The Scott Letter: *Closed-End Fund Report©*

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The Scott Letter Online is intended to educate closed-end fund investors. What are closed-end funds? Closed-end funds are a valuable and profitable tool for many of our clients and colleagues. Please feel free to forward this newsletter to anyone who you believe could benefit from information on closed-end funds or go to our website (www.CEFAdvisors.com) Please call (800) 356-3508 or email: cefa@CEFAdvisors.com to learn about or get started with one of our managed portfolios. For more information on closed-end funds, please visit the Investor Resources section on our website or the Closed-End Fund Association's website (closed-endfunds.com). As always, we encourage feedback from our readers so we can continue to serve you better. Please make a note of our new website: www.CEFAdvisors.com we are currently revamping our website to better serve our clients.

We currently have back issues of ***The Scott Letter Onlin***e. They include interviews with Adams Express (2), General American Investors, Ellsworth & Bancroft Convertible Funds (2), The Royce Funds, The Templeton Funds(3), Renaissance Capital, Tri-Continental Corp, Allied Capital, Pan Pacific Realty, Central European Equity Fund, The Asia Pacific Fund and H & Q Healthcare Investors.

The Central Europe and Russia Fund Rights Offering

The Central Europe and Russia Fund, Inc. (CEE-NYSE) issued record holders on February 24 transferable rights to subscribe for new shares of the Fund's common stock. Holders will receive one right for every share of common stock held on the record date which entitles the holders to purchase one new share of common stock for every three rights held. The estimated price was expected to be $22.50 per share, but the actual price was set at $20.82 per share.

The expiration date for the rights offering was March 19. Payment of shares should have been completed by March 31.

The Board of Directors of the Fund determined that it would be in the best interest of both the Fund and the stockholders to increase the Fund's assets under management. There will be some dilution because the shares trade at a discount to net asset value.

CEE has also announced March 19 that Hanspeter Ackermann, the Chief Investment Officer of the Fund since 1996, has tendered his resignation. The day-to-day management of the Fund's portfolio is now being handled by an investment team, based in Frankfort. The Fund's Investment Adviser is Deutsche Asset Management International.

The Fund's investment manager (Deutsche Bank Securities) and the investment adviser believe that the outlook in Central Europe, Russia and Turkey is promising. The proceeds of the rights offering will allow the Fund to capitalize more effectively on emerging opportunities in that region.

At the end of 2003, the Fund was invested in the following country allocations: Poland 33%, Russia 31%, Hungary 21%, Czech Republic 11% and Austria 4%. The Fund may also invest up to 20% of total assets in fixed income securities in European and Russian issuers.

The Fund is non-diversified and was incorporated in Maryland on February 6, 1990. The investment objective is to seek long-term capital appreciation through investment primarily in equity and equity-linked securities of issuers domiciled in Central Europe and Russia.

Proceeds from the well-subscribed rights offering are expected to result in a modest reduction of the Fund's expense ratio as a proportion of the average net assets because the Fund's fixed cost can be spread over a larger asset base. The additional shares may also result in an improvement in the liquidity of the trading market of the shares on the NYSE as well as increase the level of market interest in the Fund. The expense ratio, after custody credits at the end of 2003, was 1.51%. The portfolio turnover for 2003 was 43.88% versus 57.77% in 2002.

The closing price of the fund's shares on March 30 was $23.24 for a discount of –11.60% from the net asset value of $27.49.

Closed-End Fund Advisors clients have held shares of CEE for many years. We usually participate in rights offerings so as not to lose our percentage ownership. Although the price of the new shares was better than
expected, we did not participate in the over-allotment of additional shares because of the wide discount.

The European Union will be expanded to 25 countries from 15 on May 1. This is an important development for shareholders of Central Europe and Russia Fund.

"The effect on European stocks may also be expansive, but not necessarily right away", says *The Wall Street Journal*. It will add 74 million new people to the European alliance's population and will be profitable to some Western European companies."

We will continue to monitor these developments carefully and plan to interview the management of CEE within a few months. The last CEE interview was in December 2002.

(See www.CEFAdvisors.com for the complete listing of Scott Letter interviews).

Berkshire Hathaway Inc.

Berkshire Hathaway (BRKA and BRKB on the NYSE) reported in its 2003 annual report that its gain in net worth during 2003 was $13.6 billion, which "increased the per share book value of both our Class A and B stock by 21%…over the last 39 years per share book value has grown from $19 to $50,498, a rate of 22.2% compounded annually." The Chairman, Warren Buffett, reported in his annual Letter to Shareholders that Berkshire Hathaway had total assets of "around $35 billion" at the end of 2003 "with a gain in net worth during 2003 of $13.6 billion, which increased the book value of both our Class A and Class B stock by over 21%."

Berkshire Hathaway A shares closed on March 30 at $93,000 and the B shares at $3100. The B shares have an economic interest equal to 1/30th of that of the A.

Berkshire is not a closed-end fund, but has similar characteristics. The company is able to concentrate its holdings because it is classed as an operating company. It holds a portion of its assets in securities, like an investment company, but is organized more like a holding company as it owns whole companies and pays income taxes like other corporations.

Warren Buffett, Chairman, Charles Munger, Vice Chairman and a team of analysts manage the business units of Berkshire Hathaway in Omaha, Nebraska. The portfolio's largest holdings are in insurance companies such as GEICO, General Re and other reinsurance companies. The company is also is a large stockholder of The Washington Post Company (18.1% of shares outstanding), Moody's Corporation (16.1%), and American Express Company (11.8%);

"If stocks become significantly cheaper than entire businesses, we will buy them aggressively," Mr. Buffett wrote in the annual report.

Berkshire has the bulk of its assets in the U.S., but in 2002, "we entered the foreign currency market for the first time in my life" wrote Mr. Buffett, "as I became increasingly bearish on the dollar…our country's trade deficit has been force-feeding huge amounts of claims on and ownership in America and the rest of the world...the consequences of this are anybody's guess. They could, however, be troublesome – and reach, in fact, well beyond currency markets."

Closed-end fund investors may also participate in Berkshire Hathaway through the closed-end fund, Boulder Total Return Fund (BTF-NYSE) which holds some A and B shares of Berkshire which amounted to 29.53% of the $220.6 million portfolio as of 11/30/03. BTF trades at a significant discount to net asset value. We have not used BTF in our portfolios, as we prefer buying Berkshire shares directly without investing in a portfolio holding stocks such as YUM! Brands Inc and Safeway.

The Berkshire annual meeting will be held in Omaha on Saturday May 1st. Clients of Closed-End Fund Advisers and the writer own some of the B shares. We looked into attending the shareholder meeting this year but decided to defer to another year. We are sending this Letter to Mr. Buffett instead. We know he reads widely and hope he has time to read it.

In 1990, Professor Albert Fredman and I contacted Mr. Buffet's office about a possible contribution to the book we were writing on closed-end funds, hoping he would participate. However, Berkshire isn't a closed-end fund. Our book is still the only hard-back book ever published on the closed-end fund industry. Investing In Closed-End Funds: Finding Value and Building Wealth, was published by Simon & Schuster in 1991 and distributed by Prentice Hall. The book may be out-of-print now; (try Amazon.com) but is available at many libraries in the U.S. and abroad.

CornerStone Partners LLC

CornerStone Partners, LLC, founded in 1997, is a private asset management firm with assets of $1.3 billion. The partners, Woody Bolton, Peter Brooks and Don Laing manage two International Funds, which invest in hedge Funds primarily in the emerging markets. The Charlottesville, Virginia based firm uses both advisory and discretionary assets.

The oldest fund, **Cornerstone Emerging Markets Fund,** was founded in 1998. This fund is a multi-manager Fund of Funds, primarily invested in the global Emerging markets with nine managers based in Hong Kong, Bombay, Mexico City, London, New York and Singapore. **CornerStone Global Growth Fund**, the second fund, founded in 2002, has managers based in London, Tokyo, New York, and uses all the emerging markets managers.

The emerging markets, using MSCI criteria, represent 26 countries or 20% of all companies in the world with over 1100 listed, actively traded securities, or 11% of total world market capitalization and almost $900 billion of market capitalization as of 1/31/04. This breaks down to 55.0% in Asia, 18.4% in Latin America and the balance, 26.6%, in other areas, including Russia, South Africa, Hungary and Israel, known as the EMEA Group, as represented by the MSCI Emerging Markets Free Index (MSCI EMF"). Approximately 17% of world GDP emanates from the Emerging Markets, 85% of Emerging market capitalization is in countries with Moody's investment grade ratings.

The emerging market's 2003 return on investment (ROE) of 13% is second only to 15% in US. The emerging market's forecasted earnings growth for 2004 is the highest in the world, suggesting ROE is only going to improve, according to the MSCI monthly commentary.

In spite of recent fund inflows, US investors still have low allocations to the emerging markets asset class. The exposure to the emerging markets of educational endowments is only 3%; institutional defined benefit plans 2%. Well-known East Coast university endowments, such as Harvard and Yale, have invested 7% in the emerging markets.

The Outlook

"Global investors whom we respect believe that the long-term outlook for emerging markets, both on an absolute and relative basis, is attractive basis."

Annualized returns for equity indices has been improving dramatically in the last 12 months 57% (MSCI EMF) versus 34.65% for the S&P 500 Index in the same period. Volatility in the emerging markets has been declining and Price/Earnings multiples are still low, 12.9 versus 19.4 in the U.S. Earnings growth for 2004 is estimated to be 21% versus 9.0% in the U.S (S&P%). Risks have not disappeared, but historical discounts may be less valid.

More information on CornerStone Partners, LLC including performance figures is available at cstone@csstonellc.com. Telephone: 434.296.2300.

Libera’s Closed-End Country Fund Report: March, 2004

“Along with a still booming China, U.S, growth should be enough to keep the global recovery going. The economic buoyancy will be good for global corporate profits although earnings growth in most markets will be slower than in 2003…However, the next challenge will be the prospects of higher global interest rates. The U.K and Australia have already started the tightening cycle…the U.S will probably need to raise rates during the second half of 2004…

“Asia Pacific economies continue to boom. Regional growth will average 6-7% this year and we think they will can be sustained into 2005… Latin American economies are accelerating. After regional growth of just 0.5% in 2003, we are projecting 4% growth this year…We think markets have additional upside from here.”

(For more on Mr. Libera's monthly analysis of global economic trends and investments e-mail Libera@concentric.net).

CEFA Investment Focus

The major focus in 2004 for Closed-end Fund Advisors is Latin America, with a particular emphasis on Brazil, the largest market. This follows emphasis on Asia in 2003, particularly China. The Asian markets are still a focus, but there is concern now that the China stock markets will cool off later this year because of heady growth. The Asia Pacific Fund (APB-NYSE), invests all over Asia and has expanded its holdings into India, which *The Economist* reports will sustain its high growth for a longer period than China.

There are only two closed-end funds that invest exclusively in India. The India Fund,(IFN-NYSE) which traded on March 26 at a premium of 9.31% and the Morgan Stanley Indian Investment Fund (IIF-NYSE), with a March 26 premium of +8.99%. We are looking for other global closed-end funds with a large emphasis on South Asia.

We do not recommend that investors use mutual funds to invest in the emerging markets for several reasons: if shareholders suddenly all try to redeem their shares at the same time, it is difficult to predict what price shareholders will get and you also do not have the leverage advantage of the discount.

Latin America Equity Fund

The annual report of Latin America Equity Fund, Inc. (LAQ-NYSE) reported that LAQ had year-end assets of $112.2 million. For the year ended December 31, 2003 it had a gain of 54.90% based on net asset value and 59.15% based on market value, assuming reinvestment of dividends. By comparison, the Morgan Stanley Capital International EMF (Emerging Markets Free) Latin America Index had an increase of 73.52% for the period.

Latin America markets rallied strongly in the year, performing well both in absolute and real terms. These markets were particularly strong in the fourth quarter. Latin America was the top-performing region globally in 2003.

The Financial Times reports that strong demand from Asia is helping Argentina, Brazil, and Chile in particular and low interest rates and other positive forces have aided emerging markets and Latin America in particular. This includes optimism regarding the U.S. and global economies, rising commodity prices and strengthening currencies, the prospects for real financial reforms in specific countries and a generally elevated appetite for risk in the wake of easy monetary policy (and low interest rates) globally.

Virtually all the region's markets rose in the year in local terms. They had generally better results in dollar terms due to appreciation in most of the region's currencies (e.g. the Chilean peso). Brazil and Argentina were the best performers. Brazil continued to benefit from progress on fiscal reforms, evidenced by an extension of an IMF package agreement and an upgrade of its credit rating by a major credit rating agency.

In spite of some doubt for progress by President Luiz Inacio Lula da Silva, he has promised renewed growth and more jobs in his second year. This is complicated by a bank interest rate of 16.5% to keep the country on its inflation target (of 5.5%),

"*The Economist*" says "this could condemn the economy to mediocre growth this year." The magazine goes on to say, however, that the economy is in better shape than it looks "as inflation is down, investor confidence in Brazil has been restored, which should allow interest rates to fall further. The growth rate reached 6% in the final quarter of 2003. The President faces local elections in October, and, when there is a rise in U.S. interest rates, this would push up rates in Brazil.

Argentina, meanwhile, was aided by encouraging news on tax collection, inflation and economic fronts. Mexico had a more modest gain, due in part to less enthusiasm regarding its reform efforts. Our research indicates that there is some evidence of an increased flow of funds towards Mexico, due to the boost to its economy by high oil prices and the expected economic recovery in the U.S.

"Looking ahead," the LAQ report continues, "we believe that Latin American stock markets could be more volatile in 2004, with investors likely to take profits on any disappointing developments. However, we see grounds for optimism in the region, given the positive forces still largely in place. Valuations in these markets, meanwhile, continue to be compelling, in our judgment, compared with valuations in developed equity markets…"

The above was confirmed when I interviewed Dr. Mark Mobius, the portfolio manager for emerging markets for Franklin/Templeton Investments in January for *The Scott Letter.* Dr. Mobius is very positive for the region and spends much of his time traveling around the world in Argentina, Brazil and Chile.

Barring an aggressive upward spike in interest rates, we agree with the research of CornerStone Partners that the generally positive backdrop of economic growth, high and/or rising commodity prices and strengthening currencies in many emerging markets should outweigh U.S. interest rate worries. The latest current account balances for the Latin American region show a 2004 positive forecast for Argentina, Brazil, Chile and Venezuela. We expect social issues and the extent of economic recovery to dominate the region for the remainder of the year.

The geographic breakdown of the LAQ portfolio at year-end 2003 was 48.92% in Brazil, 36.01% in Mexico, 9.55% in Chile and small investments in the rest of the region.

We note from the LAQ proxy that the "President and Fellows of Harvard College" fund owned 21.21% of the shares as of February 20, 2004. CEFA and other clients of ours own another 5%.

We are planning a telephone interview with the management of LAQ soon.

Mutual Fund Fees:

"THE BATTLE over the fees the mutual-fund industry charges its customers is coming to a head", according to *The Wall Street Journal.*

"The mutual fund scandal began with the exposure of trading practices that allowed big investors to profit at the expense of individuals. The latest target: commissions that mutual funds pay to brokers to buy and sell stocks. These costs get passed along to investors with minimal disclosure".

A study of 2000 funds for the Wall Street Journal found that brokerage commissions could more than double the cost of owning fund shares. It hasn't addressed, however, how much each fund paid in soft dollar payments.

"These fees are controversial because they're tough to ferret out. A fund's expense ratios—which include management fees and overhead----are clearly spelled out in its annual reports, while information on brokerage commissions are buried. In general, customers don't notice what they are paying because the fees they are paying are just deducted quietly from the money they've invested. Most investors just monitor investment performance, which is reported after expenses are paid. Over time, however, the impact of higher costs adds up.

“Edward O’Neal, assistant professor of finance at Wake Forest University and co-author of a recent study on transaction costs, says that consumers should stay clear of funds that generate above-average trading costs, even if they are currently performing strongly. In his view, to overcome such high costs, the funds “have to take extraordinary risks.”

We recommend that mutual fund investors watch out for funds that are closed to new investors and continue to charge the controversial 12b-1 fees. These supposedly cover the fund’s marketing and distribution costs, but Standard & Poor’s found that for 605 closed funds, 153 still charged investors the marketing fee.

“If you are no longer marketing, shouldn’t the fees be eliminated?” asks S&P managing director, Philip Edwards---Consumer Reports Money Adviser, March, 2004. Contact: www.ConsumerReports.org.

(What is going on with mutual fund fees is of interest to us because we use some mutual funds in our asset management business, rather than Exchange Traded Funds, when closed-end funds trade at excessive premiums. We feel strongly that it is important to always try to stay on the side of the best interests of shareholders. We note that the expense rations are generally much lower for closed-end funds than for mutual funds. Closed-end funds cannot use 12b-1 fees to cover marketing costs.

In May, I am planning to attend the annual meeting of the Investment Company Institute in Washington because of the attention being given to mutual funds by the press. Most mutual funds do a good job for their shareholders, but it is important that those who don’t should be made to correct their practices. The financial press should be commended for bringing this to the attention of mutual fund investors. We are also happy to report that progress being made in correcting abuses by the SEC and others.
The ICI is the trade group for the mutual and closed-end fund industry in Washington).

Lucent Technologies Annual Meeting
February 18, 2004

Lucent Technologies began life in 1996 when AT&T put together divisions, including Western Electric and Network Systems, and spun them off as a new company. It also housed the storied Bell Laboratories, the research center that developed technologies as diverse as transistors, lasers and fax machines. Lucent now uses its strengths in mobility, optical, software, data and voice networking technologies, as well as services, to create new revenue-generating opportunities for its customers, while enabling them to quickly deploy and better manage their networks. Lucent’s customer base includes communications service providers, governments and enterprises worldwide.

Why are we writing about Lucent? Some Closed-End Fund Advisors clients hold shares, including the writer, of Lucent common stock, much of the shares purchased last year when

prices were very low. Even though we are specialists in closed-end funds, and the mission of this Letter is to educate investors about closed-end funds, we can't resist a bargain. Therefore, we occasionally purchase some individual securities when the timing is right. We find our clients appreciate this if it improves performance, though performance cannot be guaranteed. We regularly follow just a few stocks if we see them as "special situation" investment opportunities. On March 30, we held 10.6% in common stocks, excluding REITs.
We also purchased shares in Lucent partly because two of our favored closed-end funds; **General American Investors** and **Ellsworth Convertible Growth and Income Fund** have been shareholders of Lucent. Ellsworth is currently holding the 2.75%, A and B series A and B senior debentures which mature in 2023 and 2025.

We, therefore, decided to attend the annual meeting of Lucent Technologies in Wilmington, Delaware as well as visit with our clients in the northeast.

Patricia F. Russo, 52, Chairman and Chief Executive Officer presided. She returned to Lucent after being CFO of Eastman Kodak. Ms. Russo reported Lucent has been making steady progress in its return to profitability. Chairman Russo said that Lucent has a growing number of contracts for its products in China.

Ms. Russo also stated that if the reverse stock split is approved (which it was) "shareholders will benefit from relatively lower trading costs for a higher priced stock." Lucent has 4,168,610,567 shares outstanding, making it one of the most actively traded stocks on the New York Stock Exchange.

Shareholders voted to change election of Directors to one-year terms and to allow the company to reverse split its shares at one of four ratios at a future date. Management says this action will make the share price to a level typical of other widely owned public companies and also the shares may then meet investing guidelines for certain institutional investors and investment funds.
(A few large companies with low prices have successful taken this action, but Wall Street generally disapproves of reverse splits. If Lucent decides to reverse split the shares, possibly at a ratio of 10 to 1, it could mean they might be able to pay a dividend if they can continue to be profitable. This could interest more institutional holders who must buy shares in dividend-paying stocks-ED).

Shareholders also approved a shareholder amendment to declassify the Board of Directors and to allow the removal of Directors without cause, an issue supported by management and which required a positive vote of 80% for passage. Other items of business include passage of an equity compensation plan for non-employee Directors.

The meeting was attended by about 300 shareholders in the Dupont Theater, many of whom were former employees who were concerned about cuts in their retirement and health benefits under the re-organization plan to return the company to profitability.
The Wall Street Journal reported on March 28 that former Chief executive, Henry Schacht and still a director, says that having a disproportionate number of retirees hasn't been a problem for Lucent and has even produced a cash surplus for the company.)

Shares of Lucent Technologies were up 45.4% in 2004 as of March 30th to $4.13 per share, after a gain of 125% in 2003. Lucent had its first quarterly profit in three years during its fiscal year ending September 30, 2003.
More information on Lucent Technologies is available at www.lucent.com

There is nothing that we cannot live down, rise above, and overcome.
- Ella Wheeler Wilcox(1850-1919) Poet and journalist

The editors of *The Scott Letter Online* are interested in any feedback from our readers regarding how we may improve this publication. Comments concerning topics in which you agree or disagree are also of interest to us. Your opinions are valuable and will help us to be able to serve you better. Please send your questions or comments to our email address or by regular mail prior to the next edition or *The Scott Letter Online*. We do read your letters, but we cannot guarantee they will be published in the Scott Letter.

The Scott Letter Online **is currently available on our website (www.CEFAdvisors.com), Site-By-Site's CEF website (www.site-by-site.com/usa/cef/cef.htm) and JJJ Investing Services' website (www.jjjinvesting.com)**

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