The Scott Letter: CLOSED-END FUND REPORT ©

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Source Capital: Consistent Performance

Source Capital (SOR-NYSE-37 1/4) is one of the oldest (1968) diversified funds with a value orientation. The $284 million portfolio has a primary objective of total return and steady income to its preferred shareholders. The balance of assets and income are available to the common stockholder.

Portfolio decisions are based on fundamental analysis in choosing individual securities rather than economic or stock market forecasts. It is managed by First Pacific Advisers, of Los Angeles, and headed by George Michaelis who we visited in January.

Source Capital originally invested in private placements of publicly-held securities. This changed in 1972 when performance lagged due to limited marketability.

Buffet Bought Shares

During the 1970s Bear Market, SOR traded at a 50% discount attracting financier Warren Buffet who purchased 20% of the stock. Although we wonder why Buffet didn't take-over the fund, Michaelis said it was never more than an investment for him. Buffet made a great deal of money and sold his shares in 1977.

From 1978-1982, other institutions invested overseas in real estate, options and other instruments based on the past performance of these markets. At the time, there was a widespread preoccupation with market timing. Michaelis, always the equity investor looking for value, wrote to shareholders: "We believe in the extraordinary undervaluation of U.S. common stocks relative to virtually all historic benchmarks of value...at some level of prices, values become so compelling that they have discounted virtually all conceivable negatives."

When the market became fascinated with commodity-oriented representation and heavily-leveraged earnings, SOR had the conviction that "investors should base their decisions upon reasonable judgements of investment values rather than becoming preoccupied with elaborate hypotheses of possible future events and their possible impact on market prices."

Avoiding the Trap

In the semi-annual report of 1982, Michaelis wrote of his increased investment in fixed-income securities and an almost total absence of energy investments--one reason Source Capital out-performed the equity market at the time and avoided the trap of thinking that oil prices would rise faster than double digit inflation for many years.

Exceptional Performance

What about the performance of Source Capital? A twelve year performance record, ending in 1988, shows a compound annual return of 18.9% on the common equity and 16.2% on total net assets. During this same period the return for the S&P 500 Index was 13.3%. For 1988, its total return was 16.8% versus 16.6% for the S&P Index. Source also hasn't had a down year for 13 consecutive years.

The largest portfolio positions are Melville Corp., Marsh & Mclennan, IBM, Bandag and Bausch & Lomb. Michaelis says his ideal investment is one like Melville or Bandag, companies large enough to dominate their industry. "We're earning power investors...these are the kinds of investments we're looking for."

The $2.40 Preferred

Originally the fund was 100% common stock but in creating preferred stock the idea was that it would sell on a yield basis and close to asset value. The preferred doesn't earn the

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Bunker Hill Income Securities

Bunker Hill Income Securities(BHL-16 3/4-NYSE), named for its location in downtown L.A., is a 15-year-old total-return bond fund managed by Security Pacific National Bank. The $48 million fund has 47% of its investments rated A or better. Investment policy requires that the fund keep at least 75% of total assets in marketable debt securities rated BBB or better or securities issued by the governments of the U.S. or Canada.

Dividend Cut

After its performance lagged, the fund had to cut its dividend in 1988 and hired a new manager, Jim Miller, to improve the portfolio. "We never want to have to cut the dividend again; our goal is to maximize total return by buying bonds with lower volatility. The returns are improved by buying Canadian utility bonds like the Quebec Hydro issues and other high coupon bonds, " Miller said.

Avoiding Event Risk

One of its investment goals is to avoid "event risk" brought on by leveraged buy-outs of high quality companies where the target company issues lower quality debt causing market prices

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Source Capital (cont. from page 1)

current 9.9%, so the investor gets a larger portion of the investment income on the total portfolio. When the stock sold at a wide discount, this was a particularly attractive yield, but Michaelis doesn't think it attractive now. We are a little concerned that the preferred shareholder could be taking away some of the return from the common shareholder; but, on the other hand, he has invested in a larger portfolio, so it seems to balance out.

Q? What about the ten percent pay-out followed by so many closed-end funds? (Source pioneered this practice now common in the industry.)

A. We never really intended it to be ten percent. When we set it up in 1976, you couldn't get a yield of ten percent on an equity portfolio. We didn't want to raise the dividend when the market was peaking and then have to cut it. As a result, this became an interesting and relatively unique vehicle. For instance, if the stock sells at a 25% discount and we pay 10%, you're going to have a 13% return. Also, when we set it up, there was a large capital loss in the private placement portfolio which meant the wealthy individual would get tax-deferred income. In the process, we attracted a constituency who valued this high yield--people who lived off their capital.

Other funds which were "opportunistically created"(as was Source Capital) took people to the cleaners in their original offering. For this, the funds have no one to blame but themselves. By paying-out large dividends you are helping your shareholders; in reducing the discount, you are helping both shareholders and management.

Q?. What about investing overseas?

A. We did invest in two issues in Japan but sold them too soon; we tripled our money in one and doubled it in another. If we find a really unique business overseas, we buy it, but I can understand a U.S. business better that an overseas one.

Michaelis said he looks for the best opportunities to buy excellent businesses at good prices."I'm not in the business of predicting, but you're better off buying companies with growth potential in any kind of economic scenario." He sees us in a relatively fully utilized economy with little slack in the system. Therefore, you have to look-out for the impact of a negative economic environment.

Q? Do you think it's time to be more defensive?

We have investments in companies with cyclical exposure and this causes us to be a little more cautious. We have a big investment in Marsh and Mclennan, a company in a very adverse cycle for its business which has nothing to do with the level of U.S. economic activity but we think the cycle will change. We also have invested a significant amount in drug stocks.

Nineteen Years of Dividends

Source Capital's common shares have paid dividends every year since 1969; in 1988, the distribution was $3.50. Future dividends depend on the ability to maintain its net asset value above $35 per share. A dividend reinvestment plan is available.

Summary and Conclusion

Source Capital does not trade at a wide discount because of its superior record and a Forbes A+ rating in down markets. These are the factors which investors need to understand in analyzing those funds which trade at smaller discounts, such as **Growth Stock Outlook Trust, Templeton Value Fund and The Zwieg Funds.** Source had a 1988 expense ratio of 1% and a portfolio turnover rate of 42.5%. We therefore recommend it for risk-adverse investors unwilling to take higher risks in newer, unproven funds. For reports, write 10301 West Pico Blvd., Los Angeles, CA 90064 or call (213)277-4900.

Bunker Hill (cont. from page1)

to drop sharply. This is a significant risk for any bond fund investor and a factor to carefully consider. Fortunately, Bunker Hill has not owned any bonds which have experienced this type of risk and management is making every effort to continue this good record.

"The yield curve has flattened,"J. Michael Gaffney, Chairman of the Board, wrote in the September 30 Annual Report,"and yield spreads between corporates and treasuries have narrowed during the year. This narrowing of spreads has caused higher-yielding securities to out perform other segments of the market. Bunker Hill has invested in these higher yielding securities and this explains the relatively good recent performance of the portfolio. BHL ranked 19th out of 42 funds by Lipper Fixed Income Performance Analysis for funds assigned to their investment objective - corporate bond funds - A rated."

The fund also sees a GNP forecast for 1989 above the Federal Reserve's goal of 2.5% and predicts further monetary tightening. It also predicts that when oil prices decline significantly "inflation pressures will drop and interest rates could fall despite economic growth that is stronger than the Federal Reserve desires."

At year-end, the portfolio showed a maturity diversification of 33% in long-term bonds(15+years),30 % in intermediate-term (5-15 years) and 25% in shorter-term maturities. The balance was in cash equivalents and accrued interest. During 1988, 22.4% of the portfolio was in bonds rated AA or AAA and another 26% rated Baa or BBB. Coupons ranged from 10% to 16.99% with the majority(56.4%) yielding 14% or better.

Industry Breakdown

The industry and segment breakdown was Public Utility(14.8%), Retail Trade and Services(14.49%), Energy(13.6%), with lesser amounts in Finance and Insurance, Banking and Savings & Loans (only one S&L is held) and Manufacturing.It holds 27.5% in foreign securities most of which are Canadian government bonds.

Bunker Hill has paid dividends since 1974; it distributes virtually all its net investment income. For its fiscal year ending September 30, 1988, it distributed $2.01 including a special dividend of $.21 versus $2.17 paid in 1987 for a yield of 13.25% at current prices.

Summary and Conclusion

Bunker Hill has a definite thrust towards quality in its choice of securities which we respect. It trades at a discount of -4.5%, but has a high expense ratio for a bond fund averaging 1.02% over the last three years, seemingly because of a portfolio turnover rate of 108.5% over the same period. This is probably due to its small size. If you are looking for a high quality bond fund, this is one to consider. For reports, write P.O. Box 70220, Pasadena, CA 91107-7220 or call (213) 345-8656.

How To Pick A Bond Fund

Because so many of our readers are interested in bond funds, we are paying more attention to them. Managers of those we have visited, **John Hancock** and **Bunker Hill**, stressed that they were trying to maintain quality and shorten maturities. We have also visited the Nuveen organization which now has seven closed-end funds.

We now track 105 bond funds, so there

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 **February 10, 1989.**

22 Diversified Common Stock Funds

	Sym.	Stock Exchg.	N.A. Value	Stock Price	% Diff.
Adams Express	ADX	NYSE	16.74	14⅞	- 11.14
Baker Fentress	BKF	NYSE	25.14	19¾	- 21.44
Blue Chip Value	BLU	NYSE	7.39	6⅜	- 13.73
Clemente-Gbl	CLM	NYSE	b 9.34	7¾	- 17.02
Gemini II Cap	GMI	NYSE	18.06	14⅝	- 19.02
Gemini II Inc	GMI+	NYSE	9.36	12⅞	+ 37.65
Gen'l Amer Inv	GAM	NYSE	17.88	15	- 16.11
Global Gr Cap	GGF	NYSE	9.03	7½	- 16.94
Global Gr Inc	GGF+	NYSE	9.43	9⅜	- 0.58
GSO Trust	GSO	NYSE	9.70	9	- 7.22
Lehman Corp	LEM	NYSE	14.72	12¼	- 16.78
Liberty All-Star	USA	NYSE	8.73	7¼	- 16.95
Niagara Share	NGS	NYSE	16.77	12⅞	- 18.36
Nich Ap Gr Eq	GEF	NYSE	9.16	7⅞	- 14.03
Quest Value Cap	KFV	NYSE	13.02	9⅝	- 26.08
Quest Value Inc	KFV+	NYSE	11.74	11⅛	- 5.24
Royce Value	RVT	NYSE	9.78	8⅝	- 11.81
Schafer Value	SAT	NYSE	9.78	8¾	- 10.53
Source Cap	SOR	NYSE	38.93	37¼	- 4.32
Tri-Continental	TY	NYSE	24.33	20⅝	- 15.23
Worldwd Value	VLU	NYSE	20.95	17	- 18.86
Zweig Fund	ZF	NYSE	10.48	10½	+ 0.19

49 Specialized Equity and Convertible Funds

	Sym.	Stock Exchg.	N.A. Value	Stock Price	% Diff.
1st Australia	FAI	AMEX	g 11.09	8⅜	- 24.48
1st Iberian	IBF	AMEX	9.70	9	- 7.22
ASA Ltd.	ASA	NYSE	bc 55.28	41½	- 24.93
AmerCapCV	ACS	NYSE	22.63	22	- 2.78
Asia Pacific	APB	NYSE	10.16	8⅜	- 17.57
Bancroft CV	BCV	AMEX	20.84	18½	- 11.23
Bergstrom Capital	BEM	AMEX	53.56	51⅛	- 4.55
BGR Prec. Metals	BPTT	TOR	be 11.96	9⅜	- 21.61
Brazil Fund	BZF	NYSE	12.76	8	- 37.30
CNV Hldg. Cap	CNV	NYSE	9.47	4½	- 52.48
CNV Hldg. Inc	CNV+	NYSE	9.49	11⅜	+ 19.86
Castle CV	CVF	AMEX	21.51	19¼	- 10.51
CenFdCanada	CEF	AMEX	b 5.53	4 13/16	- 12.97
Cent Sec	CET	AMEX	12.05	9¾	- 19.09
Couns Tandem	CTF	NYSE	9.07	7⅛	- 21.44
Cypress Fund	WJR	AMEX	8.75	7⅝	- 12.86
Duff Phelps Util	DNP	NYSE	7.73	8¼	+ 6.73
Ellsworth Cv	ECF	AMEX	8.44	7¼	- 14.10
Engex	EGX	AMEX	11.96	8¾	- 26.84
Fin News Comp	FIF	NYSE	17.78	16	- 10.01
First Fin Fund	FF	NYSE	9.49	7⅞	- 17.02
France Fund	FRN	NYSE	b 12.03	10⅜	- 13.76
Gabelli Equity	GAB	NYSE	12.13	10¾	- 11.38
Germany Fund	GER	NYSE	8.29	7⅜	- 11.04
H & Q Health	HQH	NYSE	8.27	6⅝	- 19.89
Ham Cap	HU	AMEX	b 9.62	8⅞	- 7.74
Ham Ut. Pfd.	HUT	AMEX	b 48.75	46¼	- 5.13
Helvetia Fund	SWZ	NYSE	10.78	9½	- 11.87
India Fund	IAF	NYSE	f 12.42	9⅛	- 26.53
Italy Fund	ITA	NYSE	b 9.62	8½	- 11.64
Korea Fund	KF	NYSE	16.64	28⅛	+ 69.02
Malaysia Fund	MF	NYSE	9.82	8¼	- 15.99
Mexico Fund	MXF	NYSE	b 8.00	6	- 25.00
MG Sm. Cap	MGC	NYSE	9.19	8⅛	- 11.59
Patriot Prem Div	PDF	NYSE	9.00	9¼	+ 2.78
Petrol & Res	PEO	NYSE	26.06	22⅝	- 13.18
Pilgrim Reg.	PBS	NYSE	9.78	7¾	- 20.76
Rl Estate Sec Inc	RIF	AMEX	8.90	8¾	- 1.69
Reg Finl/Shs	BNC	AMEX	8.10	6½	- 19.75
Scandinavia Fd.	SCF	AMEX	8.58	6⅜	- 25.70
Scudder New Asia	SAF	NYSE	12.78	9½	- 25.67
Spain Fund	SNF	NYSE	11.93	11⅜	- 4.65
Taiwan Fund	TWN	AMEX	b 26.68	33⅞	+ 26.97
TCW Cv Sec	CVT	NYSE	b 8.43	7¾	- 8.07
Templeton E Mkt	EMF	AMEX	b 10.36	8⅞	- 14.33
Templeton Value	TVF	AMEX	b 9.53	9⅜	- 1.63
Thai Fund	TTF	NYSE	11.47	15⅝	+ 36.22
Utd. Kingdom Fd.	UKM	NYSE	12.13	9¾	- 19.62
Z-Seven	ZSE	PAC	14.50	16½	+ 6.90

2 Flexible Portfolio Funds

Amer All Seasons	FUND	OTC	5.58	6⅛	+ 9.77
Zweig Total Return	ZTR	NYSE	a 9.25	9⅛	- 1.35

(a) - Ex-Dividend. (b) - As of close Thursday's close. (c) - Translated at Commercial Rand exch. rate. (d) NAV reflects $2.00 per share for taxes. (e) - In Canadian Dollars. (f) As of Wednesday's close. (g) as of close of 2/03/89. (z) - Not available.
Source: Investment Company Institute.

105 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 **February 10, 1989.**

	Sym.	N/A Value	Stock Price	% Diff.	Div. Paid	% Yld.
ACM Gov Inc	ACG	a 10.43	11⅛	+ 6.66	$1.26	11.30
ACM Govt Oppor	AOF	9.10	9	- 1.10	$1.01	11.10
ACM Govt Secur	GSF	10.45	10⅞	+ 4.07	$1.26	11.60
ACM Govt Spectrum	SI	8.83	8¾	- 0.91	$1.01	11.20
ACM Managed Inco	AMF	9.11	9⅛	+ 0.16	0	0
AMEV Secs	AMV	10.24	10¼	+ 0.10	$1.08	10.50
Am Cap Bd	ACB	b 20.56	20¼	- 1.51	$2.44	12.00
Am Cap Inc	ACD	9.06	9⅜	+ 3.48	$1.41	15.00
Am Gov Inc Fd	AGF	6.90	7⅞	+ 14.13	$0.87	11.00
Amer Govt Portf	AAF	8.84	9⅝	+ 8.88	$1.06	11.20
Am Gov Term	AGT	9.29	10⅛	+ 8.99	0	0
Blackstone Inc. Tr	BKT	a 8.69	9⅜	+ 7.88	$1.10	11.60
Blackstone Target	BTT	a 9.32	9⅝	+ 3.27	$1.00	10.50
Bunker Hill Inc.	BHL	17.55	16¾	- 4.56	$1.87	11.20
Cigna High Inc	HIS	9.20	9⅞	+ 7.34	$1.26	12.80
CIM High Yield Secs	CIM	c 9.51	9⅞	+ 3.84	$1.20	12.15
Circle Inc Shrs (OTC)	CINS	12.10	12⅜	+ 2.27	0	0
CNA Inc Shares	CNN	11.26	11⅝	+ 3.24	$1.24	10.60
Colonial Int High Inc	CIF	9.35	9½	+ 1.60	$1.20	12.60
Comstock Ptr	CPF	9.73	9½	- 2.36	$0.76	8.10
Current Inc Shrs	CUR	12.06	11½	- 4.64	$1.12	9.70
DWitter Gov Inc	GVT	a 9.15	9¼	+ 1.09	$0.92	9.90
1838 Bd-Deb Trad	BDF	19.58	18¾	- 4.24	$1.86	9.70
Dreyfus Strat Gov	DSI	a 11.06	10⅞	- 1.67	$1.20	11.20
Excelsior Inc	EIS	16.74	15¼	- 8.90	$1.44	9.40
FBoston Inc	FBF	8.62	8⅜	- 2.84	$0.90	10.70
FBoston Strat	FBI	10.97	11	+ 0.27	$1.32	11.90
Flexible Bond Tr	FLX	c 9.45	9⅞	+ 4.50	0	0
Franklin Universal Tr	FT	b 9.28	9½	+ 2.37	$1.12	11.79
Ft Dear Inc	FTD	14.80	14	- 5.41	$1.36	9.60
J Hancock Inc	JHS	15.36	14¾	- 3.97	$1.53	10.40
J Hancock Invest	JHI	20.63	20⅜	- 1.24	$2.04	9.90
Hatteras Inc S	HAT	16.09	15	- 6.77	$1.56	10.30
Hi Inc Adv Tr	YLD	a 8.97	9½	+ 5.91	$1.20	12.60
Hi Inc Adv II	YLT	a 9.29	9½	+ 2.26	$1.20	12.60
Hi Yld Inc Fd	MIN	9.00	9⅜	+ 4.17	$1.05	11.40
High Yld Plus	HYP	9.16	9	- 1.75	$1.14	12.70
INA Investments	IIS	17.76	17	- 4.28	$1.75	10.30
Ind Square (OTC)	ISIS	16.59	15¼	- 8.08	$1.56	10.30
Intercapital Inc	ICB	19.20	20¾	+ 8.07	$2.10	10.10
Kemper Hi Inc	KHI	a 10.67	11⅝	+ 8.95	$1.38	12.00
Kemper Intrgov	KGT	a 9.12	9⅜	+ 2.80	$1.00	10.70
Kemper Multi-Inco Tr	KMM	11.13	12	+ 7.82	0	0
Lincoln Natl DP	LND	27.52	25½	- 7.34	$2.31	9.00
Lomas Mtge Sec Fd	LSF	a 11.07	11¾	+ 6.14	$1.26	10.70
MFS Gov Mkts Inc	MGF	a 9.07	10	+ 10.25	$1.18	11.80
MFS Inc & Opp	MFO	9.80	10⅛	+ 3.32	$1.20	11.90
MFS Intrmed Inc	MIN	a 9.19	9¼	+ 0.65	$1.05	11.40
MFS Multimkt Inc	MMT	a 9.04	10⅛	+ 12.00	$1.23	12.10
MFS Multimkt Ttl R	MFT	9.34	8¾	- 6.32	$0.84	9.60
Montgomery St	MTS	18.48	18¾	+ 1.46	$1.88	10.00
M Omaha Int Shs	MUO	13.64	14	+ 2.64	$1.39	9.80
Municipal High Income	MHF	9.44	9⅝	+ 1.96	$0.75	7.80
New Amer High Inc	HYB	a 8.45	10	+ 18.34	$1.44	14.40
Oppenheimer Multi gov	OGT	9.27	9⅜	+ 1.13	$0.98	10.00
Oppenheimer Multi-Sectr	OMS	d 11.13	10⅞	- 2.29	$1.08	9.90
Pac Am Inc Shrs	PAI	b 15.22	15	- 1.45	$1.58	10.70
Prospect St Hi Inco	PHY	9.28	9⅞	+ 6.41	$1.44	14.60
Pru Inter Inco	PIF	a 9.02	9	- 0.22	$1.02	11.20
Pru Strat Inc	PSF	a 8.83	8¾	- 0.91	$1.05	11.80
Putnam Int Govt	PGT	9.25	9⅜	+ 1.35	$1.01	10.90
Putnam Mstr Inc	PIM	9.38	9⅜	- 0.05	$0.92	10.50
Putnam Mstr Int	PMT	9.22	9	- 2.39	$1.10	11.70
Putnam Premier	PPT	9.00	9½	+ 5.56	$1.14	12.20
RAC Income Fund	RMF	11.17	11⅛	- 0.40	0	0
State Mut Sec	SMS	10.73	10⅞	+ 1.35	$1.13	10.30
Transamerica Inc	TAI	22.25	22¼	. . . . .	$2.36	10.50
US F.& G. Pacholder	PHF	c 18.47	17⅜	- 5.93	$2.16	12.43
USLIFE Income Fund	UIF	9.76	9	- 7.79	$0.92	10.20
Van Kampen Merr Inter	VIT	9.27	9¾	+ 5.18	0	0
Vestaur Secur	VES	13.41	12⅜	- 7.72	$1.22	9.80
Zenieth Income Fund	ZIF	9.05	9⅞	+ 9.12	$1.23	12.50

Convertible Bond Funds

	Sym.	N/A Value	Stock Price	% Diff.	Div. Paid	% Yld.
Lincoln Natl CV	LNV	13.97	12¼	- 12.31	$0.99	8.20
Putnam High Income	PCF	8.45	8⅛	- 3.85	$0.85	10.60

International Bond Funds

	Sym.	N/A Value	Stock Price	% Diff.	Div. Paid	% Yld.
Fst Australia Prime	FAX	c 10.82	9 7/16	- 12.78	$1.08	11.50
Global Govt	GOV	8.90	9⅜	+ 5.34	$1.20	12.80
Global Income Plus	GLI	9.50	9⅞	+ 3.95	$1.44	14.60
Global Yield Fnd	PGY	9.67	9¾	+ 0.83	$1.58	16.20
Klein Benson Aus	KBA	11.04	11	- 0.36	$1.20	10.90
Templeton Global gov't	TGG	a 9.23	9¾	+ 5.63	0	0
Templeton Global	GIM	9.08	9⅜	+ 3.25	$0.96	10.20
World Inc Fund	WOI	ac 9.70	9¾	+ 0.52	$1.04	10.80

Municipal Bond Funds

	Sym.	N/A Value	Stock Price	% Diff.	Div. Paid	% Yld.
Allstate Income Opp.	AMO	9.43	10⅛	+ 7.37	$0.60	6.00
Allstate Muni Inc	ALM	a 10.24	10⅝	+ 3.76	$0.78	7.40
Allstate Muni II	ALT	a 9.83	9¾	- 0.81	$0.73	7.50
Allstate Muni Pr. Inco	ALI	9.38	10	+ 6.61	0	0
Colonial Muni	CMU	8.95	9⅞	+ 10.34	$0.79	7.90
Dreyfus Cal Muni Inc	DCM	c 9.28	10	+ 7.76	$0.60	5.90
Dreyfus Muni Inc	DMF	c 9.40	9⅞	+ 5.05	$0.66	6.60
Dreyfus N.Y. Muni	DNM	c 9.26	9⅞	+ 6.64	$0.60	6.00
Dreyfus Strat. Mu	LEO	a 9.83	10¼	+ 4.27	$0.78	7.40
Kemper Muni Inc	KTF	a 11.27	11¾	+ 4.26	$0.74	6.30
MFS Muni Inc. Tr.	MFM	a 9.21	9¾	+ 5.86	$0.76	7.70
Muni Insured Fd	MIF	c 9.93	10⅜	+ 4.48	$0.84	7.90
MuniVest Fund	MVF	ac 9.44	10	+ 5.93	$0.66	6.70
NY Tax Exempt	XTX	c 9.99	9⅝	- 3.65	$0.62	6.40
Nuv Cal Muni Inc	NCM	a 11.56	11⅝	+ 0.56	$0.80	6.80
Nuv Cal Muni Val	NCA	a 9.84	9⅞	+ 0.36	$0.67	6.80
Nuv Muni Inc	NMI	a 11.42	11¼	- 1.49	$0.85	7.50
Nuv Muni Val	NUV	a 9.90	9⅞	- 0.25	$0.72	7.30
Nuv NY Muni Inc	NNM	ac 11.51	11¾	+ 2.09	$0.80	6.90
Nuv NY Muni Val	NNY	a 10.01	10	- 0.10	$0.68	6.80
Nuv Prem Inc	NPT	a 14.29	14¼	- 0.28	$1.50	8.30
Van Kampen M Ca Muni	VKC	c 9.28	9⅞	+ 6.41	$0.72	7.30
Van Kampen Mer Muni	VMT	9.47	10	+ 5.60	$0.72	7.20

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) As of Feb. 2. (i) Initial Div.. 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.

TWELVE NEW ISSUES

AIM Strategic Income Fund, December 23, 1988, 10,000,000 shares at $10 per share via Paine-Webber. Expected in March. **Dreyfus Principle Plus,** December 14, 1988 10,000,000 shares via Shearson Lehman. Expected in Late February. **The Finland Fund,** November 30, 1988, 5,000,000 shares via First Boston. Expected in 1989, but no date has been set. **First Boston Income Opportunity Fund,** June 3, 1988. Expected at $12 per share via First Boston. No date set. **Gabelli Total Return Communications Fund,** December 6, 1988, 6,000,000 via Drexel Burnham. No date has been set and no prospectus is available yet. **Government Premium Income Fund,** August 26, 1988 6,000,000 shares at $10 via Prudential Bache. **High Income Advantage Trust 111,** November 23, 1988. 10,000,000 shares at $10 via Dean Witter. Will invest in lower-rated bonds with high yields. Expected in late February. **Munienhanced Fund,** January 23, 1989, 10,000,000 shares at $12 per share via Merrill Lynch. Expected in Late February. **Prospect High High Yield Mezzanine Fund.** August 28, 1988. 10,000,000 shares at $10 via Shearson Lehman. **Prudential Prime Income Fund,** April 10, 1988, 10,000,000 shares at $10 per share via Prudential Bache. Not expected soon. **The Steinhardt Fund,** February 3, 1989, 10,000,000 shares of common expected at $12 per share via Merrill Lynch. Expected in April. **TCW High Yield Fund,** September 8, 1988, 10,000,000 shares at $12 per share via Kidder Peabody. Not expected soon.

Source: Investment Dealers' Digest, February 13, 1989. If you want any more information or a prospectus (when available) for any of these issues, please call George Scott at Anderson & Strudwick, 1-800-476-2100.

should be little argument as to why it is difficult to pick the right fund; there are too many choices. Some sell at premiums while others sell at discounts, making selection confusing.

We are constantly puzzled why so many investors continue to buy new issues of closed-end bond funds at record levels ($21 billion in 1988 alone). By now they may know of the large discounts created by the offerings of new equity funds, but not that the premiums from bond funds come largely from the drop in net asset values due to the dealer concession. We therefore recommend you avoid new issues in bond as well as equity funds.

Here is a guide for picking seasoned bond funds:

1. Selection should be based on your investment objectives and the trade-off between your levels of income and safety.

2. Long-term bond funds tend to be volatile whenever there is a change in interest rates. If you cannot tolerate a loss of principal, a short-term fund may be the only alternative. One problem is that short-term funds may have difficulty covering expenses.

3. Try to develop a thorough understanding of the fund's investment philosophy. For example, what are the maturity constraints on the portfolio and what degree of freedom does the manager have to adjust its allocation into different grades of quality and maturities. We found that some managers will pursue strategies to increase yield such as paying premiums for bonds which are then called away, lowering the principal value.

4. You should consider a fund that has a good record for at least five years. Most global bond funds are new; but, if the manager has a good accessible record, this rule could be waived.Global funds' returns may be in currency gains which may not be repeated.

5. Only consider a bond fund with an expense ratio of less than 1%; expenses should be a lot lower for fixed income portfolios. If the fund is less than $100 million, expenses could be a problem.

Picking bond funds can be tough, particularly since so little information is available. The Value Line Survey follows only six funds and gives none of them a high rating. We have only one on our recommended list, **John Hancock Investors.**

We agree with Sir John Templeton, who said, at age 75, you're never too old for capital gains. This is something for those of you with bond funds to consider, especially if they haven't worked out to your satisfaction. It may make sense to restructure your portfolio towards the preferred issues of funds like **Quest For Value, Source Capital** or **Adams Express**, where you have the choice to take the capital gains distributions as income. If you think this makes some sense, call or write me and I'll be happy to go over your situation.

In the meantime, we will be looking into higher yielding bond funds, particularly global funds to recommend. For those of you interested in tax-free income, we will be looking into some municipal bond funds as well. We are open to your suggestions.

Investment News &Notes

Adams Express & Co. - reports that its 1988 return for net asset value was 13.5% versus 16.3% for the S&P 500 Index. It also reported that it was a net seller throughout the year, selling particularly basic industries which it partially reinvested in energy and utility stocks. It has a cash position of 14.1% "due to the lack of investment opportunities". This remains one of our favorites, particularly for tax-deferred accounts and defensive investors.

Clemente Global Growth Fund (CLM-7 3/4-NYSE) - The Grace-Pickens takeover group has been rebuffed again by the Clementes. Several tender offers for the company have expired and the federal judge who blocked the offer ruled that the group was an investment company and therefore couldn't bid for another investment company. The Pickens Group has scheduled an appeal and a conference has been set for March 31 to try to work-out differences. We consider CLM fully valued, but would be buyers on weakness.

Convertible Holdings (capital shares) (CNV-4 1/2-NYSE) has increased its net asset value 8.98% to $9.47 since the first of the year. Its manager, Vincent Lathbury, reports "we are improving the portfolio and increasingly buying higher grade bonds and preferreds". The upside leverage to its open-ending in 1997 (9.3% internal rate of return) and the discount of 52.48% make this one of the best values in the market. We continue to be buyers of the capital shares.

Cypress Fund (WJR-7 5/8-NYSE) reported in early February that its Board met to consider a proposal by Twenty-First Century Securities which owns 12% of the shares to open-end the fund. William J. Reik III, President of the fund, says they "were caught by surprise by this but are really committed to remaining a closed-end fund." We will follow developments.

General American Investors (GAM-15-NYSE)--reported its net assets rose 13.8% to approximately $302 million in 1988. Its total return, with dividends reinvested, was 17.8%. Dividends paid during the year were $1.98. An extra dividend of $.05 per share was paid February 7, 1989. We continue to favor this well-performing stock, particularly when its discount is close to 20%.

Quest For Value Dual Purpose Fund (KFV+ 11 1/8-NYSE) KFV raised its monthly dividend to $.10 which equals a $1.20 annual rate, an increase from $1.00 per share. Emphasis has shifted to a 70% equity orientation versus 54% on June 30. The discount is -26.08% for the capital shares and -5.04% for the income shares which yield 10.8%. We continue to be buyers of both classes, particularly the income shares.

Letter From The Editor

We are starting a new service for subscribers who wish to consult with us on a weekly basis. The list of favorites from our model portfolio will be updated each Monday. Subscribers may call me at 1-800-426-2100 for an update.

If you become one of our regular clients, this letter will be sent to you free, paid for by commission business.

Continued on Page 6

Rankings of Closed-End Funds in Scott Letter Equity Portfolio by NAV Performance for 1988

(adjusted for reinvestment of dividends and capital gains)

1. Templeton Emerging Markets	+29.20%
2. Gabelli Equity Trust	+28.0 %
3. Royce Value Trust	+22.78%
4. Schafer Value Trust	+17.81%
5. General American Investors*	+17.80%
Dow Jones Industrial Average	+16.21%
6. Baker Fentress & Co.	+15.72%
Lipper General Equity Fund Average	+14.47%
7. Clemente Global Growth Fund	+14.37%
8. Adams Express Co.	+13.50%
9. H & Q Healthcare Investors	+ 8.11%
10. Convertible Holdings (Capital Shares)	+ 2.35%
11. The Helvetia Fund	-10.94%

Source: Managements of the above funds.
Figures are subject to adjustment.
* Reinvestment of dividends previously omitted.

Call me for details.

We are registered with the SEC (very few newsletters are) because we think it important both from a compliance and professional standpoint. It is also for your protection.

The Scott Letter has gained national recognition from funds, financial planners and advisers, stockbrokers and many individuals, particularly for the work we do in analyzing funds in detail through personal visits with managements. Each fund manager we visit sees a copy of our draft to insure accuracy prior to publication, because the information we provide may be part of your investment decision.

We are now being distributed in every state, Canada, and as far away as Japan and Saudi Arabia. Many of you have been helpful in sending us names of friends or associates who might be interested in free copies as offered by our ads. Please continue.

Next Month: **Duff & Phelps Selected Securities and Ellsworth Convertible Fund.**

Yours Sincerely

George Cole Scott

George Cole Scott, Editor

Back Issues Now Available

Back issues are now $10.00 each, ($8.00 each to **Scott Letter** subscribers). Prepaid orders only please; make your checks out to Cole Publications, Inc., Box K-132, Richmond, VA.23288. The previous two issues will continue to be free each month.

MONTH	SUBJECT
April	Closed-end and Mutual Funds Compared; History of Investment Trusts.
May	General American Investors; Convertible Holdings.
June	Adams Express; Baker Fentress.
July	Gabelli Equity Trust; Mass Mutual Corporate Investors.
Aug.	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 Dual Funds.
Dec.	Cypress Fund; Funds With Deep Discounts.
Jan.	Liberty All-Star Equity Fund; H&Q Health Care Investors.
Feb.	MGC Small Cap; Bancroft Convertible.

SCOTT LETTER MODEL PORTFOLIO

	Date First Recommended	Price When Recommended	Price 1/13/89	(Div'd. Dist. Paid)	1988-89 Total Return (Incl. Div'd.)	Approx. Size	1987 % Expense Ratio
Convertible Holdings (CNV) Capital Shares* 3.	May, 1988	4⅞	4½	$ 0	- 7.70%	$245 M	0.79%
General American Investors Investors (GAM)	May, 1988	14¼	15	$1.98	+19.15%	302 M	1.14%
Adams Express Co* (ADX)	June, 1988	15¼	14⅞	$1.84	+ 9.60%	456 M	0.55%
Baker Fentress (BKF)	June, 1988	20	19¾	$1.77	+ 7.63%	406 M	0.64%
Gabelli Equity Trust (GAB)*	July, 1988	9⅞	10¾	$ .85	+17.47%	485 M	1.25%
Helvetia Fund (SWZ)	Aug., 1988	10	9½	$ .02	- 4.80%	99 M	1.83%
Royce Value Trust (RVT)	Oct., 1988	8¾	8⅝	$ .51	+ 4.49%	107 M	1.09%
Schafer Value Trust (SAT)	Oct., 1988	7⅜	8¾	$ .26	+22.17%	93 M	1.43%
Templeton Emerging Markets EMF)	Nov., 1988	8⅛	8⅞	$ .32	+13.16%	105 M	1.67%
H & Q Health Care (HQH)	Jan., 1989	5¾	6⅝	0	+15.21%	45 M	1.98%
Small CAP (MGC)	Feb., 1989	7¾	8⅛	0	+ 4.03%	46 M	2.56%
					+ 9.20%		

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

NOTES: 1 – Tabulated year-end figures December 31, 1988. 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	20⅜	$1.06	+2.07%	$142 M	.70%
Quest For Value ($1.00 Pfd.) (KFV+)	Nov. 1988	10⅝	11⅛	$0.21	+6.68%	425 M	.86%
					+4.38%		

Note: Mass Mutual Investors Trust has been deleted due to difficulty in obtaining NAV; it remains on hold.

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 (free to clients) reprints $10.00 each ($8.00 to subscribers). Please make your checks payable to Cole Publications, Inc.