

Evaluating Closed-End Funds: BST Is A Good Buy Given The Drop In Tech

Feb. 03, 2022 3:41 PM ET | **BlackRock Science and Technology Trust (BST)** | 40 Comments | 24 Likes

Summary

- BST NAV has dropped significantly since late last year.
- I continue my series digging into CEFs beyond the yield with another look at BST.
- The share price has been falling, so the yield is up.
- Long term the distribution is still covered, so this price drop is an opportunity.
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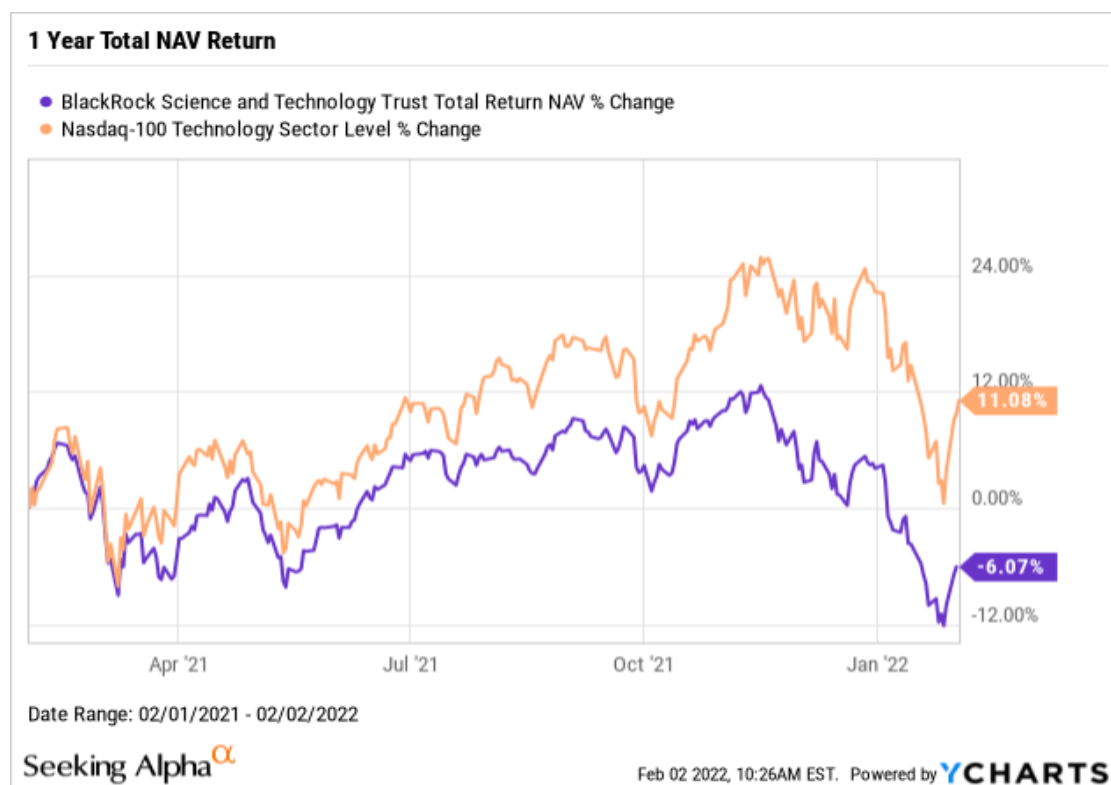
Investment Thesis

In this article, I will take yet another look at the BlackRock Science and Technology Trust ([BST](#)). The current yield is almost 6.5%. While that isn't all that high of a yield for some sectors, it is pretty good in the tech sector. Long term the distribution has been well supported. Looking at the sources for the distributions, particularly over the last year, the special distribution paid out at the end of last year, and the performance of the benchmark index, I conclude that the distribution continues to be well supported. For income investors who also want exposure to the very hot tech sector, especially the FAANG stocks, BST looks very attractive to me. The recent drop in price, driven largely by a drop in share prices in the sector, looks like a good opportunity to get more shares of this very well-managed fund at a very good value.

How I evaluate CEFs is driven by my desire to own funds pay me a stable flow of income. I have developed a method of determining whether a specific CEF could provide a reliable stream of income. I developed my method after reading this [article](#). My thinking is that how the portfolio of the fund behaves and the income it generates is the determining factor in the reliability of the distribution. I look at a specific CEF to determine if the fund has been supporting the distribution. Then based on current holdings and past performance, I try to determine whether or not the fund will be able to support the distribution in the future. You can read an explanation of my method and get links to the other articles in the series [here](#).

BlackRock Science and Technology Trust

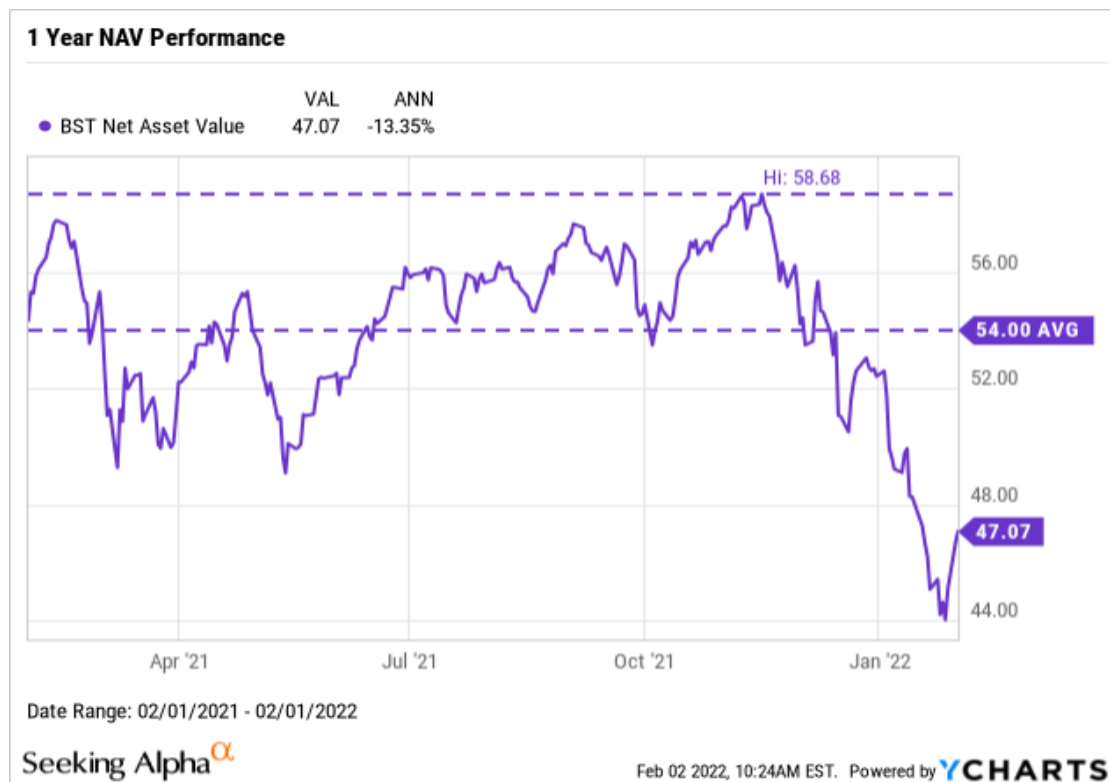
The first step in determining whether or not a fund like BST is covering its distribution is to look at the returns from its portfolio. How did BST's portfolio do over the last 12 months?



Data by [YCharts](#)

BST has taken a big hit since the end of last year (now just a little over a month ago). Ordinarily, this might mean they aren't supporting the distribution and are having to liquidate some of the holdings to support the distribution. But looking at the Nasdaq-100 Technology Sector index, we can see that it too had a big drop during the same time period. In fact, BST looks to be tracking the index quite closely. It is easy to determine coverage when NAV and NAV return is positive, it gets more complicated when the tracking index is dropping. What I want to avoid are funds that are having to sell assets at a loss in order to fully fund the distribution.

That said, the TTM (Trailing 12 months) total NAV return of -6.07% is not good. Well below the 42% or so when last I [wrote](#) about BST. The questions are whether or not this is temporary, and whether assets are being sold at a loss. Let's look at how NAV did over the last year.



Data by YCharts

We can see that NAV started declining well before the end of the year. And over the last 12 months, it is down over 13%.

Let's next take a look at distributions. And focus our attention on the sources for those distributions.

BST Dividend History								
Declared	Payable	Ex Date	Distrib	Income	Short Gain	Long Gain	ROC	Type
1/3/22	1/31/22	1/13/22	\$0.2500	\$0.0000	\$0.0000	\$0.2500	\$0.0000	Regular
12/6/21	12/31/21	12/16/21	\$0.2500	\$0.0000	\$0.0000	\$0.2500	\$0.0000	Regular
12/6/21	12/31/21	12/16/21	\$1.5584	\$0.0000	\$0.0000	\$1.5584	\$0.0000	Special: Year-End
11/1/21	11/30/21	11/12/21	\$0.2500	\$0.0000	\$0.0000	\$0.2500	\$0.0000	Regular
10/1/21	10/29/21	10/14/21	\$0.2500	\$0.0000	\$0.0000	\$0.2500	\$0.0000	Regular
9/1/21	9/30/21	9/14/21	\$0.2260	\$0.0000	\$0.0000	\$0.2260	\$0.0000	Regular
8/2/21	8/31/21	8/13/21	\$0.2260	\$0.0000	\$0.0000	\$0.2260	\$0.0000	Regular
6/9/21	7/30/21	7/2/21	\$0.2260	\$0.0000	\$0.0000	\$0.2260	\$0.0000	Regular
6/1/21	6/30/21	6/14/21	\$0.2260	\$0.0000	\$0.0645	\$0.1615	\$0.0000	Regular
5/3/21	5/28/21	5/13/21	\$0.2260	\$0.0000	\$0.0000	\$0.2260	\$0.0000	Regular
4/1/21	4/30/21	4/14/21	\$0.2260	\$0.0000	\$0.0000	\$0.2260	\$0.0000	Regular
3/1/21	3/31/21	3/12/21	\$0.2260	\$0.0000	\$0.0000	\$0.2260	\$0.0000	Regular
2/1/21	2/26/21	2/12/21	\$0.1870	\$0.0000	\$0.0000	\$0.1870	\$0.0000	Regular

BST Distributions (CEF Data)

Source: [CEF Data](#)

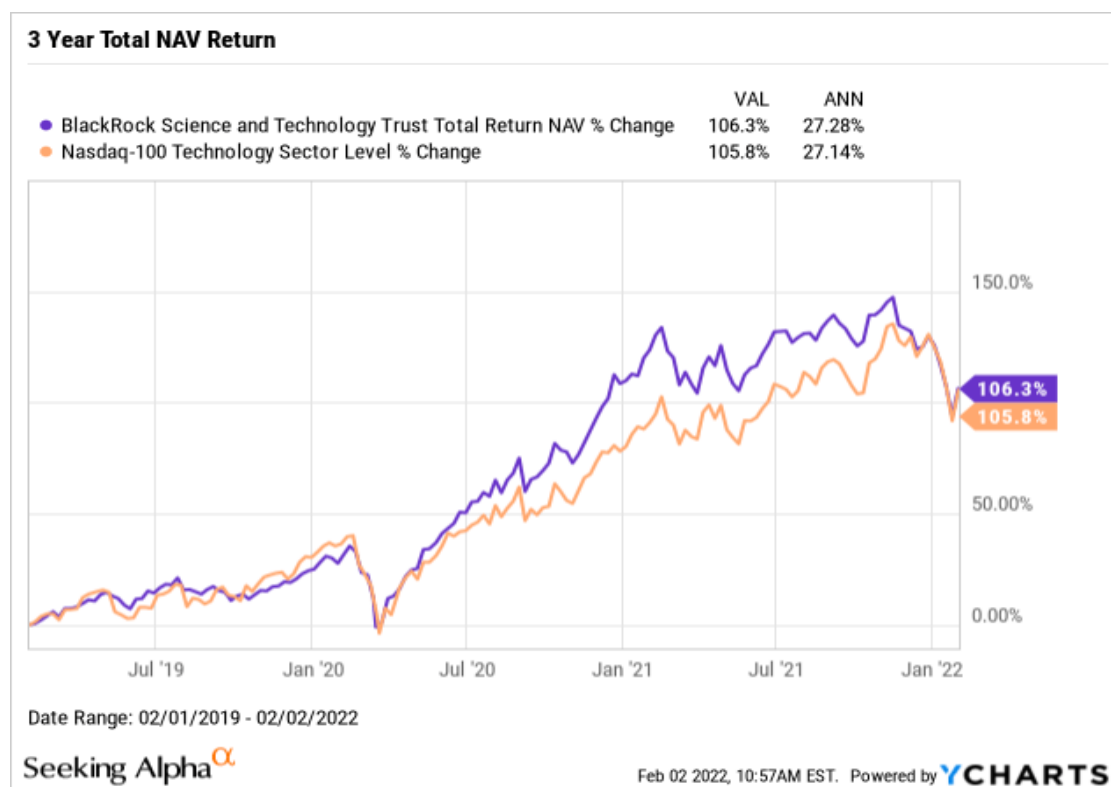
One thing that leaps right off the page at me is that none of the last year's distributions are characterized as ROC (Return of Capital). With NAV declining any ROC would likely be destructive and an indication. Second, I notice that in 2021 BST paid a year-end special distribution. That is a strong indicator that the regular distributions last year didn't meet the legal requirements for distributions. In other words, taxable income exceeded the regular distribution enough that they had to pay out more. That is a very good sign that the current regular distribution is well covered. Also, the special distribution of \$1.5584 explains some of the NAV decline.

Based on no ROC and special distribution, I judge that the current regular distribution is well covered.

Long-Term Trends

The COVID crash in 2020 certainly shows that a single year can be very atypical. So I like to look at longer timeframes. First, I like to look at the returns generated by a fund's portfolio over the last 3 years.

How did BST's portfolio do over the last 3 years?



Data by [YCharts](#)

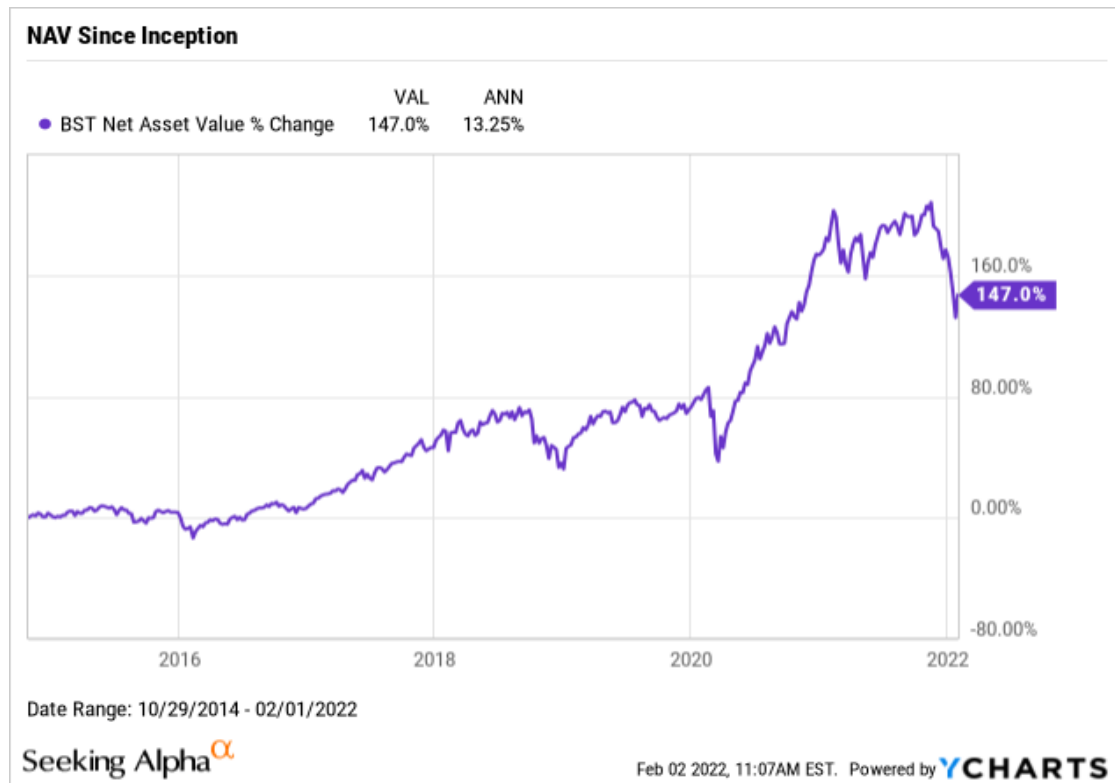
Actually, the portfolio did pretty well over the last 3 years, with a total return CAGR (for the portfolio) of just over 27%. That matches well with the technology sector index, even with BST paying out a lot more in distributions. But did BST do a good job of covering its distributions? Let's look at the fund's NAV to get a better idea.

3 Year NAV Performance



Data by [YCharts](#)

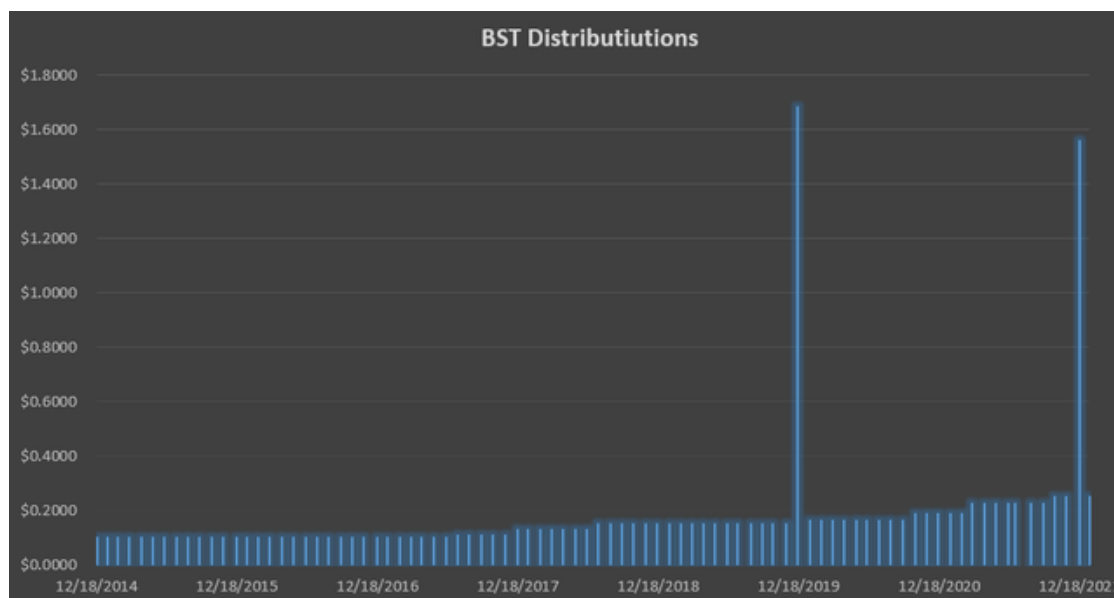
So even with the big hit to NAV at the start of this year, BST has grown its NAV over the last 3 years. NAV is up an average of 17.36% a year over that time period. That is very good considering that it is paying out a pretty generous distribution that is coming almost entirely from long-term capital gains.



Data by [YCharts](#)

The fund has also managed to grow NAV since inception a pretty dramatic 147% or an average of 13.25% a year. While the fund has had some drops in NAV, it has recovered in the past and gone on to even more gains.

Over the last 3 years, distributions have totaled \$9.9156. Using the average NAV of \$42.03 produces a total yield (not annualized) of 23.6%. The average yearly yield is 7.86%. Both of those numbers are less than the total NAV return of 106.4% (for the whole 3 year period) and 27.28% for the CAGR. That indicates that longer-term the distribution is well covered.

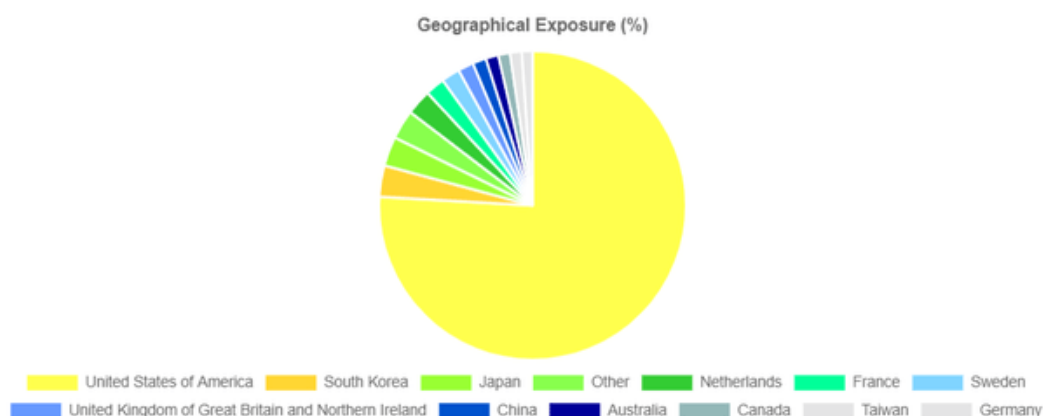


BST Distributions (CEF Data)

Since its inception, BST has raised its regular distribution multiple times. And it has paid out two (relatively larger) special distributions too. This is a pattern I very much like and look for.

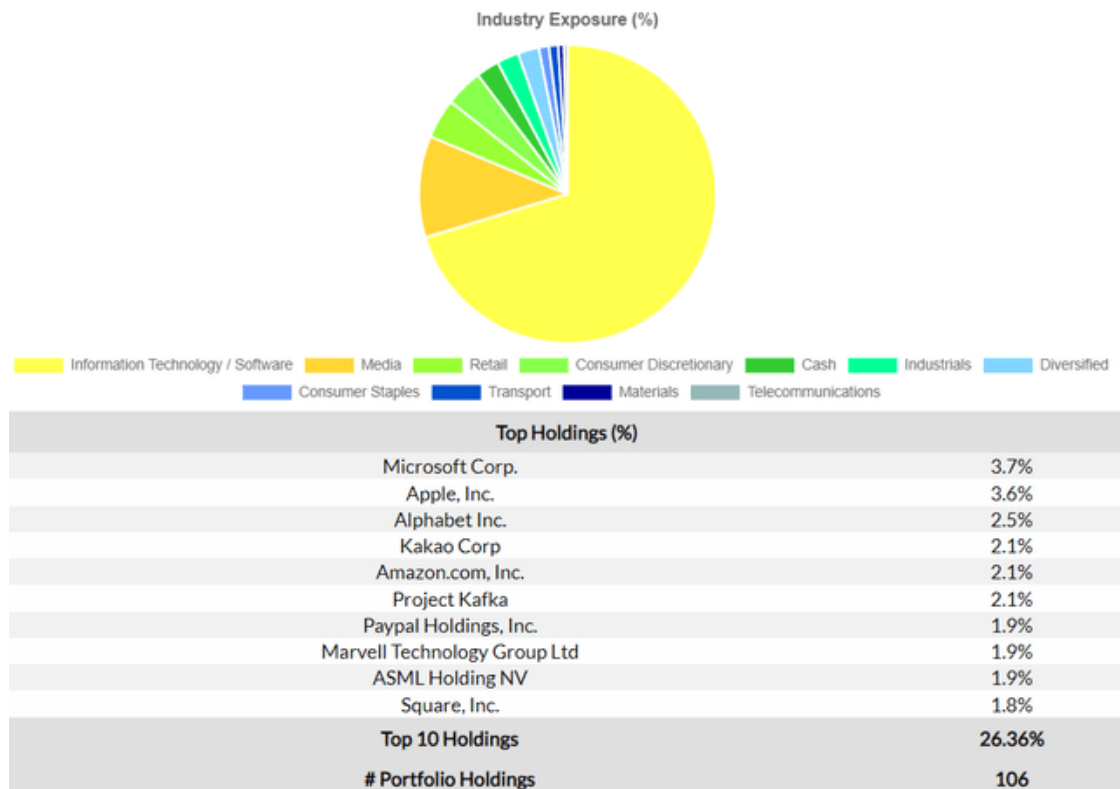
Future Distribution Coverage

Let's take a look at BST's portfolio composition to see if there are any big areas of risk or past outperformance.



BST Geographic Exposure (CEF Data)

As expected, BST's portfolio continues to be concentrated in the US. More importantly, its exposure to China and Taiwan is just 2.6%. More importantly, I see no exposure to Russia or Ukraine (or any part of Eastern Europe). So I see no big risks here.



Top Holdings and Industry Exposure (CEF Data)

Looking at industry exposure and top 10 holdings I don't see much for concern. Several of the FAANG stocks are typical. ASML Holdings makes equipment for manufacturing computer chips. One interesting choice (mostly because of the name) is Project Kafka Ordinary. While the name is interesting, from what I can find the company provides support services for running the Kafka software from Apache, so this looks like a company similar to Red Hat.

So generally I don't see any big red flags. I think rising interest rates will be a headwind for the tech sector, but there are so many tailwinds, it might not really matter that much.

Conclusion

I am an income investor and look to own securities that pay me a steady and reliable income. I don't much concern myself with the total return generated by the securities I own as I am not looking to sell the securities I acquire for more than I paid. I hold them to collect the cash flow from distributions.

Some may then ask why I even consider funds that generate their returns primarily from the total returns (and really capital gains) of the securities they hold. My answer is that I see each of my holdings as a business that I want to generate cash payments to me. I don't care **how** they generate those cash payments. Just that they do so reliably. I don't care that these funds or companies may be in businesses that I myself have no interest in operating myself. So while I own companies that rent out properties to businesses, something that I myself would never do, I am willing to invest in such companies or funds if I think they can generate a reliable stream of income for me.

So even though BST invests in tech stocks and generates the cash it pays me almost exclusively from capital gains, what is important is that it is generating a reliable distribution. I am quite content to farm out the task for generating reliable cash flow from the likes of Google ([GOOG](#)) and Amazon ([AMZN](#)) to the managers of BST.

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This article was written by

Author of [High Dividend Opportunities](#)
The #1 Service for Income Investors and Retirees, +9% dividend yield.

Beginning on October of 2018 I began working with Rida Morwa and his team at UDC. I both write articles in collaboration with the UDC team and as

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Disclosure: I/we have no stock, option or similar derivative position in any of the companies mentioned, and no plans to initiate any such positions within the next 72 hours. 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.

24 Likes

40 Comments

Comments (40)



rocknroy

Yesterday, 10:55 AM



Comments (376)

FAANG stocks rake in tons of cash but pay almost nothing in dividends. I like CEFs that squeeze cash dividends out of them. These CEFs provide a good service; sending me money.

 Reply  Like (3)



PendragonY

Yesterday, 11:34 AM



Contributor

Premium

Marketplace

Comments (70.6K)

Author's Reply [@rocknroy](#)

Exactly.

 Reply  Like



goose56

Yesterday, 9:08 AM



Premium

Comments (230)

@PendragonY Thank you for continuing this very informative series. What is the difference between BST and BSTZ? Do you consider them both to be buys right now? Again thank you for your analysis.

➤ Reply 👍 Like (1)



PendragonY

Yesterday, 9:21 AM



Contributor

Premium

Marketplace

Comments (70.6K)

Author's Reply @goose56

BSTZ is a newer fund by Black Rock and it focuses more on companies farther out on the cutting edge of technology than BST. Since I like to look at 3 or more years of performance to understand how sustainable the distributions are BSTZ is currently too new for that level of eval. Given what it invests in I am not comfortable making a recommendation on it. So far what I see looks good, and likely by the end of the year, it will have enough history for a reasonable evaluation.

➤ Reply 👍 Like



jeffrg

03 Feb. 2022



Comments (289)

While thank you for this very well written article, I have to respectfully disagree with your conclusion that this fund will continue to provide income from capital gains vs. ROC going forward. You see, with the current emphasis in the market being on value stocks and funds vs. growth stocks and funds, it is unlikely that what has worked in the past for will work in the near or intermediate term. Hence, I would submit that a better option would be to go with funds that rely on derivative income vs. capital gains- short or long term, as they might not come to past.

➤ Reply 👍 Like



PendragonY

03 Feb. 2022



Contributor

Premium

Marketplace

Comments (70.6K)

Author's Reply @jeffrg

I see the tech stocks going back up pretty quickly. So, I think that will continue even if not as fast as last year. So I think the regular distribution is quite safe, but likely the special year-end distribution will be a lot smaller.

↪ Reply Like (3)



jeffrg

03 Feb. 2022



Comments (289)

@PendragonY On what basis do you see "tech stocks going back up pretty quickly." After all do you not see short rates going up quite sharply over the next year?

↪ Reply Like



PendragonY

03 Feb. 2022



Contributor

Premium

Marketplace

Comments (70.6K)

Author's Reply @jeffrg

Look at how most of the tech stocks worked today other than FB.

↪ Reply Like (1)



morgainelefaye

03 Feb. 2022



Marketplace

Comments (3)

Thank you for such a clearly written article, where you (mostly) explain the terminology. As a newbie to investing, sometimes these articles are hard for me to follow.

↪ Reply Like



PendragonY

03 Feb. 2022



Contributor

Premium

Marketplace

Comments (70.6K)

Author's Reply @morgainelefaye

Here is a link to a blog post where I give more details on my method.

[seekingalpha.com/...](#)

It also has links to all the articles in the series (or most of them anyway), and particularly in the early articles, I explain things in greater detail.

↪ Reply 👍 Like (1)



morgainelefaye

03 Feb. 2022



Marketplace

Comments (3)

@PendragonY Thank you very much. I appreciate all you do.

↪ Reply 👍 Like (1)



PendragonY

03 Feb. 2022



Contributor

Premium

Marketplace

Comments (70.6K)

Author's Reply @morgainelefaye

Glad to have been of some help to you. Thanks for the nice compliment.

↪ Reply 👍 Like (1)

[See More Replies](#)



loser75

Comments (51)

03 Feb. 2022



Excuse my ignorance but when the distribution is from capital gain from selling holdings, is it strictly the capital gain that is paid out? I assume it is because any dist of the principal would be ROC. So then is the principal reinvested at the higher current dist rate of the original holding which results from the holdings reduced price? Something doesn't seem to make economic sense.

Reply Like



PendragonY

03 Feb. 2022



Contributor

Premium

Marketplace

Comments (70.6K)

Author's Reply @loser75

The fund has several ways to source the cash it pays out for distributions. When the source is listed as capital gains, either long or short, it is from the profits of selling positions. Unrealized gains (and yes, principal) can be the source when it is ROC. Any cash not paid out as a distribution could be reinvested at some point.

Reply Like



Dennis O

03 Feb. 2022



Premium

Marketplace

Comments (747)

Your conclusion is spot on. It did make me laugh when I read it, not by what you said but how long it took me to walk my own talk. I have been DGI for about 10 years of my 45 years of investing which I might add has taken many turns as I gained knowledge. I will say my turns these days are just slight maneuvers versus 30% turns. The hardest thing I found was to not worry so much about growth in total wealth and try to put more emphasis is yearly distributions growth. [Take out money you need, and never sell one SHARE of stock to provide that income] I am guilty - I always said the right thing but I always wanted a boat load of growth. My best example I could give was; I just got my month end numbers back and while my total portfolios went down about -3% my yearly estimated distributions went up +3.66%. That is my plan working as i hoped for. Life is Good- Dennis



Reply



Like (5)



PendragonY

03 Feb. 2022



Contributor

Premium

Marketplace

Comments (70.6K)

Author's Reply @Dennis O

My goal is not to need to sell shares to pay expenses. That doesn't mean I won't sell shares, just that I will only do it when it makes sense from a portfolio perspective and not because I need cash to spend.



Reply



Like (3)



Dennis O

03 Feb. 2022



Premium

Marketplace

Comments (747)

@PendragonY I only sell to swap for what I think is a better position. I have never sold with out knowing what I am going to do with the cash in a short time period. Most may not do that, and I understand, but I just always want my money working. The bad thing is at this point I have never sold a position and put the money in our pocket in my life.



Reply



Like (2)



PendragonY

03 Feb. 2022



Contributor

Premium

Marketplace

Comments (70.6K)

Author's Reply @Dennis O

Yeah, I don't sell without knowing where the cash is going either.

↩ Reply

👍 Like (1)

[See More Replies](#)



cm schwab

03 Feb. 2022



Comments (542)

Own both BST as well as EOS both have performed well over time and so far have paid me a nice steady income stream.

↩ Reply

👍 Like (1)



PendragonY

03 Feb. 2022



Contributor

Premium

Marketplace

Comments (70.6K)

Author's Reply @cm schwab

I have in the past owned both BST and EOS. I like STK in this space better at the current time though. I should have an article out on STK soon.

↩ Reply

👍 Like (4)



cm schwab

03 Feb. 2022



Comments (542)

@PendragonY STK currently trades at a higher premium (CEF Connect) than EOS and the yield is lower 🤔. Look forward to reading your article



↩ Reply

👍 Like (2)



RetiredinIndy

03 Feb. 2022



Comments (720)

Very good article. I have a full position of BST, but very tempted to add a bit more. I love getting this level of dividend from tech stocks.

➤ Reply 👍 Like (2)



PendragonY

03 Feb. 2022



Contributor

Premium

Marketplace

Comments (70.6K)

Author's Reply @RetiredinIndy

The price dropped quite a bit so a nice big boost in yield. With FB dropping big time it will be interesting to see if the recovery in tech stock prices continues.

➤ Reply 👍 Like



RetiredinIndy

03 Feb. 2022



Comments (720)

@PendragonY Do you mean Meta-reverse? Heard that on CNBC this morning.

➤ Reply 👍 Like (2)



dgiinvestor

03 Feb. 2022



Premium

Comments (1.64K)

Great article. Thank you for looking back at \$BST. I just got another piece down here this week.

I expect unit price to recover after a good broad market drawdown and recovery. Tech isn't going away, and QQQ will come back.

Long \$BST, \$BSTZ

➤ Reply 👍 Like (6)



PendragonY

03 Feb. 2022



Contributor

Premium

Marketplace

Comments (70.6K)

Author's Reply @dgiinvestor

I think so so. FB reported some pretty disappointing results. It will be interesting to see what Amazon does, and how they impact the recent recovery in tech stock prices.

↪ Reply 👍 Like



Kevin The Investing IT Guy

03 Feb. 2022



Premium

Comments (155)

By your description in this article, you simply take the dividend provided and not looking to sell the underlying stock for profit later. I'm curious for your thoughts on using DRIP strategy to simply build more shares during times when you might not necessarily need the income as cash, then at some future point in time, end the DRIP and start collecting the cash.

↪ Reply 👍 Like (1)



Dennis 1

03 Feb. 2022



Comments (425)

@Kevin The Investing IT Guy That's precisely my game plan. 66+ still working.

↪ Reply 👍 Like (2)



dgiinvestor

03 Feb. 2022



Premium

Comments (1.64K)

@Kevin The Investing IT Guy

I like to control when I buy, buy divvy payers at a good multiple and at a good technical price. This is usually not in line with the timing of a DRIP. Incidentally, I like the cash so I can buy on my terms.

↪ Reply 👍 Like (5)



PendragonY

03 Feb. 2022



Contributor

Premium

Marketplace

Comments (70.6K)

Author's Reply @Kevin The Investing IT Guy

You can use a drip strategy, but I find that it works even better to buy whatever is at the best value when you have the cash to buy. I was doing this even before most brokers (US anyway) eliminated commissions. Without commissions, I can buy much more frequently.

↪ Reply 👍 Like (3)



PendragonY

03 Feb. 2022



Contributor

Premium

Marketplace

Comments (70.6K)

Author's Reply @dgiinvestor

One of the few issues I use a drip to buy shares for is USA (and ASG now as well). They allow you to purchase at NAV (if NAV is lower than the market price) when reinvesting. A lot of CEFs (PIMCO comes immediately to mind) also allow you to purchase shares with the distribution at a discount.

↪ Reply 👍 Like (1)



Fremitus

03 Feb. 2022



Premium

Comments (9)

@PendragonY great advice and great point in the article. I started position in BST given the dip but was unclearly about future dividends. Your comments on the special dividends definitely makes sense

↪ Reply 👍 Like (2)



PendragonY

03 Feb. 2022



Contributor

Premium

Marketplace

Comments (70.6K)

Author's Reply @Fremitus

Yes, a special distribution from a fund means they over-earned the regular distribution and so have to pay out more cash to keep within the requirements.

↩ Reply

👍 Like



Kevin The Investing IT Guy

03 Feb. 2022



Premium

Comments (155)

@Dennis 1 Yeah, I'm 56 and since I don't put \$\$ into investing that I need to spend right now, it makes more sense to me to just allow it to build until I DO need it at whatever point that is.

↩ Reply

👍 Like



Kevin The Investing IT Guy

03 Feb. 2022



Premium

Comments (155)

@PendragonY I understand that, and I considered that strategy of buying what was the "best value" at the time when dividends received, but ultimately made the choice for DRIP. Maybe I'm lazy, but it just takes another head scratcher decision out of my hands

↩ Reply

👍 Like (3)



Dennis O

Yesterday, 2:12 PM



Premium

Marketplace

Comments (747)

@Dennis 1 I agree I am 73 retired at 68 and I still keep pounding those dividends in reinvestment. I am very proud to say I can collect approx 10K a month in dividends and never sell a single share of stock. Not bragging just talking as a guy who is self-taught and follow smart people on SA. Life is Good- Dennis

↩ Reply 👍 Like (1)



Dennis 1

Yesterday, 2:17 PM



Comments (425)

@Dennis O Thx for the encouragement ...now to survive the corp BS just another couple years!

↩ Reply 👍 Like (2)