Closed-End Fund Market Update

by Bryn Torkelson, President and Chief Investment Officer
& Eric Boughton, CFA, Portfolio Manager and Chief Analyst

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Matisse

Performance Highlights[1]							
Performance (as of 3.31.2018)	3 Mo	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception (01.01.2006)
Matisse Discounted CEF Strategy	-1.4%	-1.4%	10.5%	7.8%	7.4%	8.6%	9.0%
S-Network Composite CEF Index	-1.9%	-1.9%	6.8%	7.3%	5.9%	7.0%	6.6%
S&P 500 Total Return Index	-0.8%	-0.8%	14.0%	10.8%	13.3%	9.5%	8.6%

In This Issue:

Remember Volatility? It's Back!

Volatility Returns from Hibernation

After hibernating for a few years, volatility finally reared its ugly head in the 1st quarter of 2018. Stock markets roared higher in January, pulled back sharply in early February, then chopped around violently for the rest of the quarter, finishing just about where they started. The volatility was driven by the largest companies, including the "FANG" stocks responsible for a good chunk of the 20% per year returns the S&P 500 produced from its March 2009 low to its January 2018 high.

<u>To put some numbers to this volatility:</u>

- The Dow had 100 point up or down moves for more than two-thirds of the trading days in the first quarter
- The S&P 500 moved up or down more than 1% on 23 days out of the 61 trading days in the quarter *(this following only 8 days throughout all of 2017)*
- The VIX averaged 20 during February and March, and spiked as high as 50 in early February

During all this volatility, our Strategy has demonstrated a much lower risk profile, with a beta to the S&P 500 of only 0.46 during the quarter[1]. Despite the lower risk, we have been able to keep up with stocks: over the past 9 quarters, our Strategy has advanced 39% (total, after fees)[1], vs. 35% for the S&P 500, 29% for the S-Network Composite CEF Index, and 23% for the S&P Target Risk Growth Index.

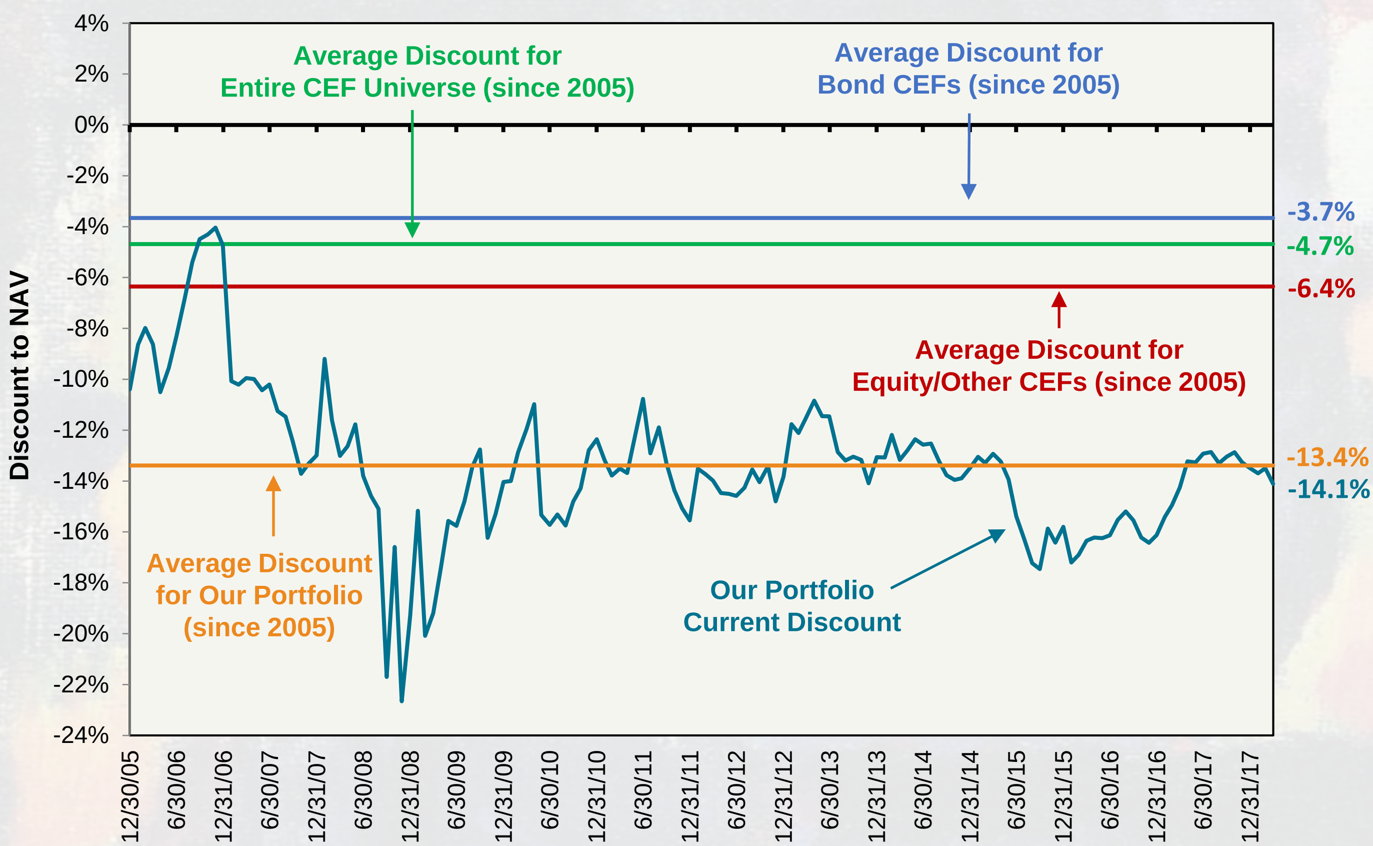
Muni Bond CEFs in Today's Market

A very exciting area right now for potential future gains is Muni Bond CEFs. Our current portfolio of Muni Bond CEFs trades at a weighted average 15.2% discount to NAV. These same funds, looking back multiple decades, typically trade at very low single-digit discounts – and have historically (other than a brief period in late 2008) not traded anywhere near their current discount levels. On average, these funds are also providing us with 4.6% tax-free income while we wait for their discounts to narrow.

Unlike some other Bond CEFs, Muni CEFs are almost all investment-grade. Some argue that the new tax law makes Muni Bonds less attractive, but their income is still exempt from Federal income tax, and the top tax bracket only declined from 39.6% to 37.0%. There is a broad fear that long-term rates will rise sharply, hurting muni bond prices, and therefore Muni Bond CEFs (which tend to have 8-10 year durations on average).

It is true that the 10-year Treasury only yields 2.8% today, quite a bit lower than its 30-year average of 4.8%. However, if you are able to buy a newly issued 10-year Treasury with a 2.8% coupon *for less than 85 cents on the dollar*, your yield to maturity is now 4.8%! Yes, Muni Bond CEFs don't mature like that Treasury. However, the magnitude of the opportunity is impossible (for us) to ignore. <u>And consider the very real possibility that interest rates don't go up.</u>

Historical CEF Discounts



Source: Matisse Capital

What's Happening at Matisse:

CONTEXT LEADERSHIP SUMMIT LAS VEGAS 2018

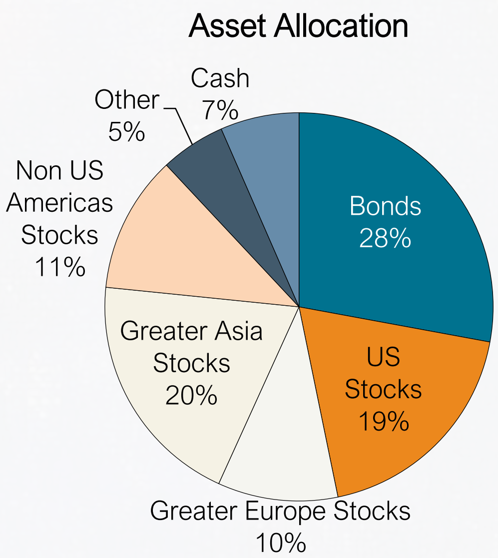
Our team will be in Las Vegas at Context Leadership Summit 2018 from May 8th – May 11th, 2018. If you will be at the conference (or are in the area) and would like to meet, please reach out to schedule a meeting. For more information on the conference, please visit https://contextsummits.com.

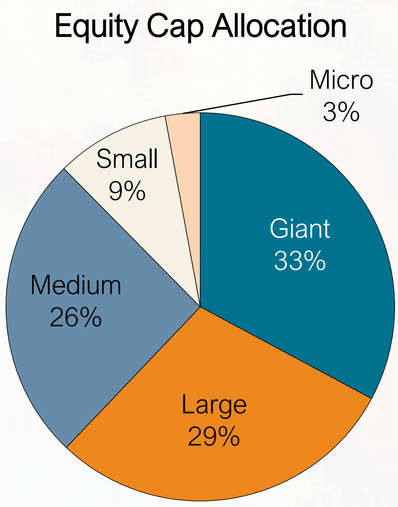
NEW ADVISOR WEBSITE – MATISSECAP.COM

Matisse Capital (the advisor to the Matisse Discounted Closed-End Fund Strategy and mutual fund) has launched a new website for 2018. We invite you to visit https://www.matissecap.com to learn more about our firm, our strategies, and the services we provide.

Portfolio Composition:

TYPICAL ACCOUNT LOOKTHROUGH ALLOCATION 3.31.18





Source: Morningstar® [2]

TOP 10 HOLDINGS 3.31.18

Central Securities Corporation	MS Emerging Markets	Nuveen CT Quality Muni Inc	GDL Fund	RMR Real Estate Income Fund
Nuveen NJ Quality Muni Inc	Dividend and Income Fund	Mexico Fund	Aberdeen Emerging Markets Smlr Co Opps	Aberdeen Greater China

Disclaimers:

[1]Matisse Capital (Deschutes Portfolio Strategy, LLC) is the advisory firm to the Matisse Discounted Closed-End Fund Strategy and mutual fund. Performance cited currently represents a composite of all Matisse Capital-advised accounts employing our discounted closed-end fund strategy, including our publicly traded mutual fund, net of all commissions, and separate accounts with a presumed 1% management fee. For details of the performance calculation method, please see our separate audited report. All performance figures for the strategy (except cash distribution yield) are total returns net of actual commissions incurred, and net of a presumed 1% annual management fee. Benchmark returns, by contrast, do not reflect a deduction for fees. You cannot invest directly in an index. **Performance comparisons are for illustrative purposes only and are not a forecast of future returns.** Alpha, beta and R2 are annualized since inception. Please contact us if you would like to receive a copy of the performance audit from ACA Compliance Group (formerly Ashland Partners). Although the above data is derived from sources deemed to be accurate, Matisse Capital does not guarantee its accuracy.

[2]*Matisse Capital is not affiliated or endorsed by Morningstar, Inc.*

The newsletter contains information about Closed-End Funds and related financial markets. The information is not advice, and should not be treated as such.

For More Information:

CONTACT

Bryn Torkelson – President, CIO

Bryn@matissecap.com – (503) 210-3001

Eric Boughton, CFA – Portfolio Manager & Chief Analyst

Eric@matissecap.com – (503) 210-3005

Matisse Capital

4949 Meadows Rd. Ste. 200 Lake Oswego, OR 97035

https://www.matissecap.com – (503) 210-3000