



CEF Advisors' Scott: No Time Like The Present For Tax-Loss Sales

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed John Cole Scott, chief investment officer at Closed-End Fund Advisors and the chairman of the Active Investment Company Alliance. Read the Q & A below as John returns to The NAVigator to answer questions from listeners, including one on whether it makes sense to do tax-loss selling now rather than waiting for the traditional period for making swaps at the end of the year. Scott recommends closed-end fund investors tap their "tax assets" when they are valuable, and losses in today's market can be turned into a benefit easily. Scott also answers a question on the slow speed of recovery in the energy sector, and gives his take on how the across-the-board pullback is affecting different sectors of closed-end investments and how recovery has occurred after previous downturns.



John Cole Scott

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

CHUCK JAFFE: John Cole Scott of Closed-End Advisors is here, and we're taking your questions and more now on 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. Joining me today, John Cole Scott, chief investment officer at Closed-End Fund Advisors in Richmond, Virginia, which is online at CEFAdvisors.com, and you can dig into some of the firm's research at CEFData.com. John is also the chairman of the Active Investment Company Alliance, which you can learn about at AICAlliance.org. John Cole Scott, it's great to have you back on The NAVigator.

JOHN COLE SCOTT: Always enjoy being with you, Chuck.

CHUCK JAFFE: John, we are going to tackle a couple of questions that we got, and then we'll maybe use a little bit of extra time getting your take on current things when it comes to the industry. But we'll start with a letter we got from Morris in Bradenton, Florida. Now, he listens to my show *Money Life*, and he wrote, "Chuck, in your recent interview with Jason Browne," I point out, Jason runs a firm called Alexis Invests, "He talked about people with losses in some ETFs might use tax-loss selling right now, replacing a fund they have with another that does the same thing benefitting from the loss. I was wondering that how that advice might apply to closed-end funds. I know it's a common thing at the end of the year, but is there a reason to wait? I have a few closed-end funds and I have losses on a few. The one I'm thinking about the most is EIM, a muni bond fund from Eaton Vance that I bought in 2020. Now the discount is wider and my account is down. I still want to be invested in muni closed-end funds, but I'm sure I could be just as happy with pretty much any other muni bond fund, or at least an average muni fund. Should I sell now and move the money into something new? Or is there an advantage in waiting for the end of the year for tax-loss selling?"

JOHN COLE SCOTT: My take is most people maybe just do tax-loss selling once a year because it takes some effort, and time, and research, and execution. Most active managers I talk to, whether they're closed-end fund focused or not, are actively doing tax-loss harvesting, whether it be ETFs or closed-end funds or even common stocks. Closed-end funds are so useful because you often get, especially in the muni space as Morris has suggested, the same manager with a very similar portfolio. We can trade and not worry about wash-sale rules. So absolutely, if you have losses today, take those losses, research a fund. I did him a favor, because we love your audience, Chuck. There's another Eaton Vance municipal bond fund, EVN. Now it's a little different and I'll highlight a few differences. Slightly tighter discount, but a slightly lower expense ratio. Very similar range of its own

discount on a three-year period, which is one way to measure where it sits for itself. It does have a higher yield, but it didn't cut its dividend recently. But as long as it doesn't cut it more than 12% you have the same yield. And the last thing I'll just chat about is the duration and the maturity is a little bit higher, but maybe that's better. It depends on your opinion on markets. And there's a little bit more unrated and non-investment grade exposure. Again, we tend to like that, but that's an opinion for people. But that's a great way to cross between the same manager, similar fund, same sector.

CHUCK JAFFE: And we should point out, all those differences amount to enough to make sure that you don't run afoul of wash-sale rules. Which are basically you sell something and you buy back the same thing, you've taken a tax loss that gets washed out because of the purchase. In this case, you'll capture the loss, you'll be reinvesting the money in something that is significantly different enough that you won't have an IRS problem. And then you can use that tax loss to offset gains in other investments.

JOHN COLE SCOTT: I've heard people call tax losses, tax assets, because of come tax time they're like money in your bank you didn't give the government.

CHUCK JAFFE: And as Morris points out, he wants to be in the muni space, he's not necessarily that concerned. So again, he can make that swap, stay with the same fund company and do it fairly easily.

JOHN COLE SCOTT: And I'll also say, you only have to hold it for 31 days, and then if you want to you can choose to go back.

CHUCK JAFFE: That's true too. Let's now move to a question from Maynard in Phoenix, another person in my audience at *Money Life*. He writes, "Chuck, next time somebody comes on that talks about closed-end funds I've got a question. In my example, TYG is selling at a 20% discount right now, even though energy has really come back into favor and prices of the underlying stocks have skyrocketed. Do they expect the premium and discount to narrow on these energy closed-end funds? And why is it taking so long?" And for those who don't immediately recognize the ticker symbol, TYG is Tortoise Energy Infrastructure. John, what is taking so long here?

JOHN COLE SCOTT: As we've talked about for years on your show even before we launched AICA, MLP investments were so boring for so long until they weren't. And that started in '15 and '16 in the energy crisis and intense pullback for energy funds, pipelines, related loans,

closed-end funds and everything it felt like. One thing I'll say is there's also been an adjustment in this sector. And as you look at TYG, as many of the holdings have converted from the limited partnership structure to an operating company or C-corp, it's a little less tax advantageous. However, even our index is at a 19% discount. And even a peer fund that we often use with a little bit lower yield that's pure in still the partnership space, the MLP space, NML which we've talked about before on your show, is still at a 20ish discount. The best answer I have is it was such intense pain more than once that there's still so many people that either are so low on their cost basis, they're just so fearful or they got burned so bad, it's going to take a while. This gives me a pause to remind your audience of even if that discount doesn't go away until my 11-year-old daughter graduates from college, you're still buying an actively managed asset at 80 cents on the dollar. If it never goes away, it's implied leverage. We both know discounts can go to 40 or 50 in theory in huge panic periods, but it's not always a bad thing. And I believe over time they will narrow, but I would not think of it in the next year or two, it could take three.

CHUCK JAFFE: Good answer that helps us focus on the timeframe, especially as we're watching things play out in these crazy market times. And speaking of these crazy market times, let's use the limited time we have left to get your quick take, because we're always talking about what's happening with the market. But right about now it's frothy, it's got people nervous, and we need a bit of an update on the space itself in closed-end funds.

JOHN COLE SCOTT: I just wanted to comment on the pullback from peak to valley for our 12-sector index that kind of covers an equal weight of the biggest 12 sectors, roughly half equity, half bond funds. It's down 16.8% on NAV in the course of a little over seven months, and 22.9% on market price, which is about a six and low change discount widening for again, a diversified basket of closed-end funds. This has felt a little awkward, a little painful, a little frustrating. But remember, two years ago we had just come off a 33% NAV pullback and a 47% peak-to-valley market price pullback, a 13.5% discount widening in only five weeks. Now we go back to some more recent data, remember we talked about the energy pullback? That pullback took about nine and a half months and was about 22% for market price and 15.9% for NAV, about a six widening. You're going to ask me now if I don't answer it right now, what does this mean for me looking forward? I feel that we probably have three to five months of discounts bouncing around until a bottom is probably found in our research. We

feel that there's going to be potentially just two to four, maybe six percent discount widening beyond the biggest we've seen so far. Now as you know, these are my guesses, but it means we've done about two thirds to 75% of what we expect from a moderate to slightly rough outcome.

CHUCK JAFFE: John, really interesting. Great stuff as always, I look forward to our next chat already.

JOHN COLE SCOTT: Thank you so much, Chuck.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. And yes, that's me, and you can learn all about my hour-long weekday podcast on your favorite podcast app or at MoneyLifeShow.com. To learn more about closed-end funds, interval funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. They're on Facebook and LinkedIn @AICAlliance. And if you have questions on closed-end funds, send them to TheNAVigator@AICAlliance.org. Thanks to my guest John Cole Scott, chief investment officer at Closed-End Fund Advisors in Richmond, Virginia, chairman of the Active Investment Company Alliance. His firm is online at CEFAdvisors.com and CEFData.com, and he's on Twitter @JohnColeScott. The NAVigator podcast is available every Friday, join us again next week and every week. And until we do this again, happy investing.

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