The Scott Letter: CLOSED-END FUND REPORT ©

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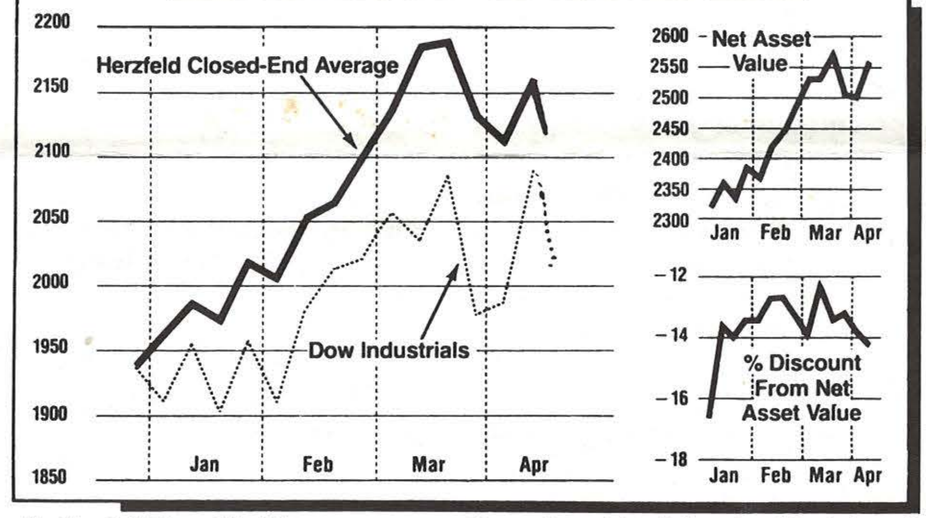
The Economy In Perspective

Investors who have been confused since the market crashed in October have reason to be. This was a catastrophic event not seen since 1929. Does this mean we're going to get into a market and economic depression like the 'Thirties? Those who remember this era may think so, but we see evidence in the other direction.

Investor confidence eroded when the market took another tumble in late March and early April. We saw it as a buying opportunity to invest in closed-end funds, as discounts widened. A strong rebound will show the wisdom of this approach. You should be rewarded over the long term by taking advantage of such market opportunities. (See Chart 1)

Tracking Closed-End Funds



The Herzfeld Closed-End Average measures 20 equally-weighted closed-end funds based in the U.S. that invest principally in American equities. The net asset value is a weighted average of the funds' NAVs. Source: Thomas J. Herzfeld Advisors Inc., Miami.

Here's the rundown:

Level of business activity—up; the first quarter shows an economy on solid footing and a lot more stable than economists feared after the October plunge.

Consumer spending—has bounced back, demand is still rising fast enough to sustain the expansion. In January, it was reported down 3.8%, but now shows a decline of only 2.5%.

Leading indicators—show that prospects for continued growth are good, the index rose a strong 0.9% in February rebounding from a January 1.1% decline.

Exports—continued boom, reviving the manufacturing sector and creating thousands of new jobs.

Gross National Product—the output of goods and services, economists predict will slow to 2.2% growth from 2.9% in 1987.

Unemployment—March figures sent civilian unemployment to 5.6%, a ten year low.

The dollar—renewed weakness in March, particularly against the yen. A rebound in April?

Other factors—a dip in the factory workweek, slower price rises for material goods and more slack in vendors markets . . . the last two signal lower inflation. Is the Bull Market about to resume?

Many economists predict a stronger second half with no recession until 1989 at the earliest and a good year for corporate profits with favorable implications for stock prices. Therefore, this is a good time to find opportunities in closed-end funds.

Inside

The Stock Market

No stocks are showing strong group leadership in the market, which appears to be dollar driven. The fluctuation of the dollar parallels the ups and downs of the market.

At the same time, the performance of closed-end fund net asset values rose across the board for the quarter, leaving the market indexes in the dust. This was especially dramatic for funds specializing in small companies.

Investors have continued to favor equities of small companies over the larger ones—a trend that has persisted since December. Some of these funds have been trading at levels not seen since the mid-1970's. They are beneficiaries of stronger earnings gains than funds investing in larger companies. Our fund recommendations this month will reflect this trend.

Now that the first quarter has ended, it should be worthwhile to see how closed-end funds have done in relation to stock prices. During the quarter, the Dow Jones rose 2.54% while the Herzfeld Closed-End Fund Average (a measure of 20 equally-weighted closed-end funds which invest principally in U.S. equities) outperformed the Dow by a wide margin. (See Chart 1)

Your Risk Tolerance

It's time to take a closer look at the parameters of risk an investor needs to examine before he makes an investment; what is your tolerance for risk and how does it affect your investment approach?

It is difficult to measure a person's risk tolerance. The dictionary defines it as exposure to loss. Investment managers define it as tolerance for the uncertainties surrounding expected returns. The returns on Treasury Bills are precise, but all other investments are imprecise; such factors as cash flow and earnings momentum are subjective and therefore never clearly defined. Conditions change and the future seldom parallels the past.

Time, therefore, is always a factor. In assessing a loss, it is very possible that one has not allowed sufficient time to pass for the investment to mature. An investment in a diversified fund should never be considered a trading vehicle. But, if it becomes overvalued, sell it. **The Scott Letter** will take this approach by recommending funds be sold as discounts narrow. If the risks are too high in holding one fund versus switching to a better valued fund we will tell you.

How does this affect you if you are a low risk investor? What you first need to examine is how much are you willing to risk in an investment versus the potential of a large gain? If you only feel comfortable in a bank CD you have a very low tolerance for risk; conversely your risk tolerance is high if you are willing to speculate in the futures or commodities markets. Most of us are between these extremes; we want to invest and make money, but must ask ourselves how much risk are we are willing to take?

Another way to explain your risk tolerance is to use the risk/reward ratio—the ratio of the chance of loss versus the chance of gain. In other words, what is the downside to any investment? How long am I willing to wait for it to bear fruit? The answers may not be clear, but are relevant to your investment posture. We think the risk/reward ratio is most favorable in many closed-end funds and therefore is a reason to invest in them.

Fund of the Month: General American Investors

GENERAL AMERICAN INVESTORS, (GAM, NYSE–14¼) one of the oldest (1927) closed-end funds to survive the Depression, is selling at a discount of 21.60% to a net asset value of $18.18 per share. On December 31, 1987, the net asset value was $16.76.

This $318 million fund, which invests mostly in growth companies with medium-size market capitalizations, has an objective of long-term capital appreciation with less emphasis placed on income. The approach focuses on a selection of common stocks which are expected to meet a clearly defined portfolio objective using a three-year time horizon.

The company invests principally in common stocks it believes to have above average growth potential. Management is 90–95% invested in equities at all times; they feel the time is right for its smaller high growth companies.

The five largest holdings of GAM are Wal-Mart Stores, Toys R Us, American International Group, I.M.S. International, and The Limited. The portfolio's heaviest concentrations are in retail trade (21%), health care (14.3%) and finance, insurance and real estate (9.1%). The company tells us there has been no material change in the portfolio in the last quarter.

The investment performance of the fund lagged the Dow in 1987, as the portfolio decreased 1.2% versus the Dow's gain of 2.3%. The fund's ten year achievement, with an increase of 305.9% in net asset value versus a 133.8% increase in the Dow and a 160% increase in the S&P 500 average, is the more important figure.

(continued on page 5)

CLOSED-END BOND FUNDS

Following are shares of closed-end (fixed number of outstanding shares) investment companies with diversified portfolios of bonds. Shown is the unaudited net asset value (NAV) of each company's shares as of **April 15, 1988.**

	Sym.	N/A Value	Stock Price		% Diff.	% Yld.
ACM Gov Inc	ACG	a 11.15	11⅜	+	2.0	10.1
ACM GSF	GSF	11.09	11⅛	+	0.3	10.3
AMEV Secs	AMV	10.67	10¾	+	0.7	10.00
Am Cap Bd	ACB	*21.14	21½	+	1.7	10.3
Bunker Hill	BHL	17.82	18½	+	3.8	10.1
Circle Inc	CINS	12.43	12⅞	+	3.6	10.0
CNA Inc	CNN	11.36	11⅜	+	0.1	10.8
Current Inc Shrs	CUR	12.20	12	−	1.6	9.30
DW Gov Inc	GVT	9.50	9½	+	0.0	9.0
Drexel Bd	DBF	20.32	20¾	+	2.1	z
Excelsior	EIS	17.10	15⅝	−	8.6	9.7
FBost Income	FBF	8.85	9	+	1.7	10.0
FtDear Inc	FTD	14.97	14⅜	−	4.0	9.14
Hatteras	HAT	16.36	17¾	+	8.5	10.59
Hi Inc Adv Tr	YLD	9.35	9¾	+	4.3	12.3
Hi Yld Inc Fnd	HIY	9.56	9¾	+	2.0	12.2
INA Inc S	IIS	18.22	16⅞	−	7.4	9.88
Ind Sq Isis	ISIS	16.95	17	+	0.3	3.17
Intercap	ICB	19.44	22	+	13.2	10.47
J Han Sec	JHS	15.59	15⅝	+	0.2	9.29
J Han Inv	JHI	21.04	21½	+	2.2	8.51
Lincoln Natl	LND	27.65	25⅛	−	9.1	9.43
MFS Gov Inc	MGF	9.51	10⅛	+	6.5	11.30
MFS Inc&Opp	MFO	9.82	9⅞	+	0.6	12.16
MFS Intrmed Inc	MIN	9.31	9⅞	+	6.1	z
MFS Multi	MMT	9.29	10¼	+	10.3	12.15
MMIncInv	MIV	10.42	10⅛	−	2.8	11.06
Mntg St	MTS	a 18.69	20	+	7.0	9.11
M Omaha Int	MUO	13.77	15¼	+	10.7	9.44
New Amer High Inc	HYB	9.32	9⅞	+	6.0	z
Pac Am Inc	PAI	15.43	15⅜	−	0.4	9.80
Prudential Strat	PSF	9.31	10	+	7.4	10.64
Put Mstr Inc	PMT	9.58	9⅜	−	2.1	na

	Sym.	N/A Value	Stock Price		% Diff.	% Yld.
Putnam Premier	PPT	9.29	10	+	7.6	11.40
State M Sec	SMS	10.97	11	+	0.3	10.07
Transam Inc.	TAI	22.41	24¾	+	10.4	9.14
US LIFE	UIF	9.49	8⅞	−	6.5	12.34
Vestaur Sec	VES	13.76	13⅜	−	2.8	9.05

Convertible Bond Funds

Lincoln Natl Cv	LNV	13.74	11½	−	16.3	7.2
Putnam High Inc.	PCF	8.41	8¼	−	1.9	10.47

International Bond Funds

Fst Austr Pr	IAF	10.04	9	−	10.4	3.50
Glb Govt	GOV	9.69	10⅛	+	4.5	11.86
Globl Yld Fnd	PGY	9.94	9¾	−	1.9	11.07
Klnwt B Aus	KBA	10.98	11½	+	4.7	15.73
Templeton Global		b 9.40	10		6.38	z

Municipal Bond Funds

Allsta Muni	ALM	10.60	10⅛	−	4.5	7.90
Col Muni	CMU	8.82	9⅜	+	6.3	8.43
DryStratMuni	LEO	9.74	10	+	2.7	7.8
MFSMunInc	MFM	9.08	9¼	+	1.9	7.01
Muni Insured	MIF	9.66	10	+	3.5	8.40
NYTEPT	XTX	9.81	9⅝	−	1.9	z
Nuveen Muni Value	NUV	9.53	9⅜	−	1.6	7.46
Nuveen Cal Value	NCA	9.64	9⅞	+	2.4	6.68
Nuv MY Muni	NNY	9.89	9⅞	−	0.2	6.99

(a) Ex-Dividend. (na) Not available. (*) Fully Diluted.
Source: Investment Company Institute and Lipper Analytical Services
Note: Yields are approximate due to differing closing prices in financial press.

BOND FUND REVIEW

Bond funds have become more and more popular with investors. In fact, from November through January investors poured $11.6 billion into long-term bond funds and many new ones have come to market since then.

The reason is simple: investors realize the importance of having an income cushion in their portfolio. In today's volatile markets, the benefits of bonds—relative stability and steady income—are attractive to conservative investors.

Bond fund investments may be allocated according to market sector, investment quality or by length of maturity. Other options include taxable, tax exempt bond funds and international bond funds. As the Tax Reform Act of 1986 wiped-out most tax shelters for middle-income and upper-income investors, many are relying on an old favorite: the municipal bond fund for tax-free income.

All but a few bond funds sell at a premium to their net asset value; the trick is finding one at a discount. Like bonds they sell on a yield basis and are subject to interest rate fluctuations. Remember, the highest yield fund may not be the best one for you; to bring its stated yield it may have lower quality issues. When we find a bond fund that is particularly attractive, we will recommend it to you.

NEW ISSUES

First Iberian Fund Inc. Initial Public offering, 4.5 million shares, via Prudential Bache.

High Yield Plus Fund Inc. Initial Public offering, 10 million shares, via Prudential Bache.

Zenith Income Fund Inc. Initial Public offering, 10 million common shares, $50 million of senior money market notes and 300 shares of $100,000 par preferred stock, via Sherson Lehman Brothers.

CLOSED-END STOCK FUNDS

Following is a weekly listing of publicly traded closed-end investment trusts. The funds invest in diversified portfolios of common stock (Diversified Funds) or concentrate in one or a few industry groups (Specialized Funds). The plus or minus before the difference indicates whether the fund trades at a premium or discount to its net asset value. The convertible funds are invested in preferred stock or bonds that are convertible into common stock. Shown is the unaudited net asset value (NAV) of each company's shares as of **April 15, 1988.**

Diversified Common Stock Funds

	Sym.	Stock Exchg.	N.A. Value	Stock Price		% Diff.
Adams Express	ADX	NYSE	16.79	15¼	−	9.17
Baker Fentress	BKFR	OTC	49.51	38½	−	22.24
Blue Chip Value	BLU	NYSE	7.02	5¾	−	18.09
Clemente-Gbl	CLM	NYSE	b 8.53	6¼	−	26.73
Equity Guard	EGS	AMEX	b 9.76	9	−	7.79
Gemini II Cap	GMI	NYSE	14.42	11	−	23.70
Gemini II Inc	GMI+	NYSE	9.46	12⅝	+	33.50
Gen'l Amer Inv	GAM	NYSE	18.18	14¼	−	21.60
Global Gr Cap	GGF	NYSE	8.52	8	−	6.10
Global Gr Inc	GGF+	NYSE	9.34	9½	+	1.71
GSO Trust	GSO	NYSE	9.56	9¼	−	3.20
Lehman Corp	LEM	NYSE	13.94	11¾	−	15.70

	Sym.	Stock Exchg.	N.A. Value	Stock Price		% Diff.
Liberty All-Star	USA	NYSE	8.32	6⅝	−	20.40
Niagara Share	NGS	NYSE	15.65	12⅝	−	19.33
Nich Ap Gr Eq	GEF	NYSE	8.02	6¼	−	22.07
Quest Value Cap	KFV	NYSE	10.01	8⅜	−	16.30
Quest Value Inc	KFV+	NYSE	11.74	10⅛	−	13.76
Royce Value	RVT	NYSE	9.20	8⅛	−	11.68
Schafer Value	SAT	NYSE	8.64	6⅞	−	20.43
Source Cap	SOR	NYSE	38.16	36½	−	4.35
Tri-Continental	TY	NYSE	23.97	20⅞	−	12.90
Worldwd Value	VLU	NYSE	19.01	14⅜	−	24.62
Zweig Fund	ZF	NYSE	9.96	10⅛	+	1.66

Specialized Equity and Convertible Funds

	Sym.	Stock Exchg.	N.A. Value	Stock Price		% Diff.
Amer Cap Cv	ACS	NYSE	23.30	21½	−	7.72
ASA Ltd.	ASA	NYSE	b a 55.85	45	−	19.43
Asia Pacific	APB	NYSE	7.85	6¼	−	20.40
Bancroft CV	BCV	AMEX	23.46	21⅞	−	6.77
BGR Prec Mtls	BPTT	TOR	b e 14.43	10⅝	−	26.34
Brazil Fund	z	NYSE	11.54	10⅛	−	12.26
CNV Hlgd. Cap	CNV	NYSE	9.50	4¾	−	50.00
CNV Hldg. Inc	CNV+	NYSE	a 9.39	11	+	17.20
Castle CV	CVF	AMEX	22.45	21¼	−	5.33
CenFdCanada	CEF	AMEX	b 6.27	5⅝	−	10.30
Cent Sec	CET	AMEX	12.56	9⅞	−	22.09
Claremont	CCM	AMEX	50.82	50¼	−	1.10
Couns Tandem	CTF	NYSE	7.28	5⅝	−	22.73
Cypress Fund	WJR	AMEX	9.21	6⅞	−	25.35
Duff Phelps Util	DNP	NYSE	7.69	8½	+	10.50
Ellsworth Cv	ECF	AMEX	8.54	7⅛	−	16.54
Engex	EGX	AMEX	12.62	9½	−	24.72
Fin News Comp	FIF	NYSE	16.35	14	−	14.37
1st Australia	FAI	AMEX	9.35	8½	−	9.10
First Fin Fund	FF	NYSE	8.63	6½	−	24.68
France Fund	FRN	NYSE	b 10.02	8¾	−	12.70
Gabelli Equity	GAB	NYSE	10.62	8¾	−	17.61

	Sym.	Stock Exchg.	N.A. Value	Stock Price		% Diff.
Germany Fund	GER	NYSE	7.59	6⅝	−	12.70
H & Q Health	HQH	NYSE	8.04	6⅝	−	17.60
Ham Cap	HU	NYSE	b 9.19	7½	−	18.39
Ham Ut. Pfd.	HUT	NYSE	b 48.03	48¾	+	1.50
Helvetia Fund	SWZ	NYSE	11.83	10⅝	−	10.19
Italy Fund	ITA	NYSE	b 9.76	7¾	−	20.59
Korea Fund	KF	NYSE	38.81	75⅜	+	94.22
Malaysia Fund	MF	NYSE	8.04	7	−	12.94
Mexico Fund	MXF	NYSE	b 6.47	5⅛	−	20.79
MG Sm. Cap	MGC	NYSE	8.67	7⅞	−	9.16
Petrol & Res	PEO	NYSE	26.72	25½	−	4.57
Pilgrim Reg	PBS	NYSE	a 9.22	7¼	−	21.36
Prg Inc	PRGR	NYSE	8.70	8¼	−	5.45
Reg Finl/Shs	BNC	NYSE	z	z		z
Scandinavia	SCF	AMEX	8.69	6¾	−	22.30
Scud New Asia	SAF	NYSE	13.04	10½	−	19.48
Taiwan Fund	TWN	AMEX	b 21.20	42½	+	105.00
TCW Cv Sec	CVT	NYSE	b 8.39	7⅜	−	12.10
Templeton E Mkt	EMF	AMEX	b 8.73	6⅞	−	21.20
Thai Fund	TTF	NYSE	11.14	15⅝	+	40.26
Utd. Kingdom Fd.	UKM	NYSE	11.16	8¾	−	21.59
Z-Seven	ZSE	PAC	d 14.28	15½	+	8.50

(a)–Ex-Dividend: (b)–As of Thursday's close: (c)–Translated at Commercial Rand exch. rate: (d)–NAV reflects $1.54 per share for taxes: (e)–In Canadian Dollars: (p)–Pacific Exchange. (z)–Not available. Source: Investment Company Institute.

General American has filed with the SEC to change its internal management structure. If approved, the company would be permitted to manage its investment portfolio and conduct its corporate and administrative affairs under a contract with a subsidiary in which officers and employees may have a minority interest. This change would make the company similar to most other investment management companies in this country.

Fees would remain the same, but with respect to the company's own portfolio, would be waived by the subsidiary for three years. This could benefit the income distributions as the expense ratio could remain low (1.19% in 1987) because of economies of scale. The SEC may not go along with this arrangement, but any attempt on the part of management to be more responsive to shareholders is to be commended.

Dividends are paid from income and long-term capital gains. The company has a policy of declaring its dividend in stock and buys in shares for this purpose.

In 1987, the dividend from income totaled .35 a share. The capital gains distribution was $1.54 per share for a total return of $1.89 per share. No guarantee can be made that this distribution will be as large in 1988 and beyond, but the record shows a consistent return over the years of at least $1.51 per share since 1980.

General American sold in 1987 at discounts ranging from 6.5% (January 5) to 25.3% (December 10). Now trading close to the widest discount in over 12 months, it appears to offer good value, particularly as the growth stocks in the portfolio come back into favor.

We recommend the stock for growth-oriented investors seeking long-term capital gains. For more information call us; for reports call Muriel Cook at (212) 916-8400.

*Claremont Capital, a publicly-traded closed-end fund, of which George Cole Scott is a Director and shareholder, holds a position in General American Investors.

A Special Situation: Convertible Holdings

CONVERTIBLE HOLDINGS CAPITAL SHARES (4⅞–CNV–NYSE), part of a dual purpose investment company sponsored by Merrill Lynch, is selling at 50% discount to its net asset value of $9.50 per share. It has a capitalization of 24 million shares, half of which is an income fund and the other half a capital appreciation fund. The Income Shares sell at a premium of 17.20%. All of the income generated in this dual fund is paid to the income shareholders.

The Capital Shares were offered to the public in 1985 at the price of $8.50 per share. There was no syndication as it was eagerly sought after by investors in the hot bond market of the time. Because of this, the net asset value rose to $13.00 by April of 1987.

Since that time, the Capital Shares dropped to a low of 3⅞ in December, 1987, or a 54.57% discount to the net asset value of $8.53 per share. Currently, the still large discount makes this an unusually attractive investment suitable for the long-term investor.

Leverage arises from the fact that the capital shareholders initially only provided 42.5% of the company's capital in 1985 yet they will receive all of the company's appreciation. Conversely, the income shareholder initially provided 57.5% of the fund's capital, but will receive all the income. So, investors of each class of shares have more assets working for them than they have contributed.

The interesting feature is that the entire fund will be either liquidated or open-ended on July 31, 1997. On September 25, 1987, the board approved a plan for liquidation to present to shareholders because it felt the Capital and Income Shares were undervalued. This plan was terminated after the market declined in October. Convertible Holdings has since stated it has no intention to submit a further plan of liquidation to shareholders until the termination date.

The objectives of the fund are being achieved by the investment in convertible debentures and convertible preferred shares as well as in short term paper. In the stock market fall the convertible securities declined less than their underlying common stock and are now more stable than they have been as they are trading at smaller premiums over investment values. This demonstrates the defensive characteristics of both the income and the capital shares.

On December 31, 1987, the cash position was 12.4%, up from 10.6% on September 30, 1987. The average yield on the invested portion was 8.62%, while 53% of the securities are rated BBB or better. The largest holdings are in computer-related products, chemicals, banking and finance.

A tax advantage is provided when the fund pays the capital gains tax for its shareholder who is given a credit against his own taxes. His acquisition cost per share is adjusted upward at the same time. We think this is a benefit more closed-end funds should consider for their shareholders.

Why not try this fund for your children's education or for your retirement planning? For more information or reports call Vincent Lathbury at (609) 282-2084.*

*Claremont Capital, a publicly-traded closed-end fund, of which George Cole Scott is a Director, holds a position in Convertible Holdings, as does Mr. Scott.

Investment Company Institute News

What is the Investment Company Institute? Founded just after Congress passed the 1940 Act regulating investment companies, The Institute, better known as the ICI, is the national association of the American investment company industry. Its membership includes 2417 open-end investment companies ("mutual funds"), 74 closed-end investment companies and 15 sponsors of unit investment trusts. Its members have assets of $865 billion, accounting for 90% of total industry assets and have 29 million shareholders. For closed-end fund shareholders, the Institute provides weekly net asset values to the financial press. We will attend the Institute's Annual Meeting in May and will report news of interest to closed-end fund shareholders. If you have any questions about ICI or a closed-end fund, call the ICI–(202) 293-7700.

The Scott Letter Is For You

The Scott Letter is for investors who think for themselves, as well as brokers and money managers who are looking for value for their clients. Keep the phone calls and letters coming; we have added an answering service for after hours, so feel free to call our Richmond offices anytime.

We have an affiliation with a brokerage firm which not only provides quick execution of trades, but at prices comparable to discount brokers. If you subscribe to **The Scott Letter** and become an active client your subscription will be extended free. Contact us for details.

Let us meet your investment needs. We hope to be a liaison between you and the closed-end funds we follow. Why not join our rapidly growing subscriber list today?

George Cole Scott

George Cole Scott,
Editor

Next Month

- ***Investment Company Institute Annual Meeting***
- ***Adams Express Co.***
- ***Baker Fentress Co.***

George Cole Scott has been an investment broker since 1969 and a free-lance writer since 1965. He became interested in closed-end funds in 1976 when he joined the board of Claremont Capital, a closed-end fund based in Seattle. He has specialized in this form of investment since that time.