Taking Stock: They're open to closed-end funds

by Malcolm_Berko

Dear Mr. Berko: We have $22,000 we want to invest in five closed-end funds with yields between 8 percent and 9.5 percent and we don't care if the funds trade at a small premium. We're seeking high income and can afford to take risks with this money but still, we'd like your recommendations to be solid issues, not the 12 percent to 15 percent yields several brokers have shown us. This $22,000 comes from the cash value of a $300,000 life insurance policy we've owned for 38 years and no longer need. So if we could generate about $150 a month from this money (to cover a senior membership at our new health club) we'd be very happy. Another couple that we know has a little more to invest for income. They've been reading your column for many years and will also buy the issues you recommend because they have benefited from your advice several times in the past.

R.O.

Elgin, Ill.

Dear R.O.: I have anointed the following five closed-end funds with a kiss of dragon's breath for staying power and a sprinkle of pixie dust for good luck, and hopefully these issues will not only maintain their dividend payouts but possibly increase them a tad or two over the coming years.

There are a number of closed-end funds paying 12 percent to 15 percent but I think the brokers who suggested those funds might be daft and you're wise to disregard their advice. A significantly superior alternative is to invest equal amounts of money in each of the following five issues.

Alliance All-Market Advantage Fund Inc. (AMO-$13.80), which traded in the high $30s and low $40s between 1998 and 2001, pays a quarterly dividend of just a tad under 33 cents a share and yields 9.41 percent. This is AMO's lowest payout since its inception when it came public at $11 a share in 1994. Though AMO trades at a 7.8 percent premium, several analysts for whom I have high regard believe that its unique portfolio structure and strong dividend argues persuasively for its purchase. AMO owns a "core" portfolio of 25 issues that "are highly regarded at any point in time." The balance of the small $48 million portfolio consists of issues with "exceptional growth potential." However, Alliance Bernstein (a classy management group) uses short-selling, leverage, options and futures to generate the attractive 9.41 percent return. Meanwhile, it's not unreasonable to anticipate an AMO dividend increase in the next 10 months or sooner.

Evergreen Income Advantage Fund (EAD-$14.75) pays a monthly dividend of 11.5 cents, its lowest payout since coming public at $15 a share in February of 2003. The current dividend yields a solid 9.41 percent making this a good income issue, even though EAD trades at a small 1.8 percent premium. This closed-end fund invests about 80 percent of its large $1.4 billion portfolio in loans, preferreds and bonds like Case New Holland 9.25 percent, Huntsman International 11.5 percent, Universal Hospital Services 10.1 percent, Ford

9.75 percent, all of which are below investment grade. About 34 percent of EAD's portfolio is leveraged to increase its total return.

Pacholder High Yield Fund Inc. (PHF-$9.98) came public in 1988 at $19.75 a share. It trades at a 1.3 percent discount to net asset value and certainly has been a lousy investment for current shareholders who bought it as an initial public offering 19 years ago. PHF's price and dividend have collapsed more than 50 percent since coming public but the current payout appears sustainable according to Norton Chervitz, a closed-end fund analyst with Greystoke Consulting. Using leverage (41 percent), PHF invests in debt issues such as CCH Holdings 11 percent, Team Health 11.25 percent, Constar International 11 percent and Alliance One 11 percent, in its $220 million portfolio. PHF's divident of 7.5 cents per month yields 8.94 perent.

Western Asset High Income Fund II Inc. (HIX-$11.11) has a $1.1 billion non-leveraged portfolio of high-yield bonds managed by the venerable people at Legg Mason. HIX trades at a 6.8 percent discount to net asset value and its monthly 7.5-cent dividend (down from a high of 13 cents in 2000) yields 8.48 percent and management believes it should be able to increase this dividend in the next 15 months. Meanwhile, HIX's share price is down from its $15 IPO offering in 1998. According to Thomson Financial, HIX has earned an average annual 9.5 percent total return since inception over 9 years ago.

Nuveen Multi-Strategy Income & Growth Fund 2 (JQC-$13.72) owns a leveraged (32 percent) $1.9 billion portfolio of issues with well-known names such as Washington Mutual, Banco Santander, J.P. Morgan, Citigroup and Merrill Lynch. JQC came public in June of 2003 at $15 and paid 98 cents a month. Today's 95-cent monthly dividend yields 8.19 percent and Nuveen, an old-line, estimable investment firm believes they should be able to increase JQC's monthly dividend as well as its net asset value in the coming 11 months.

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