Veteran Manager Says Volatile Market Has Stress-Tested ‘Discount-Capture Investing’

Friday, July 18, 2025

Chuck Jaffe, in this episode of The NAVigator podcast interviews Rob Shaker, Portfolio Manager of Shaker Financial Services. Rob and Chuck discuss "discount-capture investing," and how the market's wild moves around tariff announcements this year made the strategy particularly sensitive to the emotional changes of investors. Shaker says the overall trend for 2025 has been a "generic narrowing" of discounts, by roughly two percent on equities and one percent on fixed income, but there was a rapid, fear-based 'generic widening' when tariff policies were announced in April and there was excessive selling. Shaker says that discount fallout was particularly big and fast, though conditions normalized quickly, rewarding his clients for staying patient and opportunistic.

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

CHUCK JAFFE: We’re talking discount capture investing with Rob Shaker of Shaker Financial Services, welcome to 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 representing the full spectrum of the closed-end fund business from investors and users to fund sponsors and creators. If you’re looking for excellence beyond indexing, The NAVigator will point you in the right direction. And today, we’re looking into discounts and how they’re boosting portfolio performance with Rob Shaker, portfolio manager at Shaker Financial Services, which has a discount-capture strategy that gets five stars from Morningstar that's available in separately managed accounts. You can learn more about Rob, the firm, and the strategy at ShakerFinancial.com. And if you want to learn more generally about closed-end funds, interval funds, and business-development companies, go to AICAlliance.org, the website for the Active Investment Company Alliance. Rob Shaker, welcome back to The NAVigator.

ROB SHAKER: Thanks, it's great to be here.

CHUCK JAFFE: So what kind of a first half of the year was this for discount capture? Like here you are ahead of the market, were you making the biggest moves at the time when the market was freaking out the most? Or has it just been that as confidence returned, all the discounts got narrower and you benefited from that?

ROB SHAKER: It's a great point you bring up, because there's been so much in this year, it's been really an interesting year for monitoring discounts. As sort of a backdrop, what we do is we're looking into the individual funds as they bounce around, right? And that's one of the beautiful aspects of closed-end funds, is that each individual fund might bounce up 2%, down 2% on discount in a given week with everything else being stable, and you can do a discount capture and add to your relative performance. But this year we've had a very unique concept of what we call generic movements, and that is even though throughout time individual funds will bounce around, there are periods in which closed-end funds as a whole will move in either direction. If they're narrowing, we call that a generic narrowing or a tailwind, or if they're going down, the part we don't like, the generic widenings, we'll call that a headwind, and so this year we've had this very unique look into things when we have a generic narrowing going on through the year as a whole. If you look back and you just look from start to finish here, as we're about halfway through, you'd say, "Oh, everything's great," closed-end funds are narrowing, we have probably on our equity side things have narrowed about 2%, on the bond side probably about 1%, so that's giving you this extra little giddy up to your performance no matter what you're doing in terms of overall performance.

CHUCK JAFFE: Did we have more rapid movement in discounts because the market was falling out so quickly? And how do you navigate that? Because you're not trying to have perfect timing, you're not expecting perfect timing, but as you just described it, it seems to me that we went from tailwinds to headwinds to tailwinds pretty darn quickly there.

ROB SHAKER: Exactly, and you raise a great point, because this was without a doubt the fastest movement through what we'll call in a generic widening. And so at Shaker Financial we've been through these before, this is probably the toughest part of being a manager that uses closed-end funds, you'll get periodically what we'll call a generic widening. And what happens in these, and it's a pretty standard, straightforward process that we go through from time to time, in which it's fear-based for the most part. Something will come into the marketplace as a whole which will cause excessive selling pressures, and when you get these excessive selling pressures, unlike mutual funds in which you'll get liquidations, in closed-end funds you'll get what we call dislocations and discounts will widen, and sometimes very significantly. For example, in this one you had about a 5% widening in bond funds just in a day or two, that's just 5% off of the actual value of where things should be, and that's very scary for investors. The next stage in a generic widening is what we call the restoration of equilibrium, and that's because all of a sudden you'll have selling pressures come back to normal, because once again this excessive selling pressures, it's usually because of fear, a lot of times you'll start getting liquidations, you'll get margin calls, all this sort of fear-based selling leads to this imbalance, more sellers than buyers, you get the widening. So then you're looking for this restoration of equilibrium, and that can be a difficult thing to occur, and you start thinking about what's the fear based upon? Going back to Covid, right? March of the Covid year, how are people really going to be like, "Ahh, okay, things are okay here"? This was a very unique situation in which it was just sort of what one person was saying, and when that one person said, "No, I'll wait 90 days," that was it, the fear was gone, and so equilibrium occurred just about two or three days after the fear-based selling happened and you immediately got the third stage and the beautiful stage of a generic widening, which is when opportunistic buyers come back and push the discounts back to where they belong. So that happened almost as rapidly as the selloff, and so you had about a two to three day penalty and a three to five day bonus period. Fortunately at Shaker Financial we're able to track that, this is what we do for a living, we just sit around staring at discounts, so we have a whole strategy based upon when this happens. We never try to avoid losses, we don't believe in trying to avoid a loss, market timing, it doesn't really work, what we try to do is limit losses, realizing markets do go down from time to time. But if you can limit to the downside and then overachieve it to the upside, you'll wind up doing better, and so our strategies of limiting losses, getting yourselves in the positions that aren't going to widen as much, waiting for that equilibrium, and then putting a little more chips in on the way back up and then trying to double collect on the way back up.

CHUCK JAFFE: You are buying closed-end funds and you are looking at discounts, and because closed-end funds are in all shapes and sizes and all varieties, you benchmark your performance to both the S&P 500 and the Bloomberg Aggregate Bond Index. I admire that willingness to stack up against fixed income because you're going to have fixed-income exposure, but also to equities because you're holding equities too. And I don't need to tell you, but I might need to notify the audience that your long-term performance smokes both the S&P 500 and the Bloomberg Agg Bond Index. But because you can go anywhere, and you're driven by discounts rather than the type of holding, are there times when your portfolio is tilted hard to one side or another? Moreover, given the circumstances and uncertainty we've had with markets this year, are you tilted more towards stocks or bonds now, and how does it compare to your normal historical balance?

ROB SHAKER: In general, since we've run separately managed accounts, our overall portfolio will move slightly one way or the other based upon the individual needs and concerns of the clients that we represent, right? And so there are times in which our clientele might be a little bit more conservative and we're working with them in establishing some more 60-40 of portfolios instead of 80-20 portfolios. We do utilize margin to an extent in which we can take advantage of bond funds a little bit more, and so we'll often have a little bit more variance in terms of where we're sitting on the bond side of things. That also leads to another very interesting aspect of where we are in terms of closed-end funds as a whole and our optimism about bond funds in general. There's been some talk about, since we've had this generic narrowing sort of over time, that maybe bond funds are a little bit too narrow, they're approaching par on average, is this something to be concerned about? And it leads me back to a thing that Dan Gordon, our other portfolio manager likes to say from time to time, which is if you're ever worried about the aspects of where something stands on a long-term graph, it really changes how you interpret it depending on how much you cover with your left hand. And if you cover everything but the last five years with your left hand in terms of discounts, you might say, "Oh my gosh, wow, discounts are very narrow, I should be bullish if we're at full value." But if you move that back and go back before the Fed cut rates to zero and you go back even before the Great Recession, closed-end funds were at par, bond funds have a reason to be above par, especially if you're in a situation as we see it now, which are decent sized rates but stable. Because when you have stable rates and they're not at zero, bond funds collect a lot of NAV, they're collecting coupons that aren't 1% like they were post-Fed going to zero, and without any kind of intrinsic fear what are going to do in a raising rate environment, you have stable environment, these coupons come in. It depends on what sector you're looking at, but in general, year to date you probably have 4-6% return just on coupons for these funds, and that's just half the year. So being able to utilize that more without taking extra market risk is probably the most on the edge things that we're switching from time to time.

CHUCK JAFFE: And will that change, or does your expectation for how bond funds perform change when the Fed finally moves to cut rates?

ROB SHAKER: Yes. I mean, it could depending on if you wind up getting into a really volatile regime. In general we take the stance, and this goes for the equity markets as well, you have to have a long-term approach to things. You have to realize that there are little hiccups that happen from time to time, but a quarter point here, this and the other, it might lead to more opportunities in certain sectors, especially if the general public or some institutions overreact. A lot of times we're actually on the opposite side of these types of reactions, because if some big house decides, "Oh, we're getting out of municipal preferred bonds," and sells them all off to these wider discounts, we'll step in, taking a longer term approach knowing that over time things will settle and then these will come back to their historical averages.

CHUCK JAFFE: Rob, I appreciate your take on things, and especially the insight on how discounts have been swinging around this year. It's great catching up with you, I look forward to our next conversation on The NAVigator already.

ROB SHAKER: Well, thanks for having me, you take care.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and I am Chuck Jaffe and you can check out my show on your favorite podcast app or by going to MoneyLifeShow.com. Now if you want to check out more information on closed-end funds, interval funds, and business-development companies, go to AICAlliance.org, that's the website for the Active Investment Company

Alliance. Thanks to my guest Rob Shaker, he's portfolio manager at Shaker Financial Services, and you can learn about the firm and its discount capture strategy by going to ShakerFinancial.com. The NAVigator podcast has something new for you every Friday, and if you like us, make sure you don't miss an episode by subscribing or following along on your favorite podcast app. And if you really like us, please leave a review and tell your friends because that stuff really does help. We'll be back with more closed-end fund talk for you next week, and until then, happy investing, everybody.

Recorded on July 18th, 2025

To request a particular topic for The NAVigator podcast please send an email to: TheNAVigator@AICalliance.org

Click the link below to go to the home page of Active Investment Company Alliance to learn more: https://AICalliance.org/