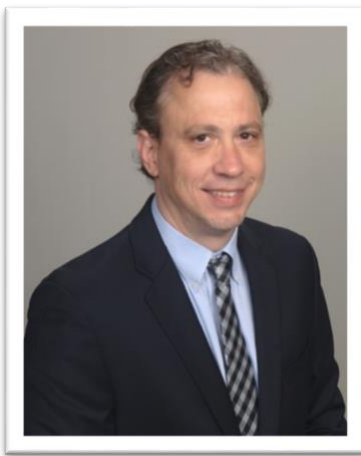




Veteran Manager Says That For All The Headline Risks, This Is A 'Generic Widening'

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Chuck Jaffe, in this episode of The NAVigator podcast interviews Rob Shaker, Portfolio Manager at Shaker Financial Services. Rob says that while the headlines may have investors on edge, the fear-based selling that gripped the market around the start of war in Iran created a "generic widening" of discounts for closed-end funds. Shaker, who is a "discount-capture investor," says the current widening and recovery was caused mostly by "the irrational effects of excessive selling pressures overall," which means that the bad news is not creating fundamental problems for industries so much as temporary issues affecting share values. He says we could see more generic widening and narrowing until the market gets clarity on the headlines.

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CHUCK JAFFE: We're talking discounts, discount fluctuations and more with Rob Shaker, portfolio manager at Shaker Financial Services, welcome to The NAVigator. This is The NAVigator, where we talk about all-weather active investing and plotting a course to

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financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, which is a unique industry organization representing the entirety of the closed-end fund business, it's from investors and users up to fund managers, sponsors, and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. And of course, the direction that a lot of closed-end fund investors point in is towards discount capture, there's nobody better to talk about it as a discount capture investor than Rob Shaker, he's portfolio manager at Shaker Financial Services, online at ShakerFinancial.com. And if you want to know more generally about closed-end funds, interval funds, and business-development companies, get more details at AICAlliance.org, that's the website for the Active Investment Company Alliance. Rob Shaker, great to have you back on The NAVigator.

ROB SHAKER: It's great to be here, thanks.

CHUCK JAFFE: It has been a really interesting time for the market, we've got a market that's gotten back to record highs, but there's been a lot of changes in sentiment and the rest. Where are finding the bargains right now, and how have closed-end funds been responding, because the markets have been moving fast, have the discounts been widening and closing fast?

ROB SHAKER: Yes, exactly. We've heard a lot about the V-shaped market, everything's V these days, and it's true and it comes across into closed-end funds as well. This always occurs, we call them generic widenings, when you have fear-based selling grip the market, unlike what happens in mutual funds or open-end funds, a closed-end fund will have the excessive selling pressures lead to widenings. And so instead of having to force liquidations because of the fixed capital structure, the closed-end fund will simply widen, and you see that across the board but mainly in bond funds. This is sort of a unique situation that occurs because the excessive selling pressure leads people to dump their bond funds thinking they're getting some sort of bargain, it's irrational, and they dump their bond funds creating this big down shape in the V. The nice part is, once you have the recovery, you get a V-shape back just like the markets, and so this will curve, once again, mainly in the bond funds, and you're able to take advantage of these bargains once you get some equilibrium reestablished.

CHUCK JAFFE: When it comes to this kind of discount capture, how much are you shortening up your timeframe? If we're looking for the Vs, is there a level where you're saying, "Okay,

this got widened a certain amount, this makes me that much more interested and I'm trying to capture it more short term?" Does it change your holding periods dramatically?

ROB SHAKER: That's a great question, because as a starting point we want to go back to a fundamental concept we have here, which is no market timing, right? This carnage, as we would call it, this V-shape is a great example of why it is not wise ever to try and market time, things go too quickly. So instead of trying to eliminate losses, or fully avoid them, we want to limit them, and by doing that what we do is once we see the widening happen, and you know it's out there, it was all of March, there was all of this fear and the market was ticking down and ticking down, discounts are starting to widen, what you do is you want to rotate into those things that are least likely to be affected, most likely things that already took a hit. And then what you want to do is then limit losses on the down side by rotating into those funds, and then on the way back you want to enhance, you want to enhance the gains on the way back, sort of doubling down. If you sell once a thing bounces back, rotate into one that hasn't bounced back yet, you actually turn out doing a lot better from the start of the V to the end of the V than you would have been if the thing just turned sideways.

CHUCK JAFFE: What are you digging into right now? Are you looking more at the, let's play in the software space because software companies have been hammered so I want to lean in towards tech? Are you looking at things like the BDC space where there's been some troubling headlines, et cetera? Also things like gold, which has backed away from record highs but still has a lot of volatility in it now based on how it reacts during geopolitical strife?

ROB SHAKER: That's a great issue you bring up because you start talking about, well, is there some type of benefit, is there some type of opportunity that I can find based on something fundamental? This is an argument that I often have with other investors in the closed-end fund space about when things are just irrational or whether or not they're fundamental, and I think this widening and recovery confirmed two fundamental and related aspects of generic widenings. The first is they're temporal, when the selling pressure ends things will come back, but second, they're not caused by rational fundamental analysis but more irrational effects of excessive selling pressures overall. So you find that things are getting widened out not because of the types of concerns that you were talking about, not because of any rational concern or fundamental consideration but simply because if there's more sellers than buyers, discounts will widen. What you see, which is I think pretty emblematic of this whole

concept in this carnage this time, is when things bounce back, we had about a 4% widening, 2% of it came back on March 31st when you got the bounce back, remarkably the 10-year note didn't move at all during that period. There was nothing fundamental going on with bonds, yet bonds happened to move an extra 2% narrowing on a given day, and that was just because of the lack of selling pressure, the return of equilibrium, and the return of opportunistic buyers into the CEF space.

CHUCK JAFFE: Given all of this, if we see the market bounce back, if we see investors buy the dips, bring things back to record highs, which they've basically gotten pretty close to again as we record this, how much longer does this, hey, we've got a lot of volatility that's created more of a discount last? Or do we have a generic narrowing that gets so narrow that you go, okay, time to keep powder dry? How do you respond at a spot where discounts get really narrow and there's less for you to capture?

ROB SHAKER: We've gotten most of the recovery done, but there's still a little bit left for us to take care of here to get us back to where we were actually in January with the full January effect. But that being said, once you're there, once you're at what we would consider the equilibrium, we've gotten everything back, that doesn't mean that there's no place for discount capture. Because while you can take advantage of generic widenings and generic narrowings, once things are stable, that's where we like to play, by going into individual funds and checking out when individual funds get pressured, buy them when they're excessively wide and then sell them when they narrow back. So there's always opportunity for discount capture, it's just a little bit different when you're playing the generic downs and the generic ups. Something else to consider, it doesn't make a difference if markets are at their all-time highs, I often hear people saying, "But market is at its all-time high," or "I'm going to do this because the markets are trading at their all-time high." As my father was prone to say, "Markets go up over time, that's pretty much accepted. So if markets go up over time, we should somewhat always expect markets to be sitting at or near an all-time high," and so it's nothing to change your course of action because of that, it's just something that occurs over time as markets go higher.

CHUCK JAFFE: Yeah, people should not be freaking out when markets get to record highs, that's what you want them to do.

ROB SHAKER: Right, and that's what they do over time.

CHUCK JAFFE: Yep. All of this being the case, is there a situation where there's a discount you can't buy? I mean, you look at some of the things that have been going on with private credit, for example, on the one hand you can certainly say, ooh, maybe a little baby thrown out with bath water, I can find some good bargains, I can do the rest of that. On the other hand, there are still troubles that have to resolve themselves here, so how do you handle something like that where, okay, you've got a heightened discount, but you may also have a real reason for a heightened discount?

ROB SHAKER: Right, and the private credit, I have one side opinion about that in the sense that it does seem to be a little bit less fundamental than more of a story. If you buy a CD, there's a substantial penalty for withdrawal, and if you complain once you withdraw because you're getting a penalty, that's a little bit of a side story. These lack of liquidities were part of the package, right? The fact that you were only going to be able to redeem a certain amount over a certain amount of time, that was already built in, so it's nothing fundamental that is causing that. But as it affects closed-end funds, it's the big difference, we're not trading in BDCs or business-development corporations, and so closed-end funds have a different sort of liquidity issue and it goes back to the generic widening. When there's excessive selling pressures, there's not an issue about, well, what were the redemption terms, this or the other, it's just because of the fixed capital structure it becomes a widening. But that fixed capital structure is what makes them great, which makes them not have the pressures of a whole bunch of people wanting to redeem because they don't have to sell. Even an open-end mutual fund, that is an issue, if everyone starts selling that open-ended mutual fund, they have to go sell something, they have to do a redemption, so they would have to sell that private credit at these ridiculous levels to these people who are coming in and trying to swoop up at bargain levels for people who want liquidity. A closed-end fund, because of the fixed capital structure, doesn't have to do that, they can hold things to duration, they can do those longer term investing because of the fixed capital structure, and so that really limits the ability of the asset values to really get pummeled in a way that it would on the mutual fund side.

CHUCK JAFFE: Rob, great stuff. I really appreciate your help and your time, we'll talk to you again down the line.

ROB SHAKER: Thanks, it's always nice to talk to you.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and yes, I am Chuck Jaffe and I'd love it if you'd check out Money Life by going to MoneyLifeShow.com or by searching for the show on your favorite podcast app. Now if you'd like to learn more about 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 is a discount capture investor and the portfolio manager at Shaker Financial Services, the firm is online at ShakerFinancial.com. The NAVigator podcast has something new for you every Friday, so make plans to join us again next week, and follow along on your favorite podcast app to make sure you don't miss any of our closed-end fund fun. We'll be back next week, and until then, happy investing, everybody.

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