Veteran Writer Waggoner On Why The Media Doesn't Like Closed-End Funds

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Chuck Jaffe, in The NAVigator podcast, interviewed John Waggoner, long-time financial journalist. Read the Q & A below as John explains why he has always gravitated towards closed-end funds even as investors and the news media often ignored them, and then explains how and why closed-end funds can provide advantages that he thinks most investors miss by focusing on closed-end funds, exchange-traded funds, and active ETFs.

John Waggoner

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

CHUCK JAFFE: Veteran personal finance journalist John Waggoner is here, and we're talking about what type of asset allocation funds you should be considering for the long-haul now on 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's 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 can point you in the right direction. Joining me today, it's John Waggoner, he is a personal finance writer. He's a lot more than that, I've known John for decades and I'm always happy when I get a chance to chat with him. You can follow him on Twitter @JohnWaggoner, and as long as you know how to spell his name, you can find his blog at JohnMWaggoner.Wordpress.com. But you can also find his work in many places, including AARP on their website and in their magazine, and also on the AICAlliance.org website. That of course, the website for the Active Investment Company Alliance, where you can learn a lot more about closed-end funds but where John has a piece that will be going up soon that looks at some of the stuff we're talking about here today. John Waggoner, thanks for joining me on The NAVigator.

JOHN WAGGONER: Hey, thanks for having me, Chuck. Good to be here.

CHUCK JAFFE: Always great to chat with you. And in this case, you and I have known each other so long because for a long time, if anybody was talking about people who covered the mutual fund industry for the mainstream, there was you and there was me.

JOHN WAGGONER: Pretty much it. And the Ghostbusters, yeah.

CHUCK JAFFE: But in that, we both developed an affinity for closed-end funds, in part maybe because nobody else understood them and knew what they were doing. But here you are taking a look at, "Hey, you want to have an asset allocation fund, you want to do something for the rest of your life? You could own traditional mutual funds, you could own ETFs to do this, you could do active ETFs to do this, you can own closed-end funds." And most people don't think about closed-end funds in this situation but you aren't looking and going, "Closed-end funds are my favorite," you are looking at what to buy. So help people through that decision tree that might have them look in a way that they hadn't before.

JOHN WAGGONER: Sure, and you're right, I've always had this affinity for closed-end funds. It's one of those subjects when you bring it up to an editor, you get the thousand-yard stare and they go, "Huh, yeah right. Yeah, closed-end funds." But what I like about them is partly because they are backwater to some extent and they're overlooked many times. And they offer some interesting opportunities for people, particularly since you can often buy them at a very good discount to the value of the holdings they have in their portfolio. One of the things you have to look at when you're investing for the long-term is, what kind of vehicle do I want to invest in? It's not your first consideration but it's one of the considerations that you have to take into account once you've said, "Okay, I want to retire at 65 and I want investments that don't give me a heart attack, yet make a fair amount of money." Those are your two big decisions; what's your goal, what's your risk tolerance? And then you want to say, "Well, what's the vehicle I want to ride to get there?" And here you have four choices as you outlined. You can go closed-end funds, you can do ETFs, you can do actively managed ETFs, and you can do open-end funds, and there's really advantages to all of them.

CHUCK JAFFE: Yes, but the truth is most people go open-end funds, or if they're doing it on their own they look at ETFs. So let's start there, talk about what is the benefit to the conventional, and then we'll offer up closed-ends as an alternative.

JOHN WAGGONER: Sure. Well, the main advantage of an ETF is that you can sell it at a moment's notice. This is a good thing and a bad thing. It's a good thing because sometimes you need the cash and you can sell it fairly quickly. And I suppose to some extent, you can short them like stocks, you can borrow against them like any other stock, but those are not good things to do with long-term holdings. So for an ETF, I would say probably the main advantage is easy trading, and generally speaking, much lower expenses than your traditional mutual fund. Your traditional mutual fund, you can also get very low expenses. I believe Fidelity actually has four ETFs now with a zero expense ratio, which means the next step in that particular battle among funds is that they will start to pay you to buy their funds. I don't think that's going to happen.

CHUCK JAFFE: I don't either.

JOHN WAGGONER: But the disadvantage with open-end funds is that if today, if you woke in the morning and at 9:45 you saw that the Dow was down 6,000 points, you could sell and you're going to get the end of the day price, and that will be problematic sometimes. And of course, if you do sell when the market's down 6,000 points, you know it's going to go up 2,000 points the next day. So you'll be kicking yourself either way.

CHUCK JAFFE: If anything, that mechanism which we consider bad, is actually something that in those circumstances might turn out to be good.

JOHN WAGGONER: Right, and there are these things called interval funds that I think no one invests in. That make you wait either a month or a quarter before your sell order goes through, so it has to be a truly considered decision. I think that's excessive, but for some people who are flighty, it might not be a bad suggestion.

CHUCK JAFFE: Well, we like interval funds on The NAVigator but we don't necessarily think of them as that kind of an investment. It's much more a, "Hey, make a specific choice," and it's about getting the assets. As opposed to looking at a general purpose, "I want to have whatever." It's more about adding a specialty to your portfolio rather than adding a core.

JOHN WAGGONER: Right, that's true. But they do exist and I suppose to the extent that they keep you from acting on your worst instincts, there's something to be said for not being able to sell on a moment's notice.

CHUCK JAFFE: That brings us to closed-end funds. Which again, a unique kind of pick. Not something that most people are thinking of when you think, "Hey, let's make this a center of my retirement portfolio."

JOHN WAGGONER: Right, and a closed-end fund can do really anything a mutual fund or an ETF can do. Many of them are actively managed, they buy and sell sometimes other closed-end funds, and sometimes regular stocks, sometimes a mix, and sometimes they have extremely skilled managers. What's kind of nice is that you can honestly buy them at a discount, so that if you were to total up all their holdings and be able to liquidate them instantly, you'd immediately get a certain profit. If it was selling at a 15% discount, you get a 15% profit. Some of that's illusion because honestly if you liquidated the whole thing at once, you wouldn't get the best price for it. But never the less, you have the advantage of being able to buy things at a discount and you can also put your money in the hands of people who know the industry well. Know when a discount is a good discount and when it's a bad discount. In other words, when it's a discount because the market is just overlooking it, or when it's a discount because really this is a bad fund. And just using relatively simple metrics, a good manager can find some good deals and add some value there.

CHUCK JAFFE: Well John, you've added some value to us here on The NAVigator. Thanks so much for joining us, look forward to chatting with you again down the line.

JOHN WAGGONER: Same here, Chuck. Thanks so much.

CHUCK JAFFE: The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. I am Chuck Jaffe, you can check out my show on your favorite podcast app or at MoneyLifeShow.com. To learn more about closed-end funds, interval funds, business-development companies and more, go to AICAlliance.org, the website for the Active Investment Company Alliance. On Facebook and LinkedIn, they're @AICAlliance. Thanks to my guest, John Waggoner, learn more about his work as a personal finance writer at JohnMWaggoner.Wordpress.com or at AARP.com, and watch for it soon on the AIC Alliance site. Follow him on Twitter @JohnWaggoner. The Navigator podcast is available every Friday, please subscribe on your favorite podcast platform and join us again next week to learn more about closed-end funds. Until then, please stay safe everybody.

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