Published by
Closed-End Fund Advisors

THE SCOTT LETTER:
CLOSED-END FUND REPORT

Vol. XIII, No. 2 | *A Global View of the Closed-End Fund Industry* | March/April 2013

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

IN THIS ISSUE:

- Aberdeen Latin American Equity Fund, Inc. 1
- Adams Express and Petroleum & Resources Welcome New Chief Executive . . . 5
- U.S. Stocks Fall on Consumer Confidence Data 7
- Portfolio Managers' Review 8

Aberdeen Latin America Equity Fund, Inc.

The Aberdeen Latin America Equity Fund, Inc. (NYSE:LAQ) seeks long-term capital appreciation by investing primarily in Latin American equity securities. The Fund's inception date is October 1991, celebrating its 22nd year of investing in Latin America.

Nick Robinson is Director of Brazilian Equities in Sao Paulo. He is a member of Aberdeen Asset Management's Global Emerging Markets team. Nick joined Aberdeen in 2000, after eight years on the North American Equities desk in London, including three years in Aberdeen's U.S. offices. He graduated with a M.A. in Chemistry from Lincoln College, Oxford and is a CFA Charterholder.

Nick relocated to Sao Paulo from London in October 2009 to join Aberdeen's Global Emerging Markets Equities team. He is assisted by research analysts who provide "cross coverage" of companies, so no single person takes overall responsibility for a particular sector or country.

Nick Robinson

The net assets of LAQ were $306.4 million as of January 31, 2013. The expense ratio was 1.16%. For distribution information on the Fund, please visit www.aberdeenLAQ.com.

Latin America Market Overview

Latin American equities rose in January 2013, outperforming the broader emerging markets asset class and were driven by an improved economic outlook and a robust increase in commodity prices. Economic activity rose in Brazil, Mexico and Chile. Inflation eased in Chile and Mexico but advanced in Brazil. Their respective central banks held rates steady.

We interviewed Nick Robinson by telephone in Aberdeen's Sao Paulo, Brazil office on February 27, 2013.

Mexico

SL: Good morning, Nick. Please tell us first about Mexico.

Robinson: There have been some very volatile markets lately, and the valuations are quite high in Mexico now. This makes it difficult to find new investment opportunities so we ,therefore, have shifted some of the Fund's assets to other parts of Latin America.

SL: Our research finds that Mexico maintains free trade agreements with over 40 countries. The countries trade at 65% of gross domestic product (GDP, a measure of economic openness), compared to 59% in China, 32% in the United States and 25% in Brazil. No longer addicted to oil, its economy is driven by manufacturing, especially of cars, computers and appliances. (Source: Shannon K. O'Neil, *Foreign Affairs,* March/April 2013).

Are you aware of this Foreign Affairs article?

Robinson: No, but it sounds like a terrific case for investing in Mexico.

SL: Our source also tells us that Mexico possesses an improving economy that has instituted various reforms on education, tax, labor and energy. This is an example of how the North American Free Trade Agreement (NAFTA) has improved the country. The government has also improved the housing markets and infrastructure in Mexico in the last couple of years.

Mexico still faces many challenges, including improving its public education system, continued upgrading its infrastructure and improving private investment in the energy sector. As a result, the country has shaken off its volatile past and become one of the most open and globalized economies in the world.

Mexico has also been catapulted forward by a shift from commodities and agriculture and is outpacing many other emerging markets, including China, India and Russia, in making this economic transition.

Many Americans think Mexico is too dangerous a place to visit because of the headlines about all of the killings over the border, a perception that has slowed tourism from the U.S.

We found that many emerging markets are trying to rebalance their economy towards domestic consumption. Does that apply to Mexico as well?

Robinson: Yes, Aberdeen believes that consumer spending is a compelling story in Mexico where there is a growing middle class and optimism attributed to the new government.

SL: What investments in Mexico have worked out best for shareholders of the Latin America Equity Fund?

Robinson: Our largest positions are in the financial and consumer cyclical sectors, where we have seen a rise in valuations, making many of our investments expensive. However, the banks are a good way to play domestic demand as people take out more loans and open more bank accounts. We also have a large position in infrastructure companies that operate airports which have done well because of the increase in air travel.

SL: The report in *Foreign Affairs* tells an in-depth story of how Mexican state-sponsored monopolies that controlled diverse enterprises also provided employment for almost one million Mexicans. However, they weighed down the economy with overpriced goods, inefficient policies and corruption, triggering repeated booms and busts.

We found that 90% of its trade under NAFTA increased to 3.8% in 2012. Is that an accurate number?

Robinson: That sounds about right.

SL: What is your growth estimate for Mexico in 2013?

Robinson: Aberdeen doesn't really make GDP estimates, as we are bottom-up stock pickers, grounded in extensive company due diligence. We really focus on companies that we understand and trust.

SL: That's good. We read that the new government and President Enrique Pena Nieto's administration have huge governance problems that need to be fixed.

Robinson: Yes, but there has been progress. Brazil in the last ten years has had similar problems as new companies come to market, but it has really improved industrial life, as you have more companies in which to invest. The Mexican economy and its stock market are similar to what it was ten years ago in terms of the quality of companies listed.

SL: As Mexico has emerged as a global power, has it taken growth away from China?

Robinson: In the last couple of years, the Mexican economy has been very good and has shifted towards a more consumption-based story as manufacturing has shifted away from China and Asia.

SL: We found that beverages, banks, household products and transportation have expanded, and oil is now less important to the economy. Its contribution is now is about 6% of GDP versus nearly 20% in 1981.

Robinson: That's right as they are investing more in consumption and product exports throughout Latin America.

Brazil

SL: Is it accurate to say that Brazil has "more inflation and less growth"?

Robinson: That's about right. Over the last couple of years, we have seen strong consumption but weak exports. Commodity price volatility and some inflation has been an issue, making the government feel uncomfortable.

SL: What is your opinion about how the Brazilians say they can develop a more sophisticated economy and effective government in its hopes to rise again?

Robinson: In our opinion, Brazil has been less fiscally responsible than Chile. When Brazil gets a windfall, they tend to spend it.

SL: The weak third quarter GDP figures shocked market economists and the Brazilian government in November 2012. Both groups have cut their predictions for growth in 2012 to just 1%. A leading economist stated that Brazil will continue to grow at pretty anemic rates and will likely not go back to its former 4% growth rate for some time.

The government admitted that it would only hit its closely watched target for the primary fiscal surplus of 3.1% of GDP by omitting some infrastructure spending, bringing dividends forward from state-owned firms and raiding the Sovereign Wealth Fund that it set up in 2008.

Robinson: This is more than the government is comfortable with and is partly caused by less fiscal stimulus in the last year and a half. Interest rates were 12% in August 2011 and are now about 7%.

SL: Our research finds that President Dilma Rousseff has retained the previous administration's commitment to inflation targeting by the Central Bank, a floating exchange rate and fiscal restraint. To boost growth in 2012, they implemented a series of more expansionary monetary and fiscal policies, but they failed to stimulate much growth.

Rousseff has improved the electric utilities sector and lowered the interest rates on bank loans, but she found that rising inflation meant that the authorities had to take measures to cool the economy. The result was that it slowed growth to 2.7% in 2011 and 1.5% in 2012.

Brazil was one of the first emerging markets to begin a recovery. In 2010, consumer and investor confidence revived, and GDP growth reached 7.5%, the highest growth rate in the past 25 years.

Since 2003, Brazil has steadily improved its macroeconomic stability, increased its foreign reserves and reduced its debt profile by shifting their debt burden toward its "real" denominated currency and domestically held instruments.

By 2008, Brazil became a net external creditor, and two credit agencies awarded investment grade status to its debt. Later that year, the global financial crisis hit, and the country experienced two quarters of recession as global demand for its commodity-based exports dwindled and exports dried up. As a result, its economy outweighs all other South American countries.

Brazil found that its traditionally high level of income inequality declined for each of the past 14 years. However, Brazil has expanded its presence in world markets over the years and is characterized by large and well developed agricultural, mining and service sectors. Your top ten holdings include Vale (8.5%), Petroleo Brasileiro (7.6%) and Banco Bradesco (7.3%), which comprise about 25% of the portfolio. Please tell us something about these companies.

Robinson: Petrobras, Brazil's largest company, is a semi-public, multi-national energy corporation headquartered in Rio de Janiero. It is the largest company in the southern hemisphere by market capitalization.

SL: Petrobras also controls significant oil and energy assets in 18 countries, including Africa, North America, South America, Europe and Asia. The largest bank, Banco Bradesco, currently is about 7.3% of the portfolio as of January 2013. The government directly owns 54% of its common shares with voting rights, while Brazil's Sovereign Wealth Fund and the Brazilian Development Bank each control 5%, bringing the state's direct and indirect ownership to 64%.

The company produces more than two million barrels of oil per day and owns oil refineries and tankers. They are a world leader in the development of advanced technology, ranging from deep water and ultra-deep water oil production.

Robinson: We have held Petrobras for about ten years now. It has an extraordinary amount of assets. The government has been selling gasoline below market prices for a couple of years, but they are not earning what they should because of government interference to curb inflation. We hope there will be a resolution for that in 2013.

SL: Would you update us on how important ethanol is for the Brazilian economy?

Robinson: Ethanol is important for Brazil as most of our cars run on ethanol or a mixture of ethanol and gasoline. When gasoline is cheap, they use it, but when it is expensive, ethanol demand is quite high. They use the mixture as they have the facilities to use either fuel.

SL: By the year 2000, we found that Petrobras had reached record oil exploration, but in 2001, an accident sank the world's largest platform containing about 1,500 tons of oil. By 2006, however, they achieved Brazilian self-sufficiency in oil, and in 2007, they recorded its highest earnings ever, with more than $13 billion USD in profits. They have been searching for many years for a giant, new oil field and announced the discovery of the gas field "Jupiter" which increased the value of the company's shares by about 106%.

In 2008, the company discovered what could be the world's third largest oil field, but its reserves haven't been verified yet. In 2010, in the largest share offering ever, Petrobras raised $70 billion USD to explore and produce oil from its massive reserves.

Brazil's historically high interest rates have made it an attractive destination for foreign investors. Large capital inflows over the past several years have contributed to the appreciation of its currency, hurting competitiveness. This led the government to intervene in foreign exchange markets and raise taxes on some foreign capital inflows.

We understand that Brazil is building a high speed rail line to connect Rio de Janiero to Sao Paulo. Will that be completed soon?

Robinson: Yes, probably but not for the 2014 World Cup. More likely for the 2016 Olympics.

Recent high inflation figures have brought more gloom. During 2012, prices rose by approximately 5.84% above market expectations, and for the third year running, close to the range ceiling (2.5%-6.5%, as targeted by the Central Bank).

SL: You must also know that by 2020 the United States expects to be a net exporter of oil.

Robinson: I think that is the plan. Many other oil companies worldwide are also increasing their oil production.

Chile

SL: The economy of Chile was once the richest in South America. After economic decline and soaring poverty during the economic crisis of 1982, Chile became a role model for economic reform when the democratic government of Patricio Allwin took over from the military in 1990. Growth in GDP averaged 8% from 1991-1997 but fell to half of that in 1998 because of tight monetary policies lowering exports.

Prosperity has returned, and Chile is now ranked as an upper middle income economy by the World Bank. It is one of South America's most stable and prosperous nations, leading other nations in the region in human development, competiveness, income per capita and low perception of corruption, according to the U.S. State Department.

The Chilean economy once served as an ideal for other South American nations and now is based mainly on open trade. Apart from trade and commerce, Chile has vast mineral resources, including copper for export.

However, this can create economic problems because the international copper market is not that stable, and Chile does not produce adequate food stuffs. That has become one of the main economic problems of the country.

Is copper still a major export, and how badly will they be hurt if its price declines?

Robinson: Yes, Chile benefits from high copper prices. Rather than spending that revenue, the government has put most of the revenues into its Sovereign Wealth Fund. A decline in the copper prices means that there is less money for the Fund.

[**Editor's Note:** Global mineral companies have extracted copper from rich seams in mountainous Chile for decades, but they are now also considering new investments in North America as copper ore grades decline in Chilean mines and production costs rise. The Chilean industry is becoming significantly less competitive compared with the rest of the world, although their production costs could come down if miners scale back planned expansions because of falling copper prices. (Source: *The Wall Street Journal*)]

Chile has a variety of crops, including vegetables and fruits which contribute hugely to its economy. They also have large vineyards producing wine for export.

Columbia

SL: Columbia has a population of about 46 million and has had recent low inflation (3.4%). The government has undertaken wide ranging reforms to address structural weakness and to improve competitiveness, notably in the context of free trade agreements. Columbia has experienced an upsurge in foreign investment in recent years and is positioned to become South America's second largest economy.

Resilient economic growth in Columbia has averaged over 4% during the past five years. We found that the country has an economic freedom score of 69.6, making its economy the 37th freshest in the 2013 index with an overall score of 1.6, higher than that of 2012.

There are ten economic freedoms, including investment freedom, financial freedom and the management of public spending, that have enabled Columbia to rank 5th of 29 countries in the South and Central America/Caribbean region, according to State Department reports.

Despite progress, lingering institutional shortcomings undermine prospects for broad-based, long-term economic development. Anti-corruption laws have had little impact, and the judicial system remains vulnerable to political interference. Other weaknesses include security issues that undercut the protection of property rights, infrastructure deficiencies and complex tax and labor systems.

However, the policy of "democratic security" pursued by President Alvaro Uribe (2002-2010) significantly reduced crime and violence, increased government control of national territory and established business confidence. Former Defense Minister Juan Manuel Santos, elected in 2010, strongly emphasized integration into the global economy.

The U.S.-Columbia free trade agreement of May 2012 has led to pursuit of other free trade agreements with dozens of other nations, and the government has been working to develop a Pacific trade alliance as Columbia's economy depends heavily on exports of petroleum, coffee and cut flowers.

Total Return* (%)

The following is the latest available performance figures have been calculated net-of-fees in U.S. dollars for the period ending January 31, 2013.

	Cumulative as of January 31, 2013			Annualized as of January 31, 2013				
	1 Mo	3 Mo	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception
NAV	2.2	11.7	2.2	14.5	13.2	6.7	25.4	13.1
Market Price	3.6	12.5	3.6	15.1	14.0	6.6	26.5	12.6
MSCI EM Latin America Index**	3.8	8.7	3.8	0.03	4.8	2.2	23.9	13.4

*Past performance is no guarantee of future results. Investment returns and principal value will fluctuate and shares, when sold, may be worth more or less than original cost. Current performance may be lower or higher than the performance data quoted. All return data assumes reinvestment of all dividend and capital gain distributions. The Fund is subject to investment risk, including the possible loss of principal. Returns for periods less than one year are not annualized.

**The MSCI EM (Emerging Markets) Latin America Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of emerging markets in Latin America. The MSCI EM Latin America Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, and Peru. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

SL: How much have you invested in Columbia, and do you plan to increase your holdings there?

Robinson: Columbia has an interesting economy, and the country, quite well run, is doing well. Their companies are not as good on the whole as Chilean companies, but they are now benefiting from the growth of the middle class.

A lot of foreigners are now investing in Columbia. They also have quite a large local pension fund industry whose assets have been growing steadily.

SL: Please summarize your comments.

Robinson: Aberdeen believes that Latin America benefits from a young and growing population and continued urbanization and industrialization which, in turn, is driving growth in domestic demand.

Aberdeen is a firm believer in the power of domestic demand to drive consumption. We are also seeing a steady flow of well-managed companies coming to the market as compared to companies in developed markets, which bodes well for the future.

Brazil is by far the largest economy in the region and represents the largest investment opportunity, but it is also a bit more volatile than others in the region.

Mexico is in very good shape at the moment. We hope that 2013 will be as good as 2012, but you have to look at valuations that have been creeping up in the last 18 months.

We have been reducing our positions in Mexico [for valuation reasons] and are now investing more funds in Brazil which, we think, offers more attractive investments.

SL: Thank you, Nick, for your time.

[**Editor's Note:** The International Stock Indexes published in *The Wall Street Journal* show four Latin America Indexes' year-to-date returns as of April 9, 2013: the DJ Americas Index (+8.6%); Brazil, Sao Paulo Bovespa (-8.3%); Chile, Santiago IPSA (+0.6%) and Mexico, IPC All-Share, (+-0.6%).] ■

In the United States, Aberdeen Asset Management (AAM) is the marketing name for the following affiliated, registered investment advisers: Aberdeen Asset Management Inc., Aberdeen Asset Managers Limited, Aberdeen Asset Management Ltd. and Aberdeen Asset Management Asia Ltd., each of which is wholly owned by Aberdeen Asset Management PLC. "Aberdeen" is a U.S. registered service mark of Aberdeen Asset Management PLC.

Disclaimer: Clients and family members of Closed-End Fund Advisors hold shares in Aberdeen Latin America Equity Fund. The firm will wait 72 hours after the date of this interview's release before making any additional purchases or sales in the Fund.

Adams Express and Petroleum & Resources Welcome New Chief Executive

Mark E. Stoeckle Succeeded Doug Ober in February

Mark E. Stoeckle

Mark Stoeckle, who brings a wealth of investment and business experience, is the first new CEO to be named by the Adams Express and Petroleum & Resources in 23 years. Mark came to the firm from the Boston office of BNP Paribas Investment Partners, where he had been chief investment officer.

Editor-in-chief George Cole Scott interviewed Mark on March 21, 2013 via phone.

SL: Good morning, Mark. First, let me tell you something about *The Scott Letter.* With a background in journalism, I started it soon after the 1987 market crash. This was one of those career-changing opportunities when everyone was scared of the stock market. You have probably had a similar moment. I had joined a smaller firm that provided the opportunity to launch a newsletter.

Fortunately, the timing was right as newsletter rater, Mark Hulbert, tracked our performance during the 1990s. We were fortunate enough to have very good performance during that period. This led to a book contract that I co-authored with a finance professor. The book, *Investing in Closed-End Funds,* is available in libraries.

Eventually, I had the chance to buy Closed-End Fund Advisors in 1996, and when my son John joined us after graduating from the College of Wiliam & Mary in 2001, he talked me into going on-line with it.. *The Scott Letter* took off, and we now have over 2,000 subscribers in 20 states and many foreign nations. He writes a blog, manages many of the portfolios and expands our client base.

We, therefore, look forward to a long relationship with you. This is because Adams Express is one of our three longest relationships we have since I first visited 11 Charles Street in 1985.

What did you do, Mark, before joining BNP Paribas in Boston? We note that you were Chief Investment Officer there for nine years.

Stoeckle: I had a small hedge fund in Boston. It was a long and short, market neutral fund called 646 Advisors.

SL: Really! How did you get into a hedge fund, and where were you before taking that on?

Stoeckle: Prior to that I was at Liberty Fund, a predecessor to Columbia Funds.

I left Liberty in August 2000 with my partners, Jim Haynie and Mike Rega. Jim and I co-founded the hedge fund with one client which was the Bass family in Fort Worth, Texas, who had a fund of funds.

They were looking for a manager who was different from anything they had before. We started in 2002 with $25 million dollars and got it up to $350 million by the middle of 2002.

If you manage money for the Bass fund of funds, you were not allowed to manage money for anybody else. We had one client who came to us because of what we were doing. They chose not to renew the contract at the end of 2003 so we stayed until May 2004 while we orderly liquidated the portfolio.

SL: So you raised the value of the portfolio from $25 million to $350 in less than two years, a short timeframe?

Stoeckle: Yes, a little less than that, but it was with one family.

SL: That's fantastic. Was that where you got into risk management?

Stoeckle: I will tell you that risk management is more fully appreciated when you are running your own hedge fund with pretty much all of your own money in it.

SL: That is fascinating, and we want to pursue it further.

Now what can you tell us about your investment philosophy and style, and do you think it will differ much from that of Doug Ober?

Stoeckle: My investment philosophy revolves around a couple of beliefs. One is that I believe consistency and discipline can add value.

We are very disciplined in how we do things and will continue to be so. I think that is an important part of what I believe an investment philosophy should be.

Secondly, I believe a very good way to find investment ideas is to use a good quantitative tool that can help you segment the universe and then do traditional fundamental analysis on top of that.

I have always used a model as a tool. It never gives you the answer but can provide you with a good group of stocks to investigate. This is an important part of the philosophy.

Third, I think the best risk/reward is at the stock level. Therefore, portfolios should be managed relatively close to sector neutral.

The fourth part of the philosophy is that risk management is a very important tool and can be an important leg to add alpha. Therefore, risk management is a big part of my philosophy.

SL: There are two ways that you can expand on that, and Erik Bergstrom and I believe one way is to regularly buy-in shares as the other older funds do. It is also important that everyone understands that the purpose of share repurchases is not to narrow the discount as many seem to believe but to benefit the shareholders. Can you relate to any of that conversation?

Stoeckle: I will tell you that what I am talking about relates to securities, so this isn't the place to talk about buying-in shares.

SL: Does this mean that you do not see share repurchases as one component of a risk management tool as Erik and I do?

The fact that you appear to be open-minded about new ideas is good. We and many others, particularly those closed-end funds that have been around for over 44-45 years, do see that share repurchases make sense. This is an important issue for many of your shareholders who own a large number of your shares.

Stoeckle: I don't have an opinion on that right now. I will talk with you about how I view risk management and how I have done that in my career.

SL: Ok, keep talking.

We believe that risk is something different for a manager of a closed-end fund versus one who buys and sells a stock portfolio.

The February 2013 issue of *The Scott Letter* spells it all out in a separate article taken from the annual reports of three other closed-end funds that survived the depression and are strong believers in share repurchases.

Stoeckle: Ok, but to me, risk is to be identified in different places. One aspect of risk management is not taking sector bets. We believe that our edge is in stock selection as opposed to making sector bets. Sector bets are very difficult to consistently do. I have never been able to do that consistently in my career, so we don't. The majority of the risk we take will be at the stock selection level, as opposed to the sector deviation level. We think our edge is at the stock level.

SL: That is an excellent description. Please continue with your experience in using risk control in your portfolio work.

Stoeckle: When I joined Adams, the Fund was close to being sector neutral. I don't know if that is a specific philosophy or if a snapshot of the Fund shows that that's where it happens to be today. You have to remember that I don't have a history at Adams Express.

SL: One of your largest sectors is financials. When you say a "sector bet", does that mean that bank-related companies are a place to be, so we are going to be in "financials"? Are you saying that you are going "sector neutral"?

Stoeckle: No, what I am telling you is that if financials are about 16% of the S&P 500, then we're going to have a weight very similar to that. If banks are about 3% of the S&P 500, we will own about 3% of banks. We will not be significantly over or underweight the weight of the S&P 500 index. My point is that we are going to be close to the weighting at the sector level of the S&P 500.

Our job is to find the right stocks that are in each sector. It is all a part of risk management. The skills it takes to be good at stock selection are not necessarily the same skills needed to be good at making sector bets. It is an important element of risk control. I am not saying it is mutually exclusive, but the theory is that it is very, very difficult for anyone to be consistently right in making sector bets, so we don't do that.

SL: I have been in this business for a long time, but I can't recall being in this kind of discussion before. However, we have had a long interest in risk control, ever since Erik Bergstrom and I did very well by selling warrants short in the early 1970s, covering these shorts at much lower prices.

Stoeckle: Yes, and it is unusual for a manager to admit that they don't make sector bets because managers think it is a God-given right. My skill set is not in assessing whether to be overweighted or underweighted in any specific sector, so we concentrate on where we think we have an edge, which is at the stock level. Our job is to find the stocks within each sector that we think can outperform the sector.

SL: Will you be making a lot of changes in the portfolio sooner rather than later?

Stoeckle: No, we are going to do it reasonably slowly. It will take some time. We want to be thoughtful about the changes we make.

Adams Express is already well run, and the goal here is to take a philosophy and apply it over time to the portfolio. The objective is not to turn it over in a quick period of time. Also, the analysts and portfolio managers are buying into this, and it will take time to get us up to speed. The philosophy is now beginning to permeate what we do.

SL: We heartily agree with that approach. Many of the funds that we talk to tell us that they use a "team" approach. In the February 2013 issue of *The Scott Letter,* we invited David Weaver to join Doug because I wanted to get to know him better. We saw him as a good connector to his team.

In the interview, I was fascinated by what he had to say about technology stocks, particularly about the then largest holding, Apple, as well as other stocks. Do you assign different analysts to a sector, and what is the difference from how it worked before you came aboard?

Stoeckle: Part of the difference is we have put in "sector teams". We have an analyst who is dedicated to each sector and one or two other analysts who are also on that team. When we are buying or selling a stock in a sector, that team gets together to discuss the merits of the idea.

SL: For instance, do you assign different people to a team where they have expertise, such as Nancy Prue, who covers energy?

Stoeckle: Yes, Nancy, Mike and Tyler are on the energy team. In addition, we have five other analysts. When it gets down to making decisions, the analyst will do his/her work and will gather the appropriate amount of information, distributing it to the team for review and discussion. Everybody has a voice, but if there is disagreement, the decision is mine.

SL: Thank you for a good explanation of how it works at Adams Express. We gather from Doug that it had worked about the same way.

Stoeckle: My opinion is that having a sector specialist is very important. I also believe that a good analyst can cover any sector so I like the idea of having other analysts who aren't looking at, for example, technology stocks day-to-day be part of the conversation. I think if we each do the work and voice our opinions, we will have a higher probability of coming out with a good result.

SL: We also agree with that, and I take it that you have had many meetings since you came aboard.

Stoeckle: We have a lot of meetings. We are introducing new concepts to very bright people, and they are able to pick it up quickly, even though it does take some time.

SL: Would you tell me what those concepts are?

Stoeckle: Sure, part of it is how we look at sectors. One of the things I think important is breaking down every sector into winnable subsets. What I mean by that is breaking down the sector into companies of like characteristics, e.g., banks are easy, insurance is easy, software is easy. Rather than the analyst having the job of coming up with 10 or 12 different names within a sector, they are looking at stocks with similarities and choosing among them.

I want to make sure we are making it easier for them to identify good ideas. I want us to have a breakdown in the sector that forces us to look at each of those major areas. That is one of the things that is new here, breaking down the sector into, what we call, "winnable subsets".

SL: That is fascinating and will be the heart of this interview. As you know, we have had a long history with Adams Express. When I first visited, I believe, in 1986, I was told the philosophy had long been "Growth at A Reasonable Price" which is now known as "GARP". Do you have any comments?

Stoeckle: I think the portfolio is kind of "garpy". I don't think that is unfair.

SL: Doug Ober told us many times that this is an issue that is discussed at every Board meeting. His comments have been published in *The Scott Letter.* If any of our readers missed it, they can go to www.scottletter.com.

You will find the Adams Express interview in the January/February 2013 issue. More importantly, we also published reprints from the Annual Reports of General American Investors, Tri-Continental Corp. and Central Securities which clearly state reasons why they continuously repurchase their shares, showing the many benefits to their shareholders. ■

Adams Express announced their first quarter performance for the three months ending March 31, 2013. For the quarter, Adams Express' total return on NAV was 9.7% and on market price was 11.3%. Visit Adams Express Company's web site (www.adamsexpress.com/) to learn more about this firm .

Disclaimer: Clients and family members of Closed-End Fund Advisors hold shares in Adams Express and Petroleum & Resources. The firm will wait 72 hours after the date of this interview's release before making any additional purchases or sales in the Funds.

U.S. Stocks Fall on Consumer Confidence Data

On March 15, 2013, U.S. stocks fell from a 5-year high and Treasuries rose as consumer confidence unexpectedly dropped. The dollar fell to a one-week low against the euro as a report showed U.S. inflation contained.

The Standard & Poor's 500 Index (SPX) lost 0.2% to 1,560.72 after closing within two points of a record yesterday. The Dow Jones Industrial Average dropped for the first time in 11 days. Benchmark 10-year Treasury yields fell four basis points to 1.99%. The dollar depreciated 0.4% to $1.3061 per euro. Natural gas rose to its highest since November on speculation that a late cold blast will boost heating demand.

"When you get such a strong run and couple that with it being at historic levels, buyers are a little more wary of jumping in," Wayne Lin, fund manager at Baltimore-based Legg Mason Inc., said in a phone interview.

The Thompson Reuters/University of Michigan preliminary sentiment index for March fell to 71.8 from 77.6 in February. The gauge was projected to increase to 78, according to the median estimate of 67 economists surveyed by Bloomberg. Industrial production rose more than forecast in February as U.S. factories turned out more business equipment and motor vehicles. Output at factories, mines, and utilities climbed 0.7%, exceeding the median projection in a Bloomberg survey, according to figures from the Federal Reserve. Separate data showed manufacturing in the New York region expanded for a second month in March, and industry managers grew more optimistic about the future.

Federal Reseve policymakers indicated in December that an "exceptionally low" target interest rate is appropriate as long as inflation isn't forecast to rise to more than 2.5% and unemployment stays above 6.5%.

The Fed's record monetary stimulus has compelled central banks from Mexico to Japan to follow suit, said Pacific Investment Management Company's Mohammed El-Erian. Utimately they will be forced – Mexico has been forced, as well as Brazil, Korea and Japan have been forced – into doing exactly the same thing as the Fed.

Mexico's central bank unexpectedly cut its benchmark interest rate last week for the first time since 2009, while Haruhico Kuroda, who has been confirmed as Bank of Japan governor, has pledged to do more to beat inflation.

Fed officials have defended their record easing to global policymakers as emerging markets tackled an influx of capital that has pushed up their currencies. Vice Chairman Janet Yellen said in October that other countries have the tools to manage excess capital flows.

Fed officials are debating the political costs of the easing. Governor Jeremy Stein last month said that some credit markets, including leveraged loans and junk bonds, show signs of potentially excessive risk-taking. Kansas City Fed President Esther George has warned of risks from farm land prices at "historically high levels".

While the costs of the Fed's $85 billion in monthly bond purchases are currently "very isolated" and financial markets are in a "sweet spot," El-Erian said the longer term outlook is "unusually uncertain" with a "major, major fork" awaiting investors. ■

(Source: *The Wall Street Journal*
March 16, 2013 and April 16, 2013

Portfolio Managers' Review

Even though Barron's is still bearish, there are reasons to be optimistic. Let's start with our portfolio leaders, healthcare and real estate funds. In the first quarter, healthcare (mutual) funds led the pack, with closed-end funds not far behind. We saw a first quarter return in the healthcare sector of +15.8% and 24.9% average returns, followed by utilities, energy and real estate funds (+6.9% for the quarter and +14.3% for the last 12 months). Although some of the discounts on the CEFs have narrowed, others are still viable for our value-minded investors.

Healthcare has a place in an equity portfolio as it has always been considered a defensive investment. The sector accounts for about one-sixth of GDP and demand for it is fairly stable. People fall ill in good economic times and bad, and the U.S. population, like those throughout the developed world, is aging.

In March 2013, we added to healthcare funds because of their defensive characteristics going forward. Toward the end of the quarter, the discounts on these funds narrowed so we switched to other healthcare funds that were trading at deeper discounts.

Real estate funds are reflecting the improvement in the housing market which is showing investors that economic growth is starting to reflect that the recession is ending.

We have been holding and adding to both healthcare and real estate funds during the first quarter and will continue to do so in the second quarter of 2013.

We added to our positions in Asia Tigers Fund, since losing some of these shares in the bi-annual tender offer that its manager, Aberdeen Asset Management, has been making. The firm will continue this risk-averse program into July.

Global bond funds have also been doing well, so we added to some of the top performers in this sector to offset the domestic bond funds that are expected to weaken with upcoming rising U.S. interest rates. Our emerging markets equity funds have contracted some, providing us with opportunities to add to positions.

The discount levels on closed-end funds have stayed relatively unchanged during the first quarter of 2013. The most movement we have seen has been with equity fund discounts narrowing from a -9% average to just under -8% since the year began. Municipal bond funds have been dropping from an average of +3% premium to a -1% discount because of market weakness.

We still think retired investors should hold municipal bonds with high credit ratings for their tax benefits. For this reason, it is important for you to actively monitor your dividend coverage and pay attention to duration risk going forward.

We are very active in swapping funds based on relative value or updated financials. We have also published articles on muni-bond funds in the past few months as this is an area where investors could get into trouble if they are not careful.

Dividend cuts have continued during the first quarter across many CEF sectors, but there have also been a good number of dividend increases in the non-municipal sectors. Beware that some equity funds have also given their shareholders dividend increases that are classified as a Return of Capital (ROC).

We are watching and managing carefully for duration risk as we anticipate that many U.S. bond funds will underperform with the increasing interest rates and strength in the equity markets. For this reason, we are focusing our bond fund exposure to global bond funds. ■

George Cole Scott

Disclaimer: The views and opinions herein are as of the date of publication and are subject to change at any time based upon market or other conditions. None of the information contained herein should be constructed as an offer to buy or sell securities or as recommendations. Performance results shown should, under no circumstances, be construed as an indication of future performance. Data, while obtained from sources we believe to be reliable, cannot be guaranteed.

George Cole Scott
Founder and Editor-in-Chief
Portfolio Manager

John Cole Scott
Contributing Author
Portfolio Manager

Leslie Jane Daniels
Copy Editor

Mamie Woo McNeal
Production Editor

The Scott Letter Online
is published by

Closed-End Fund Advisors
Global Investment Counsel
7204 Glen Forest Avenue, Suite 105
Richmond, Virginia 23226
(804) 288-2482
www.CEFAdvisors.com

Currently offering managed portfolios with the following objectives:

International Equity
Globally Diversified Growth
Hybrid Income
Growth & Income
Foundation/Balanced
Conservative Diversified

CLOSED-END FUND
ADVISORS