America's Greatest Income Secret

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PEAK INCOME

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The ultra-wealthy invented it. Now YOU can use it right now to boost your nest egg

By Charles Sizemore, Editor, *Peak Income*

The strange, but true origin story of America’s Greatest Income Secret begins more than 100 years ago, with one of the United States’ most preeminent families.

In 1893, a year before his death, John Quincy Adams II — the grandson of the U.S.’s sixth president of the same name, and the great-grandson of John Adams, the second president of the United States — partnered with several other wealthy businessmen to create a brand new type of investment trust, the first of its kind in America.

They called it the Boston Personal Property Trust, and its framework generated a steady stream of income for only a select number of private investors. It was modeled after British trusts formed in the 1860s that invested in railroads.

Not only did the Adams-led trust help create generational wealth for the family (to the tune of $1.2 million less than 20 years later, equivalent to $31.8 million today), but the ingenious creation eventually spawned an industry now worth $275 billion that pays out $17 billion in income to Americans every year.

That industry is closed-end funds, or CEFs for short.

Unbelievably, though, after more than a century since the Adams family conceived the fore-runner to this wealth secret, CEFs still remain a relatively untapped, and under-discussed way of building wealth.

The size of the market is slim compared with the $18 trillion in open-end mutual funds and exchange-traded funds (ETFs), and most of CEF shares are owned by individual investors, many of whom inherited them.

But they are as widely available to everyday Americans like you and me, as much as stocks or bonds, AND with benefits that those don’t carry.

What Exactly Is a Closed-End Fund?

So, let's start with the basics.

A closed-end fund is a type of mutual fund that trades on the New York Stock Exchange like a stock, and most of the CEFs I recommend pay out juicy monthly or quarterly dividends.

When you invest in a traditional open-ended mutual fund, you (or your broker) send your money to the fund management company, and they in turn use your cash to buy stocks and bonds. When you want your money back, the manager sells off some of those assets and sends you the proceeds. Importantly, the number of shares in the fund is constantly rising or falling based on money going in and out of the fund.

CEFs are totally different. You never send the management company a dime. Instead, the fund does an initial public offering like a stock, and you can buy the shares in your brokerage account the same way you would buy a share of Apple or Facebook stock.

The key, however, is that the number of shares is fixed. The value of the shares will fluctuate with market conditions, but new money does not enter or leave the fund.

CEFs are often confused with ETFs, as both trade on the market like stocks. But there is a critical difference between the two. Market makers can create or destroy shares of ETFs as demand warrants. If a lot of new buyers want in, the market maker can create new shares to accommodate that demand by buying up the underlying investments and wrapping them into new ETF shares. And if a ton of sellers all run for the door at the same time, the market maker can destroy shares by breaking them apart into the underlying investments.

All of this activity helps to ensure that ETFs always trade very close to their net asset value. Any deviation would create a free-money arbitrage opportunity for the market maker.

As an example, imagine that shares of an ETF traded for $200, but the underlying stocks the ETF owed were worth $250. The market maker could buy the ETF, break it apart, and sell the pieces for $250, pocketing a quick $50.

You can't do that with a CEF, which is what makes them so much fun. Because there is no mechanism to create or destroy shares, the value of the shares is whatever the market says it is that day. A fund could have $100 in assets yet trade for $80… or $120!

As a rule, I only buy CEFs when they trade at larger-than-usual discounts to their net asset values (NAVs). I want to buy that proverbial dollar for 90 cents or less.

Another underappreciated aspect of CEFs is their ability to own relatively illiquid assets. Mutual funds generally must hold assets that they can readily sell to meet redemptions, which really limits their pool of available investments. They can't take a large position in a smaller, thinly-traded stock or bond, no matter how much they might like it, as selling it in a hurry to meet redemptions can be all but impossible in a correction or bear market.

CEFs don't have this problem. Since they don't have to worry about shareholder redemptions, a lack of liquidity doesn't matter. If the manager sees a fantastic opportunity in a thinly-traded stock or bond, they can take it.

This, along with the fact that CEFs can generally employ a modest amount of leverage, allow CEFs to pay vastly higher dividends than most competing investments.

Which is what we're here to find, outsize income returns that will give you Adams-like returns.

If you're looking for a safe return on your money, which one of these looks better to you?

- 0.01%-1%
- 0.85%-1.6%
- 0.23%-2.21%
- 1.57%-2.49%

Obviously, it's the last one, which is the average yield you could earn on Treasurys in 2018. The other ones are the average yields for savings accounts, money market accounts and CDs, respectively.

I don't know about you, but I'm a little less than impressed. Frankly, they're all terrible.

These returns are so low, it's hardly worth the effort to get out your checkbook. We could blame the Federal Reserve, or the banks, or any number of other reasons, but that wouldn't be productive. Griping about low yields won't help you grow your nest egg for retirement.

Instead, we need to focus on how to get the best possible returns without risking your life savings. And, more importantly, all three investments keep your hard-earned money safe from the tax man.

Yes, you read that correctly!

If you hate paying taxes as much as I do, then you're going to love these investments. The IRS won't get a dime from the opportunities I'm about to show you. How great is that!?

Steady, Safe, Tax-Free Income

CEFs have been around for well over a century. In fact, the very first mutual funds were actually closed-end funds. They were packaged investments for retail investors, who usually buy them at the initial public offering (IPO) price because their brokers recommended it and enjoyed the commissions.

Unfortunately, more often than not, after the fund has gone public, the average CEF typically drops in price, usually significantly. In fact, in my many years of tracking CEFs, I've noticed that it's not uncommon to see their prices plunge by 20% in a matter of weeks after IPO. This creates massive opportunities for sophisticated investors (like us) to pounce, particularly at certain times of the year when these "sales" are more common.

The good news is I'll show you how to take advantage of these "sales" (not only with this report, but every month in your in-depth issues of *Peak Income*).

CEFs, like traditional mutual funds, pool money and then divvy it up amongst a large group of investors.

But, as I mentioned earlier, they have one important distinction. Traditional mutual funds issue new shares when investors send them money, and buy back their shares when investors want to sell. That's not how CEFs work. CEFs have initial public offerings like a stock, only selling a set number of shares. After that, the offering is closed.

When the funds are first built, investors subscribe by buying shares in the IPO. At the end of the subscription period, the manager invests the funds. Barring a special situation, that's the last time the manager deals with investors. From then on, his job is to invest the pool of money to the best of his ability. And since there's a limited number of shares, new money can't overrun the fund and drag down returns for everyone. Nor is the fund required to sell bonds at lousy prices to meet redemption requests.

That leaves you free to buy and sell shares as you want.

Like famed value investor Benjamin Graham said: "In the short run, the market is a voting machine, but in the long run, it is a weighing machine." We see this best in the price and value in Closed-End Fund shares.

All funds have two important prices:

1. The price you pay when you buy it; and
2. The Net Asset Value (NAV), which is simply the value per share of the underlying assets in the fund minus any debt.

Because CEFs trade like stocks, with the ebb and flow of the markets, it's possible for them to trade at prices that are either above or below their NAV.

As I mentioned earlier, this can create amazing opportunities to invest in them at huge discounts, allowing us to make our money work that much harder for us as the share price appreciates to more closely match its NAV.

It's like a triple whammy: we get to enjoy stock price gains, the highest SAFE yields around, AND they're tax-free!

Of course, CEFs come in all shapes and sizes, specializing in bonds, preferred stocks, bank loans, real estate investment trusts (REITs), and even good, old-fashioned stocks.

I'll tell you more about them in our monthly issues and weekly reports, but here are three CEFs to add to your portfolio right now that you could potentially hold for life.

Three CEFs to Boost Your Portfolio

BlackRock Municipal 2030 Target Trust (NYSE: BTT)

With no more ado, let me introduce the **BlackRock Municipal 2030 Target Trust (NYSE: BTT)**.

This fund owns a diversified portfolio of tax-free municipal bonds issued by city, country and state governments and other public entities. Its portfolio is essentially all high-quality, investment-grade debt. This is about as safe of a fund as you're going to find in this space.

BTT is an interesting creature. Unlike most CEFs, which are presumed to be perpetual, BTT is designed to be liquidated in 2030 at a price of approximately $25 per share (as I write this, the shares are trading hands at little over $20 per share).

The defined shelf life ensures that cheap shares can't stay cheap forever. No matter how deep the discount to NAV gets, the shares will have to snap back to the $25 per share liquidation value by 2030 (assuming the manager does their job correctly, and I have every reason to believe they will).

Now, December 2030 is a good 12 years from now. We may or may not still own this by then. For all I know, we might all be dead by then. But I like the fact that, in addition to the 3.7% tax-free yield, we have some capital gains all but guaranteed.

BTT Premium/Discount to NAV

At current prices, BTT is trading at a deep discount to book value of almost 9%. We're buying a dollar's worth of quality muni assets for 91 cents. Cheap assets can always get cheaper, of course. But it's hard to see much downside at these prices.

We're not going to get rich in BTT, but it should be a solid dividend workhorse. If you're in the 32% income tax bracket, the 3.7% tax-free yield equates to a 5.4% taxable yield. And as icing on the cake, it pays monthly rather than quarterly. All in all, not too shabby.

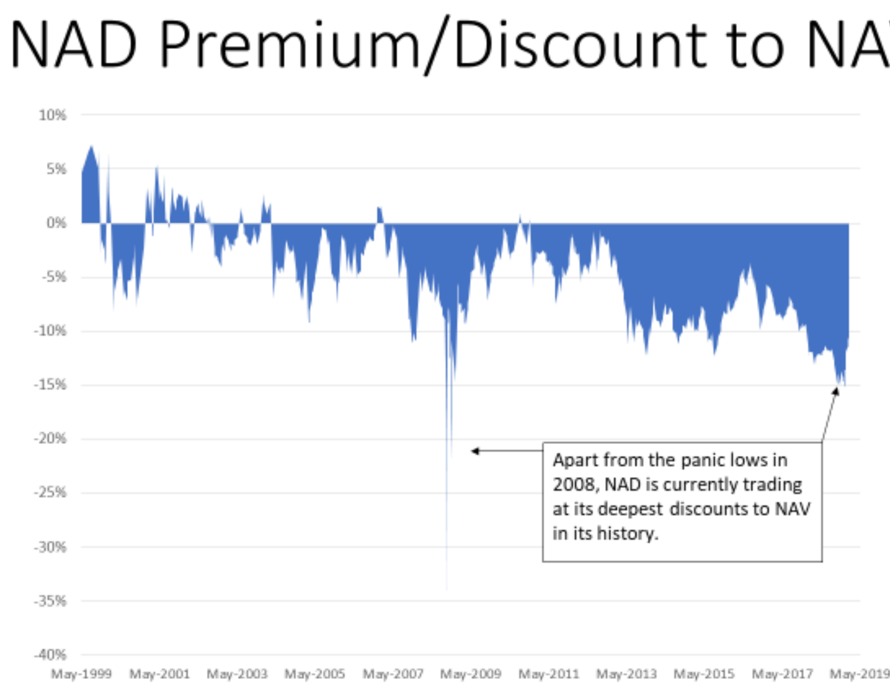
Action to take: Buy shares of the BlackRock Municipal 2030 Target Trust (NYSE: BTT) at market.

Nuveen Quality Municipal Income Fund (NYSE: NAD)

Up next is the **Nuveen Quality Municipal Income Fund (NYSE: NAD)**. NAD is what I would consider a "typical" closed-end muni bond fund. The fund went public in 1999 and has consistently thrown off a steady stream of tax-free muni dividends ever since.

With precious few exceptions, its share price has bounced around in a fairly tight range of about $12 to $16 dollars over its nearly 20 years of existence. There's nothing particularly interesting or noteworthy here. It's just a solid, consistent performer with minimal drama.

NAD's portfolio is substantially all investment grade, and 67% is rated A or better. The fund is well diversified among states, with no single state accounting for more than 12% of the fund (and even this figure is broken out among a plethora of cities, counties and other muni entities). All in all, it's a solid fund and one I could see us holding for a long time to come.



With the sole exception of the 2008 meltdown, when pricing got absolutely bonkers, NAD is currently the cheapest it has ever been in its history, trading nearly 11% below its NAV. You could hypothetically buy up the entire fund, sell it off for spare parts, and walk away with a 11% profit… and that's in addition to the 5.1% tax-free yield you'd pocket along the way. (That 5.1% tax-free yield is equivalent to a 7.5% taxable yield if you're in the 32% tax bracket.)

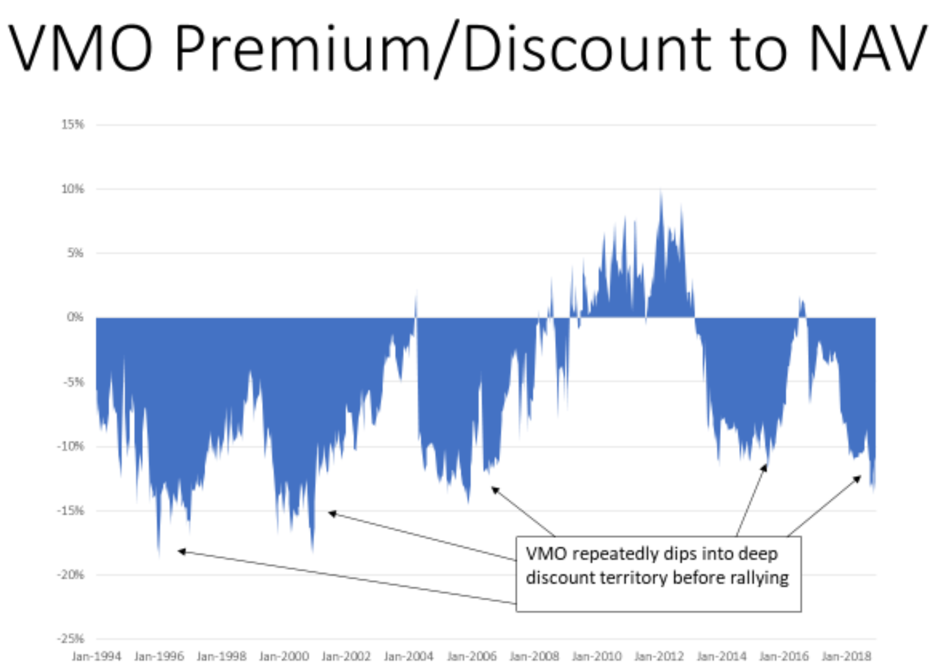
Action to Take: Buy shares of the Nuveen Quality Municipal Income Fund (NYSE: NAD) at market.

Invesco Municipal Opportunity (NYSE: VMO)

I'm going to round this out with one last closed-end muni fund, the **Invesco Municipal Opportunity Trust (NYSE: VMO)**.

VMO has a little more "sizzle" than BTT and NAD as about 20% of its portfolio is rated below investment grade or unrated. But fully 80% of the portfolio is investment grade, and the fund has proven its ability to manage risk over its long life.

We're taking ever so slightly more risk with VMO, but we're being compensated for that higher risk with a higher yield. At current prices, the fund yields 5.8%, which works out to a tax-equivalent yield of 8.5%.



As you might have guessed, VMO is also on sale again. This fund has a long history of dipping into deep discount territory only to rally back to its net asset value. And on several occasions, the fund has even traded at a decent-sized premium to NAV, meaning that investors were willing to pay $1.10 for a dollar's worth of assets.

That's nuts, by the way. I would never do that. But if some schmuck is willing to buy this from us for more than it's worth a year from now, I'm happy to let him. In the meantime, I’m happy to collect the 8.5% tax-equivalent yield while the stock market roils in search of direction.

Action to Take: Buy shares of the Invesco Municipal Opportunity Trust (NYSE: VMO) at market.

I’m happy to own all three of these funds indefinitely. If pricing stays favorable, I would be content to literally hold them forever. But I am prepared to sell them if their prices go unreasonably high or if we get turbulence in the bond market that causes our stop-losses to get hit. (I will alert you immediately if this happens, and share more about stop-losses in your weekly *Peak Income* updates.)

But until either of those scenarios unfolds, my recommendation is that you sit back and let the tax-free money roll in every month, thanks to America’s Greatest Income Secret.

How and Where to Invest

Buying these funds couldn’t be easier. They trade like stocks, so you simply contact your brokerage firm and enter an order for the number of shares you want to own.

Of course, you need a brokerage account to get started. You probably already have one, but just in case here’s a list of well-known brokers to help you get started.

- TD Ameritrade - www.tdameritrade.com - 1-800-454-9272
- Interactive Brokers - www.interactivebrokers.com - 1-877-442-2757
- Charles Schwab - www.schwab.com - 1-800-435-4000
- Fidelity - www.fidelity.com - 1-800-343-3548
- E*TRADE - www.etrade.com - 1-877-921-2434
- Robinhood - www.robinhood.com
- Scottrade - www.scottrade.com - 1-800-619-7283
- Trade King - www.tradeking.com - 1-877-495-5464
- Trade Monster - www.trademonster.com - 1-877-598-3190

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Have a question or comment? Contact a member of our customer service team toll free at 888-211-2215, Monday through Friday between 9 a.m. and 8 p.m. EST, or write to us at peakincome@dentresearch.com.
