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Double Feature: Jim Cohen And Axel Merk From AICA's 2024 Roundtable

Friday, November 22, 2024

Chuck Jaffe, in this episode of The NAVigator podcast offers a taste of the action from the Active Investment Company Alliance's 2024 Fall Roundtable, which was held on November 13 in New York City. Individual investor Jim Cohen discusses how consumers in closed-end funds are caught between activist "whales" and fund sponsors, wanting to hold funds to account to narrow discounts and improve management, but sometimes coming away with lesser results. Axel Merk, President and Chief Investment Officer at Merk Investments, manager of ASA Gold and Precious Metals Limited, discusses why gold has worked better as a geopolitical hedge but has been less successful as an inflation hedge. He adds that precious metals perform better in higher-rate environments, and he doesn't think the current round of rate cuts will go so far as to pose a problem for gold in the medium term.

The podcast can be found on AICA's website by clicking here: https://aicalliance.org/alliance-content/pod-cast/

CHUCK JAFFE: Hi, it's Chuck Jaffe, host of The NAVigator podcast from the Active Investment Company Alliance, and at AICA's recent Fall Roundtable in New York City, I was the moderator of a lively panel discussion, but I also interviewed a couple of attendees getting their take on what's happening now in closed-end funds and with the market. Last week you heard from Josh Duitz from abrdn, this week we've got two interviews for you, first with individual investor Jim Cohen, and then with Axel Merk from Merk Investments and the ASA

Gold and Precious Metals Fund. With two interviews here, this is a lot longer than our standard NAVigator podcast, but we hope you'll find it worthwhile. And one last reminder just to keep everything in context, even though conditions really haven't changed much, these were taped on November the 13th.

We are back at the Active Investment Company Alliance's Fall Roundtable, where I have to say for the first time in the five plus years that we've worked with AICA, we're doing something that, well, we've really never done before. Which is, I always say when we're doing The NAVigator segment that the Active Investment Company Alliance runs the entire gamut of the closed-end fund business, from users and investors to fund sponsors and creators, right? That's the tagline. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. But in all of that time, we've never really had anyone who identified first and foremost as an individual investor, that their role in AICA was as an individual investor, that stops now because joining me is Jim Cohen. Now I will point out, not necessarily your average individual investor, not just because he's here at the AICA event, but because he has a background where he was working with some of the financial services firms on the Sun Coast of Florida, if you will, my old stomping grounds from when I was early in my career. But to have an individual investor here where there's a lot of activists and a lot of the big companies, really interesting, so I wanted to get his perspective. Jim Cohen, thanks so much for taking time out to join me.

JIM COHEN: My pleasure, Chuck.

CHUCK JAFFE: As an individual investor, I've got to ask, because the closed-end fund business these days is so much about activism, at least in terms of what makes the headlines. Do you at times feel like you're the minnow in the shark tank here, that you're swimming around? Or is this a case of, no, as an individual investor you want to ride the largesse of the activists and be doing what they're doing?

JIM COHEN: Well, I don't think those are mutually exclusive. Obviously, yeah, I cannot be an activist myself but, yeah, I can be a minnow that can follow some activists.

CHUCK JAFFE: In doing that, there are those who watch the activism and say, "Yes, but are the shareholders truly being represented?" How much do you look at what happens with activism and go, “I like this action and I hate that action?” Are you at a spot where you like the activism that’s good, but you don’t like the arbitrage activism, if you will?

JIM COHEN: I have mixed feelings. Some of the discounts are too wide sometimes, and it’s good to hold the sponsors to account who sometimes narrow those discounts in some ways. Are the activists out for themselves? Yes. Are they altruistic? No, not really. I think activism has been a little bit on steroids lately with people like Saba, and I do worry that they are going to take away the opportunities that individual investors enjoy in closed-end funds.

CHUCK JAFFE: They are the 800-pound--

JIM COHEN: They’re the blue whale, yes.

CHUCK JAFFE: There you go You made ‘em a whale, I was going to make them the 800-pound gorilla, but they are a big presence. But when you have that presence, for you as an individual investor, and this has been something that I’ve had members of my audience ask about, they’re like, “Am I being represented? Or if I wind up being there, are these guys so out for themselves that I can’t profit?” So if you’re that suckerfish that rides on the whale, can you ride whatever waves they are producing or do you just get swallowed up because when the whale eats anything nearby get sucked in?

JIM COHEN: Well, I think you can definitely benefit when a discount closes. If it goes like a lot of these have from 13, 14, 15% discounts to 6% discounts, you can definitely benefit just by getting in and out. Now do shareholders benefit in the long term? Not so sure. I think that Saba’s results, especially when they’ve taken over funds, have been mixed at best.

CHUCK JAFFE: From your perspective, how do you decide which closed-end funds or interval funds or tender-offer funds, et cetera, how do you make your decision to say, “I’m going in?” Because we’ve talked with money managers who are sometimes it’s all about the discount, sometimes it’s all about the asset, sometimes it’s all about the structure. But you’re making the same individual investor decisions that my audience generally does, so how do you decide which closed-end funds are interesting?

JIM COHEN: Well, basically I have a radar screen that I’ve developed over a number of years. I have a couple of Excel sheets that are interfaced with data providers, certainly discount is the biggest consideration, but also relative discount, and is there going to be a catalyst to close that discount? Is an activist going to come in maybe? Or is the asset class so out of favor that the discount is too large? Or is there a prospect that they’ll raise the dividend in the near future in order to close the discount? So I would say that, yeah, discount the biggest, but also tender offers, rights offers, rights offerings, other arbitrage situations.

CHUCK JAFFE: At any given time, help us to define, how many closed-end funds are you involved in?

JIM COHEN: I think I own 30 right now probably, maybe 40.

CHUCK JAFFE: And your typical holding period is?

JIM COHEN: Well, it can be anywhere from five minutes to about six or seven years.

CHUCK JAFFE: How often is it five minutes?

JIM COHEN: Not very often anymore.

CHUCK JAFFE: What would drive that?

JIM COHEN: Well, it would have to be a very volatile fund, and I can't give any examples now, but you look at some of these funds, there's a Bitcoin fund OSOL that trades around quite a bit, that would be an example of a five-minute fund.

CHUCK JAFFE: In terms of relative discounts, so I'm curious for your take on the market, because we were looking at discounts, for example in muni bond funds, not that long ago that were pretty much record levels, and they've now tightened up a bit. Some folks would say that the investment opportunity is much worse now and they're not as interested, but if you're doing it on a relative basis you're still finding things to buy. So is there a level where the discounts get so narrow that they shut you off? Is there a spot that you consider this is my interest spot and then there's the, hell yes, look at how cheap this is level?

JIM COHEN: There is, even though I can't define that for you, and I'm trying to figure that out right now, like you said. Discounts have been wide the last few years, a lot of 10 and 15 percenters, but if you look at the averages over the last five years, they don't look so hot, they're about average I think. But definitely, I'm not a big market timer and it's hard to predict when those discounts are going to widen back up. Certainly best case scenario would be buy a fund at a wide discount, it closes, you sell, buy a similar ETF, and wait for it to widen back up, but that's tougher said than done.

CHUCK JAFFE: How much tax-loss selling do you do? For you if it's got a loss, it's out for sure at the end of the year?

JIM COHEN: Again, my views on that are changing. I used to say never buy or sell a fund based on tax considerations, but I have been holding funds a lot longer lately, and so I do have a lot of gains that are long term now, which makes me less hesitant, and it also depends on what other gains and losses I have from earlier in the year. If I have a big short-term loss that I can match with a short-term gain, or if I have a big long-term loss and I don't have any long-term gains that I could match with the short-term gain, I always love doing that.

CHUCK JAFFE: One of the things as an individual investor in closed-end funds is that no matter what your success level is, no matter how good it is, if somebody says, "Hey, Jim, I know you've got an investment background, tell me about the best thing you own or something that's done really well," they're hoping for a hero story like NVIDIA, something that they understand. When you say, "Oh, I bought this closed-end fund and the discount narrowed," their eyes have glazed over. Does that make closed-end funds more attractive to you or do you also go out and pursue the NVIDIA stuff as well?

JIM COHEN: I don't pursue the NVIDIA stuff because I realize that there are so many people out there that are smarter than I am and put in a lot more time and come to completely opposite conclusions. I guess I always think of myself as a singles hitter, so I'm kind of happy to have a decent batting average.

CHUCK JAFFE: And how many folks have you turned onto closed-end funds when they go, "Well, you've been successful at it, let me learn your approach," as opposed to sticking with what everybody else does?

JIM COHEN: You know, not that many. It just doesn't sound that appealing I think, on the outside, to be honest.

CHUCK JAFFE: What do you gain as an individual investor from coming to a meeting like the AICA meeting?

JIM COHEN: Well, that's a good question, because it's not like I know what I'm going to gain, but I always gain something. It might be just a little tidbit of information about somebody who may have some insight into a certain manager or a fund or something that might happen in the industry.

CHUCK JAFFE: For you, as an individual investor, what's your outlook? I mean, we just have seen the market go back towards record highs, we've, like I said, seen narrowing of some discounts, et cetera. As you're looking forward, are you more defensive than you've been, or are you more offensive based on what you see happening?

JIM COHEN: Well, if anything I'm more defensive, but I don't ever try to predict the market because I don't have that expertise and I don't put in the time, and even if I did, I'd only be right half the time at best. You can casually talk to some friends, and I guess I was sort of proved right on this, last year at about this time or December, because they were like, "Well, everybody knows that rates are going down next year." I thought, well, not everybody knows that because the market's sort of in an equilibrium, and they could go down next year or they might go up. And it turns out that Treasuries have gone down in price this year, not that I predicted it, but I did say that nobody knew, they weren't definitely going up.

CHUCK JAFFE: Well, it's been great to chat with you. I wish we had a little bit more time, but hopefully we'll connect at a future AICA event. Meanwhile, thanks for joining me at this one.

JIM COHEN: All right, great to meet you. Thanks, Chuck.

CHUCK JAFFE: That's Jim Cohen, he's one of the individual investors who is here at the active investment Company Alliance Fall Roundtable. If you want more information, AICAlliance.org to learn about their events and whatever they're going to be doing in the future. Up next, Alex Merk from the ASA Gold and Precious Metals Closed-End Fund, and from the Merk Funds, he'll be here talking precious metals and much more when Money Life continues from AICA.

CHUCK JAFFE: Hi, it's Chuck Jaffe, and before we bring you the second of the two interviews this week for The NAVigator, I just want to give you my quick impression of AICA's Fall Roundtable. I go to a fair number of investment conferences, and I love the focus this one has on closed-end funds, and as good as the panel discussions are, I think a lot of the discussions over lunch and during the breaks are every bit as good and as active as anything I see anywhere in the investment world. You can go to AICAlliance.org for more information on all of their conferences, and I can tell you, their Fall Roundtable for next year will be November 12th, back in New York City, and I'm already planning to be there. I hope you will be too. Now here's another interview from the recent AICA Fall Roundtable.

Welcome back to Money Life, where now we take you to the Active Investment Company Alliance Fall Roundtable in New York City. Now if you've been listening to the show this week, you heard me say I was heading off, I'm going to be running a panel discussion here, but we're also going to do an interview or two from this event, and joining me now, Axel Merk. He is the president and chief investment officer of Merk Investments, he's also the chief investment officer of the ASA Gold and Precious Metals Fund. Now that is a closed-end fund, that's where his tie to closed-end funds comes in, and if you want to learn more, well, MerkInvestments.com, ASALTD.com to learn about the ASA Gold and Precious Metals Fund. Axel Merk, great to see you.

AXEL MERK: Chuck, great to see you in person again.

CHUCK JAFFE: So I want to start on the gold side. You were up on a panel discussion and we are at a spot where it's been really interesting, gold has been a very good hedge against geopolitics, it hasn't been a great hedge against inflation. I have had people, gold specialists tell me, that to really be a good hedge against inflation we need inflation to be higher for longer for gold to really work, like we just haven't had it be long enough. Well, now we've got a new administration, and depending on how certain policies work or don't work, inflation's going to be stickier and may be reversing its course from the comebacks we've seen recently. So is gold about to become the good inflation hedge, and do we need gold higher for longer?

AXEL MERK: Well, I'm so glad I can disagree with you for once. The reason is that like any asset, the price of gold is the discounted expectation of what the purchasing power of the currency will be. And so when inflation is higher, the expectation is that the Central Bank will do something about it, and that's why historically when inflation print comes in high, the currency moves up and gold can move down. It's only when then the Central Bank doesn't do its job so to speak, that then the currency weakens again. That's why this so-called correlation between gold and inflation never quite works, because there is no instantaneous correlation, it is really the overall broader dynamics, and as you point out, the other dynamics like geopolitics. Now all that said, the environment that has been hostile to the price of gold is actually when you've have had zero interest rates and very high inflation, the repression scenario. The current environment we're in, where interest rates are coming down, there's an expectation of more easing and of being dovish, that's been good. Now over to gold miners, gold miners have shown a sign of life in October of 2023, that's the first time that Powell kind of stepped away from the higher for longer mantra; and notably we invest on the junior mining space, that eases credit conditions, and while they don't have much debt, if any, what they do is they need to access the funding markets. And so in an environment, and we will talk about Trump, if we have a pro-growth environment, after the initial shock in 2016, and similarly now where yields are jumping higher in expectation of higher real yields and whatnot, the inflationary prices may well come through because Trump doesn't seem to have fiscal discipline as his top priority, neither had Harris by the way, and so I'm not quote/unquote "concerned" about the price of gold in the medium term.

CHUCK JAFFE: You talked about how gold tends to struggle in environments with high inflation and interest rates near zero. Do you worry that the Fed could go far enough on the cuts? Or is your expectation that the Fed's going to slow down because inflation's staying high, so we're not going to get into that perfect storm situation that's bad for gold?

AXEL MERK: Well, I'll give you a few different answers. First of all, the market is not pricing in that we go to zero. Of course if the proverbial S-H-I-T would hit the fan, they're not going to hesitate, the question is how long they will stay down there. I don't think we will see a repeat of the the ZIRP, the zero rate program, for an extended period as we saw last decade. I think we've broken out of that time, and so the pandemic and the inflation research has jolted us out of that. If an investor though thinks that is a risk, then they may want to be careful. The other way of saying that is I'm very confident of where we are, and even though we've had quite significant volatility as of late and in the gold mining space, I'm very confident in the medium term that this space should do just fine.

CHUCK JAFFE: You talked about this space, and you are as you point out in the miners and the junior miners. I have talked to other folks about gold who say they would rather be owning gold than the miners at this point, but you have, as part of Merk Funds, OUNZ, is the VanEck Merk Gold Fund. What's your thought right now on miners versus metals, and do you hold both?

AXEL MERK: Well, they speak to different types investors at times, and they serve slightly different purposes. Yes, I'm on public filings a large investor in ASA, I also hold significant positions in our physical gold product. The price of gold, the sort of investors that buy it are the diversification investor, the investor concerned about the price of gold, the investor concerned about geopolitics, and central banks buy it. The investor that sometimes jumps on the bandwagon is the speculator. Now if you go to the gold mining space, you get a far more aggressive dynamic, the volatility tends to be significantly higher, especially on the junior mining space, so you tend to have more speculators in that space, but overall it gives you a lot of diversification for a much smaller allocation to the space if you go to the miners.

CHUCK JAFFE: In the talk you were part of here at the AICA Fall Roundtable, you talked about how miners don't necessarily care what they're mining, they care what they're about to get out of the ground, and in this market, as much as gold has reached record highs, the thing that a lot of people are looking at is lithium. Are we getting to where certain other things may be considered more precious and that those are plays we're going to want? There's not a lot of pure lithium plays that you can have for example, but are we getting to where either there should be or where it's going to be lumped in on funds like yours or the mining funds?

AXEL MERK: We actually have a lithium holding because we invested in a gold mine, they found lithium, and then it got repriced as a lithium holding. That said, first what you were alluding to is that we invest in management teams. Obviously there needs to be ounces in the ground, ounces of gold, but the management team is what's so difficult to find, there's not enough talent around the world to build a mine on time and on budget. In the broader space, a lot of these projects are much bigger, a big copper project, and those things tend to be way over budget very, very quickly, and so will there be competition? Yes, there's always competition for these things, and you need to know the right teams to do these sort of things. As far as these mining teams are concerned, yes, they literally like to dig. I mean, that's obviously a little simplified, but they are not gold bugs, they are miners.

CHUCK JAFFE: You are a money manager, the last time we talked to you on The NAVigator we were talking about the fact that you were facing activist investors as part of ASA Gold. I know you can't discuss everything that is going on, but from the standpoint of running the fund, if an investor had heard you talking with me at some point and said they were interested, does the fund still look like the fund looked? And does it work that way to whatever extent you can talk about it?

AXEL MERK: Our job is to manage the fund, and anybody that looks, I think sees that we have executed very well. As far as our investment process is concerned, the performance reflects that, the fund does exactly what we communicate that it might be doing, and so we are proud of that achievement. As I pointed out, I can't talk about other things happening behind the scenes, that said, anybody who has questions is of course welcome to reach out to the board or to us to relay something.

CHUCK JAFFE: I'm going to go back to what we normally talk about because I don't think I've ever had you on where I haven't kind of finished going, "How fully invested are you?" So broadly, not just related to gold, your market take right now is what?

AXEL MERK: Well, first of all, since we're talking about ASA, I am personally one of the largest shareholders, I own about 0.7% of the company based on public filings, and so I do have quite significant exposure on the gold mining side. I have quite substantial exposure on the physical gold side. I was one of the many people concerned about this recession that has never come, and I've been somewhat more defensive, but that mostly meant that I've been trying to diversify out of the big mega cap stocks. And so I, as you know more than others do, I've invested in real estate, I've invested in forests and other things just for diversification purposes. I don't look at investments so much as to where can I make the biggest buck? I look at it in terms of risk management, what risks can I afford to take? And that's how I think about the space overall, and can I afford the risk to be in something? And to me, and that's just me personally, I'm not giving investment advice, I haven't seen the risk-return profile of the S&P 500 all that attractive.

CHUCK JAFFE: Even with the S&P 500 flirting with record highs?

AXEL MERK: Well, especially because of that. You want something cheap to be attractive from a risk-return profile. I don't want to go too much into detail because it diverges too much from the closed-end fund space that we're in, but for the general investor I think what's relevant is of course to look at their portfolio and see what can possibly go wrong, and if they find that a significant enough risk, what can I do about it? Even if they go to cash, can I afford quote/unquote "risk" of being in cash? That also has its own pros and cons.

CHUCK JAFFE: Yeah, no, I was recently talking about all the various risks that you're facing and don't sidle up to any one of them. So last question, because I thought the last one was going to be, but I gotta ask one more. Which is, as you've pointed out, you've been very defensive, you were expecting the recession that has yet to come, unless you want to say it was a rolling recession, do you think we're going to get one now? Is there a landing coming, and is it a hard one if it doesn't get here for two years?

AXEL MERK: First of all, we should qualify the word defensive. Investing in ASA is not for the faint of heart, the volatility is quite substantial, and so by allocating significant money to that fund, yes, it's defensive in the sense that it tends to do very well when other things don't do too well historically speaking. Regarding a recession, one of the reasons we haven't seen the recession is because the Federal Reserve is ever more micromanaging the economy. If you remember when the Federal Reserve converted the banking acute issues to a chronic one and saved many of the banks with their commercial real estate exposure, we would have had a recession had they allowed that to play out. What happens when you do more micromanagement, you have a less efficient economy, and what that means is you've got to do more, and that sort of things means it might be inflationary, that sort of thing might be good for gold. It's not about being right, so when I say there's a risk of recession, it's not that that's necessarily going to be the case, but again it's a risk assessment. Do you think that this risk is credible? And if so, what do you do about it? So now going forward, of course you have the two forces happening, right? You have the consumer continues to be slowed down and is somewhat overstretched, but of course you have that dynamism that might come from the deregulation. Right now I think there is a lot of hype in that, when push comes to shove, not as much may be implemented. As we're talking, we just had the two folks that will be heading the Department of Government Efficiency, well, that's beautiful, but what actual power will they have, right? It's going to make great talking points. Some people will love it and some will hate it, but what will actually change on the ground? I would think that on permitting for gold mines and other infrastructure projects it's going to get easier, and so that certainly will have an impact. But a lot of things that require congress, we'll have to see, right? And so that's also why often you have this enthusiasm early and that reality sinks in.

CHUCK JAFFE: Well, the reality for us that we're out of time, but, Axel, it's always great to chat with you. Thanks so much for taking the time out.

AXEL MERK: My pleasure.

CHUCK JAFFE: That's Axel Merk, he's the chief investment officer at the ASA Gold and Precious Metals Fund, that closed-end fund you can learn about at ASALTD.com. He's the president and chief investment officer at Merk Investments, which is online at MerkInvestments.com. Thanks for listening to our special double episode from the Active Investment Company Alliance's Fall Roundtable in New York City on November the 13th. Quick reminder, The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe. And yeah, I am Chuck Jaffe, and you can check out the Money Life podcast wherever you find your favorite podcasts or by going to MoneyLifeShow.com. To learn more about closed-end funds, interval funds, business-development companies, and to find out what they're doing that you can attend, go to AICAlliance.org, the website for the Active Investment Company Alliance. Next week, an AICA annual holiday tradition, John Cole Scott, the president of Closed-End Fund Advisors, the chairman of the Active Investment Company Alliance, he will be here and we will go Black Friday discount shopping for closed-end funds so that you can get all the great discounts as we get to the holiday season, also tax-loss selling season. We hope you have a wonderful holiday, and we will be back next week, and until then, well, yeah, have a great time with your family and loved ones or whatever you're doing on Thanksgiving, and happy investing.

Recorded on November 13th, 2024

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