First off, thank you.

Thank you so much for becoming a member of this service. This is a service, and a strategy, that I strongly believe in. It’s the exact strategy that I would want my children to use if I were to die tomorrow and they needed to invest their money.

This is the way that I would want them to invest.

So, on that morbid note, let’s get started!

What is Altucher’s Income Advantage all about?

It’s about closed-end funds, but I approach them in a very specific way. Here’s what I do:

1. **Find the Irrational Fear**

One thing I always like to keep in mind when investing, and this is obvious, is to find the irrational fear.

Like in 2008, when people thought Texas and California were going to declare bankruptcy, because of the oil market, they didn’t even know what they were talking about. It’s in the Constitution that a state can’t declare bankruptcy.

That fear was simply irrational.

I would go on CNBC and have these arguments with people.

“Oh, California’s going to declare bankruptcy.” Guess what? The only way California can not even pay back a debt is if they fire every single teacher and every single fireman first.

It’s not going to happen.

But these guys on CNBC, professional investors, did not know that.

There’s always an irrational fear somewhere in the markets.

It’s human nature. It’s the financial version of fight or flight, except investors always run.

That’s the key. Fight that fear, and you’ll be surrounded by solid opportunities, at a huge discount.

The next step is to find assets or stocks that are discounted because of that fear, especially when there’s no actual risk.

I’m going to tell you one story that’s kind of funny. When swine flu was huge in 2007 and early 2008, there was a stock that was down simply because it traded under the ticker symbol HOGS.

That stock went down 20% in one day for no reason, just because everybody thought swine flu was going to affect this company, even though it had nothing to do with pigs.

Here’s another example.

In 2008, I found a bunch of bonds issued by Texas towns and counties that didn’t rely on the oil industry for most of their revenue. There was fear out there at the time that Texas towns would go bankrupt because the oil industry was in trouble.

Not only was that fear irrational, it was temporarily making these specific assets that had nothing to do with this story way cheaper than they should’ve been.

It turned out to be an incredible opportunity to buy, particularly because these assets were entirely safe to begin with.

And that’s exactly the kind of thing I look for when I invest.

2. **Only Buy Investments at a Discount**

Think about it this way.

If a company has $100 worth of assets, and you could buy...
that company for $70, then that's a great investment.

I found an area in the market that allowed me to invest in those Texas assets at a huge discount, buying them for less than they were worth. They were also paying a huge tax advantage yield.

I want my investments to be discounted below the value of the assets they own. That's my extra margin of safety. It's a double discount on the underlying assets.

And this is exactly how closed-end funds operate, each and every time.

**What is a closed-end fund?**

A closed-end fund is like a mutual fund. It's an entity that owns a bunch of stocks or bonds or other assets but, instead of being something you have to buy through a stockbroker, where they take all sorts of fees, add more hidden fees and fees within fees, you can actually buy a closed-end fund on the stock market.

They trade exactly like stocks. The benefit there is that sometimes they trade at less than what they are worth.

Unlike a mutual fund, a closed-end fund could trade at discount to its net asset value. That's why I love this strategy so much. Because you could potentially get this discount, which is that built-in margin of safety I talked about earlier.

**Why do I like closed-end funds?**

Because I can trade them back and forth throughout the day if I have to, first of all. But the most important thing is that discount, and the fact that they can trade at a discount to what they're worth.

Let's say a closed-end fund owns $100 worth of stocks per share. It might trade for $80. Right there, there's the potential that the price will rise from $80 to $100, and along the way you also get a very nice dividend yield, compared to what a mutual fund or the average stock would give you.

That's why I love closed-end funds.

**How did I first discover this strategy?**

It's an interesting story.

About 12 years ago, I was doing research for a book that I was writing at the time, "Trade Like Warren Buffett."

Every year, Warren Buffett writes a letter to his investors—the Berkshire Hathaway Shareholder Letter. He's been doing it for years—even before Berkshire Hathaway. We're talking the 1950s and the early 1960s when the very young Buffett was running a hedge fund.

He would write letters to his investors, describing the state of his business at the time and usually outlining some of his plans for the future and his thoughts on the world.

One thing I learned from looking at these letters was this very strategy. Many years ago, Warren Buffett found a very unique way to find assets or stocks that were trading at huge discounts to what they're worth. One of the assets he looked at was closed-end funds, and he traded them in his personal account for the next 40 years using just this strategy.

That's how I initially learned about this strategy.

And then I saw something else that was very interesting. Hedge funds, other activist investors and some of the best fund managers in existence were also very quietly using this strategy over and over again to make more and more money.

I thought, “Well, if they're doing this strategy, why don't I start doing this strategy?” and that's when I started.

**Why are we doing this now?**

Right now, with dividend yields so low across the market and with the market at all-time highs, we need to find a solid set of assets that we feel will trade independently of the market but still have massive potential for upside gains.

I want to have massive upside gains. I want my children to have massive upside gains. And I want your children to have massive upside gains.

Right now is the perfect time to introduce this investment product, which we feel will have potential for gains, potential for high dividends, and is completely uncorrelated to the general stock market.
How is this product different from the Top 1% Advisory that we already offer?

My Top 1% Advisory is a great strategy. Again, it’s a strategy I would recommend my own family use, but it’s a strategy that’s based on finding the ambitious stocks that are going to have enormous, enormous gains but are also somewhat correlated to the market.

What I’m looking at here are solid, safe returns that are uncorrelated to the market, with high dividend yield potential and high return potential.

I want to add: These are not just stocks. These are mutual funds that trade like stocks.

Closed-end funds are a very unusual asset class that most people don’t even know about, but I’m going to teach you all about them. You’ll become an expert over the course of the next year as you follow this strategy.

What do I do with cash when I sell an investment, sell a house, sell an asset class, whatever, and suddenly have a good amount of cash on my hands?

It’s something that people often ask me. When they suddenly sell a house or have a good amount of cash, where do they put it? What do they do with it?

Should they put it in high-risk stocks? Should they put it in mutual funds? Or should they put it in something else?

The strategy that we’re offering here with Altucher’s Income Advantage is what I always tell them. It is a solid strategy where you can put your money in an asset class that delivers good dividend returns, high potential for capital gains, and high potential for returns.

Best of all, I want it to be as uncorrelated to the stock market as possible because right now the stock market is near all-time highs. We never know what’s going to happen to the stock market, but I know that since strategy is largely uncorrelated to the markets, it is potentially safer in this environment.

How does this fit in as part of a retirement strategy?

This is such a great strategy for retirees.

How else are you going to get yield these days? You have your limited amount of money that you saved up and that you’re living off of, your savings account isn’t making any money, and the average stock won’t give you any big dividends unless you take really big risks.

With closed-end funds, you can actually make a dividend yield that is meaningful to your bank account and to your living expenses.

I highly recommend this strategy for retirees.

Why are we giving you the whole portfolio all at the same time?

It’s because, for the reasons mentioned above, if you have a solid amount of cash that you’re sitting on, we want you to be able to place it right away in something safe that’s already generating good returns and already has the potential to have good dividends.

This portfolio is designed to be that place.

But this isn’t a set-it-and-forget-it plan. We’re also going to be recommending ongoing tweaks to the portfolio so that you can take advantage of what we’re learning, what we’re studying, what we’re researching—and modify your portfolio along the way to maximize your returns.

Why should investors do this right now?

If I open up a savings account today, I’m only getting 0.5% yield on my money.

I don’t like that. How can people retire on that?

I don’t even understand what 0.5% means in the real world. That means on $10,000 I’m only going to make $50 per year.

It doesn’t make any sense!

Similarly, the average stock in the stock market only offers about a 1% dividend yield right now.

With closed-end funds, not only do you have the potential for the fund prices to go up, but all the names we recommend will be giving much, much higher-than-normal dividend yields. And that’s extremely important, particularly right now in this
market where we're reaching all-time highs and we have no idea which direction the market is going to go.

We do know that these funds are giving us high dividend yields so we'll have baked-in returns and be able to sit back and rake them in for years.

One of the great things about this strategy, and closed-end funds in general, is that you're buying a fund that behaves a little bit, in some cases, like a municipal bond.

Municipal bonds are incredible because you don't pay any taxes on them when you make gains and they usually have great dividends.

Meaning, instead of paying 0.5% on every dollar in a savings account, you might be getting 5, 6, 7, or 8% on the dividend yield of a municipal bond. You might get even more with the closed-end funds than municipal bonds.

And again, it not like you have to call up your broker and say, “How do I find this bond? I don’t even know what a bond is.” You can buy these closed-end funds straight on the stock market off of whatever trading platform you already use.

**Logistics**

Closed-end funds function differently than standard stocks and bonds, so we need to think about them in a different way.

Rather than issue buy-up-to prices and sell targets as we would for stocks—because the prices of these funds don't fluctuate as much—we are instead going to follow these guidelines for Altucher's Income Advantage:

- **Buy:** Whenever we recommend a particular closed-end fund, we will share with you the NAV (net asset value) of its underlying holdings. As long as the current price of the fund is below the NAV (at a discount) and it still lives up to the research we present in our investment thesis, we will consider that fund a "buy." Not every fund that is priced at a discount is going to be a buy, and our analysis will make clear not only which funds are the best but why we consider them a sound investment.

- **Hold:** Given the structure of closed-end funds, whenever the price of a particular fund reaches or exceeds its NAV we will consider that our "hold" point. We will, of course, continue to harvest dividends from our shares, but will not recommend buying any more at that point.

- **Sell:** Each of the closed-end funds in this portfolio is there for a reason. We are either taking advantage of a pricing disparity (usually due to a death, divorce or debt), or investing because there is a strong growth trend in that part of the market (a fund that focuses on a particular high-growth part of the world, for instance). When that reason changes, or the growth trend we're investing in goes away, we'll likely recommend selling at that time. Though, of course, we will notify you whenever we make that determination.

Remember, asset pricing is only one part of the closed-end fund investment strategy. These funds also pay much higher than average dividends, in many cases on a monthly basis, and we want to be in these funds as long as the price is reasonable so that we can collect those payments.

Let's also talk about position sizing.

Over the coming months and years, we expect to add and subtract funds from this starting portfolio as the market ebbs and flows. Eventually we expect to hold somewhere in the range of 20 to 25 funds in the portfolio at any one time. This may change from time to time, but that is the goal.

That said, we are recommending equal weightings for each of these funds.

That means you should invest an equal amount in each fund, though the exact amount will depend on the size of your overall portfolio and how much you want to dedicate to my closed-end fund strategy. Please consult your personal financial advisor with any questions related to portfolio size and asset balancing. How much an individual investor will want to commit to this strategy will vary greatly from person to person.

Regardless, it's important to remember that this portfolio was put together this way for a reason. Each fund that we're including here, and in future updates, is designed to function
with the other funds in the portfolio as a whole.

For that reason, I want to stress the importance of investing in the entire portfolio, rather than picking and choosing the investments that sound best to you. Many, many hours of detailed research has gone into the creation of this portfolio and will continue to be committed to making Altucher’s Income Advantage the best, most valuable investment advisory that it can be. Cherry picking investments only serves to leave you out in the cold when these funds take off.

Simply put, I don’t want you to miss out.

Now that we all know more about closed-end funds as an asset class and understand the advantages they offer, let’s take a look at the funds I like right now to get you started with my closed-end fund strategy.

There are 12 funds to start with in the portfolio, and I expect to be adding to and subtracting from this list going forward as market conditions change.

**Nuveen Enhanced AMT-Free Municipal Quality Fund (NYSE: NEA)**

- Tax-Free Yield: 5.65%
- Taxable Equivalent Yield: 8.11% (Assuming 28% Tax bracket)
- Current Discount From NAV: -8.03%

We are using this fund as part of our run-of-the-mill tax-free bond strategy. This tax-free bond fund invests in bonds from around the United States. Its primary goal is to generate tax-free income.

Nuveen has been around since 1898 and is one of the leading sponsors of closed-end funds. It has developed an expertise in tax-free bonds over the years that is unmatched in the industry. It currently manages more than $120 billion of tax-free municipal bond portfolios, as well as $37 billion in taxable fixed income.

The fund manager, Christopher L. Drahn, CFA, has been with Nuveen since 1980, so it’s safe to say he has seen just about every cycle that the municipal bond market can throw at investors. He also manages several other fund products for Nuveen, including the Short Term Municipal Bond, the Colorado Municipal Bond, the Minnesota Intermediate Municipal Bond and the Missouri Municipal Bond, as well as institutional portfolios.

The fund has a high-quality portfolio right now, with over 60% of the bonds in the portfolio rated either AA or AAA. An additional 22% of the bonds held by the fund are rated A, so there is very little exposure to lower quality municipal bonds.

Over 40% of the portfolio holds bonds used to finance healthcare and transportation projects, both of which have a great track record for being self-sustaining with low financial risk. Another 29% of the portfolio is in bonds backed by the taxing ability of the issuing municipality or state agency.
And 6% is guaranteed by the U.S. government.

There is very little credit risk with this tax-free bond portfolio. A look inside the portfolio shows that some of the top positions in the fund include bonds issued by agencies like Metropolitan Washington Airports Authority, the Clark County, Nevada airport (think Las Vegas), the Pennsylvania Turnpike, and the Omaha Convention Center.

It is highly unlikely any of these entities will have trouble paying back bondholders.

The rest of the fund contains bonds from similar issues from around the United States, so investors can sleep well.

Earlier this year, Nuveen announced that this fund would be part of a merger.

On February 5, 2016, the Board of Trustees for the Nuveen closed-end funds approved a plan to merge Nuveen Municipal Market Opportunity Fund, Inc. (NYSE: NMO), Nuveen Premium Income Municipal Fund 2, Inc. (NYSE: NPM) and Nuveen Performance Plus Municipal Fund, Inc. (NYSE: NPP) into the acquiring fund, Nuveen AMT-Free Municipal Income Fund (NYSE: NEA). The fund was renamed Nuveen Enhanced AMT-Free Municipal Quality Fund.

The firm currently expects the municipal markets to be stable and quiet for most of the rest of the year. While there may be some gyrations around fed activities, I think they’re right and we’ll just clip our monthly coupons and enjoy the high after-tax returns offered by the fund until the merger closes and we can reevaluate this holding.

The shares are currently trading at a discount to net asset value of 8.03%, which is greater than the discount level of the average tax-free fund. The current tax-free distribution yield is 5.65%. Investors in the top bracket would have to earn a return of about 8.1% to collect the same yield right now.

**The Nuveen Premier Municipal Income Fund (NYSE: NAD)**

- Tax-Free Yield: 5.77%
- Taxable Equivalent Yield: 8.01% (Assumes 28% Tax Bracket)
- Current Discount From NAV: -7.52%

This is another high-quality fund offered by Nuveen that was part of a recent merger.

In this case, Nuveen Premier Municipal Income Fund, Inc. (NYSE: NPF), Nuveen Premium Income Municipal Fund, Inc. (NYSE: NPI), Nuveen Select Quality Municipal Fund, Inc. (NYSE: NQS) and Nuveen Investment Quality Municipal Fund, Inc. (NYSE: NQM) were merged into the acquiring fund, Nuveen Dividend Advantage Municipal Fund (NYSE: NAD).

It was renamed Nuveen Enhanced Quality Municipal Fund.
This is another run-of-the-mill muni closed-end fund pick with the bonus of potential discount elimination via the merger process.

Munis are second only to treasuries in overall safety since they’re backed by state and local government and government projects.

As with the Municipal Opportunities Fund, this is a very high credit quality portfolio. Almost 60% of the bonds held by the fund are rated AA or AAA and an additional 19% is A rated.

Some 24% of the bonds are supported by the taxing authority of the agency that issued them, 20% are issued by transportation authorities and 12% are backed by the U.S. government.

An additional 14% of the fund’s bonds are issued to support low-risk healthcare and utility projects.

Nuveen Premier is trading at a 7.5% discount and has a distribution yield of 5.77%. Again, it takes a taxable yield of about 8.1% or more to replicate this yield depending on your tax bracket, and that simply can’t be done within the current market environment.

### Eaton Vance Tax-Advantaged Bond and Option Strategies Fund (NYSE: EXD)

- Current Distribution Yield: 9.74%
- Current Discount to NAV: -9.74%

This is a high-quality municipal fund that uses an option overlay strategy to enhance yields. It’s an interesting combination and I think it may be the only fund of its kind available right now.

It holds low-risk munis and sells both “put” and “call” options and spread on the S&P 500 to generate additional income.

According to the prospectus, the fund’s option overlay strategy consists of writing a series of S&P 500 “call” and “put” option spread transactions, employing a systematic, rules-based approach that takes advantage of the general imbalance of natural buyers of stock index options over natural sellers. This is reflected in the customary excess of option price-implied volatilities over observed market volatilities.

In addition, the fund’s option overlay strategy is intended to be substantially non-directional and to provide returns that are uncorrelated to the returns of the S&P 500.
In implementing the option overlay strategy, the fund intends to enter into written “call” and “put” option spread positions that primarily have a maturity of approximately four weeks, and to stagger the timing of its spread originations and expirations through each four-week period.

It’s kind of a strange combination but it seems appropriate for current market conditions.

The municipal portfolio is of exceptionally high quality. More than 95% of the portfolio is AA or AAA paper and the balance is A-rated.

Of the fund’s holdings, 45% are general obligation bonds that are backed by the full taxing authority of the issuing agency. It is a fairly short-term portfolio, since all of the bonds in the portfolio mature over the next 10 years.

When I look at the holdings, I see bonds for the California State Water Resources Department, the Denton, Texas School Board and the New York State Turnpike Authority.

There is virtually no credit risk in the portfolio at all.

The fund has a team management approach with both municipal bond and options trading experts on the team to manage the two strategies used by the fund. Eaton Vance itself is a leading asset management firm that been around since 1924.

Fund shares are currently trading at 10.29% discount, which is well above the five-year average discount of 7.88%.

The discount is much larger than it should be, in my opinion, as a result of public perceptions. When you say the word “options” what most investors hear is “high risk,” when in truth EXD’s short-term strategy of selling options implemented by experienced professional investors is not as risky as perceived. Used in combination with high quality municipals in a portfolio of extremely high quality municipals the overall risk profile of the fund is much lower than the public might believe.

As is often the case in investing, though, the fears of the public work in our favor.

The shares have a managed distribution rate of 9.50% right now. Most of that is from option premium, so it’s not tax-free, but it compares very nicely with income alternatives in the current marketplace.

**MFS Multimarket Income Trust (NYSE: MMT)**

- Current Distribution Yield: 9.01%
- Current Discount to Net Asset Value: -10.25%

This is a “go anywhere” bond fund that can invest across a broad scope of fixed income sectors. It can buy high-yield bonds, high-grade corporates, asset-backed securities, foreign government bonds, mortgage-backed securities... pretty much whatever fixed income securities the fund’s
Managers determine offer the best risk/return prospects at a given point in time.

MFS has been around since 1924, and opened the first mutual fund, the Massachusetts Investors Trust, which is still in operation today. It currently manages more than $400 billion across most major asset classes.

Lead manager Richard Hawkins has been with the firm since 1988 and a portfolio manager since 1996. He took over this fund in 2006 and is also the portfolio manager of the firm’s investment grade and multi-sector bond portfolios.

Co-manager William J. Adams was with MFS as a credit analyst from 1997 to 2005 and returned to the firm in 2009 as a high-yield portfolio manager. He has been with the Multimarket Income Trust since 2011.

The fund is very diversified, with 812 total issues in the portfolio right now. It’s overweight in high-yield bonds, with about 60% invested in the sector. Around 20% is in high-grade corporates and 17% is in emerging markets debt.

It also has positions in U.S. government agency bonds, as well as residential and commercial mortgage-backed securities.

The MFS Multimarket Income Trust is a good way to pile up much higher yields than we can get from fixed income alternatives while we wait for the discount to narrow.

I like the fact that the fund has been around since 1987 and has consistently outperformed its competitors. In a yield-starved world, the Multimarket Income Trust has done a good job of delivering strong distributions.

Right now the shares are have a distribution yield of 9% and trade at a discount of 10.25%. That is pretty much right in line with the five-year average discount for this fund.

**Gabelli GDL Fund (NYSE: GDL)**

- Current Distribution Yield: 6.42%
- Current Discount to NAV: -15.94%

Mario Gabelli is one of the best risk arbitrageurs out there, in addition to being a great value investor. Most of us know him because he is also a great stock picker that frequently appears on CNBC and is in the Barron’s Roundtable at the start of every year.

But, while he doesn’t talk about it a lot, Gabelli has been an arbitrage trader for his entire career.

He started doing risk arb transactions back in the risk arb heyday of the 1970s and still oversees risk arb portfolios worth billions of dollars for his clients, including an open-end mutual fund that has been around since 1993 and has only had one down year since inception.

Best of all, with the GDL Fund we get to hire Mario Gabelli to manage a portion of our portfolio using his more than 40 years’ experience as a risk arb investor at a discount.
The fund currently trades at a **discount of 15.94%** to its net asset value. Fund management is aware of the large discount and is taking steps to narrow it. It has had a buyback plan in place that allows it to buy back shares if the discount is greater than 7.5%. In 2016, it repurchased 2,777,061 shares.

Narrowing the discount is in its best interests because Gabelli’s company has skin in the game as the largest single shareholder of the GDL Fund, with 1.4 million shares of the fund owned by its asset management firm.

The **distribution rate is currently 6.42%**, so we can either collect the cash each quarter if we need the income, or reinvest it back into more shares of the fund.

I see a lot of the usual suspects when it comes to smart money closed-end fund investors owning this fund. Guggenheim Capital and RiverNorth are both large shareholders that were buying shares in the last quarter of the year. Ancora Advisors and Bulldog Investors are also shareholders.

Glacier Peak Capital is a value investing arm out in Seattle that is run by some very smart folks, and it owns a lot of shares in the GDL Fund and has been buying more according to SEC filings. 1607 Capital and Cornerstone Advisors are also shareholders.

The really good news for us is that, in early 2007, Gabelli took advantage of what was still a pretty strong stock market to sell a new closed-end fund devoted to risk arbitrage strategies.

The Gabelli GDL Fund (GDL) invests in and is involved in publicly-announced mergers as well as some in corporate reorganizations involving stubs, spin-offs, and liquidations that offer a potential arbitrage profit.

The key here is that the fund only invests in announced deals to capture the spread. They are not speculating on what company might buy what other company, which history tells us can be a risky business.

This leads to a fairly low-risk fund with steady returns. The first three years of this fund’s existence included a period where stock prices plunged by more than 50% peak to valley, and the GDL Fund actually grew by 5.19% during that period.

Andrew Lo of MIT, who is a professor who studies the market and is a brilliant thinker, once said that the most important job of a long-term investor is to survive long enough to be a long-term investor. Investing in funds like the GDL Fund can help us do just that.

As Gabelli noted in his most recent shareholder letter:

"Companies will continue to look at deal making in order to accelerate their growth. Historically low interest rates, high corporate cash levels, and few alternatives for organic growth will continue to push arms towards utilizing M&A.

The Federal Reserve has slowly begun to raise interest rates, and it is anticipated that hikes will continue during 2017. That said, rates still remain quite low, despite directionally moving higher. Furthermore, the deal spread is comprised of two main factors – the risk free rate and the risks inherent to the deal. As such, rising rates tend to cause an increase in spreads. Further Fed action will perpetuate this. The Fund should benefit from these factors and the continued surge in M&A."

The GDL Fund offers experienced management in a highly specialized segment of the market at a substantial discount to the value of the fund’s investments. The distribution yield is well above most fixed income options right now. Management is buying back stocks and has enough skin in the game that is worth its while to take further steps to narrow the discount to net asset value as time goes by. Should it drag its feet, we have some co-investors who are not shy about pushing fund managers to take more aggressive actions to close the discount.

**I want you to buy a 4% position in the GDL Fund** with the intention of owning it for a very long time.
CBRE Clarion Global Real Estate Income Fund (NYSE: IGR)

- Current Distribution Yield: 7.19%
- Current Discount to NAV: -12.03%

This fund invests in income-producing real estate securities in developed markets like North America, Europe, Australia and Asia.

The fund’s primary focus is income, with a secondary goal of capital appreciation. So they can also invest up to 25% of the fund in preferred shares of real estate companies.

The fund is run by CBRE Clarion Securities, the listed investment division of CBRE Global Investors, which is an affiliate by CBRE Group (CBG). CBRE Group is one of the world’s largest commercial real estate services and investment companies. The fund is able to draw on its tremendous store of information and localized knowledge to find the best properties in the best markets at any given time.

This goes back to the “invest with someone smarter” rule, since the folks at CBRE have been active in commercial real estate since they were founded back in 1906.

While 56% of the fund is in U.S. real estate firms and REITs, it does have decent exposure to the European markets, which have been soft since the announcement of the Brexit Fund and look cheap.

The fund has about 18% of the portfolio in income-producing real estate in France, the Netherlands and the United Kingdom. European holdings include REITs like Klepierre SA (KLPEF), a REIT that owns office buildings in Paris and shopping centers throughout Europe, and Eurocommercial, a REIT that owns shopping centers in France, Italy and Sweden.

Holdings in the U.K. include British Land (BTLCY), a REIT that owns retail warehouses, super stores, town shopping centers, department stores, high street shops, retail parks, and supermarkets, and Segro PLC (SEGXF), a REIT that owns industrial properties like logistics, warehousing, offices and retail.

The Eurozone may be weaker than the U.S. right now, but people still need places to live, work, and shop, and Amazon (Nasdaq: AMZN) still needs warehouses. These markets will recover over time and we will participate by owning the fund.

Investors have, as they always do, overreacted to the news of the referendum for the UK to leave the European Union (aka “Brexit”). The commercial real estate in the country that is producing income in excess of expenses is still quite valuable and the selloff is a real opportunity to own high quality REITs in the region at bargain prices. Using our closed-end fund approach we get a discount on the bargain prices so we should do very well as real estate values recover and investors flood back into the sector.

Remember, more than half the fund is invested here in the
United States, where the real estate markets have been fantastic and should continue to throw off high levels of income. The fund owns offices, shopping centers, industrial properties and apartment REITs that have properties all over the United States. And while the recovery may be slow, the economy is recovering and commercial real estate will benefit.

Of course, not only are we buying income-producing real estate thanks to the closed-end fund strategy, we are buying it at a discount to net asset value.

The fund shares trade at a 12.03% discount to net asset value, which is a little above the five-year average discount level. The fund has a distribution rate of 7.19% right now, which is way above most alternative income investments. We have the potential for solid long-term gains as a bonus.

We are not the only ones that see the potential in this find. RiverNorth Capital has acquired a stake of 701,000 shares of the REIT and was buying more in the second quarter of this year. Rivernorth is another one of those investment managers that favors the closed-end funds and will not hesitate to take an activist approach should the discount continue to widen.

Alpine Global Premier Properties Fund (NYSE: AWP)

- Current Distribution Yield: 10.70%
- Current Discount to Net Asset Value: -15.64%

Alpine is another fund that invests in real estate.

It is an asset management firm that specializes in global real estate securities, tax-optimized income investing, distinctly structured equity income products, and innovative thematic funds. The firm has been in business since 1971 and manages about $3.5 billion in assets.

This fund invests in companies that are, as it says, “engaged in the real estate industry or real estate financing of which controls significant real estate assets.”

It is global in its approach. Once again, we have a strong presence in the undervalued markets of Europe. About 35% of this fund is in major European markets, including Germany, Spain, France, Ireland and the United Kingdom.

In the fund’s most recent quarterly commentary, its managers noted that the European and UK real estate benchmarks underperformed, primarily due to the negative outcome from the EU referendum.

“Current valuations in the UK REITs are implying corrections in underlying asset values in line with the 2008 financial crisis.”
As for the outlook for the Eurozone, fund managers said:

“Early in the quarter the European Central Bank (ECB) implemented substantial policy measures but it now must grapple with the longer-term upheaval that the UK exiting the EU will almost certainly entail. In spite of growing discontent from Germany the ECB appears committed to employing all available monetary tools to stave off deflation and to jumpstart the economy. The Bank of England is in watch and wait mode, but has given every indication that it stands at the ready should the initial impact of Brexit weigh too heavily on growth.”

While there may be some short-term dislocations in the region, there will be a real opportunity to participate in what is sure to be a long-term recovery in the U.K. and Eurozone real estate markets.

Remember that fortunes are born in bad markets, and our closed-end fund strategy allows us to buy in at a discount to the already low prices.

Some 32% of total assets are invested here at home and they have a 15% position in Japan as well. The money is spread out over asset classes, as they own REITs that have office, residential, industrial, lodging and retail properties.

The fund is currently trading at a whopping 15.64% discount to net asset value, which is well above the five-year average of 11.76%. The current distribution yield is 10.70%.

### Nuveen North Carolina Quality Muni Income Portfolio (NYSE: NNC)

- Current Tax-Free Yield: 4%
- Current Discount to NAV: -11.45%

I was running my usual screens recently when I noticed that a fund that invests in the municipal bonds issued in a state with one of the best credit ratings in the entire country was selling at an above average discount.

As I dove a little deeper into the portfolio, I found that the fund portfolio had more than 75% of its portfolio in bonds rated AA or A. Another 15% were rated A or better. This portfolio had very little credit risk but was trading at a discount to NAV of 11.45%.

This is Nuveen North Carolina Quality Muni Income Portfolio (NNC).

As I mentioned, the fund trades at an **11.45% discount to net asset value with a 4% federally tax-free yield**. As I am sure you are aware, North Carolina has been in the news frequently of late, and looking at the performance of this fund over the last few months, I suspect we’ll see some politically motivated selling putting pressure on the discount level. The discount has almost doubled since this time last year even though the bond market was holding up pretty well.

I don’t want to get too close to the third rail here with a lengthy discussion of the various issues involved in the
bathroom debate in the Tarheel State, but the threatened loss of billions in revenue has not really materialized. Although there was a lot of noise about businesses leaving the state or not expanding, Site Selection magazine found that, in reality, North Carolina was fourth in the nation for attracting and growing businesses.

Now the controversial legislation has been somewhat modified, the NCAA and NBA have put events back on the calendar in the state, and we should get back to something that looks like business as usual in North Carolina. That is great news for muni bond investors, since business as usual in North Carolina has been a very good thing in recent years.

CNBC found that the state was the fifth best in the nation for doing business in 2016. According to the Bureau of Economic Analysis, North Carolina is the ninth wealthiest state in terms of GDP. It is a great place to do business, and that means the state should grow and paying debt obligations will be no problem at all for the state and local governments.

A North Carolina bond fund should trade at a premium based on credit worthiness, but we have a chance to buy a very high-quality fund at a double-digit discount because of this short-term political turmoil. The average single-state muni fund is trading at a discount of about 5.75%, so the Nuveen North Carolina Fund is being priced as if it is much riskier than the average state, and this simply is not the case.

Taking a deeper look at the fund itself, I discovered that there really is very little risk of default in this portfolio. A full 25% of the bonds in the Nuveen North Carolina Fund are actually guaranteed by the U.S. government. Another 15% are issued by educational organizations like the University of North Carolina, Duke University, Wake Forest and local school systems. Transportation-related issuers like the North Carolina Turnpike Authority constitute another 15%.

Water, sewer, and utility-related bonds are 14%, and healthcare issuers such as hospitals are another 14%. These institutions will be able to pay their bills pretty much no matter what silliness the legislators cook up that stirs up the media for a short period.

And we have some solid partners in this investment in spite of the fact that it is a pretty small fund with less than $400 million in assets. I really like the fact that the biggest shareholder is Raleigh, North Carolina-based investment arm Armor Investment Advisors. No one knows the condition of the state better than those living there, and Armor appears quite comfortable with the fund’s portfolio of North Carolina tax-free bonds.

Another investor is Deschutes Portfolio Strategies, a closed-end fund specialist out in Oregon, and it was the largest buyer of the fund in the first quarter of 2017. Wells Fargo, Bank of America and BB&T are also shareholders of the Nuveen North Carolina Quality Muni Income Fund.

I want you to add this high-quality tax-free fund to your portfolio at current prices. Keep your position size to around 4% of the total portfolio.
Cohen & Steers Infrastructure Fund (NYSE: UTF)

- Current Distribution Yield: 7.64%
- Current Discount From NAV: -10.3%

The company seeks to provide high current income by investing in securities issued by infrastructure companies—things like utilities, pipelines, toll roads, airports, railroads, marine ports and telecommunications companies.

The manager of the fund, Cohen & Steers, has been involved in real estate and infrastructure investing since the firm was founded in 1986 and has had a great deal of success in these areas. Shares of the Cohen & Steers Infrastructure Fund currently trade at a **10.3% discount to net asset value and have a distribution yield of 7.64%**.

There is a lot of talk about around infrastructure investing these days. The president wants to spend enormous amounts of money to rebuild the country’s necessary infrastructure in order to create thousands of jobs and make the U.S. a better place to live. A lot of this money is going to be in the form of tax breaks and concession to private companies, and that’s going to benefit the types of companies owned by this fund.

It is not just a U.S. concern either. Nations all over the world are looking to rebuild or replace parts of their infrastructure and that spending will make current infrastructure assets more valuable.

When I looked through the portfolio of this fund, I saw that it owns some fantastic companies and assets. About 55% of the fund is invested in the United States. We will share ownership in cell phone towers, oil and gas pipelines, water utilities and railroads.

Around the world, we will own an airport in China, Mexico, New Zealand and Switzerland. We will be invested in toll roads in Australia, China, Italy, and Spain.

Our fund will also give us exposure to railroads in France and Canada, as well as marine ports in Hong Kong and Singapore. In Japan, we will own electric utilities and railroads.

The fund owns assets that make the world work and provides us a high rate of income and the potential for solid long-term growth.

The portfolio has 178 securities right now, mostly in developed countries. In addition to the U.S. allocation, 6% is invested in Canada, while the United Kingdom, Australia, and Italy each get about 5% of fund assets. We do have exposure to markets like China, Brazil, Mexico and Singapore, but fund managers have kept exposure to the higher-risk, higher-reward countries, diversified with small allocations to each.

We have strong institutional shareholders as partners in our investment. 1607 Partners, Karpus Management, Guggenheim, Bank of America, Wells Fargo and Morgan...
Stanley are all large shareholders of the fund. And 53
different institutions were buyers of the fund in the fourth
quarter, with 32 institutions opening a new position in the
infrastructure fund.

Infrastructure assets are going to attract a lot of attention
over the next few years, and I expect to see strong invest-
ment flow into this fund as a result.

**Ellsworth Growth & Income Fund**
**(NYSE: ECF)**

- Current Distribution Yield: 5%
- Current Discount From NAV: -13.53%

The Ellsworth Growth & Income Fund (NYSE: ECF) has
been around since 1986 and invests primarily in convertible
bonds. Father-and-son team Thomas and James Dinsmore
manage the fund along with Jane O'Keefe, who has been
with the fund since 1996.

The senior Dinsmore founded the fund back in 1986. He
was a co-founder of Davis-Dinsmore Asset Management
back in 1971 as a convertible bond specialist. In 2015, the
firm announced a strategic alliance with the Gabelli Funds.
They stayed on at Gabelli to manage the fund as well as
other Gabelli Fund offerings.

Convertible bonds and preferred stock can be converted
into shares of the issuing companies’ common stocks. This
allows investors to participate in any potential upside and
enjoy an above average coupon or dividend payment at the
same time. They can be complex instruments at times, and
it takes a focused, experienced professional to manage a
portfolio of converts. We are getting that in the Dinsmore
Fund. The senior manager has been at this for about 45
years now and has trained his co-managers in the art of
managing convertible portfolios.

Convertible bonds and preferred stocks have the potential
to give you the best of both worlds. They have historically
kept pace with a rising stock market, and in a bad market,
they trade more like bonds because of the coupon payment.
Historically, convertible securities have had returns that
have been in line with long-term equity returns, but with a
lot less volatility.

Since it joined with the Gabelli Group, the Dinsmore
Portfolio Group has done a study comparing the returns of
the Bank of America Merrill Lynch All Convertible Index with
the S&P 500 and the common stocks of the companies that
make up the convertible index. The study found that for the
last 15 years, this has indeed been the case.

When I look through the companies whose convertible debt
or preferred stock the fund holds, I don’t see too many unfa-
miliar names. Its larger positions include names like Alibaba
(BABA), Priceline (PCLN), Huntington Bancshares (HBAN)
and Dish Network (DISH). In the most recent quarterly
report, the fund discusses some holding in companies like
World Wrestling Entertainment (WWE), Molina Healthcare
(MOH) and oil services company Newpark Resource (NR).
About 29% of the fund assets are in high quality common stocks that the fund manager think can boost the total return of the fund for long-term shareholders. Some of the biggest components of the equity portfolio are high yield pharmaceutical stocks like Eli Lily (LLY), Merck (MRK) and Pfizer (PFE). It also has about 5% of the portfolio in high-yielding real estate investment trusts like Invesco Mortgage (IVR) and Crown Castle, the cell phone tower REIT. It also has telecom companies like AT&T and Verizon (VZ) that provide above-average yields.

It’s a solid mix of growth and income stocks that should provide a nice boost in the overall total return of the fund over time.

The fund is currently trading at a discount to NAV of 13.53%.

Management has taken some steps to help support the share price and reduce the discount. The fund has a buyback plan in place that allows it to repurchase shares anytime the discount to NAV is more than 10%. Since the buyback plan was passed by the board in November of 2015, it has repurchased 1,391,447 shares.

In the fourth quarter of 2016, it bought back a total of 83,211 of its shares. If the discount remains around current levels, I wouldn’t be surprised to see some of its shareholders take a more active approach to ownership. Bulldog Investors and Saba Capital Management are both shareholders and no strangers to taking an activist approach to closed-end fund management. Relative Value Partners is another firm that specializes in closed-end funds. It also owns shares of the Ellsworth Growth & Income Fund, as does Guggenheim Capital.

This is a strong shareholder list that is going to be encouraging the fund’s board to take steps to reduce the discount.

The fund has a managed distribution plan that distributes 5% of assets annually.

With the discount to NAV, this works out to be about a 5.1% yield for us as shareholders.

The fund has a long track record of the same management at the helm for a long period, and they have extensive experience in managing portfolios of convertible securities.

The combination of a large discount and the distribution give us strong long-term total return potential over time.

Boulder Growth and Income Fund (NYSE: BIF)

- Current Distribution Yield: 4.71%
- Current Discount to NAV: -18.9%

The attractive thing about this fund is that 29.8% of the fund is invested in Berkshire Hathaway (NYSE: BRK-A), giving us a chance to invest with Warren Buffett at a huge discount to net asset value.
Talk about investing with people smarter than I am!

They also have large positions in stocks Buffett owns, including IBM (NYSE: IBM), Wells Fargo (NYSE: WFC) and American Express (NYSE: AXP)

Everything about the fund has a Buffettesque flavor to it. On their website, the fund cites its investment policy, saying:

“The investment philosophy of the Advisers is simple: Invest in good businesses at attractive valuations for the long-run. At the heart of this philosophy are two core investment principles. The first of these principles is the belief that superior long-term returns can only be generated as long as first priority is given to protecting one’s principal investment. The second principle is the belief that one must invest in businesses and not speculate in securities to have long-term investment success.”

That sounds a lot like some of Warren's investing statements over the years.

And they practice what they preach—turnover was just 12% last year.

The remainder of the portfolio has a lot of big blue chip stocks. The fund has good size stakes in Caterpillar (NYSE: CAT), Johnson & Johnson (NYSE: JNJ), J.P. Morgan Chase (NYSE: JPM), YUM Brands (NYSE: YUM) and Cisco Systems (Nasdaq: CSCO). This definitely has the look and feel of a long-term buy-and-hold investment.

Here is the best part: The fund trades with a discount of about 20% to net asset value right now.

There is Wall Street coverage and no sales force to sell it. The shares just kind of languish unnoticed, in spite of the fact that they have been beating the market since the inception of the fund back in 2002.

In the latest shareholder report, co-Manager Brendon Fischer commented on the discount level, saying:

“Finally, no recent stockholder letter is complete without speaking about the discount. This time I want to discuss it in the context of the Fund’s managed distribution program as it is another reason for my favorable view of the Fund.

To understand why, let us assume the Fund did not have a managed distribution program. Absent a distribution, the only real benefit of purchasing the Fund at a discount to its net asset value (NAV) would be if stockholders were able to sell at a lower NAV discount in the future assuming all else being equal. This changes with the introduction of the managed distribution program. Since distributions are made in cash, or in other words at NAV, they will be accretive to the market-priced-based return as long as the Fund’s market share price is at a discount to its NAV.

[...]

“Nevertheless, we will continue to work with the Board to seek to identify additional ways to drive a long-term and sustainable reduction in the Fund’s discount. An important part of this process is consistency. After the Fund’s prior managed distribution program was halted in November of 2008 due to market conditions, we recognize many in the investment community may be hesitant to trust that the actions taken over the past few years will be sustained into the future. It is our duty to regain that trust. To do this, we must remain consistent in the management of the Fund, consistent in the payment of the managed distribution program and consistent in our commitment to stockholders. Only time will tell if we are successful in this pursuit, but you already know where Stewart, Joel and I have put our money.”

The managed distribution gives a yield to the current price of 4.71%, so it compares favorably to most income alternatives, as well as being a solid choice for long-term investors in high-quality equities.

The huge discount makes this fund too attractive not to own.

**New Ireland Fund (NYSE: IRL)**

- Current Distribution Yield: 9.35%
- Current Discount to Net Asset Value: -9.18%

My final closed-end fund pick is the first of what will be many driven by activist activity.

Karpus Management filed a 13D, announcing that it owned
over 17% of the fund and was changing its passive stake into an active one as of June 28, 2016. They did not outline any specific intentions, but they have not been afraid to engage with management in an attempt to reduce or eliminate discounts on funds in the past.

The fund is a pretty solid choice in its own right. The fund invests in Irish stocks with an emphasis on the technology, telecommunications and healthcare sectors. The Irish markets are down about 9% so far in 2016 as Brexit and slow European economies have dampened enthusiasm for companies from the Emerald Isle.

The Irish economy is actually in pretty good shape and I think Brexit fears will prove too overdone. The company is seeing strong GDP growth, decent retail activity and has an unemployment rate well below the European average.

The fund has a managed distribution policy that creates a yield of over 9.3% right now. If Karpus takes steps that reduce the 9.18% discount we could see double-digit returns with local markets tracking sideways.

I also like the fact that Karpus owns several of our funds and is a shareholder in about half the initial portfolio, so we have the comfort of knowing that should discounts widen they may take an activist stand to help reduce the discount. Should we get the closing of a discount on a rising net asset value, the returns will be even higher.

What Happens Next?

Remember, this is just the opening portfolio for Altucher’s Income Advantage. We are going to be adding to and subtracting from this portfolio on a month-by-month basis going forward depending on market conditions.

Here’s what to look for.

After markets close on the **second Thursday of each month**, we will be sending you an update on the portfolio that will include full write-ups on any new funds we are adding to the portfolio, news about potential sales or funds we are considering selling off, and updates on the state of the business or industry around some of the funds that are still in the portfolio.

This is a live, active strategy and we will be making adjustments as we go.

Be sure to read the update each and every month so that you remain fully invested and are getting the full advantage of my strategy.

Questions? Comments? Please feel free to reach out at customerservice@thealtucherreport.com.

Thank you again for subscribing—this is going to be great!