

The Sizemore Income Letter

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Two New Tax-Free Workhorses

By Charles Lewis Sizemore, CFA



I'm going to keep the text a little shorter than usual because I'm travelling, but I don't think you'll mind if I'm a little less long-winded this month and get right to the point!

I have two new recommendations this month offering tax-free yield at a discount.

If you're an experienced income investor, you probably know I'm referring to closed-end funds (CEFs).

CEFs have been staples in income portfolios for decades. They can be held in virtually any brokerage account or IRA, often sport very attractive yields, and, if timed well, they can also generate solid trading returns.

A closed-end fund is a special type of fund that shares certain things in common with their cousins: traditional open-end mutual funds and exchange-traded funds (ETFs). But there are also critical differences that make CEFs very different from both.

When you invest in an open end mutual fund, you (or your broker) actually sends cash to the fund, which the manager then uses to buy stocks, bonds or other securities. And when you redeem, the mutual fund manager will send you or your broker the cash, even selling securities to free it up if need be.

Exchange-traded funds are different. Investors can buy or sell ETFs exactly as they would any stock. They trade on major stock exchanges.

Unlike mutual funds, you don't actually send the manager money. New ETF shares can be created or destroyed by institutional investors based on market demand. (When shares are created, an institutional investor will essentially buy up the shares of stocks and bonds owned by the ETF, then trade them to the fund for shares of the ETF itself. When shares are destroyed, the institutional investor receives the underlying holdings.)

This creation and destruction of new ETF shares ensures that the ETF's market price never deviates too far from the net asset value (NAV), or the value of the underlying holds.

And this brings us to CEFs.

Like open-end mutual funds and exchange-traded funds, closed-end funds are pooled investment vehicles. You have many investors pooling their assets into a common fund, which is invested by a manager or a team of managers.

Unlike mutual funds—but like exchange-traded funds—closed-end funds trade on a stock exchange. You buy the shares in a brokerage account and never send the manager cash.

Because ETFs and CEFs don't have to meet redemptions like open-end mutual funds, liquidity is less of an issue. They can hold thinly traded or illiquid securities without having to worry about selling them due to a wave of redemptions.

But unlike exchange-traded funds, closed-end funds have no creation or destruction of shares. A CEF actually holds an initial public offering (IPO) when it creates its shares, and that number of shares is fixed. That might sound like a mundane detail, but it's actually one of the most important aspects of CEFs.

Open-end mutual funds are always valued at their net asset value. And with exchange-traded funds, the shares' net asset value will never deviate too much from the market price due to the creation and destruction mechanism. But because CEFs have no such mechanism, the market price of the shares can vary wildly from the net asset value. They can trade at large premiums to net assets or—benefiting us—at deep discounts.

Many closed-end fund investors prefer to buy CEFs when they are trading at deep discounts to net asset value. Why not? It's intuitively appealing to buy that proverbial dollar for 95 cents.

[First Recommendation: Eaton Vance Municipal Income 2028 Term Trust](#)

Let's start with a good tax-free municipal bond CEF, the **Eaton Vance Municipal Income 2028 Term Trust (ETX)**.

ETX is a special type of closed-in fund called a "term fund." This simply means the CEF has a shelf life, and at the end of that life it will liquidate and return its cash to shareholders. ETX intends to cease its investment operations on or about June 30, 2028, giving us a little over four years.

You might be wondering why the fund would choose to liquidate, and the answer is simple. Closed-end funds often trade at discounts to net asset value. That might seem good: After all, value investors buy underappreciated assets, waiting for them to improve in price as other investors realize their worth. But in the absence of a catalyst, discounted CEFs can stay at a discount *forever*.

That's where term funds come into play. Term funds liquidate at net asset value. That means that, as the CEF approaches the end of its term, the discount should naturally close. This gives investors a degree of safety that doesn't exist in traditional closed-end funds.

At current prices, ETX trades at a 5% discount to net asset value. That's not huge by CEF standards, but term funds generally trade at smaller discounts than the CEF average. And at current prices, ETX yields a tax-free 4.2%. If you're in the 32% tax bracket, that's equivalent to a 6.2% taxable yield. Not too shabby, even in this interest-rate environment!

Action to take: Buy the Eaton Vance Municipal Income 2028 Term Trust (ETX) at market. Plan to hold through its term.

[Second Recommendation: BlackRock 2037 Municipal Target Term Trust](#)

Let's take a look at another term fund—one that still has a good 13 years left in it: the **BlackRock 2037 Municipal Target Term Trust (BMN)**.

Target term funds are slightly different than term funds. A term fund simply liquidates at a fixed point in the future. A target term fund liquidates at a fixed point in the future and at a targeted price. BMN's objective is to liquidate on or around Sept. 30, 2037, and return exactly \$25 per share. (For reference, BMN trades at \$23.73 as I write this.)

That \$25 is not guaranteed, of course. And there is no promise the managers will be successful in getting there. But that is their goal, and it's relatively simple to structure a bond portfolio so that it matures on a specific date with a known par value.

At current prices, BMN trades at a large 8.6% discount to net asset value and yields 4.6%. Assuming a 32% tax bracket, that's a 6.8% tax-equivalent yield.

BMN is a relatively new fund, having launched in late October 2022. The timing couldn't have been better, as the fund was building out its portfolio just as long-term yields were hitting multi-year highs. What better time to start than when yields are high and prices are low?

Action to take: Buy the BlackRock 2037 Municipal Target Term Trust (BMN). Plan to hold through the end of its term.

And finally, I do have some bad news to report. My timing in recommending Global Medical REIT (GMRE) left a lot to be desired. We hit our stop after being in the position just two months.

It happens. All we can do is sell and move on to greener pastures. So, please take the following action:

Action to take: Sell your shares of Global Medical REIT (GMRE) at market.

I have nothing else to report today. Enjoy these two new tax-free income beauties!

Until next time, keep cashing those dividend checks!



Charles Lewis Sizemore, CFA

P.S.: Apart from writing this newsletter, I run a full-service wealth management firm along with my colleagues. At **Sizemore Capital Management**, we build income portfolios like those I write about in the *Sizemore Income Letter*. But we also do a lot more than that. We manage a suite of low-volatility strategies offering low correlation to the S&P 500. If you'd like for me to take a look at your portfolio and offer some recommendations, contact me at info@sizemorecapital.com.

The Sizemore Income Letter Portfolio

Stock	Ticker	Entry Date	Buy Price	Recent Price	Stop Loss	Yield	Cumulative Dividends	Total Return	IRA Friendly?	Action
Eaton Vance Municipal Income 2028 Term Trust	ETX	2/29/2024	\$17.91	\$17.91	\$8.92	4.20%	\$ -	0.00%	Yes	Buy
BlackRock 2037 Municipal Target Term Trust	BMN	2/29/2024	\$23.73	\$23.73	\$18.10	4.60%	\$ -	0.00%	Yes	Buy
Global Medical REIT	GMRE	12/29/2023	\$11.39	\$8.76	\$8.92	9.59%	\$ -	-23.09%	Yes	Sell
Essential Properties Realty Trust	EPRT	8/4/2023	\$23.59	\$23.77	\$18.10	4.61%	\$ 0.28	1.95%	Yes	Buy
National Storage Affiliates Trust	NSA	6/30/2023	\$34.82	\$35.52	\$26.98	6.31%	\$ 0.56	3.62%	Yes	Buy
Nintendo Company Ltd	NTDOY	5/26/2023	\$10.69	\$13.77	\$8.34	3.49%	\$ -	28.81%	Yes	Buy
iShares MSCI Brazil ETF	EWZ	12/26/2022	\$28.79	\$33.38	\$20.15	10.52%	\$ 0.76	18.57%	Yes	Buy
Cheniere Energy Partners	CQP	8/4/2022	\$46.49	\$49.34	\$41.42	7.07%	\$ 5.23	17.38%	No	Buy
Citigroup Inc	C	6/23/2022	\$47.34	\$55.05	\$36.00	3.71%	\$ 3.10	22.83%	Yes	Buy
ONEOK, Inc.	OKE	4/28/2022	\$65.50	\$74.37	\$47.91	5.14%	\$ 6.63	23.66%	Yes	Buy
Energy Transfer Partners	ET	12/27/2021	\$8.16	\$14.53	\$8.59	8.53%	\$ 2.11	103.87%	No	Buy
EPR Properties	EPR	11/29/2021	\$47.78	\$41.40	\$33.92	7.97%	\$ 6.78	0.83%	Yes	Buy
Chevron Corporation	CVX	9/30/2021	\$103.33	\$152.34	\$132.62	3.96%	\$ 13.06	60.07%	Yes	Buy
ClearBridge Energy Midstream Opportunity	EMO	5/26/2021	\$21.94	\$36.94	\$20.49	7.04%	\$ 5.05	91.39%	Yes	Buy

The Forever Portfolio

Stock	Ticker	Entry Date	Buy Price	Recent Price	Stop Loss	Yield	Cumulative Dividends	Total Return	IRA Friendly?
Kellanova	K	1/30/2024	\$ 54.79	\$ 56.11	None	3.99%	\$ -	2.41%	Yes
Walmart	WMT	11/15/2023	\$ 56.29	\$ 59.63	None	3.82%	\$ 0.57	6.93%	Yes
Waste Management	WM	11/15/2023	\$ 172.02	\$ 207.18	None	1.35%	\$ 0.70	20.85%	Yes
National Retail Properties	NNN	9/29/2022	\$ 39.07	\$ 40.76	None	5.40%	\$ 2.78	11.44%	Yes
Conagra Brands	CAG	6/23/2022	\$ 32.47	\$ 28.13	None	4.69%	\$ 2.02	-7.15%	Yes
The Clorox Company	CLX	6/23/2022	\$ 132.28	\$ 153.48	None	3.08%	\$ 7.12	21.41%	Yes
Campbell Soup Company	CPB	6/23/2022	\$ 47.04	\$ 42.15	None	3.51%	\$ 2.22	-5.67%	Yes
Flowers Foods	FLO	6/23/2022	\$ 24.97	\$ 22.71	None	3.87%	\$ 1.35	-3.63%	Yes
General Mills	GIS	6/23/2022	\$ 67.90	\$ 64.30	None	3.36%	\$ 3.34	-0.38%	Yes
J.M. Smucker Company	SJM	6/23/2022	\$ 123.83	\$ 121.81	None	3.35%	\$ 6.20	3.38%	Yes
Target Corporation	TGT	6/23/2022	\$ 141.08	\$ 151.44	None	2.85%	\$ 6.52	11.96%	Yes
Coca-Cola Company	KO	4/27/2022	\$ 65.56	\$ 60.40	None	2.91%	\$ 3.60	-2.38%	Yes
Prologis	PLD	10/29/2021	\$ 146.67	\$ 133.99	None	2.36%	\$ 6.40	-4.28%	Yes
Crown Castle International	CCI	10/29/2021	\$ 181.90	\$ 108.57	None	5.42%	\$ 12.14	-33.64%	Yes
Philip Morris International	PM	3/30/2021	\$ 89.35	\$ 90.42	None	5.62%	\$ 11.33	13.88%	Yes
Altria Group	MO	3/19/2020	\$ 37.10	\$ 40.99	None	9.17%	\$ 13.46	46.75%	Yes
Realty Income	O	3/19/2020	\$ 48.08	\$ 52.02	None	5.90%	\$ 10.96	30.98%	Yes
AT&T	T	3/19/2020	\$ 23.69	\$ 16.96	None	6.54%	\$ 6.63	-0.44%	Yes
Enterprise Products Partners	EPD	3/19/2020	\$ 14.52	\$ 27.39	None	7.30%	\$ 7.00	136.81%	No
Kinder Morgan	KMI	3/19/2020	\$ 11.20	\$ 17.15	None	6.59%	\$ 4.09	89.67%	Yes
Ventas	VTR	3/19/2020	\$ 19.98	\$ 42.48	None	4.24%	\$ 7.09	148.11%	Yes
Public Storage	PSA	3/19/2020	\$ 187.60	\$ 280.29	None	2.85%	\$ 47.15	74.54%	Yes
International Paper	IP	3/19/2020	\$ 30.13	\$ 34.63	None	5.34%	\$ 7.08	38.44%	Yes
STAG Industrial	STAG	3/19/2020	\$ 21.71	\$ 37.12	None	3.93%	\$ 5.46	96.14%	Yes
Retail Opportunity Investments	ROIC	3/19/2020	\$ 7.25	\$ 12.87	None	4.66%	\$ 1.72	101.24%	Yes

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