John Cole Scott On Whether “The Best Funds” Live Up To Their Billing

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Chuck Jaffe, in this episode of The NAVigator podcast interviews John Cole Scott, president of Closed-End Fund Advisors, the chairman of the Active Investment Company Alliance. John and Chuck discuss two mainstream media articles that purported to name "the best closed-end funds" and that were published right around the times when John appeared on The NAVigator and gave out his own investment suggestions; he digs into the data to compare how all of the suggestions turned out and see how one-size-fits-all advice actually suits individual investors. It's a lesson in evaluating funds, but also on sizing up the sources of investment recommendations.

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

CHUCK JAFFE: John Cole Scott from Closed-End Fund Advisors is here, and we're talking about the best closed-end funds for you to buy now, this is The NAVigator. Welcome to 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, which is a unique industry organization representing 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's going to point you in the right direction. And today, well, we're looking in the direction of funds that might be the best funds, "might" being the operative word. I'm joined by John Cole Scott, he is president at Closed-End Fund Advisors, which is online at CEFAdvisors.com, and the firm makes its data and closed-end fund research available too, you can dig into that for yourself at CEFData.com. Beyond his firm, John is the chairman of the Active Investment Company Alliance, which you can learn about at AICAlliance.org. And while those two roles make John a guest on The NAVigator with some regularity, I want you to know that this week's appearance was not expected, we had a different guest planned and booked for this week, and at the very last moment he had to cancel his appearance due to a family emergency. John agreed to step in with one question, "Have you got something to talk about?" Yeah, but one person's important is another person's frivolous, and our subject today covers both extremes, as you're going to find out in a moment. John Cole Scott, welcome back to The NAVigator.

JOHN COLE SCOTT: Always enjoy being here, Chuck.

CHUCK JAFFE: And I love where we're going today because it is a little different, it puts you on the spot just a little bit, and it will help our audience understand more about how closed-end funds can work for them, but also how the media works when covering closed-end funds, and especially the mainstream media, which I'm a part of but I don't always admire. Now you and I talk a number of times over the course of every year on The NAVigator, but we always talk at the end of each calendar quarter, where you dig into the data, talk about what we've seen in the closed-end fund industry, and we finish those discussions with some of your favorite funds for people to look at. You never position it as these are the best funds, but you always make it clear that the funds you're talking about with me are the same funds you're discussing with your clients because you like the fund's potential moving forward. Well, you and I both know that investors love getting free picks and free advice, so I wanted to compare what you do and the benefits of working with an advisor who's really dedicated to both closed-end funds and making sure they fit the investor, to what the media does, which is throw stuff out there that's going to get clicks if you happen to be looking for closed-end funds. And I saved two different relatively recent articles, which the audience should know I shared with you in advance, one published in late December in *U.S. News & World Report* on the "5 Best Closed-End Funds for 2025", written by a freelance writer named Coryanne Hicks, and the other written by financial advisor Charles Lewis Sizemore, who has appeared on The NAVigator in April for Kiplinger's, titled "The Best Closed-End Funds to Buy Now". Those pieces combined covered 11 funds, one was in both articles, and you recommended five funds last December, and three funds at the end of March, so let's dig in and talk about how you see the widely available articles and how you see your work stacking up to what was published in the mainstream media.

JOHN COLE SCOTT: Yes, happy to be here, and such an interesting topic to cover. So a couple notes, I pulled the data through May 28th, 2025, on CEF Data, I also averaged the NAV and market price returns from their publish date versus our publish date, try to normalize the information a little bit. Looking first at the December *U.S News*, December 20th article that focused on five funds, BIT, AVK, TEAF, ETG, and EOI. On a high level, about a third in the S&P 500, 10% in the Mag 7, about 40% US equity, a little over 10% non-US equity, a little over a third US bond, about 10% non-US bond, roughly a two-year average NAV beta, about 0.7, and we look at the correlation of funds to each other over different time periods, the portfolio is about a 0.75 monthly NAV correlation. We estimated the initial discount of just under 6%, about 5.7%, and through yesterday, about 2.2% NAV total return, and about 3.4% market price total return. A couple points, two Eaton Vance funds, and a little bit more overweight US equity than I think the next picks will show what I did at the end of December.

CHUCK JAFFE: And we should point out, we're not ripping on Coryanne Hicks, who I do not know personal, though I know a lot of journalists, she's not a financial advisor, and I always talk about how in my work, if I was going to try to put something together that said, "Hey, these are the best closed-end funds to buy now," I would be going after somebody like you, I'd be going after some other experts and saying, "Hey, if you could pick one fund right now, what would it be?" or one fund for the year ahead, because she was tasked with that, and I wouldn't try to position it as, "Here's the five best funds." And I'll point out, she didn't quote anyone in this story, it's not like there's a quote from someone else going, "Here's why I love this for a portfolio," so that also highlights some of the danger. Now while you were not cherry picking your picks to do, "Here it is, your best fund to buy," you were taking a look at different things. So how did you stack up with your December picks versus hers?

JOHN COLE SCOTT: It is, and just to cover the funds I focused on in the end of the year was NNCO, a muni bond fund, TBLD, a balanced fund, GSPD, a business-development company, SABA, a taxable bond fund, and EOD, kind of a global equity fund, we diversify those picks every year in those rough buckets. About half as much in the S&P 500, a little less than half as much in the Mag 7, again half as much in US equity, about 50% more in non-US equity, about 50% more in bond funds, and more in non-US bond funds. Again, very similar two-year average NAV beta, the portfolio's kind of the same volatility at the manager level, but a lot lower correlation, one of my goals is diversification without knowing the future, about a 0.3 for the holdings. This could have gone the other direction, but the initial discount was very similar, a little bit wider with 8.8%, 3% wider, but the net asset value total return through the same time period, plus four and change for 2% alpha so far, and market price up five and change, about 1.5%. That's not the only important thing. I feel like what I built was a more diversified cautious portfolio, less focused on US equity, and more thoughtful on zigging and zagging for the unexpected future that we did see.

CHUCK JAFFE: I will also point out that if I were to take the funds that we're talking about here and run them through, say a third party like Morningstar, while not every fund that you picked has a Morningstar rating, the funds that you picked tend to have higher Morningstar ratings. Admittedly it's risk-adjusted returns looking at past, but they also tend to have been overall better, smoother, more consistent performers. That's not to say that you would have wound up in a bad place with the other one, it's just about when somebody tells you something is best, they're talking about maybe not being fitted. And I know that for you if somebody came to you and said, "Hey, I'm looking for the best funds," while you might have talked about these, you're going to try to go, which investor needs more international? Which one needs more domestic? How do you piece it all together? And it wouldn't be that every client would get all of these.

JOHN COLE SCOTT: But to be fair, in the last year we've owned four of those five, just they weren't my picks in December and we wouldn't have overweighted them generally for most clients.

CHUCK JAFFE: So let's move from that onto the piece in *Kiplinger's* written by Charles Lewis Sizemore, which again it picked five funds and one of then was TEAF, that is the Ecofin Unique Multi-Sector Alternative Fund.

JOHN COLE SCOTT: It's an infrastructure fund that generally is private assets, it's kind of unique, it's usually a wide discount. We covered it two years ago I believe on the not real discount section of the November Thanksgiving show, but yeah, I'll dig in. So there are five funds that he suggested, JRS, it's a REIT real asset fund, JQC, a multi-sector fund that leans into loans, TEAF, as you said, EMO, a Franklin Templeton MLP fund, and PHYS, a Sprott gold fund. At the high level, it's a very inflation-focused portfolio, I would say you're leaning very heavily to one thesis, and again, two funds from one sponsor, which we generally don't do for a focused segment. It's about a quarter in the S&P 500, but zero Mag 7, it's about 40% US equity, 6% non-US equity, a little over a quarter US bond, and almost 5% non-US bond. And again, the beta is about 0.4, so lower volatility, and the intercorrelation, there's diversification here, only a 0.4, the initial discount about 9% at the publish date, the performance about 3% NAV and 4.5% market price total return. Now we're going to go and look at what I did within three days of the publish date for that, and I only picked three funds because sometimes I like to be tight on your show, Chuck. ARDC, it's an Ares multi-secure bond fund, it leans into loans, DFP, a Flaherty & Crumrine preferred equity fund, and GUG, a Gugenheim balanced fund. Only 5% S&P 500, zero Mag 7, non-US equity zero, almost all US bonds, basically a bond portfolio overall, a 0.2 NAV beta and a 0.8 correlation because there's more bonds in there acting more like itself. The initial discount about 10%, and the performance was tighter, three and mid change, only 20 basis points better than the other portfolio. For NAV and market price, about five and change, almost 1% alpha in that. But I would say our portfolio designed for more riskier forward-looking outcome, and not as much things driven by one outcome, which would be inflation.

CHUCK JAFFE: And again, we're not saying, if you went off and tried to make a closed-end fund portfolio by buying the whole list, their list or your list, that you would have done badly, but we are saying that beauty is in the eye of the beholder, and if you're going to wind up relying on this stuff, who's doing the beholding makes a big difference.

JOHN COLE SCOTT: It does, and also I know when I worked with *Kiplinger's* for my article, it's about a month from the time I talked to the reporter until it gets published, and so I'm always careful and worried how long it'll take till and idea comes to light for listeners. Versus you know, we run the show, we rarely record after the close and drop after the open the next day, it's very tight, timely information, partially my ability as an independent firm, partially your production schedule, I think possibly better answers than delayed outcomes for people waiting for good ideas.

CHUCK JAFFE: What you're saying to sum that up is maybe the other guy would have benefited if they had been able to say the night before publication, "Here's what I'm buying now," but they have to couch it a little bit when you're doing that because there might be picks that you wouldn't make in that setting as well knowing, wow, this has a lot of potential to change before it even comes out.

JOHN COLE SCOTT: Yeah, and again, there are periods of time when those portfolios would beat my picks. It's not to say my picks are better as you suggested, it's just when we come with ideas to the market in this public forum, we do think about different options for investors, diversified options, trying to balance the possible outcomes in that portfolio.

CHUCK JAFFE: So now I want to take this in one more direction, and I did not prepare you for this, but I know that people listen to The NAVigator, and they listen to my show *Money Life*, where they will sometimes hear people talking closed-end funds outside of The NAVigator, they are looking at what they might want to buy. I wonder how often somebody comes to you and they have a portfolio of closed-end funds that is basically all fallen angels, it's whatever made somebody's list. Charles Lewis Sizemore has written this piece before, in fact that's why we had him on the show at one point, so somebody sees it and they go, "Yes, I like the idea of a closed-end fund at a discount," blah, blah, blah, and they make the case to buy it, and then they never sell it. And like you, when they come to you and they're looking for help, how often is what you see in peoples' portfolios yesterday's or way before yesterday's winners, like this was popular back in the day but you wouldn't buy it if you could now?

JOHN COLE SCOTT: We generally see two very different outcomes that come across my desk either for a review or potential prospect. It's often a bunch of well-performing high-premium funds that they had bought hopefully at discounts at some level in a panic period, and I get to tell that investor, "Whether you hire me or not, take some free money at the table, you've been an excess winner in a way I would have never built for you." There's other people that have a lot of say, terrible portfolios, they're sifting just on yield independent of actual NAV performance and the things that you know we dig into on this show, and it's just basically a yield trap that can happen. Distributions are high for closed-end funds, some real, some fake, you have to know what's driving you and when do you use it properly, but I find both those outcomes. And again, I find people either own less than 10 closed-end funds, often three sponsors, or like 80 closed-end funds and they basically index themselves, very few active investors I meet are doing what we do as a 25 to 35, being tactical, intentional but diversified, which is my style and not the only style you can consider.

CHUCK JAFFE: And it's important to consider the source when you're looking at anybody making you an investment recommendation. Remember, the funds we talked about here, well, they're not recommendations, they're look at them, but understand what you're getting out of those recommendations because they're all made differently. John, great stuff, thank you so much for joining me again on The NAVigator and filling in at the last moment.

JOHN COLE SCOTT: Always a pleasure, Chuck. Enjoy these sessions.

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, you can learn all about me and my show at MoneyLifeShow.com or wherever you find your favorite podcasts. To learn more about closed-end funds, interval funds, and business-development companies go to AICAlliance.org, the website for the Active Investment Company Alliance. Thanks to my guest John Cole Scott, president of Closed-End Fund Advisors in Richmond, Virginia, the chairman of the Active Investment Company Alliance. His firm is online at CEFAdvisors.com, you can dig into their data for yourself at CEFData.com, and John would love to get closed-end fund questions from you about anything in the industry, you can send them to TheNAVigator@AICAlliance.org. The NAVigator podcast is available every Friday, make sure you don't miss an episode by following along or subscribing on your favorite podcast app. We'll be back next week with more closed-end fund talk. Until then, happy investing, everybody.

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