Philip Goldstein 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 Philip Goldstein, principal at Bulldog Investors, at the AICA Boot Camp and Round Table held on November 6th in New York City. Read the transcript from the interview below.

Philip Goldstein

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Gregg Greenberg: Phil, why do you think that John Cole Scott and the AICA is going to help the closed-end funds world?

Philip Goldstein: Most people don't know about closed-end funds, so I think anything that gets the story out, and shows that there are attractive opportunities if you can do a little research and work on it. Anything that brings attention to the sector can't hurt.

Gregg Greenberg: You've been involved in the closed-end fund world for a number of decades; I won't say how many.

Philip Goldstein: Four and a half.

Gregg Greenberg: Let's talk about things that have stayed the same, and why it's important that investors seek out closed-ends funds. Then we'll talk about the recent trends.

Philip Goldstein: What has stayed the same? Most funds trade at a discount, some of them are premiums. The way to make money without being an activist in this sector is basically to own funds at big discounts and hope that they narrow, which they often do. I think that's where you can generate alpha. It takes a little bit of homework, but if you have a diversified portfolio, that was my original thesis. That's what attracts most people to closed end funds; is that you can buy a portfolio of publicly traded securities at a discount. Of course if it stays at a discount or it widens, not going to be good. You want to buy ones that are wide historical discount and hope that it narrows.

Gregg Greenberg: And what about things in recent years? Can you talk about the advances that the industry has made?

Philip Goldstein: There's a lot more of them. When I started investing in the mid-70's, and I remember look in *Barron's* and they'd have maybe 30, now there's probably 300. A lot of them are muni funds, and a lot of them I think today what's changed especially in the income-oriented funds, there's a lot more income-oriented funds. Is there use of leverage, which you cannot use effectively in an open-end. For obvious reasons you have redemptions, there's inflows and outflows. So a closed-end fund, if you use leverage prudently and you have a good manager, the theory should be that it can outperform.

Gregg Greenberg: Aside from buying a wide discount and selling it when it narrows, people can make money on activism, which is something that you do. Can you talk about what's going on in the activist world right now?

Philip Goldstein: The activist world in very recent times, I'm talking about this year. Some fund managements would feel they are under assault by activists, have started to adopt some very onerous anti-takeover measures. Some of them are of questionable legality, but people ask me a lot of times, "Can a board of directors do this?" and "Can a board of directors do that?" It's pretty egregious, and I'll say, "The board of directors can do whatever it wants until a judge tells them they can't." They've been very aggressive, and if those measures stick, I'll predict that there will be a significant decline in activism because it will become much more costly, and that will cause discounts to widen as they were back in the 70's.

Gregg Greenberg: You can sue or you can sell. It's much easier just to sell as opposed to pay the lawyers, so what's an activist like you going to do?

Philip Goldstein: If it's really that bad, an activist just like any investor, has to weigh the costs and the benefits. If it's too costly to run a proxy fight, or the prospects of winning are made virtually impossible by the standards that management has set for itself; these intrenchment devices. We're going to make the decision to move on or find something else to do for a living.

Gregg Greenberg: Then finally, we really have seen this tremendous rise in ETFs, and closed-end funds still remain there. It's a little niche. It's a profitable niche for a lot of people. What's it going to take for closed-end funds, are they ever going to really take off like ETFs or it's just going to remain where it is?

Philip Goldstein: Boy, I wish I knew the answer. You know it's funny, when ETFs first came out, there was one series, I think it was issued by Deutsche Bank and there was no interest in it. They liquidated all of them. Now they've come back with a vengeance. Look, the whole trend in investing now is toward low-cost, no-cost vehicles. You see it with the cutting commissions to zero at Schwab, TD Ameritrade, and so forth. I don't know. What it's going to take is for closed-end funds to actually show that they can outperform a passive portfolio.

Gregg Greenberg: What does this stay about individual stock picking? Because that seems like it's really going by the wayside.

Philip Goldstein: I think there's always going to be individual stock pickers. Look, in the last ten years since March 2009, the S&P 500 and most of the indexes have been pretty much up, very little downside. I think people will become complacent and they say, "Why do I have to bother looking at individual stocks? I'll just invest in an index fund or an ETF, and that's the best way to go. It's low-cost." I think what we're going to need to see a change in that. Unfortunately it is a real hit to the market when people realise there's risk. I think people have become too complacent.

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

Philip Goldstein: Thank you.

Recorded on November 6, 2019

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