Daniel Fox talks about Closed-end funds with Gregg Greenberg at the November 6, 2019 AICA Bootcamp and Round Table

Wednesday, November 6, 2019

Financial reporter Gregg Greenberg interviewed Daniel Fox, President of BBA Strategies at the AICA Boot Camp and Round Table held on November 6th in New York City. Read the transcript from the interview below.

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Gregg Greenberg: So Dan, how do you think the AICA is going to benefit the closed-end fund community?

Daniel Fox: Well, basically by getting education into the closed-end fund community. I think that closed-end funds, it's a niche market and relatively not well-known. But it's got some really fabulous features as far as I'm concerned. Basically the high yield and the availability of the number funds that are out that are fairly liquid. But there's a lot of, I think, misconceptions out about how you should invest in closed-end funds, and I think that any organization that can reduce that level of misidentification in terms of how closed-end funds work, will actually be pretty beneficial.

Gregg Greenberg: Well, if people don't know how they work, they open themselves up to a lot of risk, which is something that you study. So talk about the risks of closed-end fund investing.

Daniel Fox: Well, I think traditionally the way risk is measured for a portfolio of funds, is probably an inappropriate way to measure risk in a portfolio of closed-end funds. And I don't think that this is something that is particularly well thought about. If you think about how returns are generated in a portfolio of closed-end funds, the vast majority of the return from a portfolio of closed-end funds come from the dividend yield, as opposed to price appreciation, which is what you would normally associate with a portfolio of stocks. So if you look at primarily the riskiness of the portfolio yield, it's actually pretty minimal. And if you measure the risk basically based on the volatility of the dividend stream, you actually get very low volatility measures and consequently fairly high Sharpe ratios. It's pretty easy to get a Sharpe ratio of five or six for a portfolio of closed-end funds. And another aspect of how risks should be measured in a portfolio of closed-end funds, if you have a portfolio that's got 20, or 25, or 30 funds in it, you don't have a big exposure to any particular fund. And the only reason you would ever trade out of a fund once you've got it in the portfolio, is if a fund manager cuts the yield.

Gregg Greenberg: Do you think retail investors understand the products enough? They understand the risks associated with closed-end funds and BDCs? Because a lot of times, especially when rates move up, they've been lower of late, and everything is great. But sometimes they get caught up when rates move up and the leverage kicks in, and the market gets thrown out of whack.

Daniel Fox: Well, that's true but I don't think it's been true for a while actually. Rates historically have been low since 2008. They haven't been above three percent during that period of time for a 10-year bond, so if you're talking about that, you're talking about pretty low rates in general. So to me right now, the issue of rising interest rates is not really a big factor to really have to worry about. I mean, even if they raise rates by 100 basis points, or 150 basis points for some unknown reason, that's still not a particularly high interest rate. So I just don't think that that's a big issue.

Gregg Greenberg: All right. Well, thanks a lot for coming and talking about it.

Daniel Fox: My pleasure.

Recorded on November 6, 2019

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https://AICalliance.org/

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