

# Joe Eqcome

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**Equity-Income Research**

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## **A Poor Man's CEF Portfolio that Performs**

**Conclusion:** The **Eqcome CEF Big 10 Portfolio** (CEF Big 10) is a simple, inexpensive and self-directed way for retail investors to own a diversified closed end fund (CEF) portfolio representative of this market segment. The portfolio consists of 10 CEF stocks. Each stock represents one of the largest within the 10 major CEF fund types (see chart below) and has been in continuous operation since Oct '04. The CEF Big 10 portfolio was off 3.9% during the period versus the S&P 500 (SPY) off 11.8% and Claymore CEF Index off 37.9%.

**Investment Management Underperformance:** Seventy percent of large cap fund managers failed to beat the S&P 500; 85.5% of small cap managers failed to beat S&P 600 (small cap); 80% of bond fund managers failed to beat benchmarks (excluding High Yield) (WSJ 4/22/09). It makes you wonder, for what purpose are we paying investment managers? The privilege to lose our money!

**Basis of Comparison:** As to what stocks are included in the S&P indices, the selection process is determined by the Standard & Poor's Index Committee ("Committee"). This Committee has full discretion as to what stocks are to be added. The Committee examines five main criteria when looking for Index candidates: trading analysis, liquidity, ownership, fundamental analysis, market capitalization, and sector representation. Therefore, inclusion in an S&P index is akin to selection of stocks by an investment committee with very strict investment guidelines—and not rule based.

**Eqcome CEF Big 10 Portfolio:** It might be instructive to apply a similar process to building a Poor Man's CEF Investable Portfolio (**Eqcome CEF Big 10 Portfolio**). One of the key criteria was to limit the portfolio to 10 stocks making it investable for retail investors. To meet the diversification criterion, one CEF stock was selected for each of the 10 key CEF fund types. Other criteria included a combination of large assets size within its fund type, sufficient trading volume and a continuous operating history for purposes of historical performance measurements. Below is a list of CEF stocks that meet those criteria.

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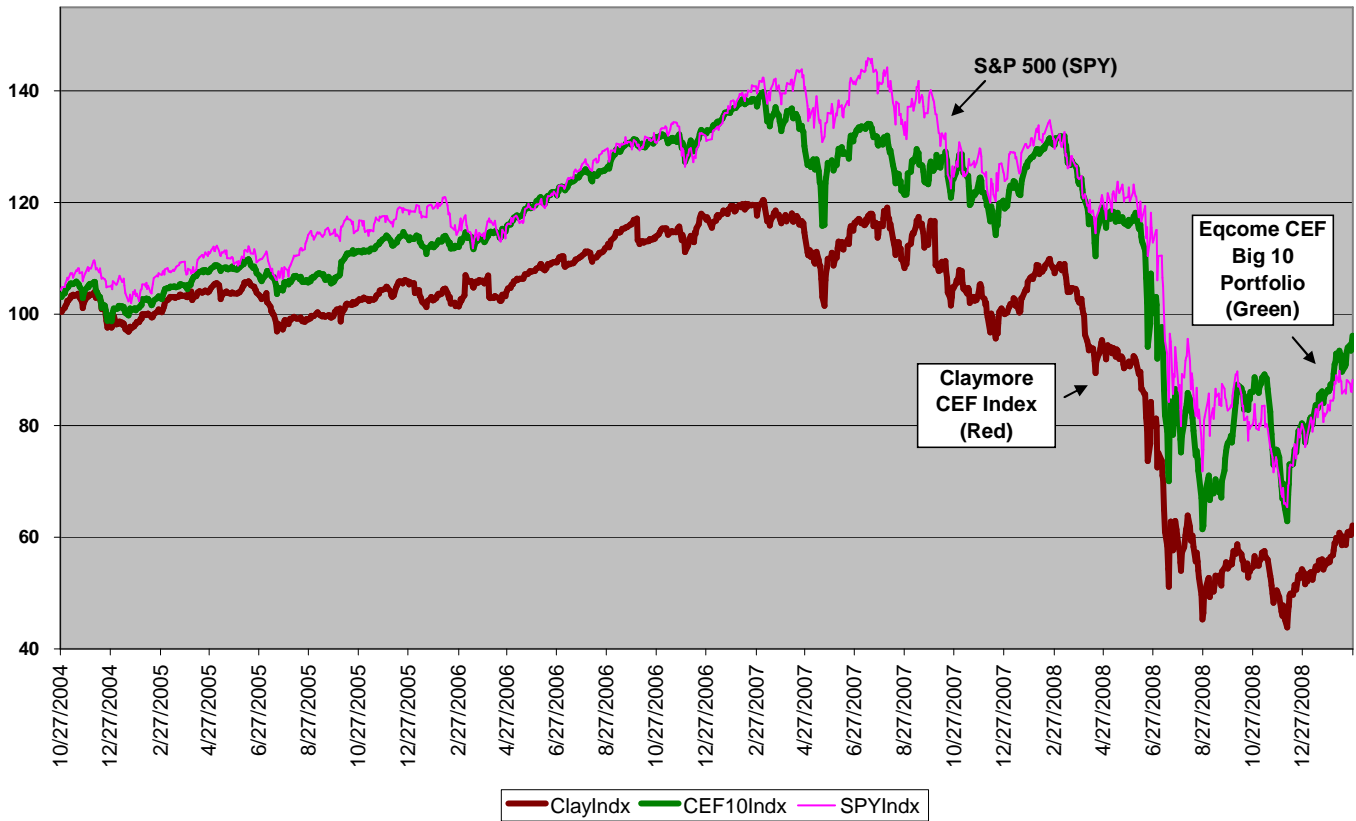
Eqcome CEF Big 10 Portfolio								Date:	5/27/2009
FundName	Sym	FndTypWSJ	Assets (Mils)	Price Share	Distr Yld	Prem/ Disc	YTD PrcShr	DailyVol Avg	
Adams Express Company	ADX	GenEqFnds	840	8.23	2.43%	-16.45%	2.49%	64,870	
Calamos Strat Tot Ret	CSQ	PrefStkFnds	1,878	7.39	12.18%	-6.93%	18.24%	460,893	
Calamos Conv & High Inc	CHY	ConvSecFnds	874	10.23	9.97%	3.23%	20.64%	149,453	
Eaton Vance Tx-Ad GI Div	ETG	WrldEqFnds	1,592	9.94	12.37%	-16.54%	-6.40%	95,843	
Eaton Vance Ltd Dur Inc	EVV	InvGrdBndFnds	2,335	12.32	10.55%	-8.74%	24.57%	346,550	
ING Prime Rate Trust	PPR	LoanPartFnds	859	4.01	6.88%	-12.25%	23.38%	2,316,677	
PIMCO High Income	PHK	HiYldBndFnds	1,895	8.30	17.62%	55.72%	50.09%	165,016	
AllianceBernstein GI HI	AWF	WrldIncFnds	958	10.33	10.75%	-7.10%	35.74%	129,310	
Nuveen Muni Value	NUV	NatlMuniBndFnds	1,651	9.35	5.01%	1.74%	8.59%	202,372	
Eaton Vance Enh Eq Inc	EOI	OtherFnds	655	11.52	14.27%	-5.42%	-4.00%	69,393	
<b>Average</b>			<b>1,354</b>	<b>9.16</b>	<b>10.2%</b>	<b>-1.3%</b>	<b>17.3%</b>	<b>400,038</b>	

Based upon 100 shares of each of the CEF stocks listed, The CEF Big 10 Portfolio can be purchased for less than \$10,000 (As of 5/27/09 the cost was \$9,262.) Assuming you'd pay \$10 per trade at a discount broker, the 10 stocks would cost you \$100.00 in the aggregate to own. That would represent an initial cost of 1.1% of the value of the portfolio. This would compare to a 1.5% average CEF management fee. The good news is that you would only have to pay commissions once on the stocks initially purchased. Over a 3 year holding period your IRR would be 1.2% higher than an annual fee-based portfolio. (This assumes an annual 5% stock price appreciation.)

**Portfolio Performance Vs CEF Index:** The chart below is a comparison of the Eqcome Big 10 CEF Portfolio (unweighted) versus that of the Claymore CEF Index on a daily basis indexed to October 27<sup>th</sup>, 2004. The prices used for Eqcome Big 10 CEF was adjusted for distribution and splits. The Claymore CEF index is a cap weighted index and distributions are adjusted on a quarterly basis.

The gap between the Eqcome Big 10 and the Claymore Index may be a function of its exclusion of CEFs with non-taxable income of greater than 50%. This would exclude most muni funds which have performed well as of late.

**Eqcome Big 10 CEF Portfolio Performance Vs Claymore CEF Index & S&P 500 (SPY): Indexed 10/27/04**



Data related to the Eqcome CEF Big 10 Portfolio is continuously updated and available at Joe Eqcome’s website under the tab “CEFBig10”. (Investors may prefer to substitute individual stock for each of the fund types or own more of one fund type than another.)

**Joe Eqcome** (Disclosure: owns all CEFs in the CEF Big 10 Portfolio)