Panelists speak during AICA Boot Camp and Round Table about How to Analyze & Trade CEFs: An Institutional Perspective

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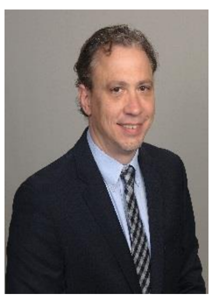
Rob Shaker, Portfolio Manager at Shaker Financial, Eric Boughton, Portfolio Manager and Chief Analyst at Matisse Capital, Marc Loughlin, Director of CEF and ETF Trading Solutions at WallachBeth, and Philip Goldstein, Principal at Bull Dog Investors were panelists at the AICA Boot Camp and Round Table held on November 6th in New York City. The moderator of the panel was Chuck Jaffe, Host of MoneyLife. Read the transcript from the discussion below to hear the insight from the panelists.

Chuck Jaffe



Rob Shaker

Eric Boughton

Marc Loughlin

Philip Goldstein

To view the rest of the conference events and panels go to: https://aicalliance.org/NYC2019Event/

Chuck Jaffe: I am Chuck Jaffe. I'm a financial journalist. I'm the host of *Money Life with Chuck Jaffe*, and perhaps more importantly for this group, I'm the host of the new *NAVigator* podcast which is done in conjunction with AICA. And I'm sitting because I'm dealing with a back problem, so I would love to be standing or what have you, but I really want to get into this with our guests. My job is to be host, but if you want more information, you want to find my show, it's MoneyLifeShow.com. Now my guests, I'm going to try to make this that we don't spend a lot of time covering the same ground, because they're all experts and they could all cover the same ground, but we want to try to move this in a lot of different directions. I've talked with a number of you here today, and I know that some of you want us to go in different directions. So we have from my left Marc Loughlin, he is director of closed-end fund and ETF trading solutions at WallachBeth. Then it's Eric Broughton, he is portfolio manager and chief analyst at Matisse Capital. He's a portfolio manager who is helping to run both a 40 Act mutual fund, and he's trading separate accounts. The 40 Act mutual fund invests in closed-end funds. To his left is Rob Shaker, portfolio manager at Shaker Financial, and he is a portfolio manager using closed-end funds in separate accounts. And then to my far left, Phillip Goldstein, he is with Bulldog Investors. He is an activist investor and legend, and he if you don't know, go do a little research because you're in the presence of greatness. But we're going to start where you want to be in the presence of closed-end funds, so I'm going to start with the portfolio managers. And Rob, I'm going to start with you. We need to know when folks are talking about they want to be getting involved and trading closed-end funds, and we're supposed to be talking about trading, but we'll do some process and some more about investing. Just start with the idea that says, "Okay, you're trying to build a portfolio of closed-end funds." What are the characteristics that are going to make you go, "Yeah, here are the things that's going to spin my fan, get me interested, and get me trading"? And what are the things that are going to make you say, "No, that's a deal breaker to me"?

Rob Shaker: Building off an earlier panel, I have to admit I am that guy who wakes up every morning and thinks, "What closed-end fund am I going to buy today?" At Shaker Financial, we're probably going to sell and buy about five million worth on each side every day. And what we're going to be looking for is the discount. To us, the discount is the most important thing. We do something that we call discount capture. And so what we're trying to do is we're trying to buy funds when we believe the discount is artificially wide, and then sell them when they get back to either the normal rate or artificially narrow. And the concept is, if you can do that and stay invested, rotating each time you sell and investing somewhere else, you're just going to create alpha onto an existing portfolio. And so by doing that, you can outperformed a static mutual fund based 60/40 or 75, whatever you want to do. And that's what we've been able to do over the last decade plus. In looking for closed-end funds, it's kind of simple but it's also incredibly deep in terms of how deep you can get into it. But the concept is, everyone knows what an ETF is, everyone knows what a mutual fund is, you're going to get this return. You're going to get your equity, you're going to get your bonds, you're going to get this return. But the closed-end fund difference is that you also have the change in discount. Your total return is not just the change in NAV, like it would be in a mutual fund or an ETF. It's the change in NAV, plus or minus the change in discount. And that is something that you'll hear all the time from all the different panels. People saying, "Hey, stay away from this," or "Get into that." Really what they're talking about when it comes to closed-end funds, is that change in discount. How are you going to get that to work for you, or at the very least, how are you going to have it not work against you? And then at the very, very least, in case a client asks you or you're doing your due diligence, that you know that that exists. That that is a risk, even if it's just part of a random movement that you're going to be part of. You want to add onto that? We do a lot similar, I'd say.

Eric Boughton: Ditto. Whatever Rob does as Shaker, we do at Matisse. So I'll just add onto it a little bit.

Chuck Jaffe: Please.

Eric Boughton: Some of the nuances of what goes into this analysis. So I don't know if Rob professes or tries to know what the underlying asset classes are going to do, but at Matisse, we don't really profess to know what the asset classes is are going to do. We're a little bit like Billy Bean, the Oakland A's in *Moneyball*. So we don't know what player is going to have a hot streak, or hit a home run, or whatever, but we know what we're going to pay for him. And that's the key, the key is the discount. The key is what happens to the discount while we own a fund? And a lot of things go into that, so what we found is that this is the only reliable source of alpha. So we've heard a lot in these panels about a lot of things, and the word alpha has not been mentioned very much. And that's because it's incredibly difficult to find alpha on a consistent, identifiable, reliable basis. And what I think Rob and I along with others have found, is that alpha is present in discount movement in a very systematic way, that's based on investor sentiment and how it changes over time. We did a study at Matisse, we went back and looked at all closed-end funds back 30 plus years, to where we had good data, and we found that discounts on funds that are in the widest quintile of discounts, narrow by one full percentage point in the next month. One full percentage point, with all of that translating to alpha on a portfolio constructed and consisting of those funds. That's a tremendous amount of on-paper alpha, and this really launched probably both of us into our work here in closed-end funds. Other things we've discovered are how a fund's discount moves based on its own history, so there's powerful mean reversion. Not only does NAV act as a magnet for a closed-end fund's discount, but also a fund's own historical discount. So we look at the different ways of measuring a fund's history in terms of where it's discount has been. We also attempt to quantify other things about funds, such as how much Phil owns. And I'm being serious. This is an element to our model, is the percentage of closed-end fund shares held by those we would identify as activists. So if a fund is unusually wide and it's owned a lot by people who might have a reason to push for the fund to see its discount narrow, we'll be owning more of that fund on a systematic basis. So that's probably enough initial comments.

Chuck Jaffe: It is. I'm going to hold off on Phil for just a second. I want to bring Marc in. So Marc, Rob and Eric both were talking about the importance of discounts, and of course it's something that is readily seen and that people can recognize. If you go out and make that what you're looking for, you will find it. But then you have to be able to trade it and get the execution that's going to make it that it helps you create, and in fact helps you create some of the alpha. Because if you lose it in the execution, whatever it was on sale for, you're not getting the full sale price. So how difficult is it when you wind up with multiple portfolio managers and traders looking at the things where, "Here's the hot discounts," or "Here's the good stories," to get good execution? And what do people have to worry about in terms of what you can lose by having less than ideal execution?

Marc Loughlin: Well, clearly it's the same in closed-end funds in equity markets, everyone wants to buy things that are cheap and sell things that are expensive. So there is an element of competition within there, and the structure. And I think as a result there's less block trades now than there used to be historically, because people have got more attuned to the discount, people's morals tend to be similar in structure and that. In terms of day-to-day, the thing to be aware of is, over time the market on a structural level has changed. The New York Stock Exchange is now a very small amount of volume. The AMX has a small amount of volume. And what's really replaced it are dark pools and systematic trading, which was a slow gravitation.

Dark pools started to basically get away from paying exchange fees. Then electronic trading firms realized that they can make money by being in these venues. And then they realized that if they paid the custodians, they can make more money. And all of that's transparent, all of that's disclosed, and it means that that's why you get free ETF trading from your custodian, etcetera. And in equities and ETFs, that can be pretty good. The more you go down the retail food chain, the harder it becomes, and closed-end funds are a retail product, and that dispersion really affects it. We did a study, we took PCI as an example, and in three months of trading, there was 29 different venues of which UBS's dark pool was the most common at 18% of all volume. So that means if you're in UBS's infrastructure and you're using that, 82% of volume is going around you. We're lucky. We're independent, so we can link all those venues together. But if you're tied to an individual custodian or structure, the things you can do is just have in mind what's going on around you. There is a reason why electronic firms pay for autoflow, it's to make money. They're doing that by making electronic market making spreads inside the screen liquidity. Hoping not to pay exchange fees and hoping to cross as much as possible in between. So things like VWAP orders will tend to be counterproductive, especially on things that are wide discount because they're very easy for electronic traders to spot. And of course, if it's a cheap discount, other people are buying outside of you. So you'll tend to be ramping up a LIT market and moving the market against you. So in those scenarios, I think patience is the key, because every custodian has access to a dark pool, every custodian will be in that route. So if you can be patient, set limits that don't go above the LIT markets, and hope to take part in mid-market execution as much as you possibly can. Because the LIT market is not as liquid as the dark market, so as much as you can partake and not move the LIT market price, you should be able to get increased volume in your own infrastructure.

Chuck Jaffe: Thank you, Marc. Now we're going to bring Phil in. Because we've talked about what everyone else is looking at, and we've talked about how it trades, and now you throw the wildcard in. Because things change for closed-end funds when investors like Phil get involved. So Phil, these guys are starting as portfolio managers with discount, but I know it's not as simple for you as just discount and, "Can I realize it?" There's more there. So explain what makes you say, "Okay, here's the case with the things that I'm looking for that's going to make me jump in and say, 'Here's where I want to be an activist investor. And here's a case where I'm perfectly happy to let that one percolate and do nothing for a while'?

Philip Goldstein: Well, before I answer that, I'll give a little bit of my history. My philosophy has changed. When I started out, I was pretty much the same as these guys. And it's a good strategy, basically regression for the mean. You buy a diversified portfolio of funds when discounts are wide, you hope they narrow. Most of the time they do. And you turn over the portfolio from time to time. There's other factors like taxes and so forth. And if you do that, then you have a diversified portfolio of discounted closed-end funds, and you're a passive investor. I've been investing in closed-end funds, I started in '74, so it's 45 years. That's a long time. You'll probably do pretty well. You'll probably beat the market. But going back, I didn't start out as an activist, I started out, I was just investing for myself. What attracts most people to closed-end funds is, "Hey, I can buy a portfolio of securities for a discount essentially." Let's go back to the mid 70's, there weren't that many closed-end funds. If you looked at *Barron's* on a Sunday, maybe it took up about two or three inches, so maybe there were 30. There weren't any activists. So you had funds like some of which are still around today like Tri-Continental, General American, Adams Express. I remember Tri-Continental trading at a 25-26% discount. I don't think that can happen today, or at least I didn't think so until fairly recently. I think that activists have kept a lid on discounts and any sort like a Tri-Continental, or a plain vanilla fund, or GAM, because activists will come in and so will non-activists, but investors who might support an activist. So I think activists have had a good effect. The managers, probably some would disagree. They throw out, "Oh, you're just a short-term investor." But really if you think back again to Tri-Continental trading at a 25% discount, why wasn't board or management doing something at the time, like as a no-brainer, buying in its own shares? They'll give you all kinds of reasons, but nobody's going to admit that, "Well, they don't want to reduce the NAV." The NAV of the fund as a whole, because that might reduce their fees. But I got to believe that somebody's thinking that. So in any event, in about 1996 we sort of changed our philosophy, and I had some money under management and we decided to see if we could persuade, push, cajole management, to doing something to address the discount, to narrow the discount. And since that time, there's been a lot of engagements under the bridge, proxy fights, shareholder proposals, litigation. We've even done a few tender offers. I mean, I only wish I could get somebody like Carl Icahn to come into this sector, who could just launch tender offer for the entire fund. But those types of activists don't seem to be interested in closed-end funds, maybe there's just not enough juice to close a 15% or 14% discount. They're looking for massive returns, sometimes with turnarounds with operating companies. Although Elliott Associates did do something a while back, but they don't seem to have an interest in it. So right now it's pretty much limited as far as real activists. When I say real activist, someone who would run a proxy fight to Bulldog and Saba. Some of the other activists, they haven't really been active lately like Karpus or the softcore activists, to use an analogy from another field. Like a City of London or 1607, they might talk to management behind the scenes, but they're not going to want to get their hands too dirty. So the problem is now, I can sort of see fairly recently, maybe the last month or so, dark days of activism coming. I don't want to put a damper on it, but I can see it. If anybody saw the announcement yesterday from Legg Mason, they put in a whole new slate of bylaws which has a provision that makes it much more difficult to win a proxy fight. There are some real bad actors there, they're pushing the envelope whether these provisions are legal or not. There's an open question. It's becoming more difficult and if it's made too difficult, we're going to be back in the mid 70's. That's my prediction. So part of it depends on how the SEC sees some of these moves. I'll give you an example of one, which is a Dividend and Income fund which has a five percent share ownership limitation. Very difficult for an activist to commit to invest the money and the resources to do a proxy fight, if their ownership limitation is five percent. I mean, it's sort of like they borrowed that from the REITs. So what's going to happen in the future? I don't know, part of it depends on how the SEC acts. I still think as my co-panelist said, there's still money to be made by playing the discounts, but it's not as much fun.

Chuck Jaffe: Well, let me step back in. Eric, you've just heard less active investors, and you talked about how you factor activism into what you do. So what happens if that activity starts to peter out here, and we don't see as much activism? Does that make your portfolio less distinctive? Does it mean that you find fewer things attractive? What's the offshoot if you're normally looking for guys like Phil, and he's not there, what happens?

Eric Boughton: Well, I don't share Phil's pessimism on the death of activism. So I think that more folks will step in. I think that ultimately the SEC will not allow some of the more egregious things that funds are doing.

Philip Goldstein: I hope you're right.

Eric Boughton: Yeah. For example, the Dividend and Income fund that Phil mentioned. I also hold a big position in my fund, is an example. They've got the five percent limitation. But here's an idea, get 10 shareholders together who are willing to get a 5% position, and it's only a 100 and something million dollar fund so it doesn't require a big commitment. And do a tender off at 12% discount to NAV. If you did that, then you could pick up the majority of the shares right away, circumvent the whole process and then liquidate the fund. So that's an example. There are different ways that you can get around some of the provisions or problems in closed-end funds. I continue to factor activism into my model. It's not the majority of what I'm looking at. I'm looking at historical discount and how that discount's going to move. But I think Phil's going to have more success in the future than he thinks he will.

Rob Shaker: And something else. I've been doing this for a long time. Not as long as Phil, but long enough that I went through 2008, I went through the periods in which you get really deep discounts, and we're in for the duration. We're long-term investment. So if they widen six percent in December and they come back in January, we're going to do little things different, but we're going to wind up okay because we're not going to try and overly market time or anything like that. We can talk about why we have those big moves sometimes, but there is a sense of serenity that I get that Phil's there.Because when discounts are at 15, I know they're not going to stay down there. They can't. Phil's not going to let them stay down there, right? Saba's not going to let them stay down there. So what we're going to have is, we're going to have things come back, but we always sort of have that - we have that fundamental backstop of people like Phil, who are going to be able to be there and take advantage of ridiculous discounts. Now maybe not always on those huge funds from the CETs and TUIs. But on the regular funds, they're going to do enough that we're going to get that regression back. So even if you're not getting the full Phil bonus at any given time, the activists are there and they're supporting the whole ecosystem.

Philip Goldstein: Well, I'm not giving up. Although I'm getting to that age where maybe I should just go fishing or something, but I still find it interesting. Look, if the SEC allows some of these anti-takeover provisions to stick. For example, just for argument's sake, the ultimate threat is to take over the board, right? That's the ultimate threat. So what if the fund puts in on DNI, which is Dividend and Income, they put in a provision that says, "Well, in order to be elected, you need 75% of the outstanding shares."

Rob Shaker: Why not 95%?

Philip Goldstein: Or 100%? If the SEC allows that to stick, there's no point in running a proxy. You're never going to win, and this stuff does cost money, we're spending our investors' money on it. So if the anti-takeover provisions are there, you're very limited as to what you can do now. I hope I'm wrong, and maybe there's a balance. I will say also that Eric's idea, it's good thinking but there's a lot of problems to what he said, because if you teamed up with somebody else to launch a tender offer, that tender offer can never be consummated because then the group itself would own more than five percent. So unless you're prepared to litigate that, and you have to be prepared to litigate. And unfortunately as an activist, what you wind up with is you spend your own money on lawyers, and the fund spends shareholder money. I'll tell you a story from many years ago, I got sued with this other guy, Ron Oland, and we were in court. We owned maybe three percent of this fund, I think it was called the Emerging Germany Fund, they sued us for proxy fraud or something. And we're in Federal court, and Ron Oland's clients own 15% of the fund, and Oland says to the judge, he said, "Not only do I have to spend 90 thousand dollars to defend myself from this frivolous lawsuit, but I'm paying 15% of their cost to sue me." So there's an inherent unfairness about it, and we factor that in. But if it becomes too much risk and too little chance of reward, things could change. I'm not giving up, but I can see the tide changing.

Eric Boughton: Well, let this constitute a direct message to the SEC; closed-end funds belong to their shareholders.

Chuck Jaffe: So we'll take some questions here. Go ahead and start with you.

Audience: I've got a question. I'm looking at the name of the conference here, it's Active Investment Alliance. I'm wondering if it's possible that a holding mechanism could be set up with this organization, because it's non-profit, which is good. Where shareholders could just express an interest that they got X number of shares, or a percentage - express an interest in let's say DNI, it could be anything. And that it would just be available to the public so they could see if there are other investors that might be interested in activism, or would support an activist. And that activist might use that as a tool also, to decide whether before going ahead. I believe in 2007, there was litigation that the SEC specifically allowed it, but I don't think anyone's actually done one. So I'm wondering whether that might be an idea?

Chuck Jaffe: Well, I'm not going to speak for John Cole Scott.

Philip Goldstein: I can answer. That's not going to work. Bottom line, it's not going to work. And the reason is, because those shareholders are not here, they're sitting at home watching TV. I mean, just to give you an idea on DNI, they had a proposal that Eric Boughton put in for actual shareholder votes. If you strip out what they call the broker non-voting, there was far less than 50% of the shares even voted. So the idea that somehow you're going to herd these cats and they're going to do something, it's not going to happen. It's not going to happen.

Audience: One thing has changed in just the last couple of years, like seeking alpha. There are marketplace offerings, and if one of them has maybe three thousand subscribers, the guys that run the offering would put out the recommendations. But they might be able to get three or four thousand people together.

Philip Goldstein: The lifecycle of a closed-end fund is when it's initially IPO'd, most of the initial shareholders, they don't even know what they're buying. They're just sold it by their broker. And there's still a lot of them left in the fund, and you could call them and explain to them. They don't even know what a discount is. They just don't know. They just don't vote. They're passive shareholders and it's just not going to work. It's a waste of time.

Chuck Jaffe: And I will say, I'm not going to speak for John Cole Scott, but you can explore it with him because he wants to make this organization representative of the industry and covering all aspects of the industry. So if there is an interest, even if it's informal or whatever, he might be willing to do something. It may have exactly the outcome that Phil and others have predicted, but it can at least be explored. Down at the end?

Audience: Question for Mr. Goldstein. Mr. Goldstein, you have taken over some funds. What would you do if an activist came and that's one of your funds?

Philip Goldstein: Well, that can happen. I'll tell you one thing I'm not going to do, I'm not going to sue him, and I'm not going to put up a barrier. I mean, look, I believe in shareholder democracy. If the shareholders want something, as Eric said, it's their fund. If that's what they want, that's what they're going to get. It's not my assets. By the way, I'm sorry I couldn't come here until around lunchtime, I don't know if you talked about this earlier, but the whole reason for having a closed-end fund is supposedly that a good portfolio manager can do better if he's got a fixed pool of assets. Was that talked about? Than on open-end fund or some other vehicle where you have redemptions that the manager can't control, so you can invest with the long-term view. And you should especially be able to invest in illiquid securities that you don't have to worry about having to sell them in a redemption. But unfortunately, I think when the IPO is issued for a closed-end fund, the manager looks at it as a steady stream of income, and whatever happens, nobody can get out. It's sort of like a roach motel, you're stuck in it. "You don't like what we're doing, just sell it to somebody else." So activists and managers are often natural enemies.

Chuck Jaffe: I need to bring this back to Marc, as Marc has been incredibly patient as we've moved in a lot of different directions. I'm curious Marc, when you listen to these guys talking about the evolution of both activist investors, the things we're seeing in terms of growth in closed-end fund assets and more, what are you seeing as the future for the industry? Because like I said, you are the director of closed-end fund and ETF trading solutions. And right now in the industry, the solutions everybody's looking at are ETFs, because they are the hot vehicle. So what do you see as the future when you hear the talk that we've been having?

Marc Loughlin: Well, I have a confession to make, that in my previous life I was an activist investor. So now that's cleared out.

Chuck Jaffe: Listening to this are you happy going, "Yeah, thank goodness. That was a great career change"?

Marc Loughlin: It's a lot of fun. I don't miss the lawyer letters. I don't miss the tender offers being pulled at the last second. I was based in London and Paris at the time, so I don't miss flying over to New York for one meeting and having to shout at people in elevators. But yeah, it's good fun. It was a lot easier back then because there were a lot of funds on big discounts and a lot of free capital to accumulate there. I think with regard to ETFs, closed-end funds have always had competition with regard to mutual funds or any sort of such structure. I think if anything, we've seen clients use the proximity of closed-end funds and ETFs as a way to outperform their benchmark. So for example, if you just own the closed-end fund and you hold it through the discount cycles, when discounts narrow you're outperforming, and when they widen again, you're losing that over-performance. So clients who actually can really produce some alpha as Eric mentioned, are the people are happy to switch between the closed-ends and the ETFs, comfortable doing so. We actually can do very tight pre-trades that explain what the impact cost of that is when they go in and out between the two, and by doing that they're actually capturing that discount move. We have clients that are three, four hundred basis points above benchmark by using that flexibility. That's harder to do when you're going out of a mutual fund structure, because the mutual fund companies don't want you going in and out of their funds. Whereas in the ETFs, they're obviously happy, they don't know for a start. So yeah, as with anything, closed-end fund investors are dynamic, and they change over time, and adapt to new opportunities. And I think ETF is actually a good conduit for CEF trading as well.

Chuck Jaffe: We have a question here. We were talking earlier today, you may not want to ask it, but you were talking to me about closed-end fund risk. And some of what you were discussing came out here with Marc. Do you want me to try to paraphrase your question?

Audience: Well, I actually had a different question for Marc. And we can get into the risk after that, but do you have an opinion one way or the other about whether agency or principal trades are better for closed-end funds as you're trading, size and all?

Marc Loughlin: Well, I mean, obviously I work for an agency desk, so I'm going to say agency is better than principal. We can access principal desks, and we use that as part of our wheel on deciding what's the best method to execute. But I think the essence is, if a principal desk shows you a price that you're comfortable with and you like, then that's the great venue to go through. Because they are taking on risk. The risk in the closed-end funds is bigger than the risk they take in the ETF trading, and they need to be compensated for that. So it's a case of, to me if that price lines up with your objectives and what you're looking to do at the time.

Chuck Jaffe: Want to try that risk question now?

Audience: Well, I guess I could.

Chuck Jaffe: It's directed really at Eric and Rob, because it's a portfolio management question.

Audience: Well, I had sort of a separate question for you guys as well, which I'll ask now. Which is how do you operate in different market regimes? Theoretically the discount could narrow because the price goes up, but it can also narrow because the NAV falls more than the price does. And there are certain times when one of those is more likely than the other. In a down market you would expect the NAV to fall more than the price. How do you sort of continue to generate alpha in those sorts of situations?

Rob Shaker: Okay. So the risk kind of thing, now there's different times in terms of when you're going to have widenings, and it could be an individual fund. But let's talk about the big ones like December of last year. When we're talking about these big widenings and what happens, it sort of ties together everything that people have been saying. As Phil says, what's a closed-end fund good for? It's good for the fixed-capital structure. So this person can go out and make these illiquid investments, can do whatever they want to. But what's the down side of that? Unlike a mutual fund, people start panicking, people start getting scared, they sell. A mutual fund, it's just the redemption. They sell a closed-end fund, they're going to push that to bad valuations. You're going to have bad valuations. You had bad valuations fourth quarter last year, that simple. Everything was on sale because there were more sellers than buyers. More sellers than buyers in ETFs, doesn't matter. More sellers than buyers in mutual funds, doesn't matter for your NAV, it matters for what they have to do in terms of redemptions and stuff. But it has a huge effect on price and discount, so you get these, what we call, generic widenings. Or as John Cole Scott, what he used to call them, we call them carnage periods. Because this is just when everything is going poorly. Everything is widening. Now in a perfect world, you were in ETFs to that point and then you come back in, and everyone's happy. But it happens over three or four days, then all of a sudden there's a breaking point. And we've done studies on this and the other, we could talk about them for anyone that wants to after this panel. But the general rule, if there's one thing that I could tell everybody who trades closed-end funds, if CNBC is airing a show at night called *Markets In Turmoil*, do not sell your CEFs the next day. You are getting a poor value. It's just that simple.

Philip Goldstein: I was just going to say, this is somewhat related to that. It's not the market itself, but I can give one tip that some of you may know. But if you don't, I don't like to give investment advice, but this actually works out pretty well almost all the time. If there's an income fund and they cut the dividend, and the stock drops. And by the way, I just did this for myself not clients. But it happened with Aberdeen Asia Fund, they cut the dividend and the discount moved from maybe 11% to 15-15.5%. It's a good time to buy because the NAV didn't change, discount widened out, and guess what? Now it's back close to where it was before. So sometimes the dividend is illusory, but if the dividends cut, it doesn't mean that the value of the portfolio has been cut. And often the stock does drop, and that's a great entry point.

Eric Boughton: But don't buy it the day before they announce the dividend cut. I've learned to do that. So to your question about risk, what we do at Matisse, we have models that look at the overall attractiveness of the closed-end funds that we're interested in. So we look at the total number of funds that are in our buy zones discount-wise, and the size of the attractiveness of those discounts. And we are more or less invested depending on that. So part of our answer to risk is that hopefully if we're doing it right, we're a little bit less invested going into the period when things crack, and we're a little bit more invested at the bottom. That's a partial answer, but I think Rob and I would both say, you just can't avoid it. It comes with the territory. If you're going to get the upside, you have to get the downside too. To Phil's point about yield though, there are 16 funds this year that had above, I think it was 12%, I used the cutoff - had 12% yields. Twelve percent or up yields that cut their distribution this year, those funds all saw their discounts widen in the subsequent period by a median of five percentage points. So this is just in general, a lot of closed-end fund investors focus on distribution yield, and it's a siren's song. We're focused on discounts almost exclusively. Distribution for us is only a way to get some of our money back in NAV, therefore you get a tailwind from that. But the size of the distribution yield, it's caveat emptor. Don't buy those funds.

Chuck Jaffe: I'm just going to step in. When we were prepping for this, Eric was nice enough to supply some graphics that they had. And I didn't want to limit the conversation and force us down that path, but there were some very good statistics and some things that you might want to cover if you are an advisor working with clients. And I know that Eric will share, so if you talk to him afterwards, he'll make sure that he connects you up with that. We've got time I think for one more question, it's coming from over here.

Audience: This is directed to you, Eric. At the execution, do you ever take into consideration in the factor analysis, the impact of the UIT sponsors who might have a disproportionate number of closed-end funds in their product offering? And they have to, to deal with the terminations and initiations. And that sort of can add another noise component to the signal up of that discount movement. Do you ever take a look at that? Or does it not really factor in at all?

Eric Boughton: A 100%. Yeah, the scheduled expiration dates of UITs are one of our go-to's. First Trust and Advisors Asset Management are the two biggest, but we're definitely looking at those for supply. I'll kick it over to Marc about this too, he's really good about knowing where to find those liquidations or whatever. Knowing who to call, so with an agency broker. If I have hundreds of thousands of shares of something I want to sell if it goes up a little bit, I don't want somebody getting the call who's also going to be selling. And of course, you can't avoid some of that. But those who are well versed in the space, I use Marc along with others, know who to call and that's key.

Marc Loughlin: Most of those UIT liquidations tend to actually not to hit the market. They tend to be split between the opening print and the auction at the start of the day, and the closing print at the end of the day. So they're not necessarily in the market all day, switching around. It's normally a 60% on open, 40% on close trade.

Audience: What has been my experience, I started to observe, they have those open and closed orientations, but they tend to give brokers more leeway to again try to create an outperformance, so there's even more equity.

Marc Loughlin: Yeah, that's definitely what some of the ETFs have been doing. After terrible rebalances, they then started to do three-day windows and actually working them through.

Chuck: Folks, you have been a fabulous audience. You've been attentive the whole time, nobody's fallen asleep that we had to embarrass. And my panel is terrific, so please, it's Marc Loughlin, Eric Broughton, Rob Shaker, and Philip Goldstein. Please give them a hand.

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