The Scott Letter: CLOSED-END FUND REPORT©

Box K-132 Richmond, Virginia 23288 Published Monthly $89.00 per year Vol. 1 Number 3 June, 1988
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Mistakes Commonly Made By Investors

In selecting mutual or closed-end funds you are usually looking for long-term compound annual returns on your investments. But to stay with funds which perform at or below market averages, often with a loss, hoping to recover your investment is unwise; if you are earning lower rates of return, it may be because you are making the same mistakes common to many investors. In some cases, by avoiding these, a loss can be turned into a gain. Here is a summary with an explanation as to why investors often fail to make high returns. Investing is a discipline with rules to be followed in order to succeed.

1.)Setting your investment return expectations too high.

Over the past 65 years, common stocks have returned an average of 12% annually. The average fund portfolio holding common stocks can be expected to bring a similar return. But the Bull Market of the 1980's has given the average investor distorted return expectations. Even accounting for the October, 1987 crash, common stocks have returned an average of 17.7% per year; in three years out of the last six, they have returned more than 21%.

As a result, many advisors and mutual funds have advertised astronomical performance numbers. These numbers often are for short periods and may represent strategies taking significant risk. What is going to happen in slower growth markets now this boom appears to be over?

As we pointed out in the risk tolerance essay, the pursuit of greater returns includes the assumption of higher risks with the possibilities of loss. Therefore, the investor who wants a return of 20% or more may have to assume such a degree of risk that his expectation may be far short of reality.

Remember the goal of investing is not to get rich overnight, but to obtain reasonable consistent compound returns. Secondly, pick a fund with a good long term record, rather than last quarter's hot performer. By following this approach, you should do very well.

2. Investing without knowing the fund's objectives.

Before you turn over your money to an investment advisor, you need to find out how he will manage the portfolio. Yet many individuals do not bother to do this: they just plunge in.

The first step is to look at the prospectus or annual report to determine the objectives. Do they agree with those you have set for your portfolio? If not, the fund is not for you. Secondly, look at the portfolio to see if these are the type of stocks you would buy yourself. Finally, and most important, what are the year-by-year historical annual returns as compared with the S & P 500 index? Pay particular attention to the swings in the return compared to the return of the index; the more violent the swing the higher the risk. If the deviation is too high and you can stand the swing, it is an acceptable investment; if not, find a more conservative fund.

(TO BE CONTINUED NEXT MONTH)

The Adams Express Company: A Fund For Total Return Investors

Adams Express Co.(ADX-NYSE-15 1/4) of Baltimore was founded in 1929; the original company of the same name was organized in 1854. Its principle objective is preservation of capital with reasonable income from investments and, in addition, an opportunity for capital appreciation. It is a conservative total-return fund with assets of $449 million at the end of the first quarter.

The investment approach for 1988 is in "an economy whose strength has passed from the consumer to the industrial sector. This is characteristic of the later phases of the business cycle." ADX is therefore emphasizing non-cycli-

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cal stocks as well as large positions in interest-sensitive issues. Anticipating the possibility of a recession, the fund admits it may lag the market for a while, but points out these stocks should protect shareholders' capital in the event of a recession.

The largest holdings of the fund are blue chips such as IBM, General Electric, McDonalds and Pepsico. It also owns a 9.2% interest in Petroleum and Resources Corporation, a closed-end fund under the same management. The outlook for energy prices, ADX predicts, is for short-term weakness but over the next three or four years it sees that tightened supplies of crude oil will bring higher prices and therefore higher profits for efficient producers.

Investment income in 1987 was $0.78 while capital gains distributions were $2.66 for a total return of $3.44 per share; this compares with distributions of $4.43 in 1986 and $1.92 in 1985.

At the end of the first quarter, the net assets per share of the fund after adjusting for the capital gains distribution paid in 1988($.12) was up 6.0% ($16.77 vs.$15.92). This compares with increases of 2.5% and 4.8% respectively for the Dow and the S&P index.

There is an automatic dividend reinvestment plan so stockholders may choose to receive all their dividends and capital gains distributions in stock.

Adams Express has a low expense ratio, averaging .5% for the past ten years; it is trading at a discount of 6.38% to a net asset value of $16.29 per share. ADX has not been repurchasing its shares in recent years because of the narrow discount; it will do so when the discount is 10% or more.We therefore recommend Adams Express for the conservative investor interested in total return and especially for the investment of retirement funds.For more information or reports, call (301) 752-5900.

George Cole Scott ownes some Adams Express in his Retirement Portfolios.

ICI Meets in Washington

As the annual meeting of the Investment Company Institute (ICI), attended by over 1100 executives from the industry, opened in Washington on May 17, one thunderstorm after another hit the city while inside members of the open- and closed-end fund industry were meeting for the first time since the stock market took its historic slide. The unsettled conditions of the securities market since has created an even greater need for "professional guidance, diversification, and liquidity"for investors.

The meeting opened with Senator Donald Riegel(D-Mich.), soon expected to head the Senate Banking Committee, telling us "things look pretty good" and "we're going to ride this out."; he expects little action on the market's problems which surfaced in the October debacle.

Underlying all this talk was another week of a declining market, slow sales for mutual funds and concerns about higher interest rates. But ICI Chairman Richard Reilly, speaking about mutual fund sales, noted that sales of closed-end funds (new issues) were up significantly for the first quarter of 1988($6.5 billion vs. $2.7 billion for 1987).

As investors we are affected by these events, but our question at this conference now turns to how the closed-end fund industry fits into the ICI. We differ from the open-end fund industry; and are less concerned about sales than by the regulatory issues.

The closed-end group was part of the ICI from its founding until 1961 when it became clear that we had too many differences. So our own organization was formed to better meet our needs. Closed-end funds went out of favor for many years until the recent Bull Market brought many new issues public and country funds appeared. The ICI once again became important to us as well as to the open-end fund industry.

So, in October, the "Publicly Traded Funds" group rejoined the ICI. Closed-end fund committees have been formed to deal with issues affecting us and in time, we can be more active participants. At this conference there was a small turnout, but we hope for a stronger presence next year.

There was a well-attended closed-end fund breakfast. Represented were Adams Express, Claremont Capital, General American Investors, Liberty All-Star, Merrill Lynch (Convertible Holdings), Niagara Shares and Source Capital plus open-end fund members interested in us.

We hope this interest will be expanded next year to include panel discussions from members of our industry. C. Richard Pogue, Senior Vice President of the ICI, welcomed us back, saying:

"We're glad to have the closed-end funds rejoin the Institute, so we can serve as a forum for the entire range of legislative and regulatory issues affecting all of us."

Baker Fentress Co.: A Growth Fund

Baker Fentress(BKFR-OTC,40), located in Chicago is a closed-end investment company founded in 1891 as Lyon, Gary & Co. It changed its name to Baker, Fentress in 1920 and became a closed-end investment company in 1970. Its net assets on March 31 were $455 million.

The company does not attempt to reduce risk by diversifying its investments; it invests primarily for capital appreciation and for income consistent with capital appreciation.

CLOSED-END BOND FUNDS

Following are shares of closed-end (fixed number of outstanding shares) investment companies with diversivied portfolios of bonds. Shown is the unaudited net asset value (NAV) of each company's shares as of **May 20, 1988.**

	Sym.	N/A Value	Stock Price	% Diff.	Div. Paid	% Yld.
ACM Gov Inc	ACG	10.88	11½	+ 5.7	$1.26	10.95
ACM GSF	GSF	10.79	11	+ 1.9	$1.26	11.45
AMEV Secs	AMV	10.44	10½	+ 0.6	$1.08	10.28
Am Cap Bd	ACB	b 20.90	20⅞	- 0.1	$2.20	10.53
Am Cap Inc	ACD	9.20	10⅛	+ 10.1	z	z
Am Gov Inc Fd	AGF	7.32	8¼	+ 12.7	z	z
Bunker Hill	BHL	17.62	16⅞	- 4.2	$1.76	10.43
Circle Inc	CINS	12.12	12¼	+ 1.1	z	z
CNA Inc	CNN	11.11	11⅛	+ 0.1	$1.24	11.15
Current Inc Shrs	CUR	11.99	11⅞	- 1.0	$1.38	11.62
DW Gov Inc	GVT	9.49	9½	+ 0.1	$0.60	6.31
Drexel Bd	DBF	19.10	19⅝	+ 2.7	$1.86	9.47
Excelsior	EIS	e 16.99	15¾	- 7.3	$1.32	8.40
FBost Income	FBF	8.74	8¾	+ 0.1	$0.90	10.29
FB Strategic	FBI	11.16	12	+ 7.5	z	z
Ft Dear Inc	FTD	a 14.29	14⅜	+ 0.6	$1.36	9.46
Hatteras	HAT	15.94	15⅞	- 0.4	$1.56	9.82
Hi Inc Adv Tr	YLD	9.27	9¾	+ 5.2	$1.20	12.30
Hi Yld Inc Fnd	HYI	9.47	9⅜	- 1.0	$1.17	12.48
High Yld Plus	HYP	9.25	9⅞	+ 6.8	$1.11	11.24
INA Invest	IIS	17.94	17	- 5.2	$1.68	9.88
Ind Sq Isis	ISIS	16.35	16¾	+ 2.4	$0.54	3.22
Intercap	ICB	19.09	21	+ 10	$2.10	10.00
J Hancock Sec	JHS	15.33	15⅛	- 1.3	$1.54	10.18
J Hancock Inv	JHI	20.71	20¾	+ 0.2	$2.13	10.26
Kemper Hi Inc	KHI	11.09	12⅛	+ 9.3	z	z
Lincoln Natl	LND	27.23	25	- 8.2	$2.37	9.48
MFS Gov Inc	MGF	9.18	10	+ 8.9	$1.18	11.80
MFS Inc & Opp	MFO	9.72	10¼	+ 5.5	$1.20	11.70
MFS Int Inc Tr	MIN	9.23	10	+ 8.3	z	z
MFS Multi	MMT	9.05	10¼	+ 13.3	$1.23	12.00
Mntg St	MTS	18.56	18¾	+ 1.0	$1.80	9.60
M Omaha Int	MUO	13.66	15⅛	+ 10.7	$1.40	9.26
New Amer High Inc	HYB	a 8.95	10	+ 11.7	$1.50	15.00
Opp Multi S	OMS	10.91	10⅞	- 0.3	$1.12	10.30
Pac Am Inc	PAI	b 15.15	14⅞	- 1.8	$1.85	12.43
Prudential Strat	PSF	9.07	9⅞	+ 8.9	$1.05	10.63
Put Mstr Inc	PIM	a 9.37	9⅜	+ 0.1	z	z
Put Mstr Int	PMT	9.31	10	+ 7.4	$1.10	11.00
Putnam Premier	PPT	a 8.87	9⅜	+ 5.7	$1.14	12.16
State M Sec	SMS	10.89	10⅞	- 0.1	$1.20	11.03
Trans Am Inc	TAI	21.90	23¾	+ 8.4	$2.48	10.44
US Life	UIF	9.21	8¾	- 5.0	$0.92	10.51
Vestaur Sec	VES	13.37	12¾	- 4.6	$1.23	9.64

Convertible Bond Funds

Lincoln Natl CV	LNV	13.48	11¾	- 12.8	$0.91	7.74
Put Cv & Bd	PCF	a 8.30	8	- 3.6	z	z

International Bond Funds

Fst Austr Pr	IAF	10.54	9⅛	- 13.4	$0.28	3.06
Glb Govt	GOV	9.52	9⅞	+ 3.7	$1.20	12.15
Globl Yld Fnd	PGY	10.18	9¾	- 4.2	$1.08	11.07
Klein Benson Aus	KBA	11.30	10⅞	- 3.8	$1.59	14.62
Templeton Global	GIM	9.37	10⅛	+ 8.1	$1.02	10.07

Municipal Bond Funds

Allsta Muni	ALM	10.08	10	- 0.8	$0.78	7.80
Col Muni	CMU	8.88	9⅜	+ 5.6	$0.79	7.90
Dry Strat Muni	LEO	9.69	9⅞	+ 1.9	$0.78	7.89
MFS Muni Inc	MFM	8.96	9¼	+ 3.2	$0.74	8.00
Muni Insured	MIF	9.61	9⅝	+ 0.2	$0.62	6.44
NYTEI	XTX	9.77	9¼	- 5.3	$0.67	7.24
Nuveen Inc	NMI	11.21	11⅝	+ 3.7	z	z
Nuv Inc Cal	NCM	11.23	11¾	+ 4.6	z	z
Nuv Inc NY	NNM	11.22	12	+ 7.0	z	z
Nuveen Val	NUV	9.43	9⅜	- 0.6	$0.70	7.46
Nuv Val Cal	NCA	9.53	9¾	- 2.3	$0.67	6.87
Nuv Val NY	NNY	9.81	10	+ 1.9	$0.69	6.90

(a) Ex-Dividend. (b) Fully diluted (e) Thursday close (z) Not available
Yields are computed on last twelve months income and capital gains distributions.
Source: Lipper Analytical Services and Bunker Ramo.

BOND FUND REVIEW

Since October, brokerage firms and mutual fund companies, particularly closed-end funds, have been pushing new offerings hard. Prominent among these have been IPO's of new bond funds. (see New Issues) Investors should ignore broker's claims that clients pay no sales commissions if they buy at the offering price because a 7% commission is paid from the fund's assets before the money is invested. This compares to 2% to 4% commissions on ordinary securities trades. The SEC has announced it is doing a study of this situation.

We therefore recommend you look for older bond funds selling at or near net-asset value or, if it is a new issue, look for a short to intermediate term fund—with one to ten year bond yields in a range of 7% to 5% which are less volatile than the longer maturity issues. We caution you against bond funds which try to boost their yields with risky junk bonds—bonds rated BB or lower—unless you select one or more funds with at least $1 billion in assets which diversifies widely.

A conservative strategy is important if interest rates continue to rise. The **John Hancock Securities** recommended in this issue has longer maturities, but its managers are defensive and continue to shorten maturities.

Another choice could be from Miami advisor, Thomas Herzfeld, who is recommending the 15 year-old **Excelsior Income Shares** (NYSE $15¾) which is trading at a 7.3% discount with a yield of 8.4% and an average bond maturity of seven years.

NEW ISSUES

Prudential Intermediate Income Fund, Inc. Initial offering, 47 million shares at $10, via Prudential Bache.
Comstock Income Strategy Inc. Initial offering, 110 million shares at $10, via Merrill Lynch.

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 **May 20, 1988.**

Diversified Common Stock Funds

	Sym.	Stock Exchg.	N.A. Value	Stock Price	% Diff.
Adams Express	ADX	NYSE	16.29	15¼	- 6.38
Baker Fentress	BKFR	OTC	49.28	40	- 18.84
Blue Chip Value	BLU	NYSE	6.88	5½	- 20.06
Clemente-Gbl	CLM	NYSE	b 8.43	6⅛	- 27.34
Equity Guard	EGS	AMEX	b 9.80	9½	- 3.09
Gemini II Cap	GMI	NYSE	14.41	10⅜	- 28.00
Gemini II Inc	GMI+	NYSE	9.46	12⅛	+ 28.00
Gen'l Amer Inv	GAM	NYSE	17.63	14¼	- 19.20
Global Gr Cap	GGF	NYSE	8.24	7¾	- 5.95
Global Gr Inc	GGF+	NYSE	9.44	9¼	+ 0.64
GSO Trust	GSO	NYSE	9.58	9⅛	- 4.70
Lehman Corp	LEM	NYSE	13.50	11⅞	- 12.00
Liberty All-Star	USA	NYSE	8.02	6¼	- 22.10
Niagara Share	NGS	NYSE	15.34	12⅞	- 17.07
Nich Ap Gr Eq	GEF	NYSE	7.90	6⅝	- 16.14
Quest Value Cap	KFV	NYSE	9.98	7¾	- 22.34
Quest Value Inc	KFV+	NYSE	11.63	9¾	- 16.17
Royce Value	RVT	NYSE	9.05	7⅞	- 12.98
Schafer Value	SAT	NYSE	8.35	6⅞	- 17.66
Source Cap	SOR	NYSE	a 36.36	36¼	- 1.20
Tri-Continental	TY	NYSE	23.60	21	- 11.00
Worldwd Value	VLU	NYSE	18.72	14⅜	- 23.21
Zweig Fund	ZF	NYSE	9.91	10	+ 0.91

Specialized Equity and Convertible Funds

	Sym.	Stock Exchg.	N.A. Value	Stock Price	% Diff.
Amer Cap Cv	ACS	NYSE	22.48	21¼	- 5.47
ASA Ltd.	ASA	NYSE	b c z	z	z
Asia Pacific	APB	NYSE	8.02	6¼	- 22.00
Bancroft CV	BCV	AMEX	22.75	20½	- 9.87
BGR Prec Mtls	BPTT	TOR	b e 14.11	11¼	- 20.27
Brazil Fund	BZF	NYSE	11.60	9⅛	- 21.34
CNV Hlgd. Cap	CNV	NYSE	9.34	4¾	- 49.14
CNV Hldg. Inc	CNV+	NYSE	9.52	10⅞	+ 14.23
Castle CV	CVF	AMEX	22.44	20¾	- 7.50
CenFdCanada	CEF	AMEX	b 6.45	6	- 7.00
Cent Sec	CET	AMEX	12.09	10¼	- 15.22
Claremont Capital	CCM	AMEX	49.31	48⅝	- 1.40
Couns Tandem	CTF	NYSE	6.91	5⅛	- 25.83
Cypress Fund	WJR	AMEX	9.21	6¾	- 26.71
Duff Phelps Util	DNP	NYSE	7.54	8⅜	+ 11.10
Ellsworth Cv	ECF	AMEX	8.42	7⅜	- 12.42
Engex	EGX	AMEX	12.46	$9\frac{5}{16}$	- 20.24
Fin News Comp	FIF	NYSE	15.19	12½	- 17.71
1st Australia	FAI	AMEX	9.74	7¾	- 20.43
First Fin Fund	FF	NYSE	8.27	6⅞	- 16.86
1st Iberian	IBF	AMEX	9.16	8	- 13.00
France Fund	FRN	NYSE	b 9.99	8⅞	- 1.11
Gabelli Equity	GAB	NYSE	10.57	9⅛	- 13.67
Germany Fund	GER	NYSE	7.22	6½	- 10.00
H & Q Health	HQH	NYSE	7.59	6⅜	- 16.01
Ham Cap	HU	NYSE	b 9.06	7¼	- 19.98
Ham Ut. Pfd.	HUT	NYSE	b 48.91	48¼	- 1.35
Helvetia Fund	SWZ	NYSE	11.06	9⅞	- 10.71
Italy Fund	ITA	NYSE	b 8.80	7	- 20.45
Korea Fund	KF	NYSE	41.42	73½	+ 77.45
Malaysia Fund	MF	NYSE	8.28	7	- 15.46
Mexico Fund	MXF	NYSE	b 6.84	5⅛	- 25.00
MG Sm. Cap	MGC	NYSE	8.56	7	- 18.20
Petrol & Res	PEO	NYSE	25.99	25⅛	- 3.30
Pilgrim Reg	PBS	NYSE	9.12	7	- 23.25
Prg Inc	PRGR	NYSE	8.68	8½	- 0.02
Reg Finl/Shs	BNC	NYSE	7.42	5¾	- 22.51
Scandinavia	SCF	AMEX	8.72	6¾	- 22.59
Scnd New Asia	SAF	NYSE	13.39	10⅜	- 22.52
Taiwan Fund	TWN	AMEX	b 24.32	41⅜	+ 70.10
TCW Cv Sec	CVT	NYSE	b 8.33	7¼	- 13.00
Templeton E Mkt	EMF	AMEX	b 8.75	7	- 20.00
Thai Fund	TTF	NYSE	11.45	16	+ 39.74
Utd. Kingdom Fd.	UKM	NYSE	11.55	8¾	- 24.24
Z-Seven	ZSE	PAC	d 14.20	14⅜	+ 1.23

(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: (z) - Not available.
Source: Investment Company Institute.

BKFR, internally managed by its officers under the supervision of its Board of Directors, invests primarily in common stocks and other equities such as preferred stocks, as well as interests in limited partnerships and convertible debt securities. Since the early part of last year, BKFR has taken a defensive position in the market, realizing capital gains of nearly \$60 million during 1987 and holding a portion of the proceeds in cash. Management is concerned about the future of the economy and equity markets, but reaffirms its basic investment strategy of committing most of its assets to relatively few equity securities it believes have long term potential.

For the first quarter, Baker Fentress increased its Net Asset Value 6.5% to \$49.59 from the year-end figure of \$46.57. This follows a total return performance of the portfolio, assuming reinvestment of income and capital gains of 488% versus 315% for the S&P index for the period ending December 31, 1987.

The investor in BKFR not only can invest at a discount, but also has the advantage of the substantial holding(2.5 million shares or 79%) in Consolidated-Tomoka Land Co.(CTLC) of Daytona Beach, Florida, whose shares are carried on the books at an original cost close to \$2.00 per share.

This is a citrus grower and real estate developer whose land acquisition goes back to 1902 which bases its operations on the utilization and conversion of its land assets.

CTLC owns more than 36,000 acres in lake-surrounded Highlands (Central Fla.) and Volusia Counties (Daytona) as well as mineral rights throughout the state. Recently, it established a partnership in Daytona Beach to develop jointly-held properties in residential development, shopping centers as well as industrial and commercial buildings.

Earnings of CTLC increased approximately 15% in 1987 over 1986 results. Future year to year results will vary depending on the citrus crop as well as the timing of real estate sales. BKFR shows an unrealized capital gain of \$87 million at the end of 1987 on its investment in CTLC which appears to be undervalued due to its real estate holdings.

Just over two years ago, Barron's carried a comprehensive report on CTLC citing independent appraisers stating that, if it were for sale, the property would sell for over \$40 per share. If you translate this to dollars per share, the 2.5 million shares would add \$11.50 per share to Baker, Fentress stock; this additional value would be over the market price of \$40 per share. Barron's quotes the management of BKFR as believing that CTLC could become a take-over target as its common stock trades so far below liquidation value. To prevent this Baker, Fentress has adopted anti-takeover provisions for itself as well as for CTLC.

Other large positions include an 11.6% holding in Barnett Banks, the largest financial institution in Florida, as well as investments in diverse holdings such as Abbott Labs, Dunn & Bradstreet, and Hewlett Packard Co.

BKFR has a new distribution policy similar to the one pioneered by Source Capital, which relates total annual shareholder distributions to average annual net asset value. This provides that total calendar year payments to shareholders, net investment income and realized capital gains, will equal at least 8% of average net assets at the end of each year ending October 31. Under this policy, during 1987, the company distributed a total of \$5.20 per share to shareholders (with 0.55 per share from the prior year.)

Although distribution amounts are based on a percentage of net asset value, the shares have usually traded at a large discount to this figure, partly due to the large holding in CTLC. Concern about this discount may be part of the reason for this policy.We question the wisdom of having a set amount to be paid out each year.

BKFR has an automatic dividend reinvestment plan with this unique feature: the costs of administering it are absorbed by the company so the total amount of shareholder dividends and capital gains distributions are reinvested automatically.

The company retains a portion of its capital gains each year, which each shareholder of record reports to the government. He is then entitled to a credit for a share of the tax paid by the company on the gains.

We think Baker Fentress is well managed and represents good value for investors of a moderate risk orientation. The expense ratio is low; it has declined each year since 1984 to 48%. The discount in 1987 ranged from a high of 31% to a low of 13.7%; the current discount of 18.84% represents good value as the portfolio is more liquid than in previous years. Usually, long-term performance as good as this merits a premium, not a discount. A solid buy. For more information or reports call (312) 236-9190.

John Hancock Investors Trust: Bond Of The Month

John Hancock Investors Trust (JHI-NYSE-21) is a closed-end diversified management company. It has a sister fund, John Hancock Securities(JHS), which tends to trade at a discount because of lower quality securities,while JHI tends to trade at a small premium.

The main objective of JHI is income for distribution to shareholders with capital appreciation a secondary goal. The current projected dividend of \$2.13 includes capital gains distributions to yield 10.14%. Most of the trust's assets are invested in a diversified portfolio of debt securities some of which carry equity features. Up to 50% of assets may be invested in restricted securities(direct placements). The trust may also issue a single class of senior securities up to 33% of its net assets and may leverage its assets through banks. It may also purchase equity securities (up to 20% of assets) although it doesn't own any at this time.

JHI has taken a moderately defensive stand on the bond market for the past year as, in April, 1987, it began shortening maturities to 14 years. It has also improved the quality of its portfolio by the sale of weak oil company issues and reinvestment in high quality bank and utility bonds.

It has also been buying so-called cushion bonds, high coupon issues with limited up and downside risks. This is in view of the contradictory signals concerning the near and long-term direction of the economy. JHI continues to emphasize corporate bonds--about 70% of its assets--instead of lower yielding governments. Since it does tend to trade at a slight premium, we recommend you try to buy it at its net asset value or better.

Investment Outlook

The stock market has seen numerous daily swings of some magnitude, but lately there has been a fairly evenly matched tug-of-war between the Bulls and the Bears.

We therefore advise caution and a conservative approach to investing.While stock prices are not cheap in relation to earnings, they are cheap enough if stability and moderate growth continue without severe interruptions. Therefore, we may be able to avoid the extremes of a severe recession and a resurgence of inflation if the Fed holds a steady course. But until these uncertainties lessen, we advise you to look for funds with strong cash positions. Consider selling your more speculative funds.Bond fund investors should look for funds with short maturities.

We have a bottom-up philosophy: we do not forecast the stock market or market conditions, but listen to the wisdom of John Templeton, who has said,"we have no formula, no magic, we don't know of any way to beat the market. It is common sense to recognize there is really one investment objective and that is to produce maximum total return."

We will be recommending some of the newer funds in coming issues – Clemente Capital, Gabelli Equity Trust, Growth Stock Outlook Trust, and others, but will continue to emphasize those taking a defensive posture in a more difficult investment environment.

PREVIOUS RECOMMENDATIONS INVESTMENT PERFORMANCE

Name	Price	Price 5/20/ 88	% gain(loss)	Comment:
Convertible Holdings Capital	$ 4 7/8	$ 4 3/4	-2.56%	Buy
General American Investors	$14 1/4	$14 1/4	0%	Buy

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. Since that time he has specialized in this form of investment for clients.