



# 5 Best CEFs To Buy This Month (November 2021)

Nov. 20, 2021 9:31 AM ET | ACV, AEF, AGD... | 15 Comments | 36 Likes



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## Summary

- For income investors, closed-end funds remain an attractive investment class that covers a variety of asset classes and promise high distributions and reasonable total returns.
- Closed-end funds are generally characterized by higher volatility and deeper drawdowns than the broad market. For these reasons, they are not suited for everyone.
- In this monthly series, we highlight five CEFs that have solid track records, pay high distributions, and are offering "excess" discounts. We try to separate the wheat from the chaff using our filtering process to select just five CEFs every month from around 500 closed-end funds.
- Looking for a portfolio of ideas like this one? Members of High Income DIY Portfolios get exclusive access to our model portfolio. [Learn More »](#)



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In this monthly article, we try to identify five closed-end funds that have a solid past history, pay high-enough distribution and offer reasonable valuations. In the first half of this year, CEFs and other high-income securities had performed very well. It's unlikely that we're going to see the same level of gains in the second half of the year. Even then, compared to a couple of years ago and specifically to the year 2020, the average CEF yields are much lower. At this point, it's pretty difficult to form a brand-new portfolio that is conservative and relatively safe and still yields 8%. Nonetheless, if you were to start a new portfolio today, our recommendation would be to start small and build the positions over time.

Obviously, the CEF funds do not exist in a vacuum. For the most part, they move along with the broader market. This is especially true for equity funds. However, there are many funds with underlying asset classes that are known to provide divergence with the market. The market resumed its bull run in October and November after some jitters in September. It has been reaching for new all-time highs once again. Most of the market's upward movement was based on third quarter earnings. However, during this time, we had plenty of other news, for example, the November elections, the October job report, the passage of the \$1.2 trillion bipartisan infrastructure bill, the Fed's announcement to begin tapering, and the October inflation readings. Even though the market appears to be doing well, the rise in inflation levels is a real cause for concern. In fact, the prices rose 6.2% in October on a year-over-year basis, the highest pace recorded since December 1990. If inflation continues to rise unabated, it can doom the bull market.

All that said, we can't stand still in fear of market uncertainties. We should rather think in terms of long-term investing. It's best to keep the focus on our long-term goals and strategies that have proven to work in good times and bad. If you are a new investor or starting a brand new CEF portfolio, our recommendation would be to start small and build the positions over time. We believe, for most investors, a 20%-25% allocation to closed-end and high-income funds should be enough. In that spirit, we keep looking for good investment opportunities and try to separate the wheat from the chaff on a regular basis.

### **Why Invest In CEFs?**

For income-focused investors, closed-end funds remain an attractive investment class that offers high income (generally in the range of 6%-10%, often 8% plus), broad diversification (in terms of variety of asset classes), and market-matching total returns in the long term, if selected carefully and acquired at reasonable price points. A \$500K CEF portfolio can generate nearly \$40,000 a year, compared to a paltry under \$7,500 from the S&P 500. Now, if you were a retiree and needed to use all of that income, the portfolio would not grow much, but it may still grow enough to beat the rate of inflation. That certainly beats investment vehicles like annuities. With CEFs, you have to think in terms of income rather than capital growth.

Ideally, if you have a large enough pool of retirement funds, there's generally no need to put more than 20% into CEFs, but these are decisions that can only be made on a personal level based on individual situations.

However, it's important to be aware of the risks and challenges that come with investing in CEFs. We list various risk factors at the end of this article. They are not suitable for everyone, so please consider your goals, income needs, and risk tolerance carefully before you invest in CEFs.

CEFs had taken a serious beating in the early stages of the pandemic last year, and their recovery had been much weaker than the broader market. But that has changed this year in 2021. As a result, we no longer have the kind of discounts that were being offered until the end of last year. In fact, just the opposite, most of the CEFs are probably overvalued today.

With that in view, one should buy selectively and in small and multiple lots. No one can predict the future direction of the market with any degree of certainty. So, we continue to be on the lookout for good investment candidates that have a solid track record, offer good yields, and are offering great discounts.

## **Five Best CEFs To Consider Every Month**

This series of articles attempts to separate the wheat from the chaff by applying a broad-based screening process to 500 CEF funds followed by an eight-criteria weighting system. In the end, we're presented with about 30-40 of the most attractive funds in order to select the best five. However, please note that we do not consider funds that have a history of fewer than five years.

This is our regular series on CEFs, where we highlight five CEFs that are relatively cheap, offer "excess" discounts to their NAVs, pay reasonably high distributions, and have a solid track record. We also write a monthly series to identify "5 Safe and Cheap DGI" stocks. You can read our most recent article [here](#).

We use our multi-step filtering process to select just five CEFs from around 500 available funds.

The selected five CEFs this month, as a group, are offering an average distribution rate of nearly 7.50% (as of 11/12/2021). Besides, these five funds have an excellent past record and collectively returned 22.80%, 18.93%, and 12.28% in the last three, five, and 10 years. Since this is a monthly series, there may be some selections that could overlap from month to month. This month the yield is quite reasonable at 7.5%, and the average leverage is very low with an excess discount of -1.12%. That said, most CEFs are trading a bit expensive, and an investor may be well served to buy in small and multiple lots.

Please note that these are not recommendations to buy but should be considered as a starting point for further research.

*Author's Note: This article is part of our monthly series that tries to discover the five best buys in the CEF arena at that point in time. Certain parts of the introduction, definitions, and the section describing selection criteria/process may have some commonality and repetitiveness with our other articles in the series. This is unavoidable as well as intentional to keep the entire series consistent and easy to follow for the new readers. Regular readers who follow the series from month to month could skip the general introduction and sections describing the selection process.*

## **Goals For The Selection Process**

Our goals are simple and are aligned with most conservative income investors, including retirees who wish to dabble in CEFs. We want to shortlist five closed-end funds that are relatively cheap, offer good discounts to their NAVs, pay relatively high distributions, and have a solid and substantial past track record in maintaining and growing their NAVs. Please note that we are not necessarily going for the cheapest funds (in terms of discounts or highest yields), but we also require our funds to stand out qualitatively. We adopt a systematic approach to filter down the 500-plus funds into a small subset.

Here's a summary of our primary goals:

- High income/distributions.
- Reasonable long-term performance in terms of total return on NAV: We also try to measure if there has been an excess NAV return over and above the distribution rate.
- Cheaper valuation at the time of buy, determined by the absolute discount to NAV and the "excess" discount offered compared to their history.
- Coverage ratio: We try to measure to what extent the income generated by the fund covers the distribution. Not all CEFs fully cover the distribution, especially the equity, and specialty funds, as they depend on the capital gains to cover their distributions. We adjust this weight according to the type and nature of the fund.

We believe that a well-diversified CEF portfolio should at least consist of 10 CEFs or more, preferably from different asset classes. It's also advisable to build the portfolio over a period rather than invest in one lump sum. If you were to invest in one CEF every month in a year, you would have a well-diversified CEF portfolio. What we provide here every month is a list of five probable candidates for further research. We think a CEF portfolio can be an important component in the overall portfolio strategy. One should preferably have a DGI portfolio as the foundation, and the CEF portfolio could be used to boost the income level to the desired level. How much should one allocate to CEFs? Each investor needs to answer this question himself/herself based on the personal situation and factors like the size of the portfolio, income needs, risk appetite, or risk tolerance.

## **Selection Process**

We have more than 500 CEF funds to choose from, which come from different asset classes like equity, preferred stocks, mortgage bonds, government and corporate bonds, energy MLPs, utilities, infrastructure, and municipal income. Just like in other life situations, even though the broader choice always is good, it does make it more difficult to make a final selection. The first thing we want to do is to shorten this list of 500 CEFs to a more manageable subset of around 75-100 funds. We can apply some criteria to shorten our list, but the criteria need to be broad and loose enough at this stage to keep all the potentially good candidates. Also, the criteria that we build should revolve around our original goals. We also demand at least a five-year history for the funds that we consider. However, we do take into account the 10-year history, if available.

### **Criteria to Shortlist:**

Criteria	Brings down the number of funds to...	Reason for the Criteria
Baseline expense < 2.5% and Avg. Daily Volume > 10,000	Approx. 435 Funds	We do not want funds that charge excessive fees. Also, we want funds that have fair liquidity.
Market-capitalization > 100 Million	Approx. 400 Funds	We do not want funds that are too small.
Track record/ History longer than five years (inception date 2016 or earlier)	Approx. 375 Funds	We want funds that have a reasonably long track record.
Discount/Premium < +6%	Approx. 350 Funds	We do not want to pay too high a premium; in fact, we want bigger discounts.
Distribution (dividend) Rate > 5%	Approx. 250-275 Funds	The current distribution (income) to be reasonably high.
5-Year Annualized Return on NAV > 0% AND 3-Year Annualized Return on NAV >0%	Approx. 200 Funds	We want funds that have a reasonably good past track record in maintaining their NAVs.

After we applied the above criteria this month, we were left with 205 funds on our list, just above our target of 200 funds at this stage. But it's still too long a list to present here or a meaningfully select five funds.

*Note: All tables in this article have been created by the author (unless explicitly specified). Most of the data in this article are sourced from Cefconnect.com, Cefa.com, and Morningstar.com.*

## **Narrowing Down To 50-60 Funds**

To bring down the number of funds to a more manageable count, we will shortlist ten funds based on each of the following criteria. After that, we will apply certain qualitative criteria to each fund and rank them to select the top five.

At this stage, we also eliminate certain funds that have had substantial negative NAV returns for both three-year and five-year periods.

### **Seven broad criteria:**

- Excess discount/premium (explained below).
- Distribution rate.
- Return on NAV, last three years (medium-term).
- Return on NAV, last five years (long term).
- Coverage ratio.
- Excess return over distributions.
- The total weight (calculated up to this point).

### **Excess Discount/Premium:**

We certainly like funds that are offering large discounts (not premiums) to their NAVs. But sometimes, we may consider paying near zero or a small premium if the fund is great otherwise. So, what's important is to see the "excess discount/premium" and may not be the absolute value. We want to see the discount (or premium) on a relative basis to their record, say 52-week average.

Subtracting the 52-week average discount/premium from the current discount/premium will give us the excess discount/premium. For example, if the fund has the current discount of -5%, but the 52-week average was +1.5% (premium), the excess discount/premium would be -6.5%.

Excess Discount/Premium = Current Discount/Premium (Minus)  
52-Wk Avg. Discount/ Premium

So, what's the difference between the 12-month Z-score and this measurement of Excess Discount/Premium? The two measurements are quite similar, maybe with a subtle difference. The 12-month Z-score would indicate how expensive (or cheap) the CEF is in comparison to the 12 months. Z-score also takes into account the standard deviation of the discount/premium. Our measurement (excess discount/premium) compares the current valuation with the last 12-month average.

We sort our list (of 205 funds) on the "excess discount/premium" in descending order. For this criterion, the lower the value, the better it is. So, we select the top 10 funds (most negative values) from this sorted list.

*(All data as of 11/12/2021)*

Ticker	Name	Sector	Leverage %	Base Exp.	Distrib. Rate	Disc./ Premium	Excess Disc.	52 WK AVG Disc/ Premium	3YR Ann. NAV Return	5YR Ann. NAV Return	Inception Date	Distrib. Coverage
BST	BlackRock Science and Technology	Sector Equity	0.00%	1.08%	5.43%	-5.22%	-7.01%	1.79%	35.93%	30.95%	10/29/2014	0.00%
PFL	PIMCO Income Strategy	Multi-Sector	38.77%	1.19%	8.74%	7.29%	-5.71%	13.00%	9.72%	9.82%	8/26/2003	87.98%
GAM	General American Investors	US Equity	12.52%	1.75%	6.96%	-20.29%	-5.02%	-15.27%	14.23%	13.31%	2/1/1927	0.00%
PFN	PIMCO Income Strategy II	Multi-Sector	36.86%	1.13%	8.73%	7.17%	-3.71%	10.88%	8.95%	9.60%	10/29/2004	86.49%
PKO	PIMCO Income Opportunity	Multi-Sector	43.09%	1.56%	9.19%	6.21%	-3.33%	9.54%	8.94%	10.66%	11/30/2007	85.18%
GBAB	Guggenheim Tax Muni & Inv Grade	Taxable Muni	29.06%	0.90%	6.38%	2.69%	-3.16%	5.85%	8.60%	6.34%	10/27/2010	78.18%
DFP	Flah & Crum Dynamic Pref & Incom	Preferreds	32.13%	1.06%	6.74%	4.54%	-3.06%	7.60%	12.77%	9.32%	5/24/2013	94.45%
PFO	Flaherty & Crumrine Preferred Incom	Preferreds	32.78%	1.26%	6.29%	3.48%	-3.02%	6.50%	11.77%	8.93%	2/13/1992	99.93%
CGO	Calamos Global Total Return	Global Allocatio	30.21%	1.70%	7.40%	0.93%	-2.43%	3.36%	21.73%	15.76%	10/27/2005	3.58%
DNI	Dividend and Income Fund	US Allocation	0.00%	1.46%	6.80%	-30.20%	-2.21%	-27.99%	17.95%	15.90%	6/29/1998	0.42%

## High Current Distribution Rate:

After all, most investors invest in CEF funds for their juicy distributions. We sort our list (of 205 funds) on the current distribution rate (descending order, highest at the top) and select the top 10 funds from this sorted list.

Ticker	Name	Sector	Leverage %	Base Exp.	Distrib. Rate	Disc./ Premium	Excess Disc.	52 WK AVG Disc/ Premium	3YR Ann. NAV Return	5YR Ann. NAV Return	Inception Date	Distrib. Coverage
RIV	RiverNorth Opportunities Fund	US Allocation	10.92%	2.07%	11.64%	2.28%	-0.69%	2.97%	13.07%	10.56%	12/23/2015	1.87%
GLQ	Clough Global Equity	Global Equity	40.41%	2.13%	10.28%	1.03%	7.19%	-6.16%	14.40%	14.12%	4/27/2005	0.00%
IAF	Aberdeen Australia Equity Fund Inc	Single Country E	4.86%	1.45%	10.17%	-2.18%	1.28%	-3.46%	17.57%	12.46%	12/12/1985	11.56%
GLO	Clough Global Opportunities	Global Allocatio	40.39%	2.26%	10.17%	1.83%	7.09%	-5.26%	16.38%	12.95%	4/25/2006	0.00%
FTF	Franklin Limited Duration Income Ti	Limited Duratio	30.33%	1.22%	10.09%	0.66%	2.11%	-1.45%	5.20%	3.68%	8/27/2003	55.95%
ECC	Eagle Point Credit Company LLC	Senior Loans	32.05%	5.82%	10.03%	4.44%	3.36%	1.08%	9.62%	11.32%	10/8/2014	71.51%
EVG	Eaton Vance Short Duration Divers	Limited Duratio	9.84%	1.41%	9.87%	1.28%	4.66%	-3.38%	3.48%	4.16%	2/28/2005	61.31%
DPG	Duff & Phelps Utility and Infra Fund	Sector Equity	28.59%	1.63%	9.86%	2.82%	3.22%	-0.40%	7.04%	3.57%	7/29/2011	18.10%
PCI	PIMCO Dynamic Credit and Mortgag	Multi-Sector	43.62%	2.12%	9.76%	6.15%	-1.35%	7.50%	6.11%	9.49%	1/29/2013	93.35%
USA	Liberty All-Star Equity	US Equity	--	1.00%	9.61%	2.58%	0.60%	1.98%	20.27%	17.74%	10/31/1986	2.55%

## Medium-Term Return on NAV (last three years):

We then sort our list (of 205 funds) on a three-year return on NAV (in descending order, highest at the top) and select the top 10 funds.

Ticker	Name	Sector	Leverage %	Base Exp.	Distrib. Rate	Disc./ Premium	Excess Disc.	52 WK AVG Disc/ Premium	3YR Ann. NAV Return	5YR Ann. NAV Return	Inception Date	Distrib. Coverage
TWN	Taiwan Fund	Asia Equity	--	1.70%	8.73%	-15.98%	-1.44%	-14.54%	43.56%	24.52%	12/23/1986	1.97%
BST	BlackRock Science and Technology	Sector Equity	0.00%	1.08%	5.43%	-5.22%	-7.01%	1.79%	35.93%	30.95%	10/29/2014	0.00%
ACV	AllianzGI Diversified Income & Com	US Allocation	21.02%	2.27%	5.47%	-3.88%	1.49%	-5.37%	29.33%	22.70%	5/27/2015	0.00%
CCD	Calamos Dynamic Convertible and I	Convertibles	29.72%	2.16%	7.10%	2.27%	1.87%	0.40%	28.34%	20.75%	3/26/2015	32.24%
CSQ	Calamos Strategic Total Return	US Allocation	26.68%	1.53%	6.39%	1.53%	0.01%	1.52%	24.38%	19.93%	3/26/2004	14.31%
CHY	Calamos Convertible & High Income	Convertibles	30.94%	1.28%	7.08%	2.05%	5.01%	-2.96%	23.93%	17.82%	5/30/2003	44.23%
CHI	Calamos Convertible Opp Inc	Convertibles	30.95%	1.29%	7.07%	2.80%	5.55%	-2.75%	23.71%	17.75%	6/28/2002	43.56%
CHN	China Fund	Asia Equity	0.00%	0.90%	8.55%	-12.25%	-2.21%	-10.04%	23.30%	14.78%	7/10/1992	0.00%
ETO	Eaton Vance Tax-Advantaged Gbl	Global Allocatio	17.02%	1.26%	6.44%	4.21%	7.35%	-3.14%	21.87%	17.16%	4/30/2004	20.21%
CGO	Calamos Global Total Return	Global Allocatio	30.21%	1.70%	7.40%	0.93%	-2.43%	3.36%	21.73%	15.76%	10/27/2005	3.58%

## Five-Year Annualized Return on NAV:

We then sort our list (of 205 funds) on the five-year return on NAV (in descending order, highest at the top) and select the top 10 funds.

Ticker	Name	Sector	Leverage %	Base Exp.	Distrib. Rate	Disc./ Premium	Excess Disc.	52 WK AVG Disc/ Premium	3YR Ann. NAV Return	5YR Ann. NAV Return	Inception Date	Distrib. Coverage
BST	BlackRock Science and Technology	Sector Equity	0.00%	1.08%	5.43%	-5.22%	-7.01%	1.79%	35.93%	30.95%	10/29/2014	0.00%
TWN	Taiwan Fund	Asia Equity	--	1.70%	8.73%	-15.98%	-1.44%	-14.54%	43.56%	24.52%	12/23/1986	1.97%
ACV	AllianzGI Diversified Income & Com	US Allocation	21.02%	2.27%	5.47%	-3.88%	1.49%	-5.37%	29.33%	22.70%	5/27/2015	0.00%
CCD	Calamos Dynamic Convertible and I	Convertibles	29.72%	2.16%	7.10%	2.27%	1.87%	0.40%	28.34%	20.75%	3/26/2015	32.24%
CSQ	Calamos Strategic Total Return	US Allocation	26.68%	1.53%	6.39%	1.53%	0.01%	1.52%	24.38%	19.93%	3/26/2004	14.31%
EOS	Eaton Vance Enhanced Equity Inco	Covered Call	--	1.09%	6.72%	2.25%	1.38%	0.87%	21.28%	19.06%	1/26/2005	0.00%
GF	New Germany	Single Country E	0.00%	1.16%	9.34%	-10.15%	1.60%	-11.75%	20.61%	18.57%	1/30/1990	2.70%
CHY	Calamos Convertible & High Income	Convertibles	30.94%	1.28%	7.08%	2.05%	5.01%	-2.96%	23.93%	17.82%	5/30/2003	44.23%
CHI	Calamos Convertible Opp Inc	Convertibles	30.95%	1.29%	7.07%	2.80%	5.55%	-2.75%	23.71%	17.75%	6/28/2002	43.56%
USA	Liberty All-Star Equity	US Equity	--	1.00%	9.61%	2.58%	0.60%	1.98%	20.27%	17.74%	10/31/1986	2.55%

## Coverage Ratio (Distributions vs. Earnings):

We then sort our list (of 205 funds) on the coverage ratio and select the top 10 funds. The coverage ratio is derived by dividing the earnings per share by the distribution amount for a specific period. Please note that in some cases, the coverage ratio may not be very accurate since the "earnings per share" may be three to six months old. But in most cases, it's fairly accurate.

Ticker	Name	Sector	Leverage %	Base Exp.	Distrib. Rate	Disc./ Premium	Excess Disc.	52 WK AVG Disc/ Premium	3YR Ann. NAV Return	5YR Ann. NAV Return	Inception Date	Distrib. Coverage
AGD	Aberdeen Global Dynamic Dividend	Global Equity	3.02%	1.15%	6.35%	-6.33%	3.24%	-9.57%	13.91%	12.98%	7/26/2006	145.33%
DSL	DoubleLine Income Solutions Fund	Global Income	28.48%	1.68%	7.64%	-3.19%	-0.22%	-2.97%	5.85%	6.48%	4/26/2013	129.47%
AOD	Aberdeen Total Dynamic Dividend	Global Equity	0.09%	1.14%	6.78%	-8.54%	1.76%	-10.30%	13.41%	12.52%	1/26/2007	128.20%
IVH	Ivy High Income Opportunities Fund High Yield		26.07%	2.00%	5.90%	-4.37%	4.08%	-8.45%	7.29%	7.54%	5/29/2013	124.71%
BGH	Barings Global Short Duration High Yield	High Yield	29.37%	1.65%	7.32%	-3.73%	3.34%	-7.07%	5.03%	6.32%	10/26/2012	121.64%
BSL	Blackstone Senior Floating Rate Ter	Senior Loans	32.58%	1.76%	5.62%	0.73%	4.88%	-4.15%	5.03%	6.02%	5/26/2010	115.28%
BGB	Blackstone Strategic Credit	Senior Loans	36.28%	2.18%	6.19%	-4.97%	2.79%	-7.76%	3.88%	5.47%	9/26/2012	114.24%
FDEU	First Trust Dynamic Europe Equity H	Global Equity	23.22%	1.04%	5.47%	-11.86%	-0.05%	-11.81%	6.05%	5.48%	9/24/2015	113.61%
KIO	KKR Income Opportunities Fund	High Yield	36.19%	2.02%	7.48%	0.24%	5.10%	-4.86%	8.56%	9.28%	7/26/2013	113.29%
DBL	Doubleline Opportunistic Cred	Multi-Sector	17.60%	1.53%	6.85%	1.05%	0.24%	0.81%	6.69%	4.33%	1/27/2012	109.38%

## Excess Return Over Distribution:

This is the "excess return" provided by the fund over the distribution rate. It's calculated by subtracting the distribution rate from the three-year NAV return.

Ticker	Name	Sector	Leverage %	Base Exp.	Distrib. Rate	Disc./ Premium	Excess Disc.	52 WK AVG Disc/ Premium	3YR Ann. NAV Return	5YR Ann. NAV Return	Inception Date	Distrib. Coverage	Excess Return
TWN	Taiwan Fund	Asia Equity	--	1.70%	8.73%	-15.98%	-1.44%	-14.54%	43.56%	24.52%	12/23/1986	1.97%	34.83%
BST	BlackRock Science and Technology	Sector Equity	0.00%	1.08%	5.43%	-5.22%	-7.01%	1.79%	35.93%	30.95%	10/29/2014	0.00%	30.50%
ACV	AllianzGI Diversified Income & Com	US Allocation	21.02%	2.27%	5.47%	-3.88%	1.49%	-5.37%	29.33%	22.70%	5/27/2015	0.00%	23.86%
CCD	Calamos Dynamic Convertible and I	Convertibles	29.72%	2.16%	7.10%	2.27%	1.87%	0.40%	28.34%	20.75%	3/26/2015	32.24%	21.24%
CSQ	Calamos Strategic Total Return	US Allocation	26.68%	1.53%	6.39%	1.53%	0.01%	1.52%	24.38%	19.93%	3/26/2004	14.31%	17.99%
CHY	Calamos Convertible & High Income	Convertibles	30.94%	1.28%	7.08%	2.05%	5.01%	-2.96%	23.93%	17.82%	5/30/2003	44.23%	16.85%
CHI	Calamos Convertible Opp Inc	Convertibles	30.95%	1.29%	7.07%	2.80%	5.55%	-2.75%	23.71%	17.75%	6/28/2002	43.56%	16.64%
ETO	Eaton Vance Tax-Advantaged Gbl C	Global Allocatio	17.02%	1.26%	6.44%	4.21%	7.35%	-3.14%	21.87%	17.16%	4/30/2004	20.21%	15.43%
CHN	China Fund	Asia Equity	0.00%	0.90%	8.55%	-12.25%	-2.21%	-10.04%	23.30%	14.78%	7/10/1992	0.00%	14.75%
EOS	Eaton Vance Enhanced Equity Inco	Covered Call	--	1.09%	6.72%	2.25%	1.38%	0.87%	21.28%	19.06%	1/26/2005	0.00%	14.56%

## Total Weight (Quality Score) calculated up to this point:

Note: The Total Weight calculation is not fully completed at this point since we have not taken into account the 10-year NAV return. Also, we would adjust the weight for the coverage ratio at a later stage. However, we select the top 15 names on this basis (instead of 10 for other criteria).

Ticker	Name	Sector	Leverage %	Base Exp.	Distrib. Rate	Disc./ Premium	Excess Disc.	52 WK AVG Disc/ Premium	3YR Ann. NAV Return	5YR Ann. NAV Return	Inception Date	Distrib. Coverage	Total Combined Weight
GAM	General American Investors	US Equity	12.52%	1.75%	6.96%	-20.29%	-5.02%	-15.27%	14.23%	13.31%	2/1/1927	0.00%	33.91
BST	BlackRock Science and Technology	Sector Equity	0.00%	1.08%	5.43%	-5.22%	-7.01%	1.79%	35.93%	30.95%	10/29/2014	0.00%	33.16
AOD	Aberdeen Total Dynamic Dividend	Global Equity	0.09%	1.14%	6.78%	-8.54%	1.76%	-10.30%	13.41%	12.52%	1/26/2007	128.20%	33.15
CHN	China Fund	Asia Equity	0.00%	0.90%	8.55%	-12.25%	-2.21%	-10.04%	23.30%	14.78%	7/10/1992	0.00%	33.01
IFN	The India Fund Inc	Asia Equity	0.28%	1.32%	10.55%	-10.73%	-0.46%	-10.27%	15.79%	10.26%	2/23/1994	0.00%	31.81
AGD	Aberdeen Global Dynamic Dividend	Global Equity	3.02%	1.15%	6.35%	-6.33%	3.24%	-9.57%	13.91%	12.98%	7/26/2006	146.33%	31.75
AEF	Aberdeen Emerging Markets Equity	Emerging Marke	9.50%	1.27%	7.57%	-9.90%	2.02%	-11.92%	12.48%	9.94%	9/25/1989	33.69%	31.61
TWN	Taiwan Fund	Asia Equity	--	1.70%	8.73%	-15.98%	-1.44%	-14.54%	43.56%	24.52%	12/23/1986	1.97%	31.56
SCD	LMP Capital and Income	Global Allocatio	16.26%	1.25%	6.96%	-10.32%	0.64%	-10.96%	15.86%	11.04%	2/24/2004	32.92%	31.39
DNIF	Dividend and Income Fund	US Allocation	0.00%	1.46%	6.80%	-30.20%	-2.21%	-27.99%	17.95%	15.90%	6/29/1998	0.42%	31.28
GF	New Germany	Single Country E	0.00%	1.16%	9.34%	-10.15%	1.60%	-11.75%	20.61%	18.57%	1/30/1990	2.70%	31.07
SWZ	Swiss Helvetia	Single Country E	--	1.80%	5.65%	-14.57%	-1.04%	-13.53%	15.02%	11.39%	8/27/1987	42.59%	31.01
RVT	Royce Value Trust	US Equity	3.00%	0.52%	6.66%	-10.17%	0.85%	-11.02%	17.77%	15.77%	11/19/1986	12.73%	30.92
NCZ	AllianzGI Convertible & Inc II Comm	Convertibles	38.04%	1.37%	8.32%	-6.88%	1.85%	-8.73%	14.79%	11.14%	7/31/2003	33.20%	30.62
RMT	Royce Micro-Cap Trust	US Equity	3.36%	1.07%	6.81%	-13.52%	-0.85%	-12.67%	19.28%	16.98%	12/14/1993	0.00%	30.32

Now we have 75 funds in total from the above selections. We will see if there are any duplicates. In our current list of 75 funds, there were 28 duplicates, meaning there are funds that appeared more than once. The following names appear twice (or more):

Appeared two times: AGD, AOD, CGO, DNIF, EOS, ETO, GAM, GF, USA (9 duplicates)

Appeared three times: ACV, CCD, CHI, CHN, CHY, CSQ (12 duplicates)

Appeared four times: TWN (3 duplicates)

Appeared five times: BST (4 duplicates)

So, once we remove 28 duplicate rows, we are left with 47 (75-28) funds.

*Note: It may be worthwhile to mention here that just because a fund has appeared multiple times does not necessarily make it an attractive candidate. Sometimes, a fund may appear multiple times simply for wrong reasons, like a high current discount, high excess discount, or a very high distribution rate that may not be sustainable. But during the second stage of filtering, it may not score well on the overall quality score due to other factors like poor track record. That said, if a fund has appeared four times or more, it may be worth a second look.*

## Narrowing Down To Just 10-12 Funds

In our list of funds, we already may have some of the best probable candidates. However, so far, they have been selected based on one single criterion that each of them may be good at. That's not nearly enough. So, we will apply a combination of criteria by applying weights to eight factors to calculate the total quality score and filter out the best ones.

We will apply weights to each of the eight criteria:

- Baseline expense (Max weight 5)
- Current distribution rate (Max weight 7.5)
- Excess discount/premium (Max weight 5)
- 3-YR NAV return (Max weight 5)
- 5-YR NAV return (Max weight 5)
- 10-YR NAV return (Max weight 5, if less than ten years history, an average of three-year and five-year)
- Excess NAV return over distribution rate (Max weight 5)
- Adjusted Coverage Ratio (Max weight 5): This weight is adjusted based on the type of fund to provide fair treatment to certain types like equity and sector funds. We assign some bonus points to certain types of funds, which by their make-up depend on capital gains to fund their distributions, to bring them at par with fixed-income funds. These fund types include Equity/ Sector equity (three bonus points), real estate (three points), covered call (two points), and MLP funds (variable). However, please note that this is just one of nine criteria that are being used to calculate the total quality score.

Once we have calculated the weights, we combine them to calculate "Total Combined Weight," also called the "Quality Score." The sorted list (spreadsheet) of 47 funds on the "combined total weight" is attached here: [Excel-for-export-5\\_CEFs\\_for\\_Nov\\_2021.xlsx](#).

The top 30 funds (out of 47) based on the quality score also are listed below. Please note that the quality score only indicates the likeliness of a good candidate, but investors should do further research and due diligence on individual names. Also, an otherwise good fund may not make it to the top because it may have become expensive and may not offer value at the current pricing. Further, you will see in the following section that we should diversify in many asset classes. For example, there may be more than one fund in a specific asset class in the top 30, but we should just choose one or two from a specific asset class.

([GAM](#)), ([BST](#)), ([AOD](#)), ([CHN](#)), ([IFN](#)), ([AGD](#)), ([AEF](#)), ([TWN](#)), ([GF](#)), ([SWZ](#)), ([RVT](#)), ([SCD](#)), ([RMT](#)), ([OTCPK:DNIF](#)), ([NCZ](#)), ([IAF](#)), ([DFP](#)), ([PFO](#)), ([CGO](#)), ([USA](#)), ([PFL](#)), ([GLQ](#)), ([FDEU](#)), ([GLO](#)), ([CHY](#)), ([EOS](#)), ([CHI](#)), ([CCD](#)), ([ACV](#)), ([CSQ](#))

### **Sector-Wise (Asset-Class) Diversification:**

In order to structure a CEF portfolio, it's highly recommended to diversify in funds that invest in different types of asset classes. In our list of 47, if we were to look at first on the basis of asset type (sector) and then based on the total quality score/weight, below is the list of top funds. However, if we had two similar funds from the same fund family, we would have ignored the second one to avoid duplicity. Please note that some asset classes may not make it to the top due to the fact that these ratings are dynamic and time-sensitive and change from month to month.

Sr. no.	Strategy / Asset-class/ Sector	Position-1	Position-2	Position-3
1	Covered Call	(EOS)		
2	Global Equity	(AOD)	(AGD)	(GLQ)
2A.	Global Allocation	(SCD)	(CGO)	(GLO)
3	US Equity	(GAM)	(RMT)	(USA)
3A.	US Allocation	(DNIF)	(ACV)	(CSQ)
4	High Yield ( Convertibles/ Senior Loans/ High-Yield/ Credit Income/ Mortgage securities)			
	4a. Convertible	(NCZ)	(CHY)	(CHI)
	4b. High Yield	(IVH)	(KIO)	
	4c. Senior Loans			
	4d. Misc Bond/ Mult-sector	(PFL)	(PFN)	(PKO)
5	Municipal – Taxable	(GBAB)		
5A.	Municipal – Tax Exempt			
6	Preferreds	(DFP_)	(PFO)	
7	Real Estate			
8	Utilities and Infrastructure	(DPG)		
9	CEF Sector Equity (Financial, Tech, Healthcare, etc.)	(BST)		
10	Emerging Mkt. Equity/Single country	(CHN)	(TWN)	(IFN)
11	MLP			

If you were to select 10 picks, we could simply pick the top one from each of the above categories. That said, due diligence on each name is still recommended. Please note that some of these funds have cut their distributions recently, and for some folks, that may be a good enough reason not to consider them. Also, in our final selection of five funds, we tend to give priority to funds that pay regular and consistent distributions on a monthly or quarterly basis. This month at least five international single country funds (CHN, TWN, GF, IFN, and IAF) emerged as top funds. But they don't make it to our top five due to two factors. First, nearly all of them (except IFN) have a very inconsistent dividend history, and that can be a serious issue for income investors. Secondly, being single-country funds, they are inherently riskier since their future returns are tied to just one country, be it economic, regulatory, or geopolitical factors. That said, some of them, like TWN, GF, and IFN, are worth a look, and that's why we picked TWN in our top-10 list but not in the final top-5 (due to inconsistent dividend).

## Here's the list of the top 10 (some of the top candidates from 10 different asset classes):

Ticker	Name	Sector	Leverage %	Base Exp.	Distrib. Rate	Disc./ Premium	Excess Disc.	52 WK AVG Disc/ Premium	3YR Ann. NAV Return	5YR Ann. NAV Return	10YR Ann. NAV Return	Inception Date	Distrib. Coverage	Total Combined Weight
AOD	Aberdeen Total Dynamic Dividend	Global Equity	0.09%	1.14%	6.78%	-8.54%	1.76%	-10.30%	13.41%	12.52%	8.99%	1/26/2007	128.20%	39.65
TWN	Taiwan Fund	Asia Equity	--	1.70%	8.73%	-15.98%	-1.44%	-14.54%	43.56%	24.52%	14.24%	12/23/1986	1.97%	38.56
BST	BlackRock Science and Technology Trust	Sector Equity	0.00%	1.08%	5.43%	-5.22%	-7.01%	1.79%	35.93%	30.95%	n/a	10/29/2014	0.00%	38.49
NCZ	AllianzGI Convertible & Inc II Common	Convertibles	38.04%	1.37%	8.32%	-6.88%	1.85%	-8.73%	14.79%	11.14%	9.79%	7/31/2003	33.20%	35.51
CGO	Calamos Global Total Return	Global Allocation	30.21%	1.70%	7.40%	0.93%	-2.43%	3.36%	21.73%	15.76%	10.41%	10/27/2005	3.58%	32.20
USA	Liberty All-Star Equity	US Equity	--	1.00%	9.61%	2.58%	0.60%	1.98%	20.27%	17.74%	13.75%	10/31/1986	2.55%	32.12
PFL	PIMCO Income Strategy	Multi-Sector	38.77%	1.19%	8.74%	7.29%	-5.71%	13.00%	9.72%	9.82%	10.80%	8/26/2003	87.98%	31.95
DFF	Flah & Crum Dynamic Pref & Income Fund	Preferreds	32.13%	1.06%	6.74%	4.54%	-3.06%	7.60%	12.77%	9.32%	n/a	5/24/2013	94.45%	31.60
EOS	Eaton Vance Enhanced Equity Income II	Covered Call	--	1.09%	6.72%	2.25%	1.38%	0.87%	21.28%	19.06%	15.15%	1/26/2005	0.00%	30.27
ECC	Eagle Point Credit Company LLC	Senior Loans	32.05%	5.82%	10.03%	4.44%	3.36%	1.08%	9.62%	11.32%	n/a	10/8/2014	71.51%	20.71
<b>AVERAGE ==&gt;</b>			<b>17.13%</b>	<b>1.72%</b>	<b>7.85%</b>	<b>-1.46%</b>	<b>-1.07%</b>	<b>-0.39%</b>	<b>20.31%</b>	<b>16.22%</b>	<b>11.88%</b>		<b>42.35%</b>	<b>33.11</b>

## Final Selection: Our List Of Final Top 5

Now, if we had only five slots for investment and needed to select just five funds, we would need to make some subjective selections. However, we should be careful to select from different sectors (or asset classes). Since this step is mostly subjective, the choice will differ from person to person. Here are the selections for this month, based on our perspective:

- (BST)
- (NCZ)
- (CGO)
- (USA)
- (EOS)

## Some information about the selections:

- USA is our US equity fund, as it was last month. Most US equity funds have soared in prices since last month. But we think the USA is still at reasonable valuation at a small

premium in the current scenario.

- BST is our Science & Technology pick this month, as it was last month. It's also trading at a decent discount of over -5%, compared to a slight premium usually. The yield is a bit low at 5.5%, but this is a growth fund, and the total return should compensate much more. The fund has raised the distribution payout twice in the last year.
- CGO is the Global Allocation fund from the Calamos fund family. The fund has paid a very stable dividend for many years. The yield is reasonable at 7.5%, and it trades at a very slight premium, which has come down significantly in the last couple of months.
- NCZ is the pick in the "convertibles" category. Though we like the funds from the Calamos family (CHY and CHI) more, NCZ beats those funds mainly because Calamos convertible funds have been bid up by investors quite a bit.
- EOS is the Equity fund with Covered calls from the Eaton Vance family. The fund writes covered calls on its equity positions to earn income. The fund has a decent yield of 6.72% (which was recently raised by 39%).

**Table: The Final 5 Funds:**

Ticker	Name	Sector	Leverage %	Base Exp.	Distrib. Rate	Disc./ Premium	Excess Disc.	52 WK AVG Disc/ Premium	3YR Ann. NAV Return	5YR Ann. NAV Return	10YR Ann. NAV Return	Inception Date	Distrib. Coverage	Total Combined Weight
BST	BlackRock Science and Technology Trust	Sector Equity	0.00%	1.08%	5.43%	-5.22%	-7.01%	1.79%	35.93%	30.95%	n/a	10/29/2014	0.00%	38.49
NCZ	AllianzGI Convertible & Inc II Common	Convertibles	38.04%	1.37%	8.32%	-6.88%	1.85%	-8.73%	14.79%	11.14%	9.79%	7/31/2003	33.20%	35.51
CGO	Calamos Global Total Return	Global Allocation	30.21%	1.70%	7.40%	0.93%	-2.43%	3.36%	21.73%	15.76%	10.41%	10/27/2005	3.58%	32.20
USA	Liberty All-Star Equity	US Equity	--	1.00%	9.61%	2.58%	0.60%	1.98%	20.27%	17.74%	13.75%	10/31/1986	2.55%	32.12
EOS	Eaton Vance Enhanced Equity Income II	Covered Call	--	1.09%	6.72%	2.25%	1.38%	0.87%	21.28%	19.06%	15.15%	1/26/2005	0.00%	30.27
<b>AVERAGE ==&gt;&gt;</b>			<b>13.65%</b>	<b>1.25%</b>	<b>7.50%</b>	<b>-1.27%</b>	<b>-1.12%</b>	<b>-0.15%</b>	<b>22.80%</b>	<b>18.93%</b>	<b>12.28%</b>		<b>7.87%</b>	<b>33.72</b>

## CEF-Specific Investment Risks

It goes without saying that CEFs, in general, have some additional risks. This section is specifically relevant for investors who are new to CEF investing, but in general, all CEF investors should be aware of it.

- Leverage and high fees:

They generally use some amount of leverage, which adds to the risk. The leverage can be hugely beneficial in good times but can be detrimental during tough times. The leverage also causes higher fees because of the interest expense in addition to the baseline expense. In the tables above, we have used the baseline expense only. If a fund is using significant leverage, we want to make sure that the leverage is used effectively by the management team - the best way to know this is to look at the long-term returns on the NAV. NAV is the "net asset value" of the fund after counting all expenses and after paying the distributions. So, if a fund is paying high distributions and maintaining or growing its NAV over time, it should bode well for its investors.

- Volatility:

Due to leverage, the market prices of CEFs can be more volatile as they can go from premium pricing to discount pricing (and vice versa) in a relatively short period. Especially during corrections, the market prices can drop much faster than the NAV (the underlying assets). Investors who do not have an appetite for higher volatility should generally stay away from CEFs or at least avoid the leveraged CEFs.

- Premium over NAVs:

CEFs have market prices that are different from their NAVs (net asset values). They can trade either at discounts or at premiums to their NAVs. Generally, we should stay away from paying any significant premiums over the NAV prices unless there are some very compelling reasons.

- Asset-specific risk:

Another risk factor may come from asset concentration risk. Many funds may hold similar underlying assets. However, this is easy to mitigate by diversifying into different types of CEFs ranging from equity, equity covered calls, preferred stocks, mortgage bonds, government and corporate bonds, energy MLPs, utilities, and municipal income.

## **Concluding Thoughts**

We use our screening process to highlight five likely best closed-end funds for investment each month. We also provide a larger list of 10 CEFs, with some of the top candidates from each of the asset classes. As always, our filtering process demands that our selections have an excellent long-term record, maintain decent earnings to cover the distributions (in certain categories), offer an average of 7%-8% distributions, and are cheaper on a relative basis, and offer a reasonable discount. Also, we ensure that the selected five funds are from a diverse group in terms of the types of assets. Please note that these selections are based on our rating system and are dynamic in nature. So, they can change from month to month (or even week to week). At the same time, some of the funds can repeat from month to month if they remain attractive over an extended period.

The selected five CEFs this month, as a group, are offering an average distribution rate of nearly 7.50% (as of 11/12/2021). Besides, these five funds have an excellent past record and collectively returned 22.80%, 18.93%, and 12.28% in the last three, five, and ten years. Since this is a monthly series, there may be some selections that could overlap from month to month. This month the yield is quite reasonable at 7.5%, and the average leverage is very low with an excess discount of -1.12%.

When it comes to CEF investing, we always recommend that it's best to be a bit conservative and build our positions by adding in small and multiple lots to take advantage of dollar-cost averaging. We believe that the above group of CEFs makes a great watch list for further research.

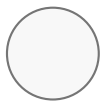
# High Income DIY Portfolios

*By Financially Free Investor*

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This article was written by



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High-income, lower-risk portfolios suited for income-seeking investors.

**Disclosure:** I/we have a beneficial long position in the shares of ABT, ABBV, JNJ, PFE, NVS, NVO, UNH, CL, CLX, GIS, UL, NSRGY, PG, KHC, ADM, MO, PM, BUD, KO, PEP, D, DEA, DEO, ENB, MCD, BAC, PRU, UPS, WMT, WBA, CVS, LOW, AAPL, IBM, CSCO, MSFT, INTC, T, VZ, VOD, CVX, XOM, VLO, ABB, ITW, MMM, LMT, LYB, ARCC, AWF, CHI, DNP, EVT, FFC, GOF, HCP, HQH, HTA, IIF, JPC, JPS, JRI, KYN,