Let’s Go Black Friday Discount Shopping With John Cole Scott

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed John Cole Scott, president of Closed-End Fund Advisors and the chairman of the Active Investment Company Alliance. Read the Q&A below as Chuck and John tackle the biggest shopping day of the year closed-end fund style, talking about where discounts stand in general for the industry, but also hunting for year-end bargains and looking at three cases to determine whether the Black Friday sale on the fund is a real deal, an average play or a fake-out.

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 Fund Advisors is here and we’re going discount shopping for closed-end funds, welcome to the Black Friday edition of The NAVigator. This is 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’s pointing us in the direction of holiday shopping, just holiday shopping in closed-end funds, and we’re doing it with John Cole Scott, president at

Closed-End Fund Advisors in Richmond, Virginia, which is online at CEFAdvisors.com. We're about to dig into some of the firm's data and research, you can do that yourself at CEFData.com. John is also chairman of the Active Investment Company Alliance, which you can learn about at AICAlliance.org. John Cole Scott, Happy Thanksgiving, welcome back to The NAVigator.

JOHN COLE SCOTT: Always great to be with you, Chuck.

CHUCK JAFFE: We are now through the Thanksgiving phase into the shopping phase, and while Black Friday is a big day for discounts for people going to malls and shopping online, well, holiday shopping season in closed-end funds is when we start looking at things like tax-loss selling and the rest. So I want to know first the state of discounts, but then I want to dig into a couple of things that we might go discount shopping for.

JOHN COLE SCOTT: Discounts for closed-end funds were insanely wide up until about October 27th, we've had a strong rally like the rest of the market. For the universe, month to date discounts have actually narrowed about 2%, but still historically wide and lots of funds with double-digit discounts across the universe.

CHUCK JAFFE So double digit-discounts across the universe, there are plenty of people who say, "Discount, that's what I want, that's what I'm going to go for," but the truth is, and we've talked about this in the past, that bargain hunting is not just as simple as what's it on sale for? So I'd like to look at three different funds with you. I set you up for this so I know you've got stuff for me but the parameters are this, I want to look at something where, hey, here's the level of discount, it's what we'd expect it to be at today, and this is normal, a good buy but not necessarily, oh my god, it's the Black Friday steal of the year. Then I want to talk about the Black Friday s teal of the year, what you're buying right now that's on sale, that's a really good sale? And then I want to flip it around because we've all gone to Black Friday sales where seeing Black Friday sales where we said, "Yeah, is that price really as good as it seems?" So let's start with normal, given double-digit discounts and the rest, what's an example of a fund that, hey, here's the kind of discount level you can get and the kind of fund you can buy and would want to add to your portfolio at this level?

JOHN COLE SCOTT: The Ecofin Sustainable and Social Impact Term Fund, TEAF, is sporting a 20% discount, however that's right in line with its three-month average, it's right in line with its one-year average, and it has been as narrow as a 15 and as wide as a 24 but it's very, very flat in its market. It's a great fund, we actually like the management and what it does, but the challenge is a little over half the portfolio is private and Level 3 marks, and it's just really tough for closed-end funds with over about 15-20% private or Level 3 marks to really trade well outside of very few exceptions. The one structure of course that does that well is the BDC structure, and so I would argue this fund looks cheap, its discount will eventually go away but almost nine years from now, but it's not exciting today, it's really average.

CHUCK JAFFE: So yeah, doesn't sound like that's something you necessarily want to buy, though you won't necessarily be disappointed with it. And again, the discount out there in the right range, perhaps for a lot of people but not necessarily a screaming buy. So let's go to the screaming buy, what's the bargain this year on Black Friday?

JOHN COLE SCOTT: This sector shouldn't be uncommon, the Kayne Anderson Energy Infrastructure Fund, KYN, but the recent story if you haven't owned the fund, it's a merger from KMF and KYN that in our experience it really came from pre-emptively doing measures that were more shareholder friendly. As the audience might be aware, Saba has gone after a lot of closed-end funds, and that's including the MLP funds at TortoiseEcofin as well as ClearBridge, and I think that Kayne Anderson did a good job here in merging those funds. It's gone to almost a 20% discount versus its average is a lot lighter, it's 2.5 standard deviations wider than its peer group from a Z-stat perspective, it's 3.5% wider than its own 90-day average, it's 6% wider than its peer group average. Its discount volatility is on the higher end at almost two on a one-year basis from a standard deviation, and we have used that metric before but I still have to believe most of your audience doesn't use that data point or live it the way they do other aspects of the data set that we use.

CHUCK JAFFE: Again, we're looking here at Kayne Anderson Energy Infrastructure, that discount also about 20%.

JOHN COLE SCOTT: It is, and I forgot to mention, Chuck, I'm sorry, but it's actually the lowest discount in the last year. It's literally never been lower in the last 12 months, and so that tells you t here's probably more upside than downside.

CHUCK JAFFE: Right, that's what I wanted to drive at there, was that this is a 20% where, wow, it looks like it's really on sale, whereas when we were talking about the Ecofin fund, which again was ticker TEAF, that is a 20% discount that kind of looks normal. You're not going, "Wow, that's at a 20% discount?" You're kind of going, "Oh, it's been around 15-20%," that's the difference as we go to KYN. So now let's go the other way, let's look at a discount where it's not really such a discount, who have you got for us there?

JOHN COLE SCOTT: Remember, these aren't saying this is not a fund that we like, but Adams Express, an almost 100-year old closed-end fund, those that know its history know it was actually an operating company, a mail courier 120 years ago, it's sporting right around a 14% discount but it's in the 90th percentile of its range. It is still slightly wider than its peer group at only 1%, it's a positive 2.2 relative Z-stat, which means we benchmarked the volatility of the discount versus the current discount versus average, and then baseline it off of a peer group. What are the average US equity funds doing? It's a lot richer. Now some of the thinking there would be that Saba does have a filing in, which tends to be a small tailwind, also they paid a $1.15 that just this week went record date for payment next month, which is a very large dividend and a lot of people tend to run this discount into that dividend record date because they like to capture it for various reasons. And so this is a fund that is not the most expensive overpriced fund, but it's the one with the lowest discount volatility, less than half as volatile as the other two funds we've already discussed for the discount.

CHUCK JAFFE: You have mentioned a couple of things in here that for folks who are going discount shopping, and that is really what we're talking about doing as we do the Black Friday edition here. As folks who are looking at, "I want to be a discount buyer," a couple of things, one, do you look for those funds where, hey, if the tiebreaker is I've got an activist investor, I've got a Saba in there? Because you've got Saba in there on the KYN situation and that has moved it to a place where it makes it more attractive, you've got Saba in with Adams Express and it hasn't quite moved it. So do you look and you like it and are you trying to say, "Let me find that cheap discount and then match it with an activist behind it?"

JOHN COLE SCOTT: I would say that the KYN was more of a preemptive, and so I can't confirm any private communications against anyone in our industry, but we did chat with them before they made their announcement about things they could do to improve the experience for shareholders, and they did one more than one option. Adams Express, all three of these funds have better one-year NAV performance than their peer group, so they're not bad performing funds, Adams Express has a very small expense ratio because it's one of the few internally managed. But I would say you can't forget, so many people sift closed-end funds and part of the reason, Chuck, we did this four years ago was to try to get people from not just sifting for yield and sifting for discounts, you must look at comparable versus the peer group, relative versus itself, the range data, so whether it's one-year, two-year, whatever makes sense for you. And then you also really can't forget the volatility adjusted discounts, the standard deviation of that, which is a really useful way of saying Adams Express is one of the most boring discounts in the market because it's one of the most boring funds, it's basically a SPY copy.

CHUCK JAFFE: Let's also bring that out here, because we're always sending people to your research, but because you also run AICA you're looking at everything. So I want to compare this, because CEFData.com, great place for somebody to go to get more information, but another place that a lot of folks will look for more information is Morningstar. And one of the things that I have always noticed is that when you talk about closed-end fund discounts, you will talk about what it's been for the last year or two years, when Morningstar does it, their snapshot on any fund is going to give you the last discount, like what the current discount is, then it will give you a six-month average discount or premium, and then it will give you a three-year average discount or premium. And in talking about that you said, "Well, whichever discount level you are happy at." Why do they use shorter and longer and you use two in the middle? Is there a reason for that? And as a discount-oriented shopper, does one present a different picture than another?

JOHN COLE SCOTT: So at a basic level you might appreciate Morningstar is a little bit bigger company than my firm and our data business and I do recognize, based on my understanding, their eyeballs are also much higher. I've found two things, when we had three-year data that was before Covid, through Covid, after Covid, you mentally had to make adjustments because you can't forget the time period the data's over. And so I'd say we'd like to use different data points than are commonly published because less people following them means there's possibly more future alpha, because I can almost guarantee you less people on Seeking Alpha do six-month relative Z-stat than one year Z-stat, and so it's more likely to still available than have more people finding it through the same screen.

CHUCK JAFFE: Interesting, really like that perspective, love the chance to go discount shopping with you. John, this was a pleasure, we'll talk to you again soon.

JOHN COLE SCOTT: Great to be here, Chuck.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. And yeah, that's me, and you can learn all about my hour-long weekday podcast at MoneyLifeShow.com. But to learn more about closed-end funds and business-development companies in general check out AICAlliance.org, the website for the Active Investment Company Alliance, on Facebook and LinkedIn @AICAlliance. Thanks to my guest John Cole Scott, president of Closed-End Fund Advisors in Richmond, Virginia, the chairman of the Active Investment Company Alliance. His firm is online at CEFAdvisors.com, and you can plough into their data for yourself at CEFData.com, and John is on X, formerly known as Twitter, @JohnColeScott. The NAVigator podcast is available for you every Friday, be sure not to miss out any episode by following along on your favorite podcast app. We'll be back next week with more closed-end fund talk. Until then, happy investing.

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