The Scott Letter:

CLOSED-END FUND REPORT©

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Liberty All -Star Under Siege

Liberty ALL-STAR Equity Fund(USA-7 1/4-NYSE)is the latest target of increasing takeover activity in the closed-end fund industry. Fund managers and others are watching with interest and concern, wondering who will end-up with control.

On November 30, a unit of CNA Financial Corp. and other investors said it holds a 5.15% stake in Liberty and may buy more. It is not known whether this group, which includes John Levin, a New York Broker-Dealer, has any direct connection with other adversaries such as John Bogle of the Vanguard Group. Earlier, Bogle said he wants to open-end the Fund, take over its management and sharply reduce its expenses, saving about $2 million a year which could be distributed to shareholders.

The CNA Group has said it intends to vote in favor of the Vanguard proposal, but doesn't appear to have enough votes. Management has super majority provisions(75% vote required for a change of management contract) as well as a staggered board.

Open- Ending

In addition to this, a minority shareholder has submitted a proposal to open-end the Fund at the 1989 annual meeting in April; this is not scheduled to happen until 1993. Another shareholder has filed a suit alleging that the Fund "has been carrying out a scheme to perpetrate its closed-end status to maintain control and charge excessively for their services."

Separately, Liberty Mutual Insurance Co., the Boston-based insurance and financial group affiliated with the adviser, has just announced it holds 3.19 million shares or 5.94% of the Fund's outstanding common shares. It plans to increase its holdings to 8.05 million shares(15%). This could be a strong defense against adversaries.

Liberty All-Star of Boston with management offices in Westport, Conn., is headed by Richard Roberts and managed by five outside advisers in what is known as a "multi-manager" or "All-Star" concept of portfolio management. This is a common practice among pension fund managers, but is not yet accepted in the mutual fund industry.

The $423 million fund was organized in August, 1986, and has had a controversial history because of its high fees and weak performance. It also has had a high expense ratio: 1.92% in 1987 and is expected to be 1.25-1.30% in 1988. This is high for a fund of this size.

Roberts also has an offshore fund, Liberty All-Star World Equity Portfolio, a $133 million fund not available to U.S. residents. It has just been open-ended; it has traded at a large discount in London. Organized last May in Luxembourg for global investment in the United States, Europe and the Pacific Basin, it has six managers two of which are employed by the domestic fund.

The Multi-Management Concept

Liberty reports that it also has plans for more funds utilizing the same concept of multi-managers, a concept it firmly believes in. How does this work?

Multi-management is a total return concept where the "Fund-Manager" hires a team of advisers utilizing various investment styles. Three "value" managers--Cooke & Bieler, Dreman Value Management and Newbold's Asset Management--and two growth stock firms--Phoenix Investment Counsel and Provident Investment Counsel--each manage a portion(just over $80 million) of the total portfolio. Cooke and Bieler finds stocks of small and medium sized companies; Dreman and Newbold's invest in larger companies.

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H&Q Health Care Fund

H & Q Healthcare Investors(HQH-NYSE-5 3/4) is a new(April,1987) diversified fund whose objective is long-term capital appreciation by investing primarily in emerging companies in the health care industry, particularly in pharmaceutical and biotechnology issues. It also invests in venture capital where it feels there is the most potential to realize value for its investors.

HQH is sponsored by Hambrecht & Quist, a San Francisco firm well known for technology companies as well as health care stocks where it has 1/3 of its expertise. It is located in Boston because its manager, Alan Carr, a specialist in health care funds for many years, is there. We had a pleasant conversation with him on December 8.

The Fund went public in April, 1987, when it raised $50 million. There are about 1000 public companies in the health care business and of these about 400 have health care as their primary-business. Initially, the emphasis was on the larger companies; since the October, 1987 market plunge H & Q has focused on the smaller emerging companies where it saw greater values.

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Inside

Liberty (Cont. from page 1)

In the growth area, Phoenix likes moderately-sized companies while Provident seeks companies with smaller capitalizations.

Unique to the closed-end fund industry is the concept of "rebalancing": to keep equality among the amount of assets managed by each adviser, funds are shifted on a six-month basis from one to another. This is done by rotating assets as the Fund manager sees a shift in market emphasis. Much of the high expenses of the Fund are here as the Westport staff spends much time working out its formula for asset allocation. Management disputes that this is another form of market timing and strongly defends its position.

We were able to interview Roberts by phone in November, just prior to a planned 30-day round the world trip to visit Merrill Lynch offices(the underwriter for the offshore as well as the domestic fund) prior to management's plans to open-end the latter. He strongly defended his position and at the time wasn't too concerned about the attacks on his fund. He has more to think about now.

Proposal Rejected

In early November, a press release stated that the Trustees of the Fund rejected the Bogle proposal because the Fund was created and offered to the public on the basis of the multi-manager concept.

The high expenses of the Fund are what have bugged so many observers. In March, 1988, in a highly critical story, Barron's rapped Liberty All-Star for its multi-manager concept and described its fees as at "an astonishing level compared to those of other managers." Some of this criticism was exaggerated, but the issue keeps coming up whenever this Fund's name is mentioned.

Fee Structure

Each portfolio manager is paid at an annual rate of 0.40% of the average weekly net asset value of the portion of the assets it manages, up to $400 million; fees are reduced for assets over $400 million. This works out to just over $1.7 million for the five managers and a total advisory fee for the group of $4.2 million for the $423 million portfolio. The administrator keeps the remainder of the fee, although only 1/5 of the total fee is supposed to be used for administration. It employs two analysts for its rebalancing and other work on the portfolio. Fees for other funds of its size range from 1/2 to 3/4%, although many funds charge a 1% fee.

The performance of Liberty All-Star has lagged the averages. Its record since inception shows that in 1987, its first full year, the portfolio was off 2.7% while the S&P Index was up 5.2%. This figure includes reinvestment of dividends and some return of capital. For the first nine months of 1988, the NAV increased 10.6% versus 13% for the S&P 500 Index. Management thinks performance will improve over time, but how much time do we have? .

Is Liberty All-Star likely to be open-ended before 1993? This is possible but management appears to be firmly in control. The 15% position owned by its Boston affiliate could presumably be increased. Management can always open-end the Fund itself or keep paying-out cash distributions to narrow the discount even further.

Distributions

The Fund has paid cash distributions of $1.18 in 1987 and is paying out 7.5% of net asset value this year and 10 % thereafter. This policy is a common way for funds to narrow their discount and thus deter takeover groups. Funds utilizing this policy hope shareholders will purchase more shares, but they have to have confidence in management to do so. If the Fund doesn't have the cash for the distribution, it can pay back a tax-free return of capital even if this is a form of liquidation. Liberty All-Star's narrow discount of just 11.69% is partly a result of this policy.

Assessing The Funds

How do we assess Liberty All-Star? It appears to be on different tracks and has changed its policy of distribution to its shareholders several times. It also seems to pay too much attention to its concept of multi-management and rebalancing the portfolio and not enough in trying to beat the averages.

We will watch what happens to the World Equity Portfolio; management hopes it will grow but what could happen is mass redemptions as investors may be more interested in realizing net asset value than investing more money.

We think this kind of situation could set the pattern for more restructuring in the closed-end fund industry. A fund without management control goes to a steep discount; shares are accumulated by an adversary ready to open-end it for the spread. This could benefit all but the original shareholders. Is this really the best form of closed-end fund investing?

We will keep you posted on this important story and how it could affect other closed-end funds.

For reports or daily net asset values call 1-800-542-3863. Its address is P.O.Box 9146, Boston, Mass. 02205.

H&Q (Cont. from page 1)

Largest Industry

Carr emphasized that the health care industry is the largest single sector in the U.S. economy and it continues to grow; there will be changes, but the demand for services in this field remains at a high level due to the expanding population of older people. What is more difficult will be finding companies which will benefit the most. Will H & Q be able to spot them and invest significant amounts in the best areas? So far, they seem to be on the right track.

Carr came to H&Q from The Putnam Group where he was responsible for $350 million in health care funds. Previously, he managed a bank portfolio in emerging companies with significant investments in health care. He has also been associated with two hospitals in the Boston area. We focused on various aspects of his bias towards the health care industry:

1. Carr sees rapidly rising earnings for these companies no matter where the economic scenario leads us in 1989 and beyond.
2. He discussed each area of the health care industry starting with where he has made his largest investments and why.
3. He told us how he picked his stocks and where he plans to go in the venture capital side of the business. He feels the timing is right for this type of fund. H & Q could vote to open-end in 1992, but only if recommended by the adviser.

Few Disappointments

"I think investor patience will be rewarded," he told **The Scott Letter**. "There is a bias now towards the OTC market and there have been few disappointments, with the exception of the biotechnology stocks." He now sees those improving after some initial disappointments. For the health care industry as a whole, he sees earnings gains in 1988 of 27% over 1987, and in 1989 23% to 25% regardless of what happens to the economic cycle. P/E ratios of these stocks are still at a 30% discount to the growth rate of the companies and historically that's been a good time to be a buyer. Here's a rundown on the portfolio:

PHARMACEUTICAL (23%) should grow at 18% per year and has strong earnings driven, high margin companies with superior cash flows and the ability to raise dividends. The long term fundamental outlook is superior; you're paying less than a 20% premium to get into this non-cyclical market. Investments in this area include such industry leaders as Eli Lilly, Schering Plough, Syntex and Upjohn.

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 **December 9, 1988.**

22 Diversified Common Stock Funds

	Sym.	Stock Exchg.	N.A. Value	Stock Price	% Diff.
Adams Express	ADX	NYSE	16.10	14⅞	- 7.61
Baker Fentress	BKF	NYSE	23.84	19	- 20.30
Blue Chip Value	BLU	NYSE	7.22	5⅞	- 18.63
Clemente-Gbl	CLM	NYSE	b 8.79	6¾	- 23.21
Gemini II Cap	GMI	NYSE	17.39	12⅝	- 27.40
Gemini II Inc	GMI+	NYSE	9.86	12¾	+ 29.31
Gen'l Amer Inv	GAM	NYSE	17.20	13⅞	- 19.33
Global Gr Cap	GGF	NYSE	8.66	7½	- 13.39
Global Gr Inc	GGF+	NYSE	9.54	9⅜	- 1.73
GSO Trust	GSO	NYSE	9.51	9¼	- 2.73
Lehman Corp	LEM	NYSE	14.30	11¾	- 17.83
Liberty All-Star	USA	NYSE	a 8.21	7¼	- 11.69
Niagara Share	NGS	NYSE	14.85	11⅞	- 20.03
Nich Ap Gr Eq	GEF	NYSE	8.34	6⅞	- 17.57
Quest Value Cap	KFV	NYSE	11.61	8¼	- 28.94
Quest Value Inc	KFV+	NYSE	11.81	10⅜	- 12.15
Royce Value	RVT	NYSE	9.66	8⅜	- 13.30
Schafer Value	SAT	NYSE	8.93	7¼	- 18.81
Source Cap	SOR	NYSE	37.19	36¼	- 2.53
Tri-Continental	TY	NYSE	24.58	19¾	- 19.65
Worldwd Value	VLU	NYSE	20.30	16⅝	- 18.10
Zweig Fund	ZF	NYSE	10.24	10⅛	- 1.12

48 Specialized Equity and Convertible Funds

	Sym.	Stock Exchg.	N.A. Value	Stock Price	% Diff.
1st Australia	FAI	AMEX	10.98	8¾	- 20.31
1st Iberian	IBF	AMEX	9.63	7¾	- 19.52
Amer Cap Cv	ACS	NYSE	22.97	22	- 4.22
ASA Ltd.	ASA	NYSE	bc 55.13	38⅞	- 29.48
Asia Pacific	APB	NYSE	8.71	6¼	- 28.24
BGR Prec Mtls	BPTT	TOR	be 12.11	9¼	- 23.62
Bancroft CV	BCV	AMEX	20.35	17⅝	- 13.39
Bergstrom Capital	BEM	AMEX	g 50.07	48⅞	- 2.39
Brazil Fund	BZF	NYSE	11.54	7⅝	- 33.93
CNV Hldg. Cap	CNV	NYSE	8.73	4¼	- 51.32
CNV Hldg. Inc	CNV+	NYSE	9.59	11½	+ 19.92
Castle CV	CVF	AMEX	21.74	19⅝	- 9.73
CenFdCanada	CEF	AMEX	b 5.87	4 13/16	- 18.02
Cent Sec	CET	AMEX	11.34	9¼	- 18.43
Couns Tandem	CTF	NYSE	8.33	5⅝	- 32.47
Cypress Fund	WJR	AMEX	9.09	6⅞	- 24.37
Duff Phelps Util	DNP	NYSE	7.78	8	+ 2.83
Ellsworth Cv	ECF	AMEX	8.28	7⅜	- 10.93
Engex	EGX	AMEX	11.75	8¼	- 29.79
Fin News Comp	FIF	NYSE	16.53	14½	- 12.28
First Fin Fund	FF	NYSE	8.78	6¾	- 23.12
France Fund	FRN	NYSE	b 11.63	9⅝	- 17.24
Gabelli Equity	GAB	NYSE	11.28	9⅞	- 12.46
Germany Fund	GER	NYSE	8.28	7½	- 9.42
H & Q Health	HQH	NYSE	7.79	5⅞	- 24.58
Ham Cap	HU	AMEX	b 10.16	8⅝	- 15.11
Ham Ut. Pfd.	HUT	AMEX	b 49.00	47⅛	- 3.83
Helvetia Fund	SWZ	NYSE	b 11.13	9½	- 14.65
India Fund	IAF	NYSE	f 12.28	9	- 26.71
Italy Fund	ITA	NYSE	b 10.12	8¼	- 18.48
Korea Fund	KF	NYSE	16.31	26⅞	+ 64.78
Malaysia Fund	MF	NYSE	9.15	6¾	- 26.23
Mexico Fund	MXF	NYSE	b 8.29	5½	- 33.66
MG Sm. Cap	MGC	NYSE	8.48	7⅛	- 15.98
Petrol & Res	PEO	NYSE	24.76	21¾	- 12.16
Pilgrim Reg.	PBS	NYSE	9.82	7¾	- 21.08
Rl Estate Sec Inc	RIF	AMEX	8.94	8¾	- 2.13
Reg Finl/Shs	BNC	AMEX	7.93	6⅛	- 22.76
Scandinavia Fd.	SCF	AMEX	8.67	6⅜	- 26.47
Scudder New Asia	SAF	NYSE	12.15	9⅛	- 24.90
Spain Fund	SNF	NYSE	11.52	10¾	- 6.68
TCW Cv Sec	CVT	NYSE	b 8.14	7⅜	- 9.40
Taiwan Fund	TWN	AMEX	h 36.30	32⅞	- 9.44
Templeton E Mkt	EMF	AMEX	b 9.52	7¾	- 18.59
Templeton Value	EMF	AMEX	b 9.29	9⅞	+ 6.30
Thai Fund	TTF	NYSE	10.68	12⅝	- 18.21
Utd. Kingdom Fd.	UKM	NYSE	11.13	9⅜	- 15.77
Z-Seven	ZSE	PAC	13.13	16½	+ 25.67

2 Flexible Portfolio Funds

	Sym.	Stock Exchg.	N.A. Value	Stock Price	% Diff.
Amer All Seasons	FUND	OTC	5.75	6¾	+ 17.39
Zweig Total Return	ZTR	NYSE	a 9.18	9¼	+ 0.76

(a) - Ex-Dividend. (b) - As of close December 8. (c) - Translated at Commercial Rand exch. rate. (d) NAV reflects $2.00 per share for taxes. (e) - In Canadian Dollars. (f) As of close December 7. (g) Formerly Claremont Capital. (h) reported 12/02/88 (z) - Not available.
Source: Investment Company Institute.

93 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 **December 9, 1988.**

	Sym.	N/A Value	Stock Price	% Diff.	Div. Paid	% Yld.
ACM Gov Inc	ACG	a 10.58	10¾	+ 1.61	$1.26	11.60
ACM Govt Oppor	AOF	9.15	8⅞	- 3.01	$1.01	11.20
ACM Govt Secur	GSF	10.60	10½	- 0.94	$1.26	11.90
ACM Spectrum	SI	9.00	8⅞	- 1.39	$1.01	11.40
AMEV Secs	AMV	10.33	10⅝	+ 2.86	$1.08	10.00
Am Cap Bd	ACB	b 20.66	20⅛	- 2.59	$2.20	10.80
Am Cap Inc	ACD	a 9.15	9½	+ 3.83	$1.10	12.10
Am Gov Inc Fd	AGF	7.02	8	+ 13.96	$0.87	10.70
Amer Govt Portf	AAF	8.99	9⅞	+ 9.84	$1.06	10.90
Blackstone Inc. Tr	BKT	a 8.99	9½	+ 5.67	$1.10	11.30
Blackstone Target	BTT	9.44	10	+ 5.93	$1.00	10.00
Bunker Hill Inc.	BHL	17.82	17⅛	- 3.90	$1.76	10.20
Cigna High Inc	HIS	9.22	9⅝	+ 4.39	$1.26	13.30
Circle Inc Shrs (OTC)	CINS	d 12.17	12⅝	+ 3.74	z	z
CNA Inc Shares	CNN	11.47	11¾	+ 2.44	$1.24	10.40
Colonial Int High Inc	CIF	9.25	9¼	———	$1.20	13.00
Comstock Ptr	CPF	9.88	9⅛	- 7.64	$0.76	8.80
Current Inc Shrs	CUR	11.93	11¼	- 5.70	$1.12	10.00
DWitter Gov Inc	GVT	9.35	9⅜	+ 0.27	$0.92	9.80
1838 Bd-Deb Trad	BDF	19.92	18	- 9.64	$1.86	10.30
Dreyfus Strat Gov	DSI	d 11.08	10½	- 5.23	$1.20	z
Excelsior Inc	EIS	16.99	15⅜	- 9.51	$1.44	9.40
FBoston Inc	FBF	8.66	8⅜	- 3.29	$0.90	10.90
FBoston Strat	FBI	10.95	11	+ 0.46	$1.32	12.00
Ft Dear Inc	FTD	14.70	14	- 4.76	$1.36	9.90
J Hancock Inc	JHS	15.61	15	+ 3.91	$1.54	10.00
J Hancock Invest	JHI	20.95	20½	- 2.15	$2.04	10.00
Hatteras Inc S	HAT	16.21	15½	- 4.38	$1.56	10.10
Hi Inc Adv Tr	YLD	9.22	9⅝	+ 4.39	$1.20	12.60
Hi Inc Adv II	YLT	9.43	9⅜	- 0.58	$1.20	13.00
Hi Yld Inc Fd	MIN	8.93	8⅞	- 0.62	$1.32	14.90
High Yld Plus	HYP	9.13	8⅝	+ 5.53	$1.14	13.00
INA Investments	IIS	17.74	16¾	- 5.58	$1.68	9.90
Ind Square (OTC)	ISIS	16.69	16¾	- 0.36	z	z
Intercapital Inc	ICB	19.29	20¼	+ 4.98	$2.10	10.20
Kemper Hi Inc	KHI	a 10.80	11¾	+ 8.80	$1.38	11.60
Kemper Intrgov	KGT	a 9.20	9¼	+ 0.54	$1.00	10.80
Lincoln Natl DP	LND	27.80	25	- 10.07	$2.37	9.40
Lomas Mtge Sec Fd	LSF	11.16	12⅛	+ 8.65	z	z
MFS Gov Mkts Inc	MGF	a 9.11	10	+ 9.77	$1.18	11.80
MFS Inc & Opp	MFO	9.70	10	+ 3.09	$1.20	12.00
MFS Intrmed Inc	MIN	a 9.19	9⅛	- 0.71	$1.05	11.50
MFS Multimkt Inc	MMT	a 9.02	10	+ 10.86	$1.23	12.30
MFS Multimkt Ttl R	MFT	9.33	8⅞	- 4.88	$0.84	9.50
Montgomery St	MTS	18.76	18	- 4.05	$1.82	10.00
M Omaha Int Shs	MUO	13.56	14¼	+ 5.09	$1.39	9.80
New Amer High Inc	HYB	8.73	9⅞	+ 13.12	$1.50	15.20
Oppenheimer Multi	OGT	9.23	10	+ 8.34	z	z
Oppenheimer Multi-Sectr	OMS	a 11.05	10⅞	- 1.58	$1.30	11.80
Pac Am Inc Shrs	PAI	b 15.09	15¼	+ 1.06	$1.58	10.40
Prospect St Hi Inco	PHY	9.16	10	+ 9.17	z	z
Pru Inter Inco	PIF	a 9.18	8⅞	- 3.32	$1.02	11.50
Pru Strat Inc	PSF	a 8.95	8⅝	- 3.63	$1.05	12.20
Putnam Int Govt	PGT	9.40	9¼	- 1.60	$1.01	10.90
Putnam Mstr Inc	PIM	9.54	9¼	- 3.04	$1.03	11.30
Putnam Mstr Int	PMT	9.41	9⅛	- 3.03	$1.10	11.90
Putnam Premier	PPT	9.13	9¼	+ 1.31	$1.14	12.30
State Mut Sec	SMS	10.67	10⅞	+ 1.92	$1.13	10.40
Transamerica Inc	TAI	22.50	22¾	+ 1.11	$2.36	10.05
US F.& G.pPacholder	PHF	c 18.65	19½	+ 4.56	z	z
USLIFE Income Fund	UIF	9.53	8.58	+ 9.50	$0.92	10.50
Vestaur Secur	VES	13.63	12¾	- 6.46	$1.23	9.70

Convertible Bond Funds

	Sym.	N/A Value	Stock Price	% Diff.	Div. Paid	% Yld.
Lincoln Natl CV	LNV	13.65	11⅝	- 14.84	$0.96	8.30
Putnam High Income	PCF	8.40	7⅞	- 6.25	$0.85	11.00

International Bond Funds

	Sym.	N/A Value	Stock Price	% Diff.	Div. Paid	% Yld.
Fst Australia Prime	FAX	c 11.33	9⅞	- 12.84	$1.10	11.13
Global Govt	GOV	9.39	9⅜	- 0.16	$1.20	12.80
Global Income Plus	GLI	9.77	10⅝	+ 8.75	z	z
Global Yield Fnd	PGY	a 9.54	9½	- 0.42	$1.58	16.90
Klein Benson Aus	KBA	12.09	11⅜	- 5.91	$1.20	10.40
Templeton Global	GIM	9.23	9⅜	+ 1.57	$0.96	10.40
World Inc Fund	WOI	c 9.97	9⅞	- 0.95	$1.18	12.01

Municipal Bond Funds

	Sym.	N/A Value	Stock Price	% Diff.	Div. Paid	% Yld.
Allstate Income Opp.	AMO	9.44	10⅛	+ 7.26	$0.48	4.70
Allstate Muni Inc	ALM	a 10.29	10⅜	+ 0.83	$0.78	7.60
Allstate Muni II	ALT	9.70	10	- 1.28	$0.73	7.30
Colonial Muni	CMU	9.00	9⅝	+ 6.94	$0.79	8.10
Dreyfus Cal Muni Inc	DCM	c 9.17	10⅛	+ 10.41	z	z
Dreyfus Muni Inc	DMF	c 9.26	10⅛	+ 9.34	z	z
Dreyfus N.Y. Muni	DNM	c 9.16	10⅛	+ 10.53	z	z
Dreyfus Strat. Mu	LEO	a 9.73	10⅛	+ 4.06	$0.78	7.60
Kemper Muni Inc	KTF	11.15	12	+ 7.62	z	z
MFS Muni Inc. Tr.	MFM	a 9.14	9⅝	+ 5.31	$0.76	7.90
Muni Insured Fd	MIF	c 9.88	10¼	+ 3.74	$0.71	7.18
MuniVest Fund	MVF	ac 9.26	10	+ 7.99	$0.77	7.00
NY Tax Exempt	XTX	9.86	9⅝	- 2.38	$0.74	7.60
Nuv Cal Muni Inc	NCM	a 11.33	11½	+ 1.50	$0.67	5.80
Nuv Cal Muni Val	NCA	a 9.68	9¾	+ 0.72	$0.67	6.80
Nuv Muni Inc	NMI	a11.22	11⅛	+ 0.27	$0.82	7.40
Nuv Muni Val	NUV	a 9.70	9¾	+ 0.52	$0.71	7.30
Nuv NY Muni Inc	NNM	ac11.23	10¾	+ 4.27	$0.80	7.20
Nuv NY Muni Val	NNY	a 9.80	10	+ 2.04	$0.68	6.80
Nuv Prem Inc	NPI	a 13.88	14⅛	+ 1.77	$0.99	6.80
Van Kampen M Ca Muni	VKC	c 9.10	10	+ 9.89	z	z
Van Kampen Mer Muni	VMT	a 9.29	10⅛	+ 8.99	z	z

Note: These figures are reported from sources believed to be reliable but are not guaranteed. (a) Ex-Dividend. (b) Fully diluted (c) Trades on the AMEX (d) Reported 12/16/88. (z) Not available
Yields are computed on last twelve months income and capital gains distributions. Yields quoted are as reported by ADP; Source: Lipper Analytical Services and ADP.

BOND FUND NOTES

Global Yield Fund (PGY—9½—NYSE) has paid $1.58 out this year, or 16.9% on the reported price. We wondered why the yield was higher than any other of our reported funds, so we called them. A spokesman for the Fund said they mostly invested in Australia and Canada and "we were very lucky in making large currency gains" which they paid out to shareholders. That is not true yield; we wonder how many high yielding funds are up to similar speculations. We congratulate them, but do not expect many funds to do this often.

SEVENTEEN NEW ISSUES

Allstate Municipal Premium Income Trust, November 17, 1988. 10,000,000 shrs. $10 per share in late December via Dean Witter. **Apex Municipal Fund,** October 19, 1987, 10,000,000 shs. of common at $10 per share via Merrill Lynch. The **Europe 1992 Fund,** September 22, 1988. 3,500,000 shrs. of common $10 per share via Prudential Bache. **The Finland Fund,** November 30, 1988. $12 per share via First Boston. **First Australia Prime Income Fund,** November 16, 1988, 1500 shares of auction market preferred stock, series A, B, and C. Expected at $100,000 per share via Merrill Lynch and Prudential Bache. **Gabelli & Co. Global Asset Portfolio,** August 30, 1988. 6,000,000 shrs. of common $10 per share in mid December via Kidder Peabody and Drexel Burnham. **Happy Hocker, Inc.** March 4, 1988 Ft. Lauderdale, Fla. 400,000 units consisting of two shrs. of common and one warrent. Underwriter: To be named. Company owns and operates pawn shops in South Florida. Expected at $6.50 per unit. **High Income Advantage Trust III** 10,000,000 shrs. November 23, 1988. $10 per share via Dean Witter. **IP Capital Fund.** September 15, 1988. 1,000,000 shs at $100,000 per shr. via Merrill Lynch. **Kemper Multi-Market Income Trust,** November 18, 1988. 10,000,000 shrs. $12 per share via Smith Barney. **Prospect High Yield Mezzanine Fund.** August 28, 1988. 10,000,000 shs. at $10 via Shearson Lehman. **Prudential Dual Government Fund.** September 30, 1988. 10,000,000 shs. at $10. **Prudential Prime Income Fund.** April 10, 1988, 10,000,000 shs at $10 per shr. via Pru-Bache. **R.O.C Taiwan Fund,** October 28, 1988. 1,766,784 shrs. to be priced via Lazard Freres, First Boston. **Redwood High Income Fund.** July 18, 1988. $50,000,000 of Sr. ext. notes; 300 shs. of Taxable Auction Rate Transferable Securities (TARPS) at $100,000 per shr. and 10,000,000 shs of common at $10 via Shearson Lehman and Drexel Burnham. **The Stanger Fund, L.P.,** July 23, 1987. 10,000,000 shs. representing L.P. interests. Closed-end non-diversified management investment company at $10 per share via Merrill Lynch. **TCW High Yield Fund,** July 8, 1988. 10,000,000 shrs of common. $12 a share via Merrill Lynch.

BIOTECHNOLOGY(13.5%) "I am investing in pockets of biotechnology which will revolutionize the health care industry. We are at the beginning of commercialization having moved from the laboratory to the clinic and therefore closer to market. Eighteen months ago, there were four approved therapeutic products in Recombinant DNA technology; now there are eight. With the case of Genetech, one product(Activase - for treating heart attack victims) was disappointing and affected the stock performance of the group("the genetech effect"). This shouldn't occur often.

"Activase is still a remarkable product and will have well over $100 million in sales. There are only 100 products in the whole industry which have captured a $100 million market each. In the case of Amgen, where we have increased our position, the figures will be higher and the doctors can't wait to get their hands on the erthropoietin product (EPO). This is a genetically engineered protein being tested for use in treating anemia and other blood-related illnesses. Its approval is expected by the FDA in early 1989. In this industry, there will be one $100 million dollar product after another. We have raised our investments in this area."

MEDICAL SUPPLIES (10.3%) **AND SPECIALITIES**(16.5%) "Here we invest in companies with proprietary positions, good products, little competition and strong franchises. They have strong balance sheets, real market niches and superior growth rates. Examples are Becton Dickinson, Johnson & Johnson and St. Jude Medical in the supplies area; Alza, Biomet and Puritan Bennet in the medical specialty area.

The Fund is closed-ended so it can invest in the venture capital side of the business. In this area your losses can show up at first, but if you succeed gains can show above average returns. HQH is going slowly in this area, but is starting to increase its exposure. A new venture investment will be closed in January. The portfolio shows 4.1% in venture capital (it can be raised to 25%); and one issue, Gen-Probe(diagnostic systems for DNA research) is now a public company.

Potential in Venture Capital

Although the true potential of this Fund could be the venture capital area, the biotechnology side could carry it for awhile. Venture capital is a high risk investment; we have to admire caution on the part of management. Its three venture issues, Verax (continuous process biological product systems), Curaflex (home health care services) and Biotrack (diagnostic instruments) and other venture investments could one day have a large impact on the portfolio.

New positions, ranging in size from $300,000 to $750,000, are restricted shares and cannot be readily sold. Since most of the portfolio doesn't pay much in dividends, investors will have to be patient in terms of cash distributions.

Carr concluded his remarks by saying that there has been a shift from the hands of individuals to institutional ownership; many investment management firms are using HQH to participate in the health care industry rather than do it themselves. We see this as a good sign. He also said he is doing everything to reduce the expenses of the fund (1.98% for the year ending September 30). The portfolio turnover rate of 57% should be lower in the next fiscal year.

We question the wisdom of voting to convert the shares to open-end status as early as 1992; this will certainly limit the amount invested in venture and other long term holdings because of the need for liquidity. Carr hopes its shareholders will continue to see the value of the closed-end structure. He also predicted that the Fund will trade at a premium to its net assets as the portfolio matures, dividends are paid or buy-outs occur.

We therefore recommend HQH while it sells at this wide discount (24%), but plan on holding it for at least three years. It appears to have limited downside risk and above average upside potential. Your risks are diversified by the balance of start-ups and mature companies developing new products. Give Alan Carr and his team of managers a chance to see what they can do. For reports, call (617)574-0500 or write H&Q Health Care Fund, 50 Rowes Wharf, Boston, Mass. 02110.

Investment News & Notes

Clemente Global Growth Fund (CLM-6 3/4-NYSE)The NAV through November 30 rose 13.93% year to date. This compares to 7.02% for the Lipper Global Growth Index for Equity Funds. It has also declared an initial dividend of 6 cents per share to be paid Jan. 20 for shareholders of record Dec. 30. G. Peter Schieferdecker reports there is no change regarding the adversaries holding 18.7% of the stock, led by T. Boone Pickens 111. The matter is in the Federal Courts, but "it is much less of a headache". The annual meeting for the Fund is tentatively scheduled for May 24. At the price of 6 3/4 and a discount of 23%, we think it is undervalued and are therefore we are putting it on our recommended list. For a full report, see our August issue. It votes in 1992 to convert to an open-end fund if approved by shareholders. For reports, call (212)759-3339.

Royce Value Trust declared a year-end dividend of $.51 to be paid January 25, record date December 27.

Schafer Value Trust reported a dividend of 26 cents to be paid January 27, record date December 20.

Templeton Emerging Markets Fund has declared an additional 15 cents dividend, consisting of 7 cents per share from investment income and 8 cents of capital gains, paid in December. The fund already paid a 17 cent dividend including 10 cents in long-term capital gains on October 30.

Tri-Continental Corp. shareholders have approved an agreement for a new investment management firm changing control from J & W Seligman to a firm headed by William C. Morris who purchased the outstanding stock and will succeed Fred E. Brown as Chairman. Brown is retiring, but will remain as a director.

Letter From The Editor

This is your first letter as the New Investment Year of 1989 begins. 1988 has been a better year in the stock market than most of us realize. The amount of skepticism and fear about investing resulting from the Crash of 1987 was largely unjustified.

The NAV performance of closed-end funds has shown for the year that this is a way to outperform the market. We will have a complete rundown next month on how our model portfolio has done, but the indication is that four funds - **Royce Value Trust, Gabelli Equity Trust, General American Investors** and **Adams Express** - have each outperformed the Lipper General Equity Fund Average for the year by a wide margin. In 1989, we will continue to try to find more outstanding values for you.

The H & Q recommendation this month is a good example of a fund with a high potential which is immune to the economic cycle. So, plan to stay with us; there are many opportunities out there.

Interest rates will peak perhaps in 1989. We plan to pay more attention to bond funds so investors interested in income can find better values there. We still have a strong equity orientation, but think challenges also are found in the bond fund arena. We'll try to keep those of you interested in bond funds better informed in 1989; we want you to avoid the trap of higher yields, but be sure you are aware of the higher risks in some of these funds.

Next month we will analyze **Morgan Grenfell SmallCap Fund** and two convertible funds, **Bancroft Convertible** and **Ellsworth Convertible Fund**. We wish you a happy and prosperous New Year in 1989.

Yours sincerely,

George Cole Scott

George Cole Scott

CORRECTION: In our December letter, we mentioned Pilgrim Regional Bankshares on page 6 having permission to buy shares in a tender offer; the correct name is Pilgrim Prime Rate Trust.

Price Change Effective January 1

In order to continue the high quality of this letter and due to rising costs, we find we must raise our prices. Effective January 1, once you have the new return card, the rate will be $70 for six months and $110 per year ($125 foreign, $110 for Canada). Reprints $10.00 each, prepaid only. We plan to continue to improve and broaden our service to you in 1989.

If you want to become a client of our brokerage affiliate, please call us for information at **1-800-476-2100**. You will have the letter free as long as you are an active client. Present subscribers who are active clients will be renewed automatically.

Please feel free to contact us with your suggestions and comments. Only when you let us know how we can serve you better will we be able to improve our letter.

Back Issues Now Available

We can now make some back issues available to you at $10.00 per copy. Please make your checks payable to Cole Publications Inc. The previous two issues will continue to be free each month. Here's what's available:

Month	Subject
April	Closed-end and mutual funds compared; history of investment trusts.
August	Clemente Global Growth Fund; Helvetia("Switzerland") Fund.
Sept.	How We Pick Funds; Baker Fentress.
Oct.	Schafer Value Trust; Royce Value Trust.
Nov.	Templeton Emerging Markets; Quest For Value

SCOTT LETTER MODEL PORTFOLIO

	Date First Recommended	Price When Recommended	Price 12/09/88	(Div'd. Dist. Paid)	Total Return (Incl. Div'd.)	Approx. Size	1987 % Expense Ratio
Convertible Holdings (CNV) Capital Shares* 3.	May, 1988	4⅞	4¼	$ 0	-12.82%	$243 M	0.83%
General American Investors Investors (GAM)	May, 1988	14¼	13⅞	$1.93	+10.94%	287 M	1.19%
Adams Express Co.* (ADX)	June, 1988	15¼	14⅞	$1.72	+ 8.91%	427 M	0.48%
Baker Fentress (BKF)	June, 1988	20	19	$1.65	+ 3.25%	378 M	0.49%
Gabelli Equity Trust (GAB)*	July, 1988	9⅞	9⅞	$ .60	+ 6.07%	429 M	1.24%
Helvetia Fund (SWZ)	Aug., 1988	10	9½	$ .02	4.8 %	99 M	1.85%
Royce Value Trust (RVT)	Oct., 1988	8¾	8⅜	$ .51	+ 1.54%	111 M	1.15%
Schafer Value Trust (SAT)	Oct., 1988	7⅜	7¼	$ .26	+ 1.8 %	92 M	1.39%
Templeton Emerging Markets EMF)	Nov., 1988	8⅛	7¾	$ .32	- .7 %	119 M	1.67%
Clemente Global Growth (CLM)	Dec., 1988	6¾	6¾	0	0	51 M	2.94%
H & Q Health Care (HQH)	Dec., 1988	5¾	5¾	0	0	43 M	1.95%
					+ 1.29%		

*George Cole Scott and/or his family hold shares in this security.

NOTES: 1 – Tabulated year-end figures December 31, 1987. 2 – Foreign funds have higher expense; they average 2-3%. 3 – Year-end August 31, 1988.

INCOME PORTFOLIO

John Hancock Investors (JHI)	June, 1988	$21	20½	$1.06	-2.69%	$145 M	.70%
Mass Mutual Investors Trust (MCI)	July, 1988	36⅝	34⅝	$1.87	+4. %	161 M	1.75%
Quest For Value ($1.00 Pfd.) (KFV+)	Nov. 1988	10⅝	10⅝	0	0	366 M	.77%
					+ .76%		

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 Bergstrom Capital, a closed-end fund based in Seattle. Since that time he has specialized in this form of investment for his clients.

The Scott Letter , a monthly publication, available at $70 for six months, $110 a year, $125 foreign, or free to clients, reprints $10.00 each. Please make your checks payable to Cole Publications, Inc.