

# **CLOSED END OPPORTUNITY**

## **APRIL 2008**

There has been some interesting and in our opinion bullish news regarding closed-end investment funds.

The Wall Street Journal reported on April 24...

*Fund Company Eaton Vance, a leader in closed-end funds, announced it has raised the financing to redeem another \$580 million in auction-rate preferred securities issued by three of its closed-end funds. On top of previous announcements, Eaton Vance has now raised about \$3.3 billion to redeem such auction-rate preferreds.*

*Other fund companies, such as closed-end specialists Nuveen Investments, are also in the process of trying to do something similar. Eaton Vance's success raises hopes that they will succeed.*

*What this means is that the crisis which swamped these funds over the winter may finally be coming to an end.*

*Yes, there is a long way to go. Many investors in auction rate preferreds remain stuck. But overall, developments in recent weeks should be hugely bullish for the common stock in many closed ends.*

*Closed-end funds are like ordinary mutual funds, except that they issue a fixed number of shares which are then bought and sold on the stock market.*

*They can also borrow against their investments. And that got them embroiled in this winter's credit panic. Holders of their short-term paper, usually called 'auction rate preferred securities,' found they couldn't get their money out because they all rushed the exits at the same time.*

*In the aftermath the common shares in many funds plunged in fears of a knock-on effect.*

*This column said this was a good buying opportunity. I expected the credit crunch to be resolved in due course. And so it is proving. It takes time, of course, but many of these funds are perfectly sound investments. There is no fundamental reason why they should have a problem borrowing against their holdings.*

*During the panic, shares in these funds fell well below the underlying value of their investments. And although they have rallied somewhat with the stock market since early March, those discounts have remained, or even widened.*

*The closed-end fund industry is going to have to engage in a pretty hefty marketing campaign to undo the damage caused by this winter's panic. But for investors in the common stock, it was mainly a problem of perception. The underlying investments remained sound.*

*Good closed-end funds are usually a great way to invest in the stock market when they trade at a substantial discount to net assets. This is one of those moments.*

We highlighted many opportunities in our December 2007 issue of the Personal CFO. These same closed-ends are still trading at steep discounts to their Net Asset Value (NAV) while paying some handsome yields. For more information on some of our favorites please contact Matthew Markowski at (888) 950-0940.