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THE SCOTT LETTER:
CLOSED-END FUND REPORT

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THE SCOTT LETTER is intended to educate global investors about closed-end funds. Closed-end funds can be a valuable and profitable investment tool. To learn about closed-end funds, visit our web site, www.CEFAdvisors.com, and in particular, read our article, What Are Closed-End Funds.

Feel free to forward this newsletter to anyone who you believe could benefit from information on closed-end funds or global portfolios.

– George Cole Scott, Editor-in-Chief

– John Cole Scott, Contributing Author

Adams Express Year-End Distribution Exceeds 6%

The Adams Express Company (NYSE:ADX) has thrived for more than 150 years, its first 75 years as one of the nation's leading independent express companies, and in subsequent years, as one of the largest closed-end investment funds. The company's story parallels much of America's business history, from the early days of transportation and manufacturing through expansion across our continent and the oceans.

Adams Express, named for its founder, Alvin Adams, in 1840 was a delivery business, transporting securities, documents and parcels throughout northeastern U.S. In 1929, the company became an investment company and has been structured as a closed-end fund ever since.

Adams Express has delivered 76 years of uninterrupted dividends to shareholders year after year. For over 80 years, the focus has been on making sure that shareholders' dollars go towards growing their investment in the Fund, so that clients can reach their personal investment goals.

Investment Philosophy and Strategies

Since inception as a closed-end fund in 1929, Adams Express has maintained a disciplined, long-term investment approach – a steady, reasonable approach that has worked through most economic environments. The Fund has delivered uninterrupted dividends since 1935. Most years, this has allowed the Fund to outperform its peer group funds as well as major indices.

Staying in Control

One of the strengths of a closed-end fund structure is that it allows the Fund to maintain control of buy/sell approaches. Since they work with a fixed pool of investment dollars and do not have to worry about capital inflows or outflows, individual companies can be tracked within their portfolio. They can decide when the time is right to either get in or get out of a stock.

This control explains the low portfolio turnover rate. Rather than have their hands forced when markets fluctuate wildly, Adams Express is better able to stay the course.

Steady as She Goes

Adams Express minimizes investment risk with diversification. With some exceptions, most of the companies in the portfolio of approximately 70-80 stocks represent less than 2% of the Fund's portfolio. On top of that, they say that they don't take any undue risks in the portfolio, including avoiding leverage. They have not invested in auction-rate securities because, while they can enhance returns when the markets move up, the consequences can be catastrophic when markets go down.

Shareholders First

Above all, the Fund is managed to serve their shareholders, by always striving to find a way to increase shareholder value and minimize expenses.

Employees of Adams Express are shareholders with a vested interest in the firm's performance: Managing the Fund is not just about the numbers, it is also about the investors who have entrusted them with their hopes, dreams and goals. They value their investors trust and are committed to safeguarding that trust at every turn.

As an internally managed fund, the management is able to keep a tight rein on expenses and operate with a very lean staff. The net expense to average net assets (annualized) on September 30, 2012 was 0.64% versus 0.52% in the same period 2011. This compares favorably to what most passively-managed index funds charge.

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Distribution Information

In September 2011, the Board of Directors committed that the Fund will annually distribute to stockholders at least 6% of its trailing 12-month average month-end market price.

The Board of Directors of Adams Express and the Fund's management team have taken this action to demonstrate their commitment to providing its shareholders with consistent, predictable distributions for years to come. The annual distribution rate for 2012 was 6.3%, and the 5-year average was 5.7%. The annual distribution rate for Adams Express is a 6% (or more) annual distribution in the foreseeable future in both up and down markets.

Just as we were going to press, Erik Bergstrom, the largest shareholder of Adams Express, told us he read that the Securities and Exchange Commission had approved the Fund's request to make monthly distributions.

"An order has been filed by The Adams Express Company and Petroleum & Resources Corporation to permit certain registered closed-end management investment companies to make periodic distributions of long-term capital gains with respect to their outstanding common shares as frequently as monthly in any one taxable year, and as frequently as distributions are specified by or in accordance with the terms of any outstanding preferred shares that such investment companies may issue."

[**Editor's Note**: Is Adams Express willing to comment on this now, and when will it begin? We are sure management of the funds will be advising their shareholders soon about this development.]

The 2012 investment returns for Adams Express show net asset value total return was +14.7%, with dividends and capital gains reinvested. On market value, the total return was +16.9% for 2012, significantly outperforming both the Lipper Peer Group and the S&P 500.

George Cole Scott ("GCS") interviewed Adams Express by telephone on December 27 and was joined by John Cole Scott ("JCS"), Executive Vice President of CEFA. John has been active in managing

Douglas G. Ober

DOUGLAS G. OBER, CFA, has been Chief Portfolio Manager of Adams Express and Petroleum & Resources since 1989 and has been Chairman of both Boards since 1991. He is supported by two associates in the management of the Adams Express portfolio and a team of analysts who look for investments offering long-term growth at a reasonable price.

David D. Weaver

DAVID D. WEAVER, CFA, is President of Adams Express. Mr. Weaver has been Executive Vice President of Adams Express since March 31, 2008. In that capacity, he serves as a member of the portfolio management team headed by Mr. Ober. Mr. Weaver's promotion continues the Company's long-standing tradition of having a separate President and CEO for the Fund. Mr. Weaver received his undergraduate degree from Western Maryland College (now McDaniel College) and a M.S. degree in Business/Finance from John Hopkins University.

CEFA's business and annually conducts at least two closed-end fund interviews. He also has numerous speaking engagements around the country each year, including CFA meetings. He will address the San Francisco Society of Financial Analysts in February 2013.

CEFA clients hold about 10% of ADX shares to-date, and we continue to buy more shares when the price is right.

GCS: David, we are delighted to include you this year. How much do you help Doug manage the portfolio?

Weaver: I help both Doug and Nancy Prue, President of Petroleum & Resources. We converse about everything so it is a collective effort of getting ideas to determine what we want in the Fund.

GCS: Nancy has been very helpful for us to understand the energy business, one which is rapidly changing. We interviewed Doug and Nancy about PEO for the March 2010 *Scott Letter* (www.cefadvisors.com/ScottLetter/2010/2010.php).

Please update us on the energy situation at year-end.

Ober: We think that prices of oil and natural gas will be relatively stable as there seems to be adequate supply, and we expect that demand will gradually pick up, although oil demand has come down in the U.S. Demand in oil in some of the emerging economies continues to grow, particularly in China and India.

Natural gas is well supplied both domestically and internationally. I think we will see some more movement of LNG shipments not from the U.S. but from other parts of the world to Asia that will make things better for Europe since they need more natural gas than they have been getting from Russia.

The Chinese, I believe, have completed a natural gas pipeline to Russia so the Russians have the opportunity to sell some of their natural gas to China. That could impact the rest of the world's natural gas situation. The U.S. is very well supplied. I don't see the price of natural gas going much above $4 in 2013, barring unforeseen circumstances.

[**Editor's Note:** As of January 22, 2013, the price was $3.50.]

GCS: There are new terminals now being built for exporting. The Canadians are going full blast to export LNG to Japan who will pay three or four times what we pay for natural gas.

Ober: You are referring to the Kitimat facility in British Columbia. There is going to be a fair amount of LNG gas shipped out of North America, but I don't know which companies are going to be participating. It depends on the amount of funding those companies have available for export.

Construction is a major project, and I don't think any of these companies can do it, except in small amounts – nothing on the order of what's being exported from other parts of the world.

GCS: Thank you for your insight. Now let's look at some of the largest holdings in the ADX portfolio.

Apple, Inc.

GCS: Petroleum & Resources and Apple are the two largest holdings of Adams Express. John, what questions do you have about Apple?

JCS: Apple operates in numerous areas. They sell hardware and software as well as operate a retail distribution chain. One of their growing competitors, I feel, is Amazon.

Apple had four new products in 2012, which typically pulls down profit margins, but they seem to have strong sales in the U.S. and China, especially with iPhone 5. What are your projections for Apple sales growth and will they be able to maintain their growth in the current environment?

[**Earnings Update:** Apple recorded a flat profit despite selling nearly twice as many iPhones and iPads, as it spent heavily to fend off competition. For the quarter ended December 29, 2012, Apple reported higher sales of 39% for iPhone and 60% for iPads with revenue up on a per-day basis. Earnings per share of $13.81 were better than the consensus estimate of $13.48, despite stiffened competition from Samsung Electronics' Galaxy smartphones and tablets that raised their marketshare.

Apple is responding with a lower-end iPhone that they could launch later in 2013. Clearly, Apple didn't provide the kind of blowout quarter many have grown accustomed to. But the results aren't the total disaster implied by a market meltdown in the stock to $469 per share. More information is available on www.appleinc.com.]

Weaver: The growth in the top line for Apple has been extraordinary. The products they currently have in place have provided significant growth, particularly from iPhones and iPads, accounting for the lion's share of revenues. The introduction of the mini-iPad has also helped extend that product line into other areas.

We think, absent any new products, that this business can continue to grow, but if the growth rate does come down, it will be difficult to maintain it at today's rate. The company is generating significant cash flow, something like $40 to $50 a share.

On the horizon, is Apple TV the next significant new product? Whether it will be a hardware or software product is the question. Apple continues to gain marketshare in their MAC business and their other businesses. Apple's growth rate will slow, but they will continue to be one of the dominant consumer product companies in the electronics space?

JCS: Why is Apple selling at a relatively low P/E ratio?

Weaver: There are always concerns that the growth rate can't stay where it is. The question is how quickly it slows. If you can come up with the answer, you can come up with the proper valuation of the stock. They need to come up with the next big product to keep the company moving. I am not sure whether Apple TV is the right product.

JCS: Currently I have two Apple TVs, one at home and one in my office on the same platform. It costs just $99 and doesn't require a subscription fee. It can connect your iPad/iPhone, Apple content from iTunes and outside paid content providers such as Netflix or Hulu Plus to your TV. This affords the end-user a very easy way to build a customized TV experience. Right now, it has a good interface, but I don't think it is game changing.

Weaver: That's right. If you could walk into your house and find everything on your iPhone and iPad connecting to a single piece of house hardware, that would be a very interesting development.

GCS: There is much speculation that Tim Cook, Apple's President, is anxious to get into Apple TV.

Ober: I think that the market is also waiting to see what kind of innovative products that Tim Cook comes up with. He had a significant range of products under Steve Jobs, but so far, he has only released new products that are largely extensions of existing product lines. The market wants to see what they can do with something totally new.

JCS: The price of the stock has pulled back noticeably. Is this a situation where a fund like Adams Express would be adding to a stock's position or deciding when to get out of it?

Adams Express Company Performance

Total Return as of December 31, 2012

	Year-to-Date	1 Year	3 Year*	5 Year*	10 Year*
NAV	14.7%	14.7%	7.4%	1.2%	6.8%
Market	16.9%	16.9%	7.7%	0.2%	6.5%

Ten Largest Equity Portfolio Holdings as of December 31, 2012

	Market Value	% of Net Assets
Petroleum & Resources Corporation**	$52,307,634	4.5
Apple Inc.	49,571,790	4.3
JPMorgan Chase & Co.	28,382,000	2.3
QualComm Inc.	24,808,000	2.2
Lowes Companies, Inc.	21,312,000	1.8
International Business Machines Corp.	20,112,750	1.7
Wells Fargo & Co.	19,140,800	1.7
Microsoft Corp.	18,711,000	1.6
AT&T Corp.	18,540,500	1.6
Google Inc. (Class A)	18,443,620	1.6
Total	$269,330,094	23.3

Total returns are presented before taxes and reflect reinvestment of all distributions at reinvestment price. Investment returns, market price, and net asset value will fluctuate. Shares, if sold, may be worth more or less than their original cost. Presented performance reflects past performance and is no guarantee of future investment results.

*Annualized
**Non-controlled affiliate

Weaver: We look at it to see if it has sold off significantly and if the sell-off was for the wrong or right reasons. If the fundamentals are deteriorating, we would certainly be using that opportunity to lighten the position. Of course, if Apple sold off for the wrong reasons that would be an opportunity to build into the position.

[**Editor's Note:** There have been recent reports that Apple has cut orders for iPhone 5 components and that the iPad mini is eating into the demand of its full-size iPad. Concerns have also been raised about the sustainability of Apple's margins. "It's not the Apple of old, but it's back to an area where you want to be buying," says a technical analyst at Wellington Shields.

Apple is still a top seller of smartphones by units, but as the battle for dominance in the smartphone and tablet computer market intensifies, this could change as South Korea's Samsung plans to produce plastic rather than glass mobile device displays that are unbreakable and can lower manufacturing costs. Sharp Corp. of Japan is selling liquid-crystal displays with the technology used for Apple iPhone 5 screens, which eliminates the need for a separate touch-screen layer. (Source: *Barron's*)]

GCS: How often do you make buy-and-sell decisions for your portfolio?

Weaver: At the end of the fourth quarter 2012, we will look at our holdings to see how they have played out so far. With our larger holdings, we typically look at them to determine whether or not we want to add or subtract from the position, based on our outlook at that time. On a big pull-back, it's a question of whether the stock will keep going higher or lower.

JCS: When you look at a company, do you focus more on the financials, market research or do you look at technical trends?

Ober: Are you referring to the technical side as opposed to the technological trends in the market? We generally do not pay a lot of attention to technical trends.

JCS: I mean technical trading versus fundamental.

Ober: We are a fundamental shop. Technical trading does not impact us significantly.

GCS: Of course, as active members of the CFA Institute, we know that fundamental analysis always drives your investments.

Ober: With Apple approaching 5% of our assets, technical trends is something we consider when we look at the holding to see what the year-end numbers look like, particularly its position in the third quarter as the price has come down. We still feel comfortable that it's a good stock.

GCS: Apple customers have downloaded 40 billion apps to their iPhones, iPads and iPods since the 2008 launch of its App store – half of those were in 2012 alone. The stock rose 26% by December 31, 2012, sits on over $29 billion in cash and pays a 2% dividend yield.

Apple has also been the biggest stock in the S&P 500 and was the largest single contributor to the S&P's rise in 2012.

[**Editor's Note:** Apple has a great ecosystem with smartphones, tablets, PCs and music, creating a stickiness to keep consumers returning. Robert Turner, Chair of Turner Investments, who owns Apple shares, says that Apple could fall 10% to $450 if first quarter 2013 results or second quarter 2013 guidance are disappointing. Turner, however, believes it could just as easily climb to $600 as new products are introduced this year and sentiment improves, making for an attractive risk/reward scenario. (Source: *Barron's*)]

Apple has made changes in their manufacturing plants in China because the facilities were criticized for poor working conditions and low wages. The Foxconn plant, its chief supplier in China, has since raised wages, limited work hours and provided chairs with backs instead of stools at workstations. We hope that this will be repeated elsewhere.

Microsoft

Microsoft is a multi-national corporation with 94,000 employees that develops, manufactures, licenses and supports a wide range of products and services. Founded in 1975, it is the world's largest software maker by revenue and one of the world's most valuable companies.

Since the 1990's, the company has increasingly diversified from its operating system market and has made a number of corporate acquisitions, including Skype Technologies for $8.5 billion, its largest acquisition to-date.

Their net profit margin in the third quarter of 2012 rose to 27.90% from 23.03% year-to-date while its return on average equity declined to 26.50% versus 27.51% for the year.

GCS: Why is this undervalued stock selling at ten times earnings and eight times free cashflow?

Ober: They are not on the cutting edge as they have lagged with their newer software. Windows 8 and its mobile version are being rolled out now. The desktop and the portable devices have short-changed them and Google as well, but Windows 8 should get them back on track so they can gain marketshare.

GCS: Are you ready to sell some of your shares?

Ober: No, because we think there is significant upside in the stock. Compared to Dell, Google and others, Microsoft has done relatively well. While we don't expect them to put the lights out, they will continue to move along quite well, particularly in the new product cycle.

The new Windows 8 operating system is touch-based. Microsoft has been slow to get involved with the touch-screen but now has this new product that should allow them to penetrate the mobile device world. They are now in a position to enter that market and be a formidable competitor.

GCS: Have any new anti-trust issues surfaced lately?

Ober: I think there will probably be on-going issues with Microsoft, Google, Amazon, eBay and all of the players that are dominant within their segment of technology. Microsoft has resolved most of their anti-trust issues, but they still have a very large share of the computing environment around the world.

GCS: We are pleased to note that the company announced on its web site that the Redmond campus received a silver certification from Leadership in Energy and Environmental design (LEED) program in 2008. They have also installed

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over 2,000 solar panels on top of their Silicon Valley campus, and the company is now using a large fleet of hybrid cars to save fuel.

However, Microsoft also wrote on its web site that it had ranked 17 out of 18 in electronics manufacturing because of their policies on toxic chemicals.

Ober: I am surprised because Microsoft doesn't have much production of electronic equipment. Many other companies are way ahead of Microsoft in using toxics.

Oracle

GCS: In your September 30 report to shareholders, you wrote that you had sold over half of your Oracle and 5,000 shares of Apple.

Ober: We trimmed Oracle substantially because of the acquisition of Sun Microsystems by the company which brought Oracle into the hardware business. This has increased the uncertainty about their direction as a software company.

We didn't see a clear roadmap about how that transition would go, although we still feel that their interest in the "cloud" might provide some growth. Oracle has a significant position in the cloud, and they are taking marketshare by making acquisitions to bolster their position in the cloud as well as with other software companies.

Yes, we have reduced Oracle significantly, but we still have a sizeable holding. I think we are on the right track.

[**Editor's Note:** In the 4th quarter of 2012, Adams Express added to its holdings in Apple, Google and MetLife. They reduced positions in Prudential Financial, Gilead Sciences, McDonald's, Pfizer and Wells Fargo.]

Intel

GCS: Isn't the computing world now in the midst of a creative breakthrough, especially in ultra-books and tablets?

Weaver: Intel is the largest manufacturer of chips in the world, so they may be as competitive as anybody else as this is the fastest growing part of the space. They have tablet chips, but they did not design or optimize the chips for that format. The company has predominately been desktop and laptop-oriented on the consumer side.

The recent excitement is their introduction of chips designed to run the smartphones and the tablets. With Microsoft now involved in the tablet space, Intel's tie-in with Windows 8 has helped them get greater penetration into the tablet market.

GCS: The Thomson/First Call target price for Intel is $25.00. Does that seem reasonable to you?

[**Editor's Note:** Intel closed at $21.11 on January 11, down from its 52-week high of $27.34.]

Ober: Intel has a good chance of getting back to $25. They will adapt quickly to the power chips that the world has been anxiously awaiting. These chips have a lot more power than the competitors have, and the energy generation is reduced substantially. That is what the market has been is looking for.

AT&T

GCS: What can you tell us about AT&T?

Weaver: AT&T and the utility space have done fairly well this year with all of the yield-hunting due to the potential changes in tax legislation. People are trying to position themselves on one side or the other of the pending legislation.

AT&T yields over 5% so it has done well, up 18% in 2012. The wireless business provides a good solid business.

JCS: I have a question about dividends: You have talked about the possibility of paying dividends using a return of capital, if need be, but you have plenty of unrealized gains in the portfolio as of the last reporting.

With the tax laws changing, is it the perspective of the Fund, if there are higher capital gains on dividends, to utilize a return of capital for a more beneficial experience for shareholders?

Ober: We do not anticipate returning capital to shareholders, but we have seen some pretty wild gyrations in the market over the past five years, with some years down 30% and others up 30%.

In the past two or three years, when there were some pretty substantially down markets, I could foresee something like a return of capital happening, but I am not predicting it. [It is possible] that we could see the net unrealized capital gains in the portfolio disappear.

[**Editor's Note:** CEFA offers a data service which covers many data points that are helpful to our clients and portfolio managers. The data applies to the average of many funds. A description of the service is available at www.CEFuniverse.com.]

JCS: Isn't it more of a shift in the discussion and the trends inside the closed-end fund world that applies here? We are getting the idea that a return of capital is not what you favor or may want to do. As dividend rates go up, isn't it beneficial/benign to give a return of capital as a benefit to shareholders as a tax-deferred concept?

Ober: I think we will review whatever new tax regime we are living in and see if a strategy of returning some capital makes sense for our shareholders.

Thus far, we have not had any expression of interest on the part of our shareholders for a return any capital. So from that standpoint we don't have any strong urge to do it, but with the change in the U.S. tax regime, we could certainly have something like that happen.

We have some very smart individuals on the Board, so I'm sure the Board will look at that very carefully when the time comes to make the distributions at the end of next year.

The Major Banks

GCS: Now, please update us on your larger bank holdings, JPMorgan Chase, Wells Fargo and Bank of America. There have been some controversies about most of the large banks going back to 2008.

Ober: JPMorgan Chase continues to be the best run commercial bank worldwide and is best positioned to perform well across the commercial and investment banking arenas. However, all of the banks have some "interesting times" ahead of them with regards to mortgage holdings, 503 capital requirements and other issues.

We think that JPMorgan Chase is the best positioned in that group to perform well both domestically and internationally.

Wells Fargo is significantly more of a retail bank with a very large mortgage portfolio. It has one of the best run mortgage operations in the U.S. While they have had some stumbles, like everyone else in the mortgage business, they have come out better than virtually any other U.S. bank.

The mortgage operations provide them with the fee income that other banks are having more difficulty getting.

GCS: As of 2012, Berkshire Hathaway was the single largest shareholder of Wells Fargo, with a stake of 411 million shares.

Ober: Bank of America is a situation that we took more of a position in during the financial meltdown. We felt that the combination of Bank of America and Merrill Lynch would eventually turn into a strong franchise, but they have had many problems with various parts of the business. I don't think that they have melded Merrill Lynch into the Bank of America franchise very well.

They also continue to have "headline risk" with additional problems being encountered in their operations. Bank of America was one of our largest bank positions, but with the decline in the price of its stock over the past three years, it is a much smaller position in the portfolio now.

GCS: That's right, but it was not the best performing stock in the portfolio or in the S&P 500 in 2012, which was up over 100%. If you were trying to beat this index, you certainly would want to have a stock that is up that much, especially if your cost was low.

Credit Suisse has just downgraded Bank of America as they think it will be hard for the Bank to grow revenues faster than the "average" bank. Your thoughts have reflected this assessment.

JCS: A year ago, didn't you have a capital loss on average in the ADX portfolio?

Ober: We had some significant capital gains, but we also had some significant losses.

[**Editor's Note:** Bank stocks enjoyed a strong bounce in the second half of 2012. There is a growing sense that they are ready to move on to the next chapter of their post-financial crisis lives – if only the economy would let them. (Source: *The Wall Street Journal)]*.

McDonald's

GCS: McDonald's has been a superb grower, but aren't there some indications of slower growth?

Weaver: After being one of the strongest performers in 2011, McDonald's gave much of it back in 2012. The slowdown and the high exposure to Europe was a focus for most investors.

However, McDonald's is still growing. It is a very solid company with the stock yielding about 3.5%. The operating margins remain over 30%, and it has very good cashflow. We like this name for the long term so it is a place where we want to keep our money. We reduced McDonald's earlier in the year, but we still retain a fairly sizeable holding in the stock.

[**Editor's Note:** Adams Express reduced this position in the fourth quarter.]

JCS: We wonder if your perspective on McDonald's has changed as they have had many store redesigns. In Richmond, they have knocked down a couple of them and totally rebuilt them from the ground up. I've noticed that some of these redesigns offer better traffic flow for their walk-in and drive-through businesses.

Has most of the operating revenue come from trying to give customers a higher quality McDonald's experience, or are they trying to go where they haven't been before?

Weaver: If you go back over the last ten years, they have altered their image by becoming a restaurant that is more family-oriented by making changes in service for different parts of the day. Breakfast has become one of the dominant meals, and they have spruced up the physical stores. We expect that they will continue to be a solid performer.

GCS: What about their foreign operations? Are they still doing well in Asia and what about Europe?

Weaver: Europe which is their largest international exposure is still weak this year. The stock was affected by the slowdown. Now the comparisons have started to improve, and I expect they will stabilize, absent a major financial catastrophe.

McDonald's is doing very well in China and is growing very rapidly. We prefer to play China a little slower in a more diversified way than with our McDonald's holdings. YUM Brands are a serious competitor in China, especially with Kentucky Fried Chicken.

Pfizer

GCS: Pfizer has an impressive web site, one of the best we have seen. The company has also had impressive growth in the emerging markets, especially in China, Mexico and Russia.

Ober: Pfizer has done quite well overseas. Their drugs have matured marginally in the U.S., but in many emerging markets there are still areas where the drugs they have produced are not being distributed. This may be for cultural reasons.

GCS: What about Lipitor? We went online and found that the two popular cholesterol-lowering drugs were both seen as working very well.

The question for the consumer is how to choose between the two products, Pfizer's Lipitor or Crestor which is developed by AstraZeneca.

Ober: I can't speak for Crestor. I am not sure which drugs are stimulating the most growth for Pfizer, but Lipitor certainly has been very successful for them domestically. Some countries, however, have not had access to these medications because of the way their health systems are run, so I think Pfizer is taking advantage of this situation.

They have worked very hard on their pipeline of new drugs. I think they have great opportunities ahead, both here and abroad to expand their stable of drugs in the world.

GCS: Why has there been so much controversy about Lipitor?

Ober: I think that the analyst community had an expectation that Pfizer would go off the cliff when Lipitor lost its patent protection. They seem to have been surprised by the strategy they used to bring out their generic Lipitor before other companies were able to do so, but they were still able to maintain the larger share of the market.

The consequence was that Lipitor is now nowhere as profitable as it was for Pfizer. However, it has enabled them to maintain a marketshare that they would otherwise not have as a result of the generic competition.

For many patients, it comes down to money. The blockbuster drug Lipitor is about to go generic, causing a drop in Pfizer share price.

[**Editor's Note:** The patent on Crestor won't expire until 2016.]

Three Biotech Stocks

GCS: Has there been any slowdown for your biotech companies like Gilead Sciences and Teva Pharmaceuticals?

Ober: Gilead has been going great guns as well as Celgene, which has some very good growth that we are excited about. Both companies have been shifting their strategy somewhat and have not performed well in 2012. We want to see how successful they will be with their own proprietary drug.

Teva has historically been a generic company that has had their own drugs. We have had a great ride with them over the years, but they have now shifted their priorities toward more proprietary drugs which have taken some of the interest away from their generic products.

General Electric

GCS: You weren't very happy with General Electric ("GE") last year as they had lost their focus, but you have since added to the position. How are you on GE now?

Ober: Happier. They have been shedding some of their businesses that don't seem to be relevant to what they are working on. Some of them are doing well, most notably in the health care and energy industries.

They are now less dependent on the financial business for generating income. They may be getting into the mining area. I understand they are particularly interested in mine handling equipment, where they think they have a good long-term potential. They have also done some refocusing on the industrial business which is doing well.

Bottom line is they have gotten the engine going better and are headed in the right direction. I think the run-up in the stock in 2012 is reflective of that improvement, and we have had some good benefits from it.

The Insurance Industry

GCS: Where do you stand on the insurance industry? You told us last year that you were expanding this sector by hiring another analyst.

Ober: We now have a number of insurance companies. We hold Axis Capital and have held Prudential for a long time. We also added MetLife to the portfolio this year. We only have $35 million invested, but it still represents a significant exposure.

GCS: In a low interest rate environment, aren't some of them having a tough time?

Ober: Yes, they are. These companies have shrunk their variable annuity businesses down to where they are not being over-penalized. MetLife and Axis both qualify as "strategically important financial institutions" which means the government is watching them very closely to be sure that they have sufficient capital.

It has been a tough go for them, but we think the outlook for MetLife and Prudential is very good, particularly for their property and casualty businesses.

GCS: We have done very well for our clients in real estate closed-end funds. These funds usually buy REITs that mostly hold commercial properties and apartments that have been in high demand.

You only have 1% in real estate invested in three REITs. Are REITs something that you don't really like to use? There are many closed-end funds that invest in REITs, and we like to buy them because real estate is now starting to boom.

Weaver: We have historically not owned REITs. We wrestle with the distributions that they make, some of which are a return of capital, and we cannot find out where they are until later in the year, so we've shied away from REITs.

We could also use ETFs as a different way to participate in the real estate market. We have, however, sharpened our pencil and realize the benefits of this space. We are now making a push there. In the third quarter 2012, we held three holdings – American Campus Communities, Digital Realty Trust and HCP – as entry points for this market.

GCS: Have you considered hotels? There is a tighter supply of rooms now; the hotel operators should do very well. We see that you hold Marriott International which is a fast growing company and a play into a recovering economy.

Weaver: We also like home construction and related plays. We own Ryland in home construction and Lowe's on the home improvement side. We also invest in banks like Wells Fargo that are lending to homebuyers. So, overall, we like real estate.

GCS: That's a good thing. We always favor diversification and applaud your management for expanding the number of names to near 100 now in the portfolio.

Conclusion

GCS: How would you like to wrap up this very informative interview?

Ober: It has been a challenging year. I think a great many investors are surprised that the market is up some 15% from a year ago, given the turmoil in Europe, the slowdown in China and a U.S. economy that is just plodding along.

We may have a down quarter in the fourth quarter. There has certainly been a lot of worry going on in 2012, but I think that the stock market has been able to crawl over that proverbial wall of worry and do quite well.

Our outlook for 2013 is probably less sanguine than a 15% rise in the 2012 market. I don't see the gross domestic product in the U.S. going above 2.5% (maybe a little more). The world will continue to struggle as long as Europe is going through its periodic crises.

The emerging markets, particularly China which is now focused on their domestic economies, is trying to export to the world.

All in all, I would say that 2013 is unlikely to be as good as 2012, although we did not expect the market to be as solid in 2012 as it was.

GCS: We are closed-end fund analysts who try to do the best job that we can for our clients by analyzing a closed-end fund universe that has of over 600 listed closed-end funds and continues to grow.

We value the time and the depth of opinion that both of you have given us.

We commend you, Doug, for all of the time that you spent getting the word out on the virtues of closed-end funds, especially when you served as the first president of the Closed-End Fund Association.

Weaver: For all of us in this industry to do the right job for our clients, we have to continue to "sharpen our pencils" and find the best investment value for our clients.

GCS: Your application to the SEC to pay out a monthly distribution is just another example of your efforts to show your shareholders the value of always trying to find a better way to manage their finances.

We look forward to the continuing leadership from you and your team at 7 St. Paul Street in Baltimore.

Thank you for taking time out of your schedule to allow us to do the interview.

John and I look forward to seeing you and your colleagues in Baltimore at your annual meeting in March. ■

Disclaimer: Clients and family members of Closed-End Fund Advisors hold shares in Adams Express and AT&T. The firm will wait 72 hours after the date of this interview's release before making any additional purchases or sales in the Fund.

Global Forecasts

GDP Growth	2013	2014
World	2.8%	3.6%
United States	2.0%	3.1%
Euro Zone	0.0%	1.4%
China	8.1%	7.9%
Japan	0.9%	1.2%
United Kingdom	1.1%	1.7%
Brazil	4.0%	4.5%
Russia	3.7%	4.1%
Canada	1.8%	2.7%
India	6.2%	7.0%
South Korea	3.4%	4.4%
Mexico	3.6%	4.1%

Source: The Kiplinger Letter, January 4, 2013

2012 Real Estate Rebound Taking Hold

Advisors Are Bullish Due to Strong Supply & Demand Performance
by Bruce Kelly

COMING off a strong 2012, financial advisors are sanguine about investing in real estate in 2013, particularly in multi-family real estate investment trusts and REITs that invest in mortgages, as well as select areas of retail properties.

As the broad economy continued to improve slowly, investing in commercial real estate proved attractive in 2012, with the FTSE Nareit All REITs index up 20.1% in 2012.

Other experts noted that the factors that contributed to strong returns for real estate in 2012 will continue in 2013.

"Listed REITs have done well with a sluggish economy because new construction is close to 20-year lows," said Calvin Schnure, Chief Researcher and Economist with the National Association of Real Estate Investment Trusts, an industry organization of REIT sponsors.:

Multifamily REITS could prosper due to a shortage of supply, Schnure said.

"The trend over the past decade was an average of 330,000 units built per year, versus 285,000 in 2012. That is one of the strongest numbers we've seen in the past five years, but it is still well below what you would need to keep pace with population growth."

"There is a strong tail wind right now for mortgage REITs, and in 2013, there will be a lot more mortgage applications," Schnure said. "With more demand for this sector, it is positioned to do well."

Two of the largest and recently most successful sponsors of non-traded REITs, American Realty Capital Properties, Inc. and Cole Real Estate Investments, focus on triple-net-lease REITs, in which the tenant, not the sponsor, is responsible for the upkeep and insurance of the property.

Both firms had a strong 2012. Two American Realty Capital REITs had transactions that returned capital to investors. In the past, the lack of such transactions, dubbed "liquidity events" by the non-traded REIT industry, has been a sore spot in an industry sensitive to criticism.

Meanwhile, niche types of retail properties that show stagnant building of new supply are also worth a look by investors and advisors.

For example, the $180 million Phillips Edison Shopping Center REIT Inc. invests in shopping centers that have leading grocery store chains as the anchor tenant.

"The dynamics of grocery stores as anchor properties is a supply and demand equation," said Jeffrey Edison, Chief Executive of The REIT. "Over the past three years, we've seen the lowest level of building such shopping centers in 30 years."

In 2013, The REIT's portfolio went from an 84% occupancy rate to a 91% occupancy rate," he said. "To me, that's the demand side of the equation. And the potential for rental appreciation is driven by supply and demand."

In *Investment News'* 2013 Investment Outlook survey of 592 advisors, 43% said they would recommend increasing exposure to alternative investments this year. 35.6% said real estate would be the best performer among alternatives, while 29.4% picked it as the best performer among alternatives and 29.45% picked it as the second-best performer. No other alternative came close to such enthusiasm among advisors.

In the market, concerns with multi-family units is that as home-buying improves, it will hurt apartments," Schnure said. "But it doesn't take into consideration the huge pent-up demands for apartments by people who moved from homes or shared apartments after the credit crisis. As the job market improves and young adults get employed or get raises, they will be ready for their own apartment." (Source: *Investment News)* ■

Advantages of Closed-End Fund Share Repurchases

Many closed-end funds regularly repurchase their own shares because they understand its shareholder advantages. CEFA has reviewed each of three 1929 closed-end funds that regularly repurchase their shares.

We also like General American's practice of releasing their share buy-back figures in September.

The three funds listed below appear to be anxious to explain their reasons for why they periodically repurchase shares for the benefit of their shareholders.

We hope that more closed-end funds will follow their example and urge all of our readers who own closed-end funds to encourage funds to repurchase their shares whenever possible, especially when their discounts are over 10%.

The intent of a stock repurchase program is, among other things, to moderate the growth in the number of shares outstanding, increase the net asset value ("NAV") of a fund's outstanding shares, reduce the dilutive impact on stockholders who do not take capital gain distributions in additional shares and to increase the liquidity of the fund's common stock in the marketplace.

General American Investors

Since March 1995, the Board of Directors of General American Investors has authorized the repurchase of common stock in the open market when the shares trade at a discount to NAV of at least 8%.

General American Investors has been a strong supporter of share buy-backs and promotes this benefit for their shareholders. We urge all closed-end funds to do this important activity that allows their shareholders to benefit by a higher NAV in these risk-free transactions. Also, it doesn't matter that the discount may not narrow because of its many other benefits.

Through September 30, 2011, General American repurchased a total of 18.1 million shares of common stock at a total cost of $500.7 million. During the nine months ended September 30, 2012, 1,202,985 shares of common stock were repurchased at a cost of $33,228,774, at a discount of 14.6% to NAV.

This fund is a pioneer of this important way to benefit shareholders in this way. They have continued this important activity that allows shareholders to benefit by a higher net asset value in these risk-free transactions.

Tri-Continental Corporation

Under this Fund's stock repurchase program for 2011, the amount of the Fund's outstanding common stock that the Fund may repurchase from stockholders is 5%, provided that the discount of shares purchased in the open market is greater than 10%.

Tri-Continental Corporation wrote in its 2011 Annual Report the following. The 2012 report will be issued soon.

"For the year ended December 31, 2011, the Fund purchased 1,238,498 shares of its common stock in the open market at an aggregate cost of $17,636,426, which represented a weighted average discount of 13.9% from the net asset value of those acquired shares.

For the year ended in December 31, 2011, the Fund also purchased 1,540,448 shares of common stock from plan participants at a cost of $21,866,509, which represented a weighted average discount of 14.2% from the net asset value of those acquired shares.

Shares of common stock repurchased to satisfy plan requirements in the open market are retired and are no longer outstanding."

The intent of the stock repurchase program is explained as follows:

1. It moderates the growth in the number of shares outstanding.
2. It increases the NAV of the Fund's outstanding shares.
3. It reduces the dilutive impact on stockholders who do not take capital gain distributions in additional shares, and it increases the liquidity of the fund's common stock in the marketplace.

Central Securities Corporation

On page 17 of this Fund's 2011 annual report, Central Securities wrote under the heading "Common Stock and Dividend Distributions":

"The Corporation purchased 22,770 shares of its common stock in 2011 at an average price of $20.33 per share, representing an average discount from net asset value of 18.0%. It may from time to time purchase common stock in such amounts and at such prices as the Board of Directors may deem advisable in the best interest of stockholders.

Purchases may only be made at less than net asset value per share, thereby increasing the net asset value of shares held by the remaining stockholders. Shares so acquired may be held as Treasury stock available for stock distribution, or may be retired."

Conclusion

We hope our readers now see that there are many benefits of share repurchases. Narrowing the discount may be one of the benefits, which may occur, but if it doesn't, there are still many other benefits that have been stated by some of the oldest funds.

We have just started what we hope will be of an on-going series in *The Scott Letter* to show why closed-end fund stock repurchases should be done whenever the level of the discount warrants it.

CEFA will be following and reporting on this activity during the course of our portfolio management and analysis of closed-end funds. We will also be looking into finding or creating a published list of closed-end funds that practice this activity because of its benefits to shareholders.

We also think that every fund that approves a share buy-back plan has the obligation to execute that plan in a timely manner.

Readers who have questions and/or comments about the impact of closed-end fund share repurchases on their portfolio, or any other closed-end fund subject matter, should send their queries/comments to editor@cefadvisors.com.

Portfolio Managers' Reviews

Closed-end funds had a very successful 2012 with the average equity fund being up +14.7% and the average bond CEF up +15.7% for the year on a market price basis. Of the 1,053 dividend announcements for the fourth quarter, 55 were increases and 111 were cuts.

As some funds announce dividend levels monthly, this figure is higher than the total of 596 funds at year-end. We work hard to monitor the likelihood of a dividend cut for our clients.

Many investors who have been chasing global bond funds, have now decided that it is the time to go back to growth stocks. For us, this has included growth funds like Adams Express, Tri-Continental and General American Investors which hold growth stocks that have been powering the U.S. markets.

As we were going to press, the S&P 500 (one of the benchmarks used by CEFA) hit a 5-year high of 1,472.05 on January 11, just 6% below its all-time high set in 2007. With dividends reinvested, this is a record all-time high.

We have made changes in our global bond fund holdings, by reducing those that have been selling above their net asset values and buying or adding to funds we already hold.

We have also added some new positions in the global growth fund area that are willing to increase their total return with enhanced distributions.

Our clients have benefitted with a few high yielding master limited partnership funds, leveraged real estate investment trusts and health care funds, many of which have made 12-month highs.

Investors are also now more comfortable with the economic picture and what that means for equities. Now that the "fiscal cliff" worries have momentarily subsided, investors await fourth quarter earnings which, so far, have been above expectations.

Closed-end funds held by CEFA clients have also been making new highs. The list includes Bancroft Fund, H&Q Health Care, Lazard Global Growth & Income and Source Capital.

Many of our clients hold emerging market funds, including large positions in The Asia Tigers Fund and Templeton Emerging Markets Fund. For clients who want more exposure to the faster growing countries, we have purchased shares of Templeton Frontier Markets Fund, a mutual fund as Franklin Templeton no longer issues CEFs.

For our income-oriented accounts, we have been very active in swapping the bond funds held, based on relative value (discount/premium). We have searched for equity income funds with above peer NAV performance and attractive entry points.

We also replaced our primary MLP fund, KMF, for TYG based on the pricing as well as the high deferred tax liability for TYG which seems to overtly write down the NAV, giving the fund an inaccurate premium. We shifted some of our bond allocation to the preferred equity funds as we continue to gently guide our portfolios toward a rising interest rate environment.

We have more than doubled the data we internally collect on all U.S.-listed CEFs to almost 70 columns of information since May 2012. With this information (www.CEFuniverse.com), we have found ways to compare funds on a deep level for the benefit of our client accounts. We have also started publishing regularly on SeekingAlpha.com and encourage you to follow "John Cole Scott" to be alerted when a new article is posted.

We will be interviewing Aberdeen Latin America Fund for the April 2013 issue of *The Scott Letter*.. ■

George Cole Scott

John Cole Scott

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