chief Portfolio Manager of Adams Express (AMEX: ADX) and Petroleum & Resources (NYSE: PEO) since 1989. He has also been Chairman of the Board of both funds since 1991. Doug is supported by two associates in the management of the ADX portfolio and a team of research analysts who look for investments offering long-term earnings growth at a reasonable price.

The Dow Jones Industrial Average rose 5.5% in 2011, but the broader S&P 500 index was flat for the year. Investment gains for the S&P 500 of +12% were realized in the fourth quarter, the biggest quarterly point gain in its history, which could bode well for 2012. The biggest winner in 2011 in the Dow was McDonald's while the biggest loser was Bank of America. Both are in the ADX portfolio.

Douglas G. Ober

On September 8, the Board of Directors of The Adams Express Company announced that, effective immediately, the company will be committed to annually distributing to its stockholders an amount equal to 6% of the average month-end market price on the NYSE of the company's common stock for the trailing 12 months, calculated on October 31. For comparison, the company paid total distributions at an annual distribution rate of 5.2% in 2009 and at an annual distribution rate of 5.1% in 2010.

The Board of Directors of The Adams Express Company on December 8, 2011 voted to extend its share repurchase program and has authorized the repurchase of up to 5% of the outstanding shares of the company's common stock (i.e., up to 4,446,272 shares) through December 31, 2012. Any purchases that occur will be made in the open market when the shares are trading at a discount of at least 10.0% and when market conditions and portfolio management considerations otherwise warrant.

We will have some questions about this program later in this report.

ADX is the largest holding for clients of Closed-End Fund Advisors. George Cole Scott and his family are included in this group.

We interviewed Mr. Ober at his office in Baltimore by telephone on December 29:

SL: This has been quite a year, hasn't it? There are problems in Europe, Iran and so forth. However, we have better and better economic news, growing economic growth and strong Christmas sales. It amazes me that many people think that we are still in recession, even though it ended in 2009.

Robert Doll, Chief Equity Strategist of Blackrock, recently said that he sees success with the Europeans combating their debt problem, but he joins others in predicting a slow recovery there. He forecasts that the European Central Bank ("ECB") will buy the troubled bonds, despite protestations to the contrary.

Do you think 2012 will be a good year for the stock market?

Ober: I believe we'll have a decent year and pretty much agree with Mr. Doll, but I don't think that the resolution will be complete in Europe as there will still be lingering questions. A fair amount of debt still has to be rolled over in early 2012, and if they are successful, that should give folks confidence. I think they will be able to roll the debt over early in the year, but this will be an on-going problem as they have so much difficulty figuring out where to get the money. In this country, we have a different problem, namely the deficit. The question that will be before

Congress is not how do we raise the debt ceiling, but how do we pay for it? Temporary extensions are not a solution; it has to be paid for down the road.

SL: Yes, that is true, but we are encouraged to read that the ECB is now extending unlimited loans to banks in 17 nations of the European Union that use the euro, provided that those banks put up collateral. The loans don't have to be paid back for three years, by which time it is hoped that steady growth will have returned.

In what sectors do you see the best earnings expansion for the ADX portfolio in 2012?

Ober: We think that earnings expansion will occur in the industrial arena. Depending on how the rules and regulations in health care come out, we also see earnings expansion possibilities in that sector as the U.S. regulations are clarified. I also see good numbers in technology companies as they continue to keep their costs in line.

I think that macro-factors will continue to affect the volatility of markets as they did in 2011, but underlying fundamental economic growth will continue to gradually improve.

I haven't sat down with all of my analysts yet to come up with their inputs on what their sectors look like in terms of growth, but I would say that we are looking at a bit better growth in the U.S., offset by slower growth in the emerging markets, particularly in India where there are political issues that need to be resolved. China has slowed down, but the government has eased its credit requirements, so they will grow at a good clip, including exports.

SL: We see modest improvement as well. In this interview, we hope to understand why your diversified portfolio hasn't done better in 2011 and what you see as your strengths and weaknesses going forward. What do you think will be your strongest sector components?

Ober: Besides the industrials, I think there will be strong growth in the consumer staples sector. We have always had sizeable consumer staples exposure, which we think will continue to do well with a gradual improvement in global consumption, especially in China and India where consumers will buy more with a gradually improved way of life. Caterpillar, Goodrich and Honeywell should be the strongest companies in the industrial sector. The consumer discretionary area is more difficult, depending on whether we have more rapid growth than we foresee in 2012 as the companies are absorbing higher material costs. We have a sizeable position in this area but are a little more cautious about it.

Adams Express Annualized Performance
Period Ending 12/31/2011

	1-Year	3-Year	5-Year	10-Year
Adams Express NAV	-2.8	12.2	-0.3	3.1
Adams Express Market	-4.2	12.2	-1.2	2.5
S&P 500	2.1	14.1	-0.3	2.9
Lipper Large Cap Core Funds	-0.7	12.7	-0.9	2.4

SL: What do you think will drive more consumption?

Ober: Overall consumption will be driven by gradually improving employment and consumer credit.

The basic materials area should not be ignored in the anticipated expansion. Consumption will be driven by low natural gas prices, and the "need to seed" will benefit companies like Potash in the agricultural industry. We think that the steel industry will be a good grower worldwide. We are not reducing our holdings in basic materials as that feeds into our industrials.

SL: Now let's look at your largest holdings one by one: After Petroleum & Resources, **Apple** is your largest holding. How are they doing?

Ober: We see a very good outlook for Apple. Their projections indicate that they will have a strong year in mobile applications, iPhones and iPads as well as the MacBook laptop computers. They have refreshed the MacBook line and have released new versions, including the MacBook Pro, all of which are selling very well. The most recent activity has been the iPhone 4-S, which has some interesting vocal attributes by which you can ask questions and get answers, basically circumventing Google to some degree. They have initiated the iCloud, which is where all of your information and data can be stored on servers so you don't have to synchronize everything on your personal iPhone, computer or tablet.

As you know, Sprint has been selling Apple's popular iPhones, and sales continue to expand in the U.S. and overseas. I don't see any issues with creativity with the tragic loss of Steve Jobs. They will continue to create new items for consumers without him. They are also working on a television set that will link up with their computers, iPads and iPhones, enabling these devices to do all the wondrous things that a television can do.

SL: I saw that, but I don't understand what it all means.

Ober: [Laugh] I know that I have tried to hook up my computer and/or my laptop to the television. I would like to see the output on the big screen and have had a very difficult time trying to do it. You have to have certain kinds of cables that go into certain places. Using an audio system along with a TV makes it even more complicated, so I haven't tried to do that.

However, Apple continues to be a leader, and they still have primarily a consumer and educational focus driven by iPhones and iPads. We think they have a great future.

SL: We have also heard that they may pay a dividend and could split the $400 stock to attract more retail investors. Hasn't there been some concern lately about **Oracle**?

Ober: Oracle has a great future in the office, but the movement toward having applications residing on major servers and not having to license Oracle's applications has caused some concern among analysts. Oracle has resisted that trend, by not using the "cloud" for a long time. They now recognize that certain applications and uses for cloud-based computing will be beneficial to Oracle customers. It is a good way to go, and by adapting to that, they are demonstrating some flexibility that they have not had in the past.

There are many technology companies that have been in denial as far as technical advances are concerned. I can remember when Digital Equipment (DEC) said that personal computers would be a minor niche. We all know what happened there, and DEC disappeared. I'm glad to see some flexibility on Oracle's part. I am concerned about succession planning; we are looking into who will succeed Larry Ellison who has a lot of other activities.

McDonalds has an exceptionally high growth rate, both here and overseas. They don't have the penetration in China that Kentucky Fried Chicken (KFC) has, but they have been expanding outside the U.S. There were concerns about that some years ago, as in France, but they have been more successful lately. I don't see anybody else doing that, with the possible exception of KFC in China. McDonald's new coffees and salads are selling quite well here and abroad.

SL: We have seen concerns on Wall Street regarding McDonald's ability to keep up their explosive growth rate. What do you think?

Ober: There will undoubtedly be periods of slower growth, but the company has recently been quite innovative in driving the growth rate. The challenge will be to continue to innovate and refresh the menu to maintain growth.

PepsiCo has had some difficulty and has not kept up with Coke in marketing their beverage business over the last few years. On the other hand, their snack business, particularly in healthier snacks, seems to have developed quite well. So Pepsi has not performed as well as Coke lately, but we think that they should do very well over the long term as they have a good overseas presence.

SL: Chevron is my favorite oil company, and I see that it has performed well.

Ober: We like Chevron a lot and, as you know, we own quite a bit of it in Petroleum & Resources. It is held separately in Adams because we think that their long-term growth prospects both here and overseas are very good. We believe that an integrated model both for Chevron and **Exxon** is a very good one. We don't think that a model such as Marathon's is the way to go for Chevron. The properties and discoveries that Chevron has are doing very well.

SL: Yes, and Chevron has a strong balance sheet, solid operations, low valuation with a strong revenue growth, EPS growth and a good yield following seven years of dividend growth. We like their emphasis on renewable energy as well.

Ober: Yes, they are firm believers that the time is right for developing renewable energy, and they are working hard at it.

[Chevron and Exxon] are firm believers that the time is right for developing renewable energy, and they are working hard at it.

SL: According to Daniel Yergin's authoritative new book, *The Quest,* it will take a long time before renewable energy will dominate, but he sees natural gas as the "fuel of the future". He is convinced that oil has "a limited future" and recognizes that the world has to rely on other sources of energy. We will explore more about the future of energy when we interview you about PEO.

Ober: Procter & Gamble has great operations in the emerging markets and a good brand. They have consolidated some of their brands and are expanding others where they see they are able to compete effectively against Unilever and Colgate. They continue to evolve very competitively and have good worldwide operations as well as an attractive yield.

Microsoft is a long-term holding; we have held it for eight or nine years. It has gone through a lot of changes through the years in the changeover in corporate computing. Corporations are going to have to refresh their old PCs. With their Windows 7 operating system, they have come up with a good follow-on to their older systems. There were rumors that sales would slow down, but there was only a slight slowdown. Demand will really drive sales.

SL: Do you see any improvements in this slow performing stock?

Ober: I think that is partially attributable to some lack of direction from Steve Ballmer. He has made progress, but there are still a lot of non-believers out there, and consequently the valuation has declined somewhat which makes it more attractive to hold. We are hanging in there.

Intel has almost recovered from the flooding in Thailand. They saw a short-term slowdown from their customers, but they are anticipating that it will pick up soon. They still dominate the PC business and are making good inroads into the mobile and tablet business as well as with mobile phone producers. We are looking for some pretty good growth from Intel in 2012 with the PC refresh cycle and the newest chips for servers showing strong demand for cloud computers.

[**Editor's Note:** Both Microsoft and Intel have had some positive press lately. Microsoft, at $28/share, with roughly $6/share in cash and a yield of almost 3%, earned $2.69 a share for the year ended June 2011. They are also in the midst of a $40 billion stock buy-back program.

Intel, like Microsoft, pays dividends in a sector that is not traditionally known for them. Intel, the chip maker, is now paying out a market-beating 3.3% dividend yield, is trading at a modest P/E of 10 and is expected to grow roughly 10% annually. You have the same exact thing going on at Microsoft.

Both stocks were trading higher after higher earnings expectations were disclosed.]

SL: Looking at the banking sector, you have a large position in **JPMorgan Chase**.

Thomas Lee, their chief U.S. Equity Strategist, notes that profits are healthy at banks, and many of them are stepping up share buybacks. He also predicts corporate profits will expand 9.5% in 2012 and to 10% in 2013. Is this too optimistic?

Ober: Yes, there are still many regulations to be written in this arena which, I think, will be sorted out. If there is a Republican victory in 2012, there could be some easier regulations in the financial industry, but we don't know what the latest stress test will show us.

They may have lower earnings growth in 2012 as the regulatory regime has already cost the banks as much as 10%-15% of their earnings in 2011. However, I think that there are opportunities in the banking industry as they have been beaten down so much.

SL: Like Bank America?

Ober: Bank of America has a lot of issues, but I think it is a very cheap stock now. Their earnings report indicates that Merrill Lynch was a big contributor to earnings, which many thought might drag them down, but that operation is running quite well. The mortgage issue has been plaguing BofA ever since they bought Countrywide. I have confidence that its new leadership will get the ship turned around, but what happens with the regulations will dictate the timing.

SL: I see that you have nearly 10% in diversified financials, mostly banks, and you only have a small percentage in insurance stocks. Why have you not balanced this sector with the stability of insurance holdings?

Ober: We will as we have hired a new analyst with 20 years experience in this sector. We, therefore, expect to see a greater emphasis on non-bank financials. We also have hired a new energy analyst to help us with our gas pipelines as well as electric utilities in the Adams portfolio. We have another opening as well. This gives our analysts time to dig deeper into their sector of responsibility and come up with more new ideas!

SL: That all sounds like good moves that could improve your performance. This concludes our questions about your largest holdings. Your health care sector had a strong performance in 2011, so please tell us about it.

Ober: Health care is one of the most stable sectors, despite laws that were put into effect in 2010 which had some limiting aspects on profitability of some parts of the business, such as hospitals and health care providers. There has been a loss of protection for Pfizer's Lipitor and changes in how many companies are investing in research. There will be new products and services that will bode well for the whole industry. There are more and more people who have diabetes and other diseases that need a lot of attention.

Some of the device companies like Medtronic and Zimmer have had difficult times with regulation, but we believe that they have good products needed by many people such as to treat the higher-than-average weight of the population. We also have Teva Pharmaceuticals which makes generic drugs. It is one of our largest holdings, giving us significant exposure in generics because there is now more emphasis on reducing the cost of health care.

SL: The CEFA portfolios have done well in this sector. Last year you were very positive about General Electric. The stock has dropped significantly since then, but in the last two years there has been some improvement, and they have raised their dividend twice. How are you on GE now?

Ober: I am becoming less enchanted now as GE seems to have lost direction and focus. Their financial business will recover, and GE is in a business they know something about. The aircraft business is a good one and should grow nicely. There have been a lot of acquisitions in the oil and gas business, however, and they are dominant in providing turbines for the wind energy and gas power generation industries. But why are they spending so much to build up the oil and gas business? They have a long history in the appliance business but have sold off most of it as well as most of the lighting business which used to be the heart of the company.

SL: That is discouraging. However, we see that they appear to have made one good step in pursuing a more reliable funding source in purchasing MetLife's U.S. retail business for $7.5 billion.

That is a good rundown on the ADX portfolio. Now, turning to corporate governance, we have published your press release for your new dividend distribution policy and the stock repurchase program because we want to be sure that our readers see and understand both of these programs.

We think that your new distribution plan is the best thing for shareholders, even if you have to pay out a return of capital at times. This is okay, if it comes from realized capital gains which, as you know, are a major source of both mutual and closed-end fund distributions.

Both ADX and PEO have approved your authority to repurchase shares both in 2010 and 2011 for 2012, but ....

Both ADX and PEO have approved your authority to repurchase shares both in 2010 and 2011 for 2012, but you haven't lived up to that promise in the last two years. Why not?

Ober: We do not view the repurchase authorization as a specific commitment. We view it as a tool in our arsenal of weapons to be used to benefit shareholders by repurchasing shares when we think it makes sense in the portfolio. We are always looking at the markets and portfolio investments, and think we can get the most return for our dollar.

There was a time when buying back shares had a substantial impact on the discount that was beneficial to our shareholders so we actively bought shares at a rapid clip year after year. That benefit seemed to go away, so we didn't see it as a good tool for narrowing the discount. It does improve the volume of shares which has grown significantly. ADX used to trade 60,000 to 70,000 shares a day; now it is averaging 120,000 shares a day. It has a lot of volume which improves liquidity, something that we think is very important. We don't think that more share buy-backs will further improve liquidity in the market.

We also have not issued as many shares for our equity compensation plan, so we don't have to buy back as many shares to offset issuances under this plan. On the other hand, we have a good re-investment rate for year-end distribution. The 2011 re-investment rate for Adams was 47.2%, compared to 48.5% in 2010, and for Petroleum, it was 50.3% in 2011 and 50.1% in 2010.

SL: Does your Board ever take a stand on repurchases, or is that decision left up to you? Isn't part of the Board's responsibilities to make recommendations on what is in the best interests of shareholders?

Ober: On a day-to-day basis, it is left up to us. We talk about it at every monthly Board meeting, and they advise us on what to do. The evidence in 2010 and 2011 indicates that the Board is not anxious for us to buy-back shares on a regular basis.

SL: Why not? Don't they see the value in it for all shareholders?

Ober: To-date they have concurred with management that other opportunities are more attractive. So management is not ignoring any strong desire on the part of the Board to buy-back shares.

SL: That is too bad because many of your shareholders would like to see both of your funds continually buy back shares when the discount sinks to a certain level. Some funds repurchase shares when the discount goes over 8%.

I have been looking into other funds that buy back shares. General American Investors has bought in large numbers of shares for many years and has cited the evidence that it is good for their shareholders. They keep as much as 5% cash for this purpose. I see that you have about 3% of your assets in cash on the September 30, 2011 report that could be available for repurchases.

When the shares are as far down as they have been recently, that is an opportunity for you to help the stock performance by putting a floor under the price of the stock. If the discount is over 16%, as it was in December 2011 and ADX was trading on heavy sell-side volume, it presented an opportunity to buy shares for 86 cents on the dollar.

Why isn't it beneficial for the Fund to do that for some of its shares? Some funds do this periodically to try to eliminate shareholders holding less than 100 shares, saving on expenses. There are other arguments for this other than trying to reduce the level of the discount.

Ober: We speak with our shareholders regularly and have had very few who urge us to repurchase shares, so it doesn't seem to be a big issue. On the other hand, on days like yesterday [December 28, 2011], there were times that you could buy some individual stocks at very low prices.

There are a lot of companies with large stores of cash that prefer not to pay a dividend, but rather, they buy back shares instead.

For instance, we have been looking at some of the raw material stocks which got banged up pretty hard lately. We think that when a stock, say Freeport McMoRan [which we own], goes down 10% in a day for no real fundamental reason, either we spend our cash on more Freeport shares or on Adams. We look at this on a regular basis and try to decide what makes sense to investors as there are other opportunities out there as well.

I think that these things go through cycles, though. Right now if you look at the group of closed-end funds, they are probably selling at discounts that are the widest in a couple of years. Several funds are selling at 16.5%-17% discounts. We look closely at them to be sure that we are doing the right thing for our shareholders.

SL: We agree that the bottom line is to do what is best for shareholders, and we hope that you will keep that in mind at all times. Many public companies are now buying back shares at a record pace.

Ober: Yet, what happens to their stock price? It raises their earnings, but that is a financial calculation. It doesn't seem to benefit the stock price at all in many cases. We look at that as well. There are a lot of companies with large stores of cash that prefer not to pay a dividend, but rather, they buy back shares instead.

SL: That is true, but some public companies do regularly buy back shares as they see it as the best thing to do for shareholders. That was certainly the case for Amgen. They increased the dividend and initiated a large share buy-back program. The price of the stock moved up sharply. This is a big issue with many closed-end fund investors that I have observed in my many years following the industry.

For the record, according to Lipper Data, the ADX discount on December 31, 2011 was -16.5%; for General American Investors, it was -16.6% and -15.15% for Tri-Continental.

With that, I am ready to wrap up. Do you have any final thoughts?

Ober: I think that we have some things going on within the company that will help us perform better in 2012 and beyond.

You will see some changes here that will enhance our performance compared to our peers. It is mostly internal activity as far as putting processes in place that differ some from what we have done in the past. That should be a benefit.

SL: We look forward to that and our interview with you later about Petroleum & Resources. Doug, thank you for your time today. ■

Disclosure: Closed-End Fund Advisors, its clients, family members and/or principals currently hold shares in Adams Express Company and Petroleum & Resources Corp.

Mark Mobius: The Year That Was and The Year To Come

Perceptions regarding the composition of the global economy underwent a shift – instead of the U.S. being considered as the world's key growth engine, investors began to realize that large emerging economies such as China and India were increasing their contribution to global GDP. While the U.S. saw its long-term credit rating downgraded in August and the eurozone was the center of heightened worries about sovereign debt for much of the year, some emerging economies witnessed positive growth in 2011.

There were challenges. As most developed nations continued to implement loose monetary policy measures, many emerging countries had to reckon with higher prices for goods and services, appreciating currencies and, in some cases, "imported" inflation. In their fight against high inflation, several emerging-market central banks embarked on tightening monetary policies for much of the year, which led to investors worrying about the prospects for economic growth. Indeed, the high growth economies of China and other emerging Asian and Latin American countries lost some momentum as the year wore on, but to us they appear poised for softer landings than their developed market counterparts.

Worries also surfaced during the year about the impact of slowing exports on emerging markets, due to lower growth in major trading partners such as the U.S. and Europe. However, strong domestic demand was a key driver of growth in 2011 in some emerging markets, especially in Russia, Turkey and Asia, with exports between different emerging markets also taking a greater role in boosting growth. These dynamics highlighted the fundamental strengths of the emerging world, where many countries had lower debt-to-GDP ratios and higher foreign reserves than several developed nations.

Emerging market equities were not immune to the volatility that affected global equity markets in 2011. Volatility began early in the year as political unrest in North Africa and the Middle East, the so-called "Arab Spring", led to the fall of some long-standing regimes and heightened uncertainty coupled with rising prices in global oil and gas markets. Japan then suffered its biggest earthquake on record, followed by a tsunami and nuclear emergency, leading to sharp declines in the world's equity markets. During the second half of 2011, worries about developed-market sovereign debt meant that global sentiment took a sharp turn for the worse and risk aversion spiked, leading to a flight out of emerging equities and into assets that most investors perceived to be safer.

As the year neared to a close, European policymakers took concrete steps toward resolving the regional debt crisis. In addition, investors began to recognize the strength of U.S. corporate earnings, and China made its first move in three years toward a more stimulative monetary policy. This restored investors' confidence to some extent, but emerging markets as a whole still ended the year with double-digit declines. The largest declines were recorded by markets in Egypt, eastern European countries and India. However, select emerging markets fared considerably better, most notably those in southeast Asia, such as Indonesia, which ended the year in positive territory, Malaysia, the Philippines and Thailand.

2012 Outlook

While several developed economies are still plagued by worries about their sovereign debt levels, many emerging economies are characterized by high growth rates, low debt-to-GDP ratios and high foreign reserves. We believe these fundamental strengths are likely to continue in the months and years ahead and eventually be reflected in the earnings and share prices of emerging market companies over time. As growth in developed markets are generally expected to be much lower and fraught with fiscal challenges, we believe domestic demand in many emerging countries will play an even more important role in their prospective future growth. Much of the growth in this domestic consumption could be driven by rising incomes and the maturing of a young, working population.

Going forward, one risk we see is high inflation. Although inflation was relatively low in many emerging countries, in some cases it rose during 2011. Recently, inflation has eased slightly in some countries, allowing them to move to more stimulative monetary policies. For example, Brazil and Indonesia have cut interest rates, and China eased banks' reserve requirements for the first time since 2008. This trend could continue in 2012 as, in an environment of slowing global growth and easing inflationary pressures, emerging markets revert their attention to stimulating economic growth. Governments will also need to formulate policies to generate employment and address income inequality.

Another risk is market volatility. There will always be unforeseen factors and circumstances that might become catalysts for greater changes in the global landscape, as we have seen in 2011. We cannot exactly predict when the next market correction will hit us or know how great or small it will be, but we do realize that market volatility is here to stay. But with every crisis comes potential opportunity. Therefore, we continue to invest with a long-term horizon in companies that we believe are undervalued, fundamentally strong and growing, and those that we think can weather difficult times.

From a long-term perspective, we continue to have a positive outlook on emerging economies. In our opinion, balancing growth, inflation and global competitiveness will be the task ahead for many emerging countries in the months to come. We believe that emerging stock markets could be much larger than they are today, and over the long term, their combined value could potentially exceed the combined value of the U.S., Japanese and European equity markets. ■

Source: Mark Mobius blog, http://mobius.blog.franklintempleton.com/

Disclosure: Closed-End Fund Advisors, its clients, family members and/or principals currently hold shares in EMF and TDF, both managed by Mobius.

Exploring Some of the Mysteries of Closed-End Funds: Discounts in Closed-End Funds and Fund Repurchases

The mission of *The Scott Letter* is to publish interviews with experienced managers to educate investors about the merits of investing in closed-end funds. In this issue, we inform our readers about Adams Express and how they invest. We also discussed in our current interview the merits of a fund repurchasing its shares and how this can benefit all shareholders.

According to Doug Bond, Portfolio Manager of Cohen & Steers Closed-End Opportunity Fund, investors can make money two ways: (1) fund assets earn a return and (2) the fund discount shrinks.

Mutual funds and exchange-traded funds (ETFs) are priced at and near their net asset value. *Smart Money* has a curious discussion about closed-end funds in its January 2012 issue, saying the funds have "mysteries", making it difficult to explain their behavior. However, once understood, there is no mystery about closed-end funds.

Smart Money further points out that mutual funds and ETFs "continuously trade away discounts and premiums for their own profit". With closed-end funds, the discounts always provide advantages.

While mutual funds only trade at NAV and ETFs have no or little discounts, CEFs nearly always trade at discounts to their net asset values. We usually sell them when they rise above the net asset value. This is the way they are structured, and they have many benefits to their shareholders. We will explain why.

Smart Money also suggests that discounts don't matter to shareholders once they become listed on an exchange. We disagree. They do matter because they provide a means to buy shares at a price below the net asset value of the portfolio. When a closed-end fund buys back its shares, the shareholder also benefits because fewer shares make each share worth more. A mutual fund cannot do this.

Closed-end fund shareholders who sell their shares don't affect the portfolio assets, whereas mutual fund shareholders take money out of the fund when they redeem their shares. Our current interview tells how discounts on these funds provide advantages, especially when they shrink.

When we interviewed Adams Express in late December 2011, its discount was close to 17%. It has since narrowed to about 15% because of market strength. We had a discussion with Doug Ober about this, giving reasons why he should buy back shares, including reducing their discounts.

This is what gives closed-end funds one of their prime benefits besides lower costs than mutual funds have. Share repurchases, done continuously, can also provide market support for the fund.

There are other ways a fund discount can narrow. Adams Express recently reduced theirs to 15% due to market strength. We think that this is only a part of the equation, and hope every fund with a discount of more than 10% will aggressively repurchase shares when available.

Doug Ober and his Board of Directors may have decided correctly that there were better values in their stock portfolio last year. If they added to some of their stronger holdings in the last six months rather than repurchasing shares, this would have also been beneficial to shareholders.

Management may have been right this time, but we hope that at some point that they will see the wisdom of fulfilling their commitment to repurchase shares by keeping enough cash available to do so when opportunities arise.

Let's now talk about share buy-backs for individual companies versus those done for closed-end funds: According to Standard & Poors, among the companies that comprise its S&P 500 index, repurchase spending totaled at least $437 billion last year, a 46% increase from 2010. Share buy-backs can boost earnings only if they are larger than stock issuance, of course.

These company buy-backs boosted the earnings for 97 of the S&P 500 members, but the hidden fact also remains that closed-end funds can repurchase shares for maybe 15% less than the value of the portfolio for shareholder benefit. This cannot be done by mutual funds or exchange-traded funds.

To show our increased commitment for education in 2012, we have added six educational webinars and started a blog covering closed-end funds. Our mission is to show interested investors the many benefits of CEFs.

To learn more about CEFs, please visit www.CEFAdvisors.com for our webinars schedule and related links to our blog.

LinkedIN members can join a community of network investors and professionals from the CEF Network group. ■

Marty Cohen on Recent REIT Performance

Marty Cohen, Co-Chairman and Co-CEO of Cohen & Steers, explains the difference in performance between residential versus commercial real estate recently. He was asked why REITs are doing well with real estate still being a huge concern.

The economy is expanding. We are adding jobs, and there is an increasing demand for office space with no new supply. Vacancy rates fall, and excess space gets utilized so we have good returns for property investment. Home ownership is still weak; people can't get a mortgage. Renting is the only thing left, especially with recent college graduates.

The commercial real estate still has net inflows. Regional malls and hotels have solid returns. No new malls are being built, and people don't want them in their back yards. If the economy continues to recover over the next 6-18 months, demand for tangible assets, and therefore assets, and therefore real estate, will increase. Real estate is a proven hedge against inflation. The average REIT currently experiences 8% growth and a 4% dividend yield. ■

Portfolio Managers' Reviews

Growth, Growth & Income and International Equity Portfolios. In late 2011, we raised cash from some of our funds such as Royce Value Trust, as the U.S. stock markets began to favor large cap funds like Adams Express. We continue to hold Source Capital because of its good long-term record of picking winners and its large pay-out to shareholders.

We had planned to reduce our emerging debt markets funds in favor of more exposure to equity funds, but they continue to act well. We only sold some shares of Templeton Emerging Markets Income Fund as it was selling at a premium. We will re-invest the proceeds in large cap funds as opportunities arise.

The Latin America regions are expected to post growth in 2012 as high prices for mineral and agricultural exports have boosted foreign currency reserves and conservative banking rules left lending institutions well capitalized. With Europe dealing with lingering debt woes and China slowing, analysts are cautious about Latin America's prospects. Brazil perhaps best exemplifies dynamic local growth undermined by global struggles and is likely to cut interest rates, becoming the ideal economy for investment, according to Deutsch Bank. Our exposure in the Latin America region is through the **Aberdeen Latin America Fund** which focuses on investments in Brazil, Mexico, Chile and Columbia.

Asia's export-driven markets were hurt in 2011 by the consumer outlook in the U.S. and Europe as well as outflows of money from the region. The Shanghai index finished in negative territory for the second consecutive year, and there was weakness in Hong Kong and other regional markets. However, Kim Do of Barings Asset Management who manages **The Asia Pacific Fund,** said Asian stocks were already at such low valuations and with the prospect of monetary easing and signs of economic recovery in the U.S., the Asian region is positioned for "spectacular rallies" in 2012. However, we still see U.S. markets as the best place for new investments now.

Hybrid Income, Foundation/ Balanced and Conservative Diversified Portfolios. The most profitable trades in fourth quarter 2011 involved buying **Tortoise North American Energy Fund** at a -11.5% discount and later selling it at a -4.3% discount. With the proceeds, we bought **Kayne Anderson Midstream Energy Fund** at a -12.6% discount that has since narrowed to -6.95% discount. We hold these U.S. funds in all three models.

For Hybrid Income accounts, we increased our allocation to global dividend funds, although we sold **Lazard Global Total Return Fund** and **LMP Capital & Income Fund** upon its post-tender completion. We purchased **ING Global Advantage & Premium Fund** and **Eaton Vance Tax Advantage Global Dividend Fund**. We swapped senior loan fund, **Highland Credit Fund**, for **Invesco VK Dynamic Credit Opportunity Fund** due to its potential dividend sustainability and expected NAV performance.

For Foundation/Balanced and Conservative Diversified accounts, we purchased **ASA Gold & Precious Metals Fund** to hedge market risk and swapped various muni-bond funds into **Eaton Vance Municipal Bond Fund,** which had a recent high relative UNII (percentage of the annualized income-only dividend currently on the fund's balance sheet) and a narrow discount. We added commodity exposure for many clients with **Black Rock Resources Commodity Strategy Fund** and increased our exposure to U.S. equity funds through Adams Express.

We expect all three models to have above-average trading activity for the next few months as we modify our sector allocations to reduce risk and add alpha to each portfolio model. ■

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The Scott Letter Online
is published by

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