

Generate High Income & Alpha Using Closed-End Funds

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What Is A Closed-End Fund?

- Basket of stocks, bonds, commodities, or currencies.
- Fixed number of shares - IPO process like stock.
- Trades at premium or discount to NAV.
- Most are actively managed for income and capital gains.
- Can employ leverage, options, hedging, etc...
- Higher embedded expenses.

CEF Industry Statistics

\$262 billion in total assets

\$102 billion equity

\$160 billion bond

530 Total Funds

198 equity

Domestic – 116

Global - 82

332 bond

U.S. Taxable – 126

U.S. Municipal – 172

Global - 34

Source: Investment Company Institute, Q4 2016.

ETFs vs. CEFs

	ETF	CEF
Managed	Most Index-based	Most Active
# Shares	Create/Redeem	Fixed
NAV	Trades at NAV	Premium/Discount
Traded	Throughout Day	Throughout Day
Goal	Market Returns	Beat Market
Leverage	Some	Most
Expenses	Low	High
Income	Low	High
Transparency	High	Moderate

Why I Love CEFs

- Access to alternative investment strategies not found in ETFs.
- Use of embedded leverage to amplify income.
- Profit opportunities in premium/discount dislocations.
- Fund manager autonomy (i.e. no redemptions or forced selling).
- Potential for alpha-generating returns above traditional open-end funds.

Preferred CEF Research Sources

- **CEFconnect.com, Morningstar.com, CEF issuer websites**
- Websites offer screeners, fund data, and other relevant information.
- Use combination of all three to your advantage.
- Be skeptical of Morningstar ratings – do your own research.

DoubleLine Income Solutions Fu:DSL

Print View

Manage Alerts

All | **Overview** | Fund Basics | Distributions | Pricing Information | Performance | Portfolio Characteristics

Overview

As of 5/9/2017

	Share Price	NAV	Premium/Discount
Current	\$20.87	\$21.59	-3.33%
52 Wk Avg	\$19.13	\$20.47	-6.58%
52 Wk High	\$20.90	\$21.63	-3.20%
52 Wk Low	\$17.55	\$18.86	-12.99%

Regular Distribution Type [†]	Income Only
Distribution Rate	8.62%
Distribution Amount	\$0.1500
Distribution Frequency	Monthly



Key Research Metrics

- Current premium/discount.
- Current yield (type and frequency)
- Leverage ratio
- Fund size (total assets)
- Expenses.
- NAV performance vs. price (chart)
- Underlying portfolio.

Top CEFs Show These Characteristics

- Out-earning their current distribution.
- Pattern of consistent income and correlation with market.
- Price currently undervalued relative to historical premium or discount averages.
- Consistent and proven management team.
- Reasonable expenses given the type of investment strategy.

Tips for Building Portfolio Of CEFs

- Use in moderation – majority of portfolio should be low-cost ETFs.
- Focus most CEF exposure on bonds w/ some equity-income supplements.
- Prefer larger funds from superior asset managers – DoubleLine, PIMCO, BlackRock, Nuveen, etc...
- Best time to be a buyer when discounts expanding, premiums compressing.

Mistakes to Avoid When Choosing CEFs

- Excessively returning capital through dividends.
- CEFs masquerading as expensive index funds.
- Price patterns that differ from asset class expectations.
- Understand that high yield & leverage = higher risk.
- Watch out for new IPOs – wait!

Observations of Current CEF Market

May 2017

- Premiums stretched & discounts compressed relative to historical averages.
- Below-average volatility, tight credit spreads (complacency).
- Higher risk for new money invested at these levels.
- Reduce net exposure, build watch list of funds to purchase on a dip.

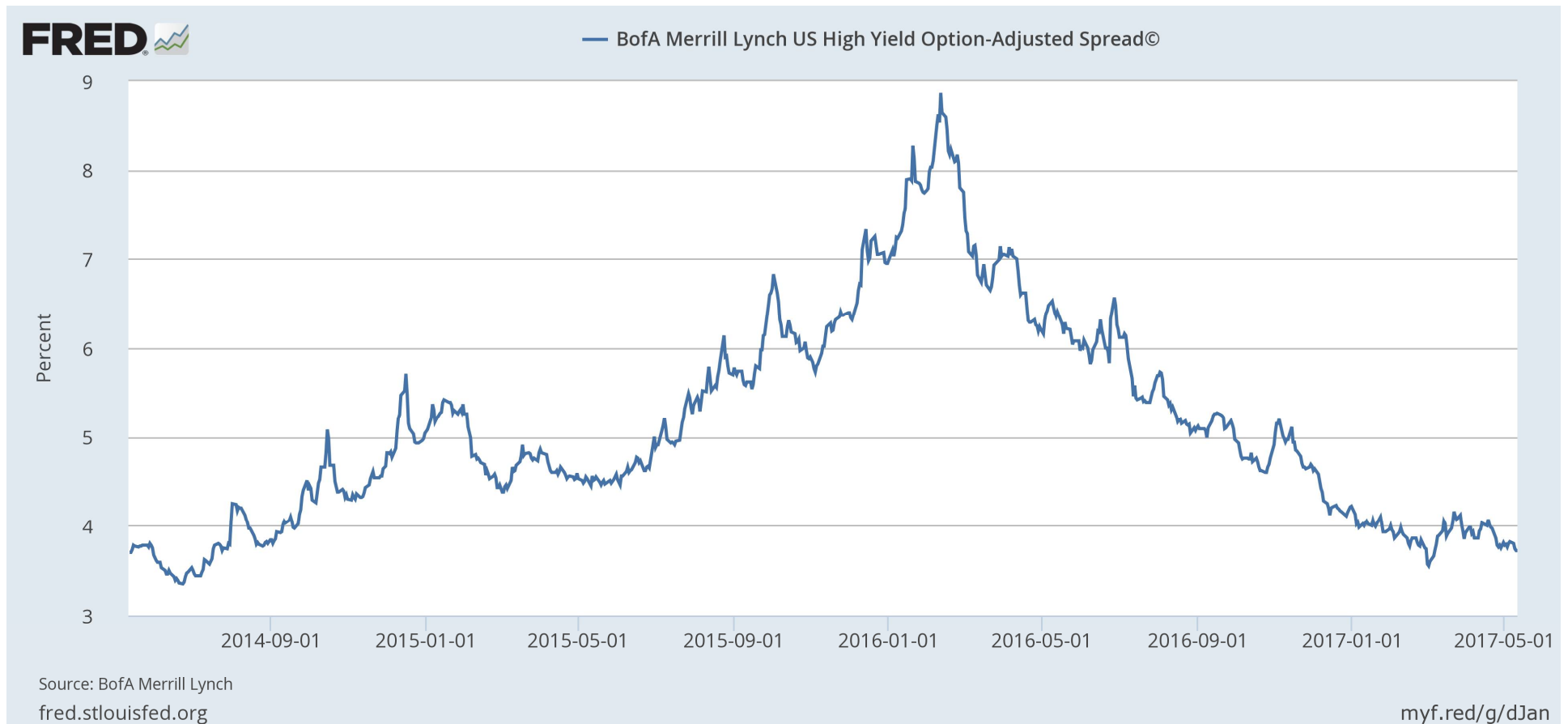
PowerShares CEF Income Portfolio (PCEF)

2-Year Chart



High Yield Bond Spreads – FRED Chart

3-Year Chart



Build Your Watch List - Bond CEFs

- PIMCO Dynamic Income Fund (PDI)
- DoubleLine Income Solutions Fund (DSL)
- BlackRock Multi-Sector Income Fund (BIT)
- Guggenheim Credit Allocation Fund (GGM)
- Nuveen Municipal Credit Income (NZF)

Build Your Watch List – Stock CEFs

- BlackRock Enhanced Equity Dividend Trust (BDJ)
- Eaton Vance Tax-Advantaged Global Div Income (ETG)
- John Hancock Tax-Advantaged Div & Income (HTD)
- Gabelli Dividend & Income Trust (GDV)
- Flah & Crum Dynamic Pref & Income Fund (DFP)

Final Words & Action Items

- **Learn more about CEFs:** fmdcapital.com
- **Narrow your field:** largest, most heavily traded funds.
- **CEFs take higher level of research/understanding than ETFs**
- **Focus on what you can control.**
- **First timers focus on education over action.**

Wealth Matrix

	Wealth Management		Newsletter
Portfolio Name	Strategic Income	Dynamic CEF Income	Flexible Growth & Income
Objective	Moderate Income	Aggressive Income	Growth & Income
Investments	ETFs & MFs	All CEFs	ETFs & CEFs
Account Minimum	\$250,000	\$250,000	Any
Custodian	TD Ameritrade	TD Ameritrade	Any
Asset Allocation	More bonds, less stocks	High yield bonds and stocks	Balanced