Time to Consider Year-End Portfolio Strategies

Less Tax-Loss Selling in Closed-End Funds Anticipated this Year

Historically, closed-end funds (CEFs) often experience strong selling pressure, which widens discounts to NAV, coming in to the year-end. A look at the seasonality of CEF discounts shows that the largest discounts to NAV typically occur in December. These funds often bounce back strongly in January when the selling pressure lets up. So what about in 2016?

> **"At this point, we don't anticipate heavy tax loss selling among CEFs as they have performed well so far this year."**
>
> *Mariana Bush, CFA,*
> *Head of CEF/ETF Research — Wells Fargo Advisors*

Year-to-date, closed-end funds have had a good year with most CEFs in the black for the year. In fact, out of 540 CEFs, only 15 had a negative NAV total return YTD through the end of September.[1] Also, the average discount for the CEF universe has narrowed to 4-5% from over 10% at the end of last year, when there was heavier than usual selling pressure for tax purposes.

"At this point, we do not anticipate heavy tax loss selling among CEFs, in general, at the end of this year because the usual pre-conditions for heavy tax loss selling pressure have not been present this year. For one, losses need to be present to trigger tax-loss selling, and CEFs have performed well so far this year, says Mariana Bush, CFA, head of CEF/ETF Research — Wells Fargo Advisors.

This sentiment is in alignment with other research analysts CEFA has spoken with, including Amy Charles, managing director, CEF & ETF Research — Raymond James. "I believe that there won't necessarily be a lot of tax-loss selling given that almost all sectors have gains for the year, with the exception of healthcare. I do think there may be a bit more volatility in the fourth quarter due to the concerns of a Fed rate hike and election uncertainty," says Amy Charles. With most CEFs up for the year, she also suspects that advisors don't need to "window dress" their clients' accounts and selling anything that is showing up red on the year-end statements.

Generate Income With Closed-End Funds

Investors increasingly seek dependable income, but where can you find income in today's low-yielding environment?

> **"We have seen advisor net inflows to CEFs every month of the year, most likely due to the income advantage of CEFs over open-end fund/UIT/ETF counterparts. This story is still firmly in place which makes me somewhat confident that we won't have a big sell-off towards the end of the year."**
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> *Amy Charles,*
> *Managing Director,*
> *CEF & ETF Research — Raymond James*

CEFs help address a number of issues facing investors and advisors, including a need for income, concern about retirement, and uncertainty about interest rates. CEFs are generally designed to generate regular cash flow across a wide spectrum of investment objectives, and it is a relatively unfollowed and often mispriced segment of the market.

> **"Despite the strong performance this year, closed-end funds still deserve a closer look for their potential to generate steady, high income and complement a core fixed income portfolio."**
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> *Michael Hedstrom,*
> *Director — Closed-End Fund Association*

Year-End Review Before December 31 Deadline

Taking time now to make some strategic savings and investing decisions before December 31st can affect not only your ability to meet your financial goals, but also next April's tax bill.

Review and Rebalance

A review of your portfolio can tell you whether it is time to rebalance. If one type of investment has done well, it might represent a greater share of your assets than originally intended. To rebalance, you could sell some of that asset class and use the proceeds to buy other types of investments that will bring your overall allocation back to an appropriate balance. Diversification and asset allocation don't guarantee a profit or protect against a possible loss, of course, but they are worth reviewing at least once or twice per year. Your check-up can also help you decide whether it makes sense from a tax perspective to do that rebalancing before or after December 31st.

Consider Harvesting Losses

It is also a good time to consider the tax consequences of any capital gains or losses you have experienced this year. Though tax considerations should not be the primary driver of your investment decisions, you can take steps before the end of the year to help manage your taxes.

If you have realized capital gains you can sell losing positions to offset some or all of those gains. Any losses over and above the amount of your gains generally can be used to offset up to $3,000 of ordinary income. Tax-loss selling is basically the strategic sale of a losing investment in order to lower one's tax burden for the year.

Time Trades Carefully

It is important to keep in mind that if you are selling to harvest losses and intend to repurchase the same CEF or security, or another that is substantially equal, make sure you wait at least 31 days before buying it again. Otherwise, the trade is considered a "wash sale" (trades within a 30-day period before or after the date of the sale) and the tax loss will be disallowed.

Before selling an investment, also consider how long you have owned it. Assets held a year or less generate short-term capital gains and are taxed as ordinary income.

Depending on your personal situation, with today's volatile financial markets, taking a moment before the holiday rush to plan ahead could potentially be a big help in the spring.

This material is not intended to provide tax, legal or financial advice. You should consult with your own tax or legal counsel for advice.

[1]*Source: Morningstar Direct*