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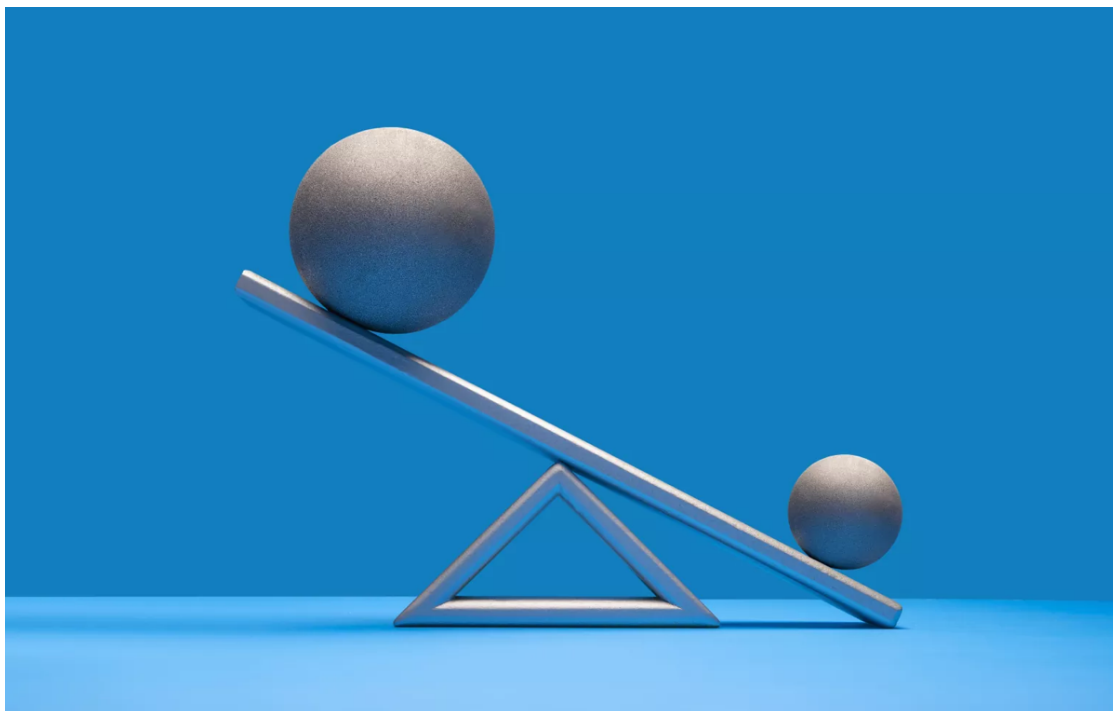
Closed End Funds

ADX Is A Vastly Superior Income Investment To QYLD

Aug. 09, 2021 11:26 PM ET | **Adams Diversified Equity Fund, Inc. (ADX)** | QYLD
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Summary

- ADX is an unleveraged, domestic equity, closed-end fund.
- The fund carries a perennial -14% discount which drives its solid NAV performance to market-beating returns at market price.
- Compared to QYLD, a favorite, high-yielding income ETF, ADX has generated 8% greater average income.
- With that greater income ADX has also produced portfolio capital appreciation of 55% while QYLD has lost -11%.



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ADX Is A Vastly Superior Income Investment To QYLD

Earlier this week I also wrote on Adams Diversified Equity Fund ([ADX](#)), a venerable closed-end fund (inception 1929) that has been an alpha machine for the recent past. In that article I mainly discussed the CEF as a capital growth fund; you can read about it [here](#). Today I want to present ADX as an income fund and alternative to a favorite of the yield-hounds, Global X NASDAQ 100 Covered Call ETF ([QYLD](#)).

I've written about QYLD [several times in the past few months](#). Readers who have followed my musings on the subject will be aware that I consider the fund a poor investment choice. At one point I offered a few closed-end funds as alternatives to QYLD. Although it should have been obvious to me at the time, I was inundated with readers' scorn for my picks because none matched the yield of QYLD. The fact that they were generating total return well beyond anything possible from the QYLD strategy employs to attain that yield was irrelevant. Doesn't make sense to me, but that's how many readers saw it.

Let me state at the top that QYLD pays monthly while ADX pays out the bulk of its distribution income in the fourth quarter. For someone incapable of budgeting, QYLD will enforce some discipline on one's spending habits, but it's easy enough to move ADX's distributions to a cash holding and set up an automatic withdrawal on a monthly basis. My goal is to demonstrate the relative gain of that strategy over passively holding QYLD and taking its monthly cash payment.

ADX: Portfolio and Returns

ADX holds a portfolio of 104 domestic stocks. About a quarter of its portfolio is invested in the tech giants Microsoft ([MSFT](#)), Apple ([AAPL](#)), Amazon ([AMZN](#)), Alphabet ([GOOGL](#)) and Facebook ([FB](#)). Rounding out the top ten we find Berkshire Hathaway ([BRK.B](#)), UnitedHealth Group (NYSE:[UNH](#)), Bank of America (NYSE:[BAC](#)), NVIDIA ([NVDA](#)) and Visa ([V](#)). These ten account for a third of the 104 holdings. The mix is 88.6% large-cap and 11.4% mid-cap.

As I showed in the article cited above, ADX at NAV has essentially matched the returns of the S&P 500 index fund, SPY. But ADX has consistently sold at a -14% discount. This means that ADX has consistently outperformed SPY at market. As this chart from that article shows, over the past five years ADX has generated 13% greater total return than SPY.

	1 Yr	3 Yr	5 Yr
ADX CAGR	34.4%	19.0%	19.9%
SPY CAGR	34.2%	17.9%	17.6%
ADX TR	34.4%	69.2%	142.6%
SPY TR	34.2%	64.2%	122.6%

(Table by author. CAGR data from PortfolioVisualizer TR data from cefconnect.)

ADX: Distribution History

ADX promises a minimum distribution yield of 6%, but has exceeded that routinely.

FIVE YEAR DISTRIBUTION HISTORY

Year	Income Dividends per Share (\$)	Short-Term Capital Gains per Share (\$)	Long-Term Capital Gains per Share (\$)	Total Distribution per Share (\$)	Annual Distribution Rate* (%)
2016	0.18	0.00	0.81	0.99	7.8
2017	0.22	0.06	1.10	1.38	9.8
2018	0.21	0.00	1.79	2.00	12.9
2019	0.22	0.00	1.20	1.42	9.6
2020	0.19	0.00	0.84	1.03	6.8

Source: [Fund Website](#)

ADX: Income Compared to QYLD

In my previous look at ADX I emphasized total return with all distributions reinvested. To put the fund up against QYLD, I'll move to an analysis of results with withdrawing the distributions as income. How do the funds compare?

Let's go back to QYLD's start. From Jan 2014 through YTD, with \$10,000 invested in ADX and QYLD and all distributions taken as cash we see the following results.

Portfolio Returns

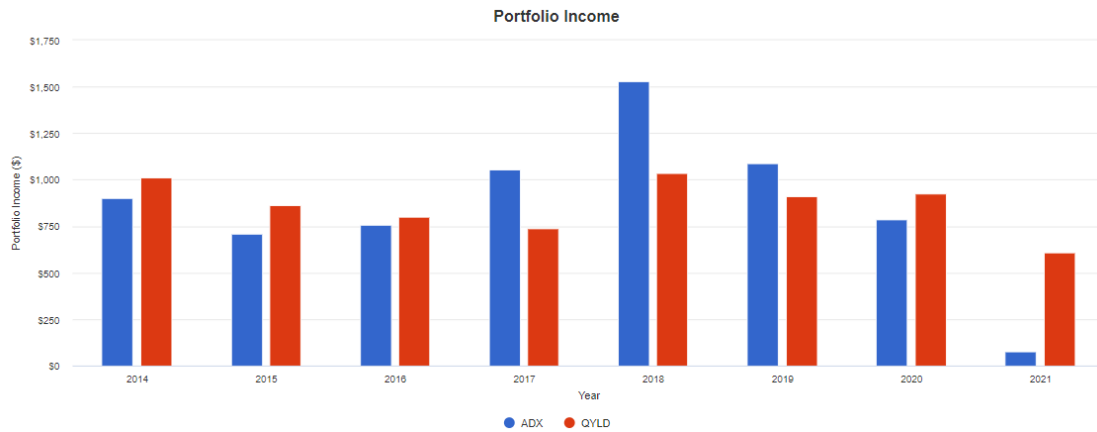
Portfolio	Initial Balance	Final Balance	CAGR	Stdev	Best Year	Worst Year	Max. Drawdown	Sharpe Ratio	Sortino Ratio	US Mkt Correlation
ADX	\$10,000	\$15,562	5.94%	14.73%	36.58%	-4.12%	-24.48%	0.96	1.50	0.98
QYLD	\$10,000	\$8,868	-1.55%	10.56%	22.66%	-3.08%	-25.31%	0.77	1.10	0.86



Source: [PortfolioVisualizer](#)

The ADX investor would have seen an increased capital value of the holdings of 56% while the QYLD investor would have suffered an -11% loss. ADX was somewhat more volatile, but that volatility is more than offset by portfolio capital appreciation, as we see in the Sharpe and Sortino Ratios.

"But," you ask, "what about income? Surely QYLD has greater income." Fair question. Here's the annual income from each.



Source: [PortfolioVisualizer](#)

For its first three years QYLD did beat ADX's income, but not by as much as many would have expected. After those three years, ADX overtook QYLD's income for three of the next four years. For that period, QYLD's income only surpassed ADX's in a single year. Putting some numbers to the chart we get the following results (I've omitted 2021 YTD from the totals because ADX distributes capital gains in a single, large end-of-year distribution.)

Year	ADX		QYLD	
	Yield	Income	Yield	Income
2014	9.03%	\$902.83	10.10%	\$1,009.55
2015	6.80%	\$711.55	9.18%	\$863.04
2016	7.72%	\$757.46	8.73%	\$799.84
2017	10.86%	\$1,055.85	8.44%	\$738.65
2018	13.31%	\$1,530.22	10.80%	\$1,037.59
2019	11.25%	\$1,086.46	10.89%	\$908.77
2020	6.53%	\$788.06	10.02%	\$926.00
2021	0.58%	\$76.51	6.81%	\$607.67
Total (2014-2020)		\$6,832.43		\$6,283.44

Data source: [PortfolioVisualizer](#)

Average distribution rate for QYLD (2014 to 2020) is 9.74%; for ADX it is 9.36%. Despite its lower yield, ADX shows higher total income with time because it has higher growth. To illustrate let's set the yield to QYLD's average.

Portfolio Returns

Portfolio	Initial Balance	Final Balance	CAGR	TWRR	MWRR	Stdev	Best Year	Worst Year	Max. Drawdown	Sharpe Ratio	Sortino Ratio	US Mkt Correlation
ADX	\$10,000	\$14,062 ^①	4.55% ^①	14.80%	13.61%	14.77%	36.63%	-3.59%	-20.38% ^① (-26.51%) ^①	0.96	1.51	0.98
QYLD	\$10,000	\$9,246 ^①	-1.02% ^①	8.69%	8.24%	10.57%	22.67%	-3.05%	-17.18% ^① (-30.13%) ^①	0.77	1.10	0.86
SPY	\$10,000	\$13,498 ^①	3.99% ^①	14.19%	13.09%	13.66%	31.22%	-4.56%	-19.43% ^① (-25.51%) ^①	0.99	1.60	0.99

^① The number in parentheses shows the calculated value taking into account the percentage based periodic withdrawals.

Data source: [PortfolioVisualizer](#)

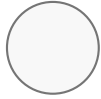
Note that using QYLD's greater average yield, ADX remains a clear winner, even beating SPY at this withdrawal rate.

The Choice Is Clear

QYLD is a passive fund that follows a rigid investment formula. It relies on monthly at-the-money call-writing on the NASDAQ 100 to generate income. This caps gains at the amount of the option premium. My view is that formula makes QYLD a poor investment choice because it is guaranteed to underperform (see [here](#) for details). Despite the fund's headline high-yield numbers, its income and, especially, its capital appreciation after that income do not and, I submit, cannot match that of ADX.

ADX is an old-school stock-picker's fund. It relies on capital gains to provide shareholder value. At NAV it does a reasonable job of meeting that goal. But with its perennial -14% discount, it surpasses the broad market, returns meaningful alpha to the total return investor, and produces attractive income to the income investor. Admittedly, it is not as convenient as QYLD's monthly check, but is that convenience worth giving up an average 8.7% in annual income? To me the choice is clear.

This article was written by



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I'm a retired individual investor.

Disclosure: I/we have a beneficial long position in the shares of MSFT, AAPL, AMZN, NVDA, BRK.B 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.

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