

Equity CEFs: BST And GGT, The Most Obvious Swap I've Ever Seen

Jul. 09, 2021 1:35 PM ET | **BlackRock Science and Technology**

Trust (BST), GGT | 26 Comments | 25 Likes

Summary

- Do yourselves a favor and swap out of the Gabelli Multimedia fund (GGT) at a 23%-plus premium and into the BlackRock Science & Technology fund (BST) at a discount.
- What do they have in common? Besides both being growth & technology CEFs, although with different growth stock portfolios, both are also going through Rights Offerings (RO) currently.
- The big difference is that BST's RO is about to conclude and GGT's is about to get going. And if history is any guide, you should be selling GGT today.
- That's because GGT goes ex-Rights on Monday, July

12, and it's hardly worth holding onto Rights that are just going to be priced based on a \$9.50 subscription price, which is already at a premium to NAV.

- Certainly anything can change before GGT's RO concludes in late August but BST also rose to a high premium when its RO was announced on June 9th and now it's at a -3% discount.
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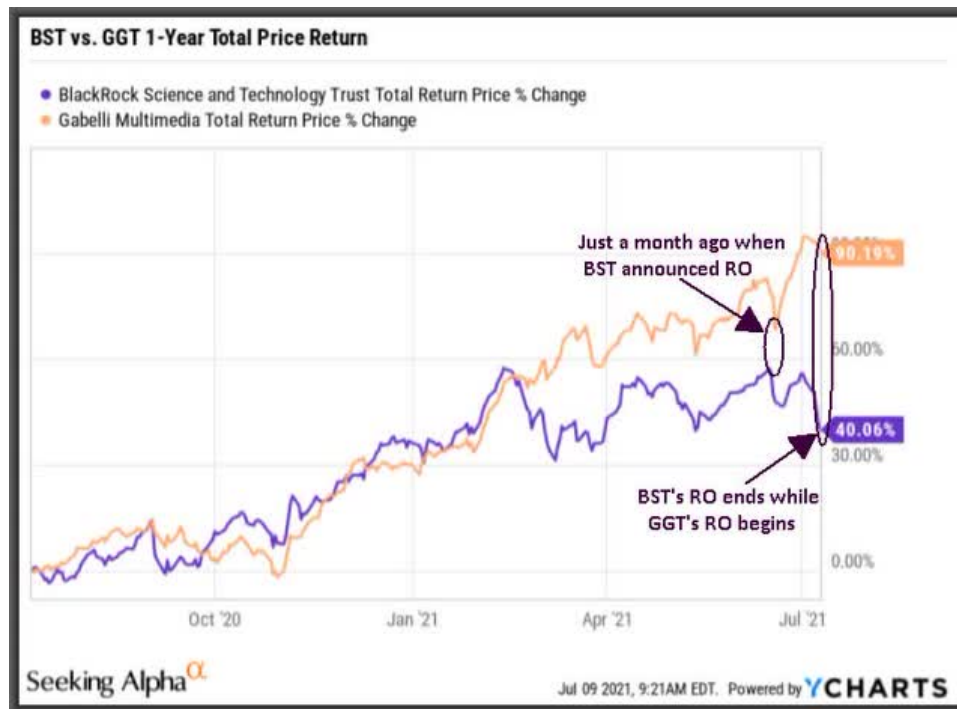
crazydiva/iStock via Getty Images

I'm going to make this really simple. Sell the Gabelli Multimedia fund ([GGT](#)), \$11.34 *real time market price*, at a 23%-*plus* market price premium and swap into the BlackRock Science & Technology fund ([BST](#)), \$53.75 *real time price*, -0.55%.

Yes, you won't keep the *Rights* to buy more shares of GGT when it goes ex-*Rights* on Monday, July 12, but frankly, they may not be worth much if GGT falls to where it should beginning next week. And besides, with a set price of \$9.50/share for every 4 *Rights* held, that's already way over GGT's current NAV of \$9.08.

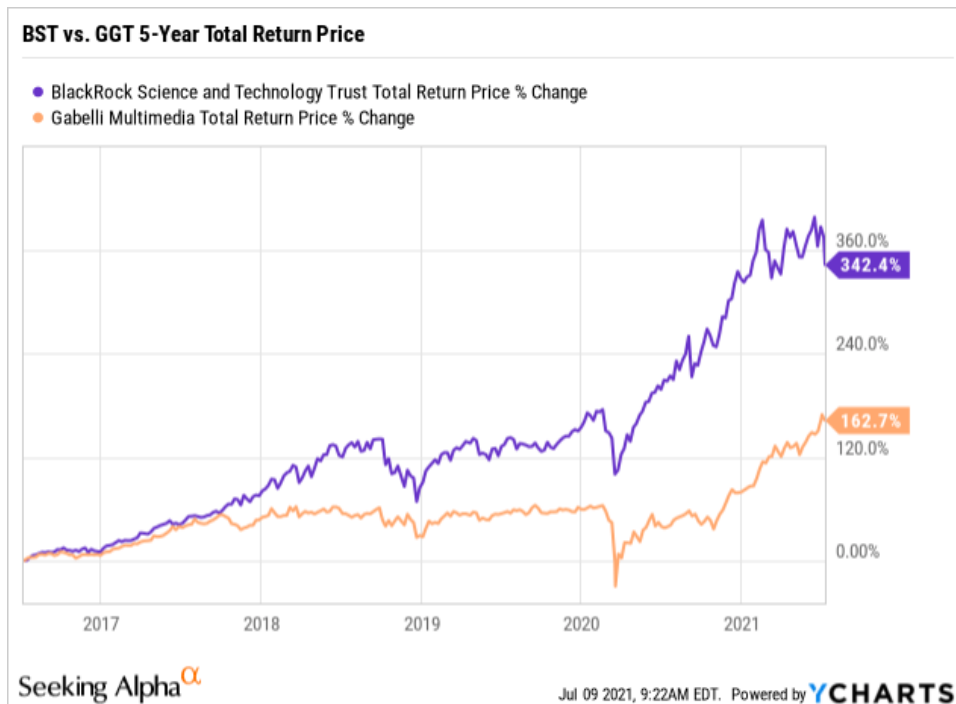
This is the most obvious swap I have ever seen. Yes, GGT's NAV is having a great year, up 16.8% YTD compared to BST's NAV up 9.5% YTD, but over time, BST has had one of, if not THE best performance both at NAV and market price of any CEF.

Here's a one-year total return market price comparison showing GGT up 90.2% compared to BST up 40.0%:



However, keep in mind that when BST announced its *Rights Offering* on **June 9th** and rose to \$61.70 intraday a couple days later, the funds were not that far apart in performance. But now it has ballooned as BST's *Rights Offering* concludes (Wednesday, July 14) while GGT's essentially begins. So if GGT does the exact same thing as BST, which it should and more, then GGT is headed for a big fall starting Monday.

Besides, even with GGT rising to a 23%+ market price premium and BST now at a -4.0% discount, a five-year total return graph shows BST is still way ahead of GGT even taking the last month into account:



Data by YCharts

Another factor that makes GGT a sell right now is that its 4-for-1 *Rights Offering* will probably not even be priced at a discount to NAV like BST's. Yes, that may be accretive for GGT's NAV but that just means that shareholders are the ones who will have to pay a *premium* to add assets to the fund. We won't know until the offering expires Aug. 25, but I always thought that a current shareholder should expect to buy more shares at a *discount* to NAV as an incentive, not a *premium*. The only one who benefits in that scenario is the fund sponsor, Gabelli.

This is probably why BST's market price has come down since BlackRock announced BST's RO on [June 9](#). I didn't particularly like the terms of the offering especially after buyers of BST pushed the market price up as high as \$61.70 ahead of the ex-Rights date (and regular ex-dividend date).

I even wrote to my subscribers two days later on June 11, [*Equity CEFs: Not A Good Deal For BST Shareholders*](#), that they would be wise to sell their BST shares and wait for a better entry point. Of course, that was at a time in which the offering would have been priced at a premium to NAV with BST at 12% to as high as a 15% market price premium. (*Note: You will need a subscription to Equity CEFs: Income + Opportunity to access the above article link.*)

If that sounds familiar with what GGT has done since Gabelli announced its *Rights Offering* on [June 25](#), it should. In fact, GGT has even more of a reason to follow BST's script starting Monday. Because as I write this, BST now trades at \$53.75 a month after I wrote that article and sold the last of my BST shares over \$61.00 (BST has had two ex-dividend dates since then).

The reason why I didn't like BST's *Rights Offering* was that the terms for the 1-for-3 offering would price the new shares, i.e. the subscription price, at the *higher* of 95% of the average five business day closing price of BST ahead of expiration next week OR 94% of BST's NAV.

In other words, BlackRock was hoping to cash in on BST's premium and have the subscription price based on the higher common share price than the NAV. But as it turned out, the price drop just may mean that the subscription price will be based on 94% of BST's NAV after all. So with an NAV that closed at \$55.72 yesterday while BST's common price has dropped to \$53.75 currently, the offering would now use the NAV's floor price of 94% of NAV, or roughly \$52.38 (94% of \$55.72) plus three *Rights* for every new share exercised.

As you might expect, I have been buying both BST common and the BST *Rights* over the last couple days as the expiration nears next week. Because what was not very attractive to shareholders a month ago is now very attractive and is getting more attractive with each passing day.

Though buying the *Rights* right now at \$0.15/*Right* would mean you would add \$0.45 to the subscription price (3 *Rights* for every 1 share), which at NAV would be \$52.38 (94% of \$55.72) for a total of \$52.83 per share, you still would have to be sure that the *Rights* were exercised with your broker/custodian by early next week, preferably Monday.

Note: The Right's ticker symbol on Yahoo! Finance is BST-RI though the symbol could be different on different platforms. For example, the quote on TD Ameritrade is BST.RT.

The *Rights* may actually go to essentially zero before next Wednesday but you would still be exercising at 94% of what BST's NAV closes on that day. The other alternative, which is a lot easier, is simply to buy the common shares at \$53.75 and not mess with trying to ensure the *Rights* are exercised, even though you would be able to get new shares at a further discount to the common.

Finally, if BST's *Rights Offering* was not that attractive to current shareholders when it came out, GGT's is 10X worse. Yes, I understand that for every four shares a current buyer of GGT makes at \$11.34 real time price today, up 1.7%, they will be able to buy one more share of GGT at \$9.50, but what about the current shareholders who DON'T want any more shares who will be able to sell 25% of their GGT position on Monday at a high premium and keep their *Rights* so that they can simply replace them in a month or so at \$9.50?

Then consider that GGT's NAV closed yesterday at \$9.07 so that means a current buyer of GGT at a 22.8% market price premium is willing to pay a premium as well for the *Rights* to buy more shares of GGT! Who would do that?

Do yourselves a favor and sell GGT right now at \$11.34 and swap over to BST at \$53.75.

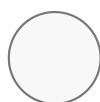
IMPORTANT NOTE

Be sure you understand that for every 300 BST-RT you buy at \$0.15 (or less), which is only \$45, you will need \$5,670 in cash in your account to exercise 100 shares next week. That's because BlackRock was assuming a \$56.70 exercise price at the time, so you will get a credit back upon settlement since the subscription price should be substantially lower

Thank you for reading my article. My goal is to give you observations and actionable ideas in Closed-End funds while educating you on how these unique and opportunistic funds work.

CEFs can be one of the most exhilarating and yet most frustrating security classes to invest in, and it's important that you have someone who can be a level head during up and down periods of the market. I hope to be that voice of calm when necessary. ~ Douglas Albo

This article was written by



Douglas Albo

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Author of [CEFs: Income + Opportunity](#)

Looking for equity CEFs with the best income and appreciation potential.

Disclosure: I/we have a beneficial long position in the shares of BST either through stock ownership, options, or other derivatives. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

25 Likes

26 Comments

Comments (26)

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ButscherDoug

Yesterday, 8:08 PM



Marketplace

Comments (1.46K) | + Follow

Thanks for the 2.5 hour heads up. Not!! Maybe a timely article would have been yesterday.

↩ Reply

👍 Like



mcrmgf

Yesterday, 7:21 PM



Comments (294) | + Follow

why would anybody keep ggt with its high premium

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Coe76

Yesterday, 4:02 PM



Comments (148) | + Follow

If you are a long term dividend income investor, why would I swap out a +7% yield into a +5% yield. Not worth it, unless there are other overriding issues that impact the safety of the dividends. Just my opinion.

↩ Reply

👍 Like



TimNeuman

Yesterday, 5:24 PM



Comments (3.19K) | + Follow

@Coe76

One very good reason to swap....when (not if) GGT's premium evaporates and you choose to hang on, you will end of forfeiting the equivalent of one to two years worth of your valued distribution (not a dividend). Even if you don't want to buy into BST, simply exiting a severely overpriced CEF and awaiting the inevitable mean reversion in the premium is well worth it.

I went through this process exactly as the author laid it out one month ago. BST was trading at a historically high and absurd premium...which is precisely why the managers of the fund decided to try a rights offering. What happened? In one month the premium disappeared and as of today BST is now trading at a discount, with the rights offering due to be priced next week.

The only reason to hesitate may be because of capital gains taxes...but don't complain and don't say you weren't warned when (not if) GGT pricing comes back down to earth.

I saved over two years worth of distributions in exiting BST and intend to take those savings and get back into the fund at a reasonable price.

➤ Reply 👍 Like (1)



sme20

Yesterday, 3:43 PM



Comments (2.6K) | + Follow

No doubt I am a fan of buying BST here--their market price is being held down by the rights offering they ar currently in --to the point that rights subscribers may not get any pricing benefit if the NAV continues to expand as it has. The use of an NAV subscription price at .94 versus current market is closing in on little to no premium over the current depressed market price. There are still 3 more days in the pricing formula after today, but right now, NAV is so strong versus market, that looks to be winning out. For market to be used, it would have to rise significantly from here--thus I am a buyer--all my opinion of course. We'll see come the close on Wednesday.

↪ Reply 👍 Like



RetiredLawyer813

Yesterday, 3:11 PM



Comments (132) | + Follow

Hey Doug. Thanks for the timely article and solid suggestion. I have been waiting to buy BST at a discount. Now I have my chance!

↪ Reply 👍 Like (2)



SleepyInSeattle

Yesterday, 3:06 PM



Comments (5.7K) | + Follow

Timely article. Never liked Gabelli funds. BST has been great although it's selling at premium now.

↪ Reply 👍 Like (2)



Chowder

Yesterday, 3:11 PM



Marketplace

Comments (19.22K) | + Follow

@SleepyInSeattle BST is selling at a discount now, not a premium.

↪ Reply 👍 Like (4)



SleepyInSeattle

Yesterday, 3:15 PM



Comments (5.7K) | + Follow

[@Chowder](#) I stand corrected and just bought more. Thanks.

↪ Reply 👍 Like (1)



tom007

Yesterday, 3:06 PM



Marketplace

Comments (163) | + Follow

Horrar for Douglas!!

Any thoughts on how to play the GOF takeover of GPM?

Thanks,

your biggest fan.

↪ Reply 👍 Like



fujilomi

Yesterday, 3:04 PM



Comments (7.75K) | + Follow

Thanks for the article. I had sold my BST at a premium while holding BSTZ as an alternative at a discount. Noticed the BST drop back to a discount, bought back a very small, all profit position, looking to add on a significant dip. One thing that gives me pause is BST's chart looks horrible, in a bearish MACD crossover, with an ugly double top M formation, and below the 50 day MAV. I will wait for a turn to get more aggressive, especially if still at a discount to NAV. Support near 52.60 and if that is broken near the 200 day MAV at 51.35? If that is broken look out below and tech will probably be out of favor again, maybe with rising Treasury rates. *(edited)*

↪ Reply 👍 Like



TheHornet

Yesterday, 4:41 PM



Comments (4.23K) | + Follow

[@fujilomi](#)

It does not make much sense to look at technicals for a CEF, in particular one in the middle of a rights exchange.

If you look at the chart of the NAV the picture is very different.

The chart for the price reflects the fact that the fund was trading at a high premium when the underlying assets started recovering, and then the rights were announced and issued. At that point the incentive for investors was to push the price down until the two formulas for the rights exchange were basically the same (sell, exercise, and wait for the cheaper share to substitute the ones you sold).

↩ Reply 👍 Like (2)



fujilomi

Yesterday, 5:53 PM



Comments (7.75K) | + Follow

[@TheHornet](#) I am buying/selling at the CEF PRICE and the technicals reflect rights and/or other sentiment drivers. If the NAV chart improves great, but price is truth, you may do things differently that is your decision. I did buy a small position with past profits, so if it goes up great, if it goes down and still at a discount to NAV I will buy more at what I think are support levels or at bigger discounts to NAV with remaining booked profits, infinity yield is VERY nice lol. I will probably even buy higher if there is a bullish MACD crossover, if there is still a discount to NAV, and if it seems to be a relative bargain to other stuff like BSTZ which is my main tech position at the present. *(edited)*

↩ Reply 👍 Like (1)



TheHornet

Yesterday, 6:47 PM



Comments (4.23K) | + Follow

@fujilomi

"technicals reflect rights and/or other sentiment drivers"

It reflects the sentiment on the fund, not the assets it contains. The sentiment over the fund it driven in this period by the rights offer more than anything else.

But if you look at the NAV it is strongly rising just as the price started falling (when the rights offering clause specifying the *lower* of the two formulas was going to be used), which in practice means that as the underlying asset class entered a bullish configuration BST went on sale. What more could one want?

The reason why I wrote "it does not make much sense to rely on technicals on a CEF" is because by definition you are observing the effect of the sentiment of a small bunch of (mostly retail) investors. It is a very weak and arguably contrarian signal, whereas technicals on NAV reflect the sentiment of basically entire large-cap tech sector.

I am also long BSTZ and it is a very interesting vehicle, but very different from BST. BSTZ is expected to overperform BST over the long run, but it is also expected to be more volatile. Together they are oone of my "parking lots" for capital waiting to be allocated to individual names in that space.

↪ Reply 👍 Like



malka

Yesterday, 2:43 PM



Premium

Marketplace

Comments (1K) | + Follow

BST it is!!!

↪ Reply 👍 Like



JamesRR

Yesterday, 2:16 PM



Comments (15) | + Follow

Albo May be right on this, but let me add another perspective. I've owned Gabelli funds for decades and they have performed very well over the years in terms of growth and not cutting distribution. On contrary, I used to own Blackrock funds like BGY, BKCC, etc. The Blackrock funds have all performed poorly...lost money many years and cut distributions sometimes dramatically. I would never buy another Blackrock fund period. I believe in Gabelli. Blackrock is for losers.

➤ Reply 👍 Like



movetohawaii

Yesterday, 2:21 PM



Comments (554) | + Follow

@JamesRR Tell us how you really feel, lol.

➤ Reply 👍 Like (4)



Chowder

Yesterday, 2:22 PM



Marketplace

Comments (19.22K) | + Follow

@JamesRR >> I would never buy another Blackrock fund period. I believe in Gabelli. Blackrock is for losers. <<

Re: Blackrock ... Is it possible you did a poor job of selecting a fund or perhaps a poor job of managing the position?

Just asking, not making any accusations.

➤ Reply 👍 Like (3)



Douglas Albo

Yesterday, 2:38 PM



Marketplace Contributor

Premium

Comments (1.79K) | Following

Author's Reply @JamesRR That would be like saying the SDPR energy ETF (XLE) has been for losers over the last decade too even though it is up 53% over the past year. It all depends on what sector fund you're talking about and when you bought it. You could cherry pick from BlackRock and Gabelli all you want, and I've owned most of them, but BlackRock has by far, better CEFs than Gabelli over time IMO and the reason is that Gabelli's use of leverage in virtually all of their funds can be very lucrative during bull markets but can be a significant drag for longer term performance when you add in bear markets.

➤ Reply ➤ Like (3)

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hawkrnc_19

Yesterday, 2:11 PM



Premium

Comments (559) | + Follow

In my view you are the authority on CEF's on SA. *(edited)*

➤ Reply ➤ Like (4)



breger1

Yesterday, 2:01 PM



Marketplace

Comments (5) | + Follow

Thank you for your insights. Your articles on CEFs have been a great learning experience for me... and that returns have definately been good too...

➤ Reply ➤ Like (2)



bebbie

Yesterday, 1:54 PM



Comments (154) | + Follow

Thank you. I did sell my BST at a little over \$60.00 a share and bought back today at a \$53.52 premarket.

I appreciate your work.

↩ Reply

👍 Like (2)