



## Taggart: As Unrest Widens Discounts, Buy The Asset Not The Bargain

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Mike Taggart, founder of Taggart Fund Intelligence and executive director of the Active Investment Company Alliance. Read the Q & A below as Mike says that the stock market's rough January along with the war between Russia and the Ukraine have put the market in a tizzy and widened discounts for closed-end funds by over 1 percent on average this year, but he notes that while discounts have become attractive, they don't make for automatic buying opportunities. Some closed-end funds, Taggart says, will stay at deep discounts and will see the net asset value fall towards the discount instead of rising to create the standard payoff bargain buyers are seeking. He says investors need to want the underlying assets and believe in their potential, rather than simply buying the big discounts.



Mike Taggart

The podcast can be found on AICA's website by clicking here: <https://aicalliance.org/alliance-content/pod-cast/>

**CHUCK JAFFE:** Mike Taggart, founder of Taggart Fund Intelligence, executive director of the Active Investment Company Alliance is back and we're digging into what's happening now in closed-end funds, this is The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-

end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry from users and investors to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator's going to point you in the right direction. And today it brings us back in the direction of Mike Taggart. Now he is the founder of Taggart Fund Intelligence, and I will point out he is former closed-end fund research analyst, director of research for closed-end funds at Morningstar, which one or two of you asked. Yes, that's him, and he has now added the official duties of executive director for the Active Investment Company Alliance. So if you want to find out more about him, well, you can find his research at Substack.com. You're going to go to TaggartFundIntelligence.Substack.com, or of course you can find out what he's doing for the Alliance by going to AICAlliance.org, the website for the Active Investment Company Alliance. Mike Taggart, great to chat with you again.

**MIKE TAGGART:** Great to be back, Chuck. Thank you.

**CHUCK JAFFE:** Now Mike, we are living through those proverbial interesting market times. It wasn't enough that we had rising interest rates and higher inflation, we also now have Russia and Ukraine going to war. And so let's talk a little bit about what this has meant for closed-end fund performance, and what you think happens next.

**MIKE TAGGART:** Well, thanks Chuck. So yeah, it's very volatile right now, especially this week has been exceptionally volatile. But if you look over the last three months as well, closed-end funds, the performance has been in decline typically. I talk a lot about this in my weekly market updates and my newsletter, but when you're looking at the prospect of the Fed is raising interest rates, some investors then worry about duration risk, interest rate risk, and more recently we've started to see credit risk. And so a lot of the segments, especially among taxable credit and municipal funds, have seen not only their NAVs decline over the last three months, but the prices decline typically even more, which has been sending discounts generally wider for closed-end funds. Some of the better performing segments, and they are there, is senior loans, which I wrote a piece about a couple weeks ago now. And then we see the energy, equity type funds, these are typically the former MLP funds, some of them are still MLP. But we also see the real asset equity, and in that segment I including things like real estate funds and then funds focused actually on real assets as well.

They've held up pretty well, but everything else has been kind of falling pretty much alongside the broader markets.

**CHUCK JAFFE:** But falling for a closed-end fund investor is typically not so bad because, well, what do most closed-end investors want? They want to see a discount, at least when they buy. They like the discount to narrow, close, and for them to realize something more, but wider discounts tend to make happier closed-end fund investors. Or is that not what's happening here?

**MIKE TAGGART:** Yeah well, I mean discounts have widened typically. In fact just from Friday to Tuesday the average closed-end fund discount widened a full percentage point. For all 450-some closed-end funds, the average is now like 581, and on Friday it was 481, and after today and yesterday, who knows? Wider, I'm guessing. The one thing, Chuck, that I wanted to kind of go back to though is discount basics, because it's amazing really how many investors things, well, this is trading at a discount and the discount should narrow over time, and there's two problems with that. One is that discount is just a relationship between the share price and the NAV, and so when people make that assumption, oh, well, the discount will narrow over time, typically what they're thinking is that the price is going to go back up toward NAV. But it can also narrow when the NAV continues to fall toward the price, and I think a lot of what we're seeing right now with discounts is that people are anticipating what's going to happen to the NAVs in the future as the Fed tightens rates. So for instance, if you have a long duration bond fund and the price has come down let's say, I don't know, I'm going to make up a number, 10%, the NAV from then on in the markets has maybe come down 6%, and somehow the discount's widened out by let's say eight percentage points. That's basically the market saying, well look, we think that the NAV's going to continue to come down. When you actually have good opportunities in the market to invest by the valuation, it's after days like today or yesterday where there's just kind of mass chaos in the market and people are just selling like crazy. Now the day it bounced back, but I'm telling you this morning I'm pretty sure that people were just selling, we'll ask questions later, and the discounts would have gotten to pretty absurd levels intraday. Hopefully I think people just need to remember that that discount is just a relationship, it's not telling you that, hey, this is a great price. And I tell people all the time, look, you need to think about do you want to be in that underlying asset first and foremost, just like you would with any other type of

investment. And then after you decide that, you should look at the closed-end funds that give you access to that underlying asset and make a decision based on is this discount a good entry point for this fund to get access to that asset?

**CHUCK JAFFE:** Yeah, you need to make sure that you want to own what the fund owns, and not just buy a closed-end fund because it's got a big discount. Because as much as we may love discounts, you and I know that there are plenty of funds out there that have had big discounts that, oh, the discount may narrow here and there, but it's never been a situation where like, oh yeah, suddenly you're making lots of money because you cash off on that discount. Some funds, they stay discounted for a long, long time. Now all that said, given these market conditions and the fact that closed-end funds typically are long-term investments so you want to be buying them with a long-term lens, but you've got all the short-term news and frothiness, what do you think closed-end fund investors should be doing right now?

**MIKE TAGGART:** Right, you just had Maury Fertig on The NAVigator last week, and I know Rob Shaker's been a guest, and you've had other closed-end fund managers on here before. I'm not a closed-end fund manager, I'm completely independent in my business and my research. It kind of goes back to what I just said though, in terms of what investors should do, do you want to be in this underlying asset, say municipal bonds? So let's say preferred securities, because there's a lot of preferred securities at, I think, attractive discounts right now. And so let's say you want exposure to the preferred securities arena. Great, go in and look at the funds, but don't just look at their current discounts, look at where those discounts have been. So that's the number one mistake I see investors make with discounts all the time. There are people who their full-time job is to trade closed-end funds based on their discount. That's their full-time job, right? Most of the people that I've met over the last 10-15 years who don't like closed-end funds, it's because of the discount, they didn't know how to properly use them. So if you're a long-term investor and you're looking at the discount, that's just an entry point, this might be a good entry point. But a lot of times people will buy something at a 12% discount thinking, hey, that's a great discount, and they don't realize the fund usually trades at a 16% discount, and 12% is the narrowest the discount's been in three years. So even if the NAV goes up, it's possible that the price won't keep pace with the NAV and drift back down to an even wider discount and they won't get the same return profile that the NAV has.

**CHUCK JAFFE:** Well, we're going to be watching to see how it plays out, and of course we'll be talking with you again down the line to see how it's playing out and see if there are strategy changes that are necessary. Mike, great stuff as always, thanks so much for joining me.

**MIKE TAGGART:** Thanks so much for having me, Chuck.

**CHUCK JAFFE:** The NAVigator podcast is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. And that's me, and you can learn all about my hour-long weekday show on your favorite podcast app or by going to MoneyLifeShow.com. To learn more about interval funds, closed-end funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. Thanks to my guest Mike Taggart, now serving as executive director of the AICA, but he's also the founder and chief executive at Taggart Fund Intelligence and you can check out his research on Substack at TaggartFundIntelligence.Substack.com. The NAVigator podcast is new every Friday, we hope you won't miss a single one. And until we do this again next week, happy investing everybody.

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