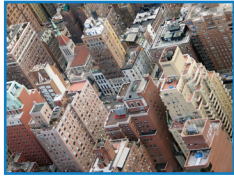


FINANCIAL CAREER FEATURE



## Are You Open to Greater Potential Investment Return? A Closed-End Mutual Fund May Be the Answer

[By Douglas Charney]

If you're actively saving for your retirement, chances are you may have a few mutual funds working for you. And most likely, they're the typical open-end mutual funds, as these are the ones which are advertised and marketed the most. But did you know that there's another type of mutual fund available that can also produce competitive returns? It's called a closed-end mutual fund, and it can offer great opportunities for investors.

Unlike the traditional open-end mutual fund, that issues an unlimited number of shares, a closed-end mutual fund issues only a limited number of shares. Once those shares are sold, the fund is closed (meaning you cannot purchase shares from a broker). If you want to buy or sell shares, you do so on an exchange market and the shares trade like any other share of stock. They do not get sold back to the fund broker. And, like a stock, the fund's price is influenced by the usual stock market forces.

So, why can closed-end funds be attractive for investors? Several reasons:

As a general rule, closed-end fund shares may sell for less than the total value of their underlying investment portfolio. This discount typically occurs after all the fund shares have been sold and the only available shares are for sale on the exchange. In fact, closed-end funds have sometimes traded at a significant discount from their net asset value (the value of the portfolio assets divided by the number of shares owned by investors). As a result, you can potentially make money not only from price changes in the fund's investments, but also from changes in demand for the share of the fund.

Many investors seek to produce quick gains by trading in and out of closed-end funds. To put it into perspective,

suppose you want to buy a house and the market says that house is worth \$100,000. If that house were an open-end fund, you would pay exactly \$100,000 for that house – the price is fixed solely on the value, not on demand for the house or any other factors.

However, if that same house were a closed-end fund, and you found someone willing to sell that house for \$80,000, you could buy a house that's worth \$100,000 for a 20% discount. Then, if the market goes up and the house is now worth \$110,000, you could potentially sell it and realize a \$30,000 profit. Anyone who bought a similar house for \$100,000 would only have a

\$10,000 profit. Of course, this example is hypothetical and is provided for comparison purposes only.

Some closed-end funds offer a managed distribution policy, or a promise to pay investors a fixed periodic payment (normally quarterly). Conversely, open-end funds only distribute gains once a year.

### Fund Managers Like Closed-End Funds Too

Both open and closed-end funds utilize fund managers – someone who opens and runs the fund. Whereas managers of open-end funds have to concern themselves with daily purchases and sales by investors, managers of closed-end funds don't have such worries. Additionally, they don't have to keep cash on hand for unexpected redemptions. That is, should a lot of people want to sell their shares, managers of closed-end funds don't have to liquidate assets in order to buy back the shares since the shares sell on the stock market and not back to the manager, or broker. The amount of shares investors buy or sell has no effect on the portfolio. And because closed-end funds don't have the same restrictions as open-end funds, closed-end managers can buy thinly traded and international companies that have the potential for higher long-term returns, although that comes with increased risk.

#### ABOUT THE AUTHOR

This article is provided by courtesy of Douglas Charney, a senior Vice President-Investments with Wachovia Securities in Harrisburg, PA. He welcomes your comments, and you can reach him at (888) 529-2973. The opinions expressed are those of the author and are not necessarily those of Wachovia Securities or its affiliates. The material is distributed solely for informational purposes and is not a solicitation of an offer to buy any security or instrument or to participate in any trading strategy. Wachovia Securities, LLC, Member New York Stock Exchange and SIPC, is a separate nonblank affiliate of Wachovia Corporation. C2007 Wachovia Securities, LLC.

## FINANCIAL CAREER FEATURE

### **But Wait...High Growth Can Mean High Risk**

Even though closed-end funds offer greater growth potential, they are not without some element of risk. In fact, the biggest risk can be what makes them attractive in the first place: the fund's discount. In essence, the same discount that lures people to buy can widen in a fallen market, even as the value of the underlying portfolio also tumbles. Many investors call this scenario "double trouble." Closed-end funds are also subject to brokerage fees and higher management fees and are less liquid than regular funds, which could make them much harder to sell.

Even with the element of risk, closed-end mutual funds can be attractive for investors

who are trying to get more growth out of their assets. Few other investments offer the leveraging opportunity that closed-end funds do, but they need to be studied carefully and not entered into lightly. You can obtain information about closed-end mutual funds from newspapers, financial magazines, websites and books.

### **Open Your Eyes to Closed-End Funds**

Closed-end mutual fund accounts are relatively easy to establish. You can buy directly from the broker as a new issue, or you can go to the NYSE or other stock market exchanges and purchase them via that venue. Note that the listing for these funds

will be in the stock section, not the mutual fund section.

For many people, closed-end mutual funds are a viable way to produce significant returns, although as with other investments, there is no guarantee they will be profitable. Be sure to talk to your financial advisor before you invest in a closed-end mutual fund to be sure it is the right choice for your unique needs.

### **ON THE NET**

Wachovia Securities  
[www.wachovia.com](http://www.wachovia.com)

EmploymentCrossing is the largest collection of active jobs in the world.

We continuously monitor the hiring needs of more than 750,000 employers, including virtually every corporation and organization in the United States. We do not charge employers to post their jobs, and we aggressively contact and investigate thousands of employers each day to learn of new positions. No one works harder than EmploymentCrossing.

Let EmploymentCrossing go to work for you.