



Executive Book Summaries®

www.summary.com

How to Profit When Stocks Advance, Stocks Decline, Inflation Runs Rampant, Prices Fall, Oil Prices Hit the Roof ... And Every Time in Between

Opportunity Investing

THE SUMMARY IN BRIEF

In *Opportunity Investing*, Gerald Appel, world-famous author and lecturer, shares his insights for spotting opportunities in the financial markets and integrates techniques of both technical and fundamental analysis. Through his own research and trading firm, he has tested his methods, and they work. They work under varying market conditions and economic climates, actually working with — rather than despite — those variations.

Appel has something to say to the experienced and the novice investor. His methods rely on the sense he has developed over his years of observing, researching and tracking financial markets, but he looks to the future, keenly aware of the challenges posed by tomorrow's markets in our rapidly changing global economy.

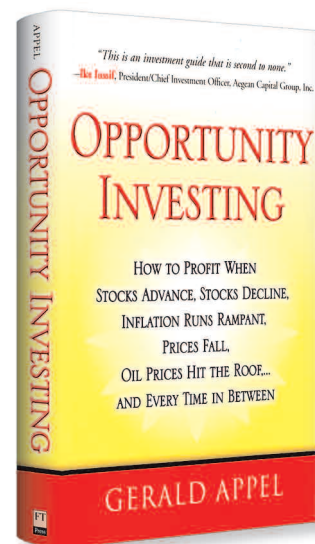
Opportunities lie within and outside the United States, and, besides the usual, — stocks, bonds, mutual funds, and money market instruments — Appel also looks into less familiar areas such as commodities, overseas bonds, foreign stocks, real estate-related instruments and investments in developing countries. He suggests ways to time purchases and sales, and how to create well-diversified and balanced portfolios that fit your stage of life and financial situation.

Strategies in this book cover a wide range of approaches to opportunities in the markets: timing strategies, selection strategies, diversification strategies and risk-reduction strategies across market segments, used in isolation or simultaneously.

We live in a world of change and challenges, and as *Opportunity Investing* suggests, it is also a world of opportunity.

IN THIS SUMMARY, YOU WILL LEARN:

- The weaknesses of the conventional “buy and hold” wisdom.
- How to diversify to get a truly diverse portfolio.
- How to select investments within an asset class.
- How to use basic tracking techniques to read market signals.
- How to prosper with inflation — or deflation.
- How to invest in newer vehicles: ETFs, REITs, etc.



by Gerald Appel

CONTENTS

The Myth of Buy and Hold

Page 2

Putting Together a Winning Portfolio

Page 2

Selecting Mutual Funds

Pages 2, 3

Income Investing

Pages 3, 4

Securing Junk Bond Yields at Treasury Bond Risks

Pages 4, 5

A Three-Pronged Approach to Timing the Markets

Pages 5, 6

Time Cycles

Pages 6, 7

Investing in REITs

Page 7

Opportunities Abroad

Pages 7, 8

Trading Strategies

Page 8

THE COMPLETE SUMMARY: OPPORTUNITY INVESTING

by Gerald Appel

The author: Gerald Appel, well-known author and lecturer, is also founder and president of Signalert Corporation, an investment advisory firm that manages more than \$350 million in client assets and also publishes the technical newsletter "Systems and Forecasts."

Copyright 2007 by Pearson Education, Inc. Summarized with permission of the publisher FT Press, Upper Saddle River, N.J. 350 pages, \$24.99. ISBN 0-13-172129-1

Summary copyright © 2008 by Soundview Executive Book Summaries, www.summary.com, 1-800-SUMMARY, 1-610-558-9495.

The Myth of Buy and Hold

Regardless of what Wall Street and the mutual fund industry would have you believe, there are considerable risks to buying and holding stocks, even for long-term investors.

Inasmuch as the progress of stock prices tends to reflect economic growth, for example, investors who limit themselves to just the U.S. stock market may be placing themselves in a position from which it will be difficult to achieve the rates of capital growth required for expenses later in life.

You do not have to be an expert in every area of opportunity. But you should be familiar with at least a sufficient number of investment markets to be able to maintain diversified, flexible portfolios in a variety of investment sectors. You should be familiar enough with the behavior of the various markets in which you invest to be able to create and maintain exit strategies for when the time comes to cash in.

Successful market timing, like well-considered diversification, can help you to both increase returns from your investments and to reduce risks associated with buy and hold investments. ●

Putting Together A Winning Portfolio

Often, the typical portfolio has been gradually assembled over diverse market climates, influenced by fads, and possibly cluttered with losing investments. Relatively few investors operate with balanced, thought-through investment portfolios that actually match good principles of capital management, which involve two

major issues: the average rates of return over the years, and the amount of risk along the way. Returns are likely to be more consistent for investors who maintain balanced portfolios, who diversify.

Mutual funds provide excellent vehicles for diversification; they provide a means of establishing well-diversified portfolios representing many asset classes with limited amounts of capital. A portfolio of mutual funds representing diverse investments may be readily rebalanced, reapportioned and adjusted in accordance with a changing market.

Rebalancing the portfolio improves returns: Ride the lead horse until you see it tiring, then jump onto the next lead horse. ●

Selecting Mutual Funds Most Likely To Succeed

Watch out for ratings — where all the mutual funds are "above average" — and for hidden fees. Not only are lower expense ratios indicative of funds that are cheaper to own, but they also perform better than "loaded" funds. The lower the fund volatility, the better; but with excellent market timing, some higher-volatility vehicles might prove advantageous. Continuity of management is important in an actively managed fund.

The Triple Period Selection (TPS) strategy represents a simple screening strategy designed to identify mutual funds with a long-term history of consistently outperforming the S&P's 500 Index while involving less risk. Performance criteria require that the mutual fund's performance over the most recent three-, five- and 10-year periods must have surpassed the annual performance of



1-800-SUMMARY
service@summary.com

Published by Soundview Executive Book Summaries (ISSN 0747-2196), P.O. Box 1053, Concordville, PA 19331 USA, a division of Concentrated Knowledge Corp. Published monthly. Subscriptions: \$209 per year in the United States, Canada and Mexico, and \$295 to all other countries. Periodicals postage paid at Concordville, Pa., and additional offices.

Postmaster: Send address changes to Soundview, P.O. Box 1053, Concordville, PA 19331. Copyright © 2008 by Soundview Executive Book Summaries.

Available formats: Summaries are available in print, audio and electronic formats. To subscribe, call us at 1-800-SUMMARY (610-558-9495 outside the United States and Canada), or order on the Internet at www.summary.com. Multiple-subscription discounts and corporate site licenses are also available.

Rebecca S. Clement, Publisher; Sarah T. Dayton, Senior Editor; Joanne Merenda, Graphic Designer; Rachel Siegal, Contributing Editor

Summary: OPPORTUNITY INVESTING

the S&P 500 index, including dividends.

The Sharpe ratio can measure risk-adjusted performance. Have your investment returns been worth the risk? Has the gain been worth the pain? The Sharpe ratio criteria of the mutual fund must have been at least 0.75 for the most recent three-, five- and 10-year periods. The formula that creates the basis for the Sharpe ratio is: $\text{Monthly Sharpe Ratio} = \frac{\text{Average Monthly Return} - \text{Monthly Risk-Free Return}}{\text{Monthly Standard Deviation of Returns}}$. Fortunately, you do not have to do the math, Sharpe ratios can be found on www.Morningstar.com, www.Yahoo.com under financial and in the financial areas of www.MSN.com.

Managing Your Buy and Hold Portfolio

Even the best of funds may lose strength relative to the market as a whole and/or to other mutual funds.

Review your portfolio annually to ensure that your holdings continue to meet the basic criteria required for long-term investment positions. For taxable positions, the holding period should be at least one year because a one-year holding period is required to qualify an investment for long-term capital gain tax treatment.

Sell holdings that no longer meet buy and hold criteria and replace them with new qualifying positions, avoiding “loaded” funds that incur front-end loads or back-end charges for holding periods longer than one year.

Apply the concepts of diversification; you might select a real estate, a small-cap value, a global income, an asset allocation and an all-cap mutual fund for a five-fund diversification.

For most investors, this segment of your investment portfolio may occupy about 35 to 50 percent of your stock market investment assets, representing a fine, tax-favored core position in your total portfolio.

Putting Together and Maintaining a Portfolio of Strong Mutual Funds for Intermediate-Term Investment

You can benefit from identifying and investing in mutual funds that outperform 90 percent of other mutual funds for somewhat shorter periods of time, shifting assets so your capital starts each investment period in funds representing the top 10 percent of mutual funds in terms of market strength.

Intermediate-term investing offers more gain, less pain; it's responsive to changing market leadership; and there are relatively few transactions each year. A mutual fund is defined as a market leader if its performance over the

most-recent three months has been in the top 10 percent of all mutual funds. The four-step “follow the leader” strategy has shown excellent past performance:

1. Identify the leaders.
2. Buy the leaders.
3. Hold the leaders until they stop leading.
4. Change to new leadership.

There are almost perfect correlations among performance, risk levels and decile rank. You can up the ante with the “Double Time Ranking” model by using the past 3-month's plus the past 12-month's return to rank funds, using only those funds in the top decile of performance, with lower than average volatility and no load. Be sure to rank and rebalance quarterly. ●

Income Investing — Safer and Steady ... But ...

A bond is a loan that a bondholder makes to a corporation, or to the government or another organization, for which the borrower agrees to pay a certain amount of interest. You know how much you are investing, how much interest you are scheduled to receive and when you are supposed to get your money back. So far, so good ...

What are the risks? Default risk is when a borrower fails to meet its interest payments or cannot repay its bond's face value. Even well-known companies and large municipalities have defaulted. Only bonds issued by the U.S. government are considered to be free of default risk.

The creditworthiness of the issuers of bonds sorts is rated by five major rating agencies. The ratings broadly divide bonds into two categories: investment grade and non-investment grade. For safety purposes, bond investments should be confined, for the most, part to investment grade holdings. Risks can also be contained in a bond portfolio through diversification. Shorter maturity bonds carry less risk than longer-term bonds.

The length of time until the maturity of a bond is one factor in the risk involved in that bond, another measure of risk is bond duration. The difference is a bond's maturity tells you when you will receive full repayment of the bond's face value. A bond's duration is a weighted measure of when you will get your investment back from a bond investment, including the stream of interest payments that you receive during the time that you hold these bonds. The lower the duration of the bond, the less risk. For bonds with the same maturity, the bond that

Summary: OPPORTUNITY INVESTING

pays the higher rate of interest each year has the lower duration, or lower risk.

Bond Mutual Funds vs. Individual Bonds

The advantages of bond mutual funds include:

Ready diversification: Bond mutual funds can provide, at reasonable cost, a higher level of bond diversification for smaller investors.

Specialized portfolio management: There are areas of bond investment about which the typical investor is likely to be unfamiliar that could represent convenient vehicles for investors to expand their investment opportunities.

Investing in small increments: Many bond mutual funds enable investors to initiate and to supplement existing bond portfolios with relatively small amounts of capital. Additionally, bond mutual funds generally allow investors to automatically reinvest interest from exiting bond holdings in additional mutual fund shares as such interest is paid providing a ready ability to compound income from your holdings.

Simplified record-keeping: Mutual funds keep track of your dividend (actually interest) payments for tax purposes and provide year-end reports.

It is more convenient to invest in bonds by way of mutual funds, but not necessarily more profitable and not necessarily safer. The advantages of portfolios of individual bonds are:

A specific maturity date: Bond mutual funds have no such date of maturity for their portfolio.

Diminished risk as its holdings draw closer to maturity: This is a quality that does not generally exist in bond mutual funds.

More closely tailored to the life situation of the investor: The expenses of maintaining a portfolio of individual bonds are likely to be less than the costs of a portfolio of bonds based in mutual funds. ●

Securing Junk Bond Yields at Treasury Bond Risks

High-yield bond funds represent a sector of interest even on a buy-and-hold basis. However, with its higher volatility, this sector can perform even better when managed with timing models that involve relatively infrequent trading. The 1.25/0.50 timing model is an example of a “market-reversal timing system.” Reversal timing systems are based on the premise that when a market, or in this case a bond fund, has moved by a certain amount

Bonds and Bond Funds for All Seasons

- U.S. Treasury bills are the safest and very liquid but do not provide much return.
- Short-term bonds (and bond funds) provide relatively high levels of safety, liquidity and slightly higher returns. Prices do fluctuate, but they provide safe havens for capital during bear markets.
- Intermediate-term bonds (and bond funds) provide considerably more safety than long-term bonds, with 80-90% of the return; they are very useful for laddering maturities.
- Long-term bonds (or bond funds) may be suitable for pension portfolios, for which they provide prudence and predictability. However, long-term bonds are more susceptible to declines created by rising interest rates.
- Treasury Inflation Protected Securities (TIPS) are U.S. Treasury bonds, guaranteed to provide total income and return of principal that exceed the rate of inflation. These should be used in a tax-sheltered portfolio, such as a retirement account, as they can create hidden tax consequences for investors.
- Zero-coupon bonds are bonds that pay no interest while they are maturing, instead the total return is paid at maturity. The price of zeros, therefore, is deeply discounted, making them a relatively cheap investment. Zeros are much more volatile than other bonds, however, and have a serious tax disadvantage, in that investors must pay tax on the implied (although not paid) interest each year. Zeros probably are best held in tax-sheltered portfolios.
- Municipal bonds provide income that is exempt from federal taxes and usually from local taxes if the investor resides in that locality. Though the yield is slightly less than that of bonds with equal maturity and risk, the after-tax return is usually as good or better for high-income (and highly-taxed) investors. “Munis” should never be used in tax-sheltered portfolios.
- High-yield bonds (or bond funds) are higher risk corporate bonds. During periods of economic weakness (which result in high investor pessimism), high-yield bond funds have provided yields that have been considerably higher than other bonds, surpassing the 10-year U.S. Treasury note by 6 percentage points or more. Conversely, during periods of economic strength, yield spreads tend to narrow.

Summary: OPPORTUNITY INVESTING

in a direction opposite a trend in motion, the presumption can be made that the trend is no longer in effect and that a reversal in trend is taking place. The timing model will generate “signals.”

1.25/0.50 Timing Model Signals

- **Buy signal:** A rise in price of 1.25 percent from the lowest price level since the last sell signal, means the end of a downturn (buy!).
- **Sell signal:** A drop in price of 0.50 percent from the highest price level since the last buy signal means the end of an uptrend (sell!).
- **Signal failure:** It is unrealistic to expect every signal to be profitable. The key is to recognize failure and to reverse strategy immediately.

The 1.25/0.50 timing model is based on procedures that take into account the total returns of high-yield bond funds. The total return of a bond fund is the net gain or loss created by a combination of the price movement of these instruments and the dividend flow that investors receive.

Generally, investments of higher volatility benefit more from the application of effective timing models than investments of lower volatility, because timing models tend to produce greater reductions in risk for more volatile investments.

The Wonderful World of Exchange-Traded Funds

Attempts have been made over the years to develop investment vehicles that would provide internal diversification, ready liquidity and be tradable at low cost at any time of the market day with no restriction.

Unlike mutual funds, and like stocks, Exchange-Traded Funds (ETFs) are traded on various stock exchanges and over the counter. Markets for an increasing number of ETFs have become liquid enough for active trading at fairly narrow spreads. There are ETFs available for just about every taste and speculative level of investor.

The advantages of ETFs are:

- Diversification — many different stocks in one investment vehicle.
- Lower management costs than for traditional mutual funds.
- More favorable tax treatment — capital gains distributions are a lower percentage of assets.
- Liquidity and visibility — may be traded whenever the market is open.
- Asset allocation and portfolio control —

no restrictions on active portfolio management strategies.

The disadvantages of ETFs are:

- Transaction costs and bid-ask spreads — ETFs involve brokerage commissions for purchase and sale; bid-ask spreads are potentially costly for less liquid ETFs.
- Trades may vary from net asset value.
- Some ETFs lack diversification — may hold only a relatively small number of highly liquid stock issues of a certain index rather than the full index.
- ETFs provide good indexing but no management panache.

Do not be afraid to think out of the box! ETFs have been creatively managed, represent a broad array of investment possibility, have been sufficiently liquid and allow for shifting investment to meet shifting market climates. ETFs do indeed qualify as opportunity investments! ●

A Three-Pronged Approach to Timing the Markets

Use price/earnings patterns to locate the best times to enter the stock market. Relationships between earnings trends and the price movement of the stock market are not precise over the short-term but are actually quite consistent over the long-term. Sometimes prices move ahead of earnings. Sometimes earnings move ahead of prices. The best buying opportunities have occurred during periods when earnings growth has moved well above price growth. The stock market has been most favorable when price/earnings ratios have declined to 9.3 or below.

Conversely, the stock market has performed worst when prices have advanced ahead of profits. Stocks have, historically, been expensive and on treacherous ground when price/earnings ratios have risen above 20.2.

Price/earnings ratios have risen over time — investors have been willing to pay more for stocks over the years. Corporate earnings, however, do not exist in a vacuum.

Use bond yields to know when to buy stocks. Buy stocks when they are cheap relative to bonds. The stock market generally performs best during periods of rising bond prices and declining interest rates. Rising interest rates tend to exert negative impacts on business, and so stock prices tend to fall. Also, as interest rates rise, why buy stocks when bonds may be providing greater rates of return? Stocks tend to achieve their best gains

Summary: OPPORTUNITY INVESTING

when they are undervalued in comparison to bonds based on relative yields.

Earnings yield is earnings per share relative to price per share.

The greater the bond yield compared to the (stock) earnings yield, the lower the rates of gain in the stock market. The best time to own stocks is when bond yields are equal to or slightly above forward earnings projections (analyst estimates of the next 12-months' earnings) for the S&P 500 Index. Use these periods to accumulate stock.

Buy stocks when earnings news is bad; sell when earnings news is best. The best earnings gains on a year-to-year basis tend to accompany lackluster periods for stocks. Poorer earnings comparisons tend to be better news for stocks. The stock market, in price movements, tends to discount future events — changing direction between six and nine months before significant changes in the direction of the economy. Savvy investors look ahead.

Do not become lulled into a sense of security just because the media is trumpeting news of very favorable year-to-year growth in corporate profits. The stock market is usually a safer buy just as declining trends in earnings are ameliorating. The best gains take place in anticipation of earnings growth rather than in reaction to it. ●

Time Cycles, Market Breadth, Bottom-Finding Strategies

For whatever reason, the stock market does appear to rise and fall with certain cyclical short- and long-term regularities. Time cycles are measured from low point to low point.

Whether by accident or political design, there have been close correlations between the four-year presidential election cycle and the stock market's four-year cycle. The market tends to initiate bull markets as the second half of the presidential term gets underway, rise strongly during the president's third year in office, rise more gradually the next year (the election year), show much more moderate gains in the first year of the new presidential term, and sharply decline in the second year of the new term.

Many articles and studies have been published detailing strategies for taking advantage of the presidential election cycle. As a general rule, think toward stock accumulation early in the four-year cycle, and also very late in the cycle as the market moves toward its final cyclical lows.

Market Breadth

All stocks are not equal in the ongoing calculation of levels of the S&P 500 Index (or the NYSE Index or the NASDAQ Composite Index). The index is weighted by capitalization, so that prices of larger companies have more effect on the index than the prices of smaller companies.

This means that even if only a small number of shares are up for the day, the index may be up for the day, even though most companies listed on that index showed a decline. Although the major market indices' price movements do often reflect the behavior of the typical stock, there are times when the major market indices do not reflect the behavior of the typical stock or the experience of the typical investor.

Breadth indicators reflect the percentage of stocks actually participating in market advances, or actually incurring losses during market declines.

Advance-Decline Measures

Advancing issues are stocks that rise in price; declining issues are stocks that fall in price. The most favorable market climates take place during periods when the price actions of the major market indices are generally favorable and when market breadth readings are favorable — more stocks advancing than declining.

The advance-decline line is a cumulative total of daily advances minus declines that may be maintained on any and all popular indices. As a general rule, it is bullish when:

- New peaks in the major market indices are confirmed by concurrent new peaks in the advance-decline line.
- The percentage of issues advancing in price over a 10-day period is more than 60 percent of the total number of issues advancing or declining.
- Market breadth remains positive even when market indices decline.

As a general rule, it is bearish when:

- New peaks in the major market indices are not confirmed by new peaks in the advance-decline line for several months.
- There are patterns of continuing weakness in market breadth even as the price levels of major market indices maintain their advance.

The New High

— New Low Breadth Indicator

Stocks that make “new highs” have risen to their highest price in the past 52 weeks. Stocks that make “new

Summary: OPPORTUNITY INVESTING

lows” have declined to their lowest price in the past 52 weeks. The greater the positive disparity, new highs minus new lows, the better the stock market breadth and the more bullish the implications.

When the 10-day ratio of the number of new highs to the total number of new highs plus new lows is greater than 90 percent, this is a very bullish indicator. When this happens, it is usually safe to remain invested until the 10-day ratio declines to 80 percent.

Bottom-Finding Parameters

As a general rule, stocks tend to be pretty sold out when readings in this 10-day ratio decline to below 10 percent. Prepare to enter the stock market when you see readings at such low levels. It is best to try to confirm this indicator with other indicators, such as those related to cycles and price-earnings ratios previously discussed.

The stock market prefers unanimity in market breadth readings. What the stock market does not like to see are climates in which large numbers of stocks are rising and large numbers of stock are declining, indicating “split” stock markets. Cautionary signals occur when, on a weekly basis, the lesser of weekly new highs or new lows is greater than 7 percent of the total number of issues traded on the NYSE. Split market warning signals should probably not be taken as sell signals, but they are good indications of potential danger.

If the number of weekly new highs is 28 percent of the total number of issues traded, this is a major buy signal that remains in effect for the next 52 weeks! ●

Investing In Reits

Real Estate Investment Trusts (REITs) are entities that invest in different kinds of real estate including shopping centers, office buildings, hotels and mortgages secured by real estate.

- Equity REITs produce profit from rental income.
- Mortgage REITs lend to owners of real estate or to real estate developers.
- Hybrid REITs are a combination of Equity and Mortgage REITs.

REITs are exempt from federal taxation of their profits as long as they pay out 90 percent of their taxable income to investors, so investors in REITs have secured large dividend payouts compared to the typical stock, often in the area of 8-9 percent per year.

Large dividend payouts are a major attraction of REITs, which tend to be fairly stable in price compared to other stocks. Large dividends tend to stabilize the

price of shares, providing a source of profit apart from advances in the price of shares alone.

REITs should probably represent a reasonably significant portion of almost any diversified portfolio, not just because of their high yields. They also offer a high degree of diversification: REITs are relatively non-correlated with the price movements of other stock market sectors. Long-term investors may retain REITs in diversified long-term portfolios on pretty much of a buy-and-hold basis, trusting that the principles of diversification will produce the steady growth that is hoped for from such portfolios.

The relationship between the direction of REIT prices and the direction of interest rates suggests that the best times to buy REITs are when interest rates are peaking and just beginning to decline from high levels. REIT prices tend to advance during periods when interest rates decline, and decline during periods when interest rates rise.

REITs are purchased by investors largely for their yield. REIT yields are worth less in a climate of high and rising yields available to investors. Higher interest rates also translate into higher expenses for many REIT operators, who then pay lower mortgage costs, building costs and borrowing costs for development. Rising interest rates add to the expense of REITs.

As interest rates advance, look for signs that the Fed is preparing to lower rates. Periods during which the Fed shifts from tighter money policies to the easing of credit are likely to be excellent periods in which to accumulate high dividend paying REITs.

Selecting the Best REIT

For REIT mutual funds, look for:

- Lowest expense ratios
- Best long-term performance
- Lowest entry/exit loads
- Most consistent management. ●

Opportunities Abroad

Opportunities (as well as risks) are probably greater in emerging-country bourses than in the markets of more developed countries where companies are larger, where stocks have larger capitalization and where it may take more capital to create significant price movement in equities on their exchanges. Risks of overseas investing include: questionable government stability, currency risks, inflation risks, lack of access to information and increased volatility.

Summary: OPPORTUNITY INVESTING

Americans may invest in overseas stocks via: direct ownership of actual foreign shares denominated in their local currencies, American Depository Receipts (ADRs), ownership of open-end mutual funds that invest in specific regions or countries overseas, ownership of global mutual funds whose portfolios include both U.S. and foreign shares, ownership of closed-end mutual funds that invest in markets abroad, and the ownership of ETFs that represent foreign markets.

Investing in International Bonds

Most investors will find it easier and less expensive to invest in overseas bonds by way of mutual funds, rather than by direct purchase. International bond funds tend to divide into two camps: bond funds emphasizing price and credit stability, and those seeking maximum yield and potential capital appreciation.

The best times to buy high-grade overseas income funds are when long-term interest rates appear to be peaking and getting ready to turn down and/or when the U.S. dollar appears to have peaked and is initiating a downtrend.

Lower-grade overseas income funds represent a reasonable alternative to investment in emerging market stock funds when you anticipate strength in the countries involved.

Many international closed-end bond funds provide higher potentials for return than safer income vehicles but at considerably higher risk.

American investors can reduce some of the risks created by the weakening of the dollar by setting aside capital for the purchase of overseas bond funds denominated in foreign currencies. When high-grade debt issued within a variety of large and developed countries is used, investors can considerably reduce both credit and currency risks.

Investments abroad should represent a meaningful portion of your diversified portfolios on an ongoing basis: increased during periods of public disinterest in markets overseas, and reduced in areas that become the focus of heavy speculation. ●

Trading Strategies to Get the Most From Closed-End Mutual Funds

Closed-end funds are similar to open-end mutual funds, but tend to be more aggressively managed. They differ in that:

- The number of shares that are issued by closed-end

funds is fixed

- Trading takes place between buyer and seller at negotiated prices, not necessarily at net asset value
- Trading takes place throughout the market-trading day at various exchanges.

Closed-end funds involve brokerage commissions and bid-ask spreads but are not subject to redemption fees and trading restrictions. There is ample liquidity in most funds.

Closed-end bond funds frequently involve extra risk because many use leverage to increase yield. Closed-end income funds tend to be more volatile than open-end mutual income funds, less stable in price, and not suitable for all investors. The same is true for closed-end equity funds. Closed-end mutual funds present special opportunities but also special risks.

The typical closed-end mutual fund often trades at something of a discount. A good strategy is to track current discount and premium levels in relationship to more usual levels. Discounts tend to normalize over time. If you keep track of such discounts, you will often find opportunities following market declines to purchase stock assets at truly discounted prices. Such discounts often narrow rapidly as the market recovers.

Closed-end mutual funds that are already selling at deeper-than-normal discounts from their actual share net asset values will tend to hold their prices better than funds selling at average or below-average discounts or especially premiums. ●

Final Thoughts

Evaluate your own life situation, acceptable risk levels and investment goals so you can establish appropriate portfolios. Generally, it is more important to avoid investment losses than to maximize returns.

Emphasize mutual funds and other vehicles with no-greater-than-average volatility. Assess your portfolio balance in view of your risk tolerance.

Diversify geographically, between stocks and bonds, among various industry groups and within each industry group and sector in which you invest.

Monitor your portfolios actively to maintain their balance, and rebalance at regular intervals. Carry forth your investment program in a disciplined manner.

Remain objective, independent, relatively conservative, alert and flexible — you can use opportunities to profit in any market! ●