

## Paying a Premium to Take on More Risk

- ✘ Would you willingly pay \$1.25 for something worth \$1.00? This is not a trick question. The data showing the current price and the actual value is clearly stated and easily accessible. Knowing this, would you pay \$1.25 for something worth \$1.00?

In a world operating in accordance with the efficient market hypothesis (EMH), such price discrepancies could not exist. If they did appear, they would quickly be corrected. Potential buyers would walk away from the overpriced asset rather than opening their wallets. Potential sellers would lower their asking price until they could find someone to trade with.

$$\begin{array}{c} \boxed{\text{PREMIUM TO NAV}} \\ + \\ \boxed{\text{USE OF LEVERAGE}} \\ = \\ \boxed{\text{MUCH MORE RISK}} \end{array}$$

In reality, the markets are not fully efficient and some investors do willingly pay a significant premium. We see examples of this occurring in the closed-end fund space. As of Wednesday's close, the PIMCO Strategic Income Fund (**RCS**), PIMCO Global StocksPLUS & Income Fund (**PGP**), PIMCO Corporate & Income Opportunity Fund (**PTY**) and the PIMCO High Income Fund (**PHK**) were trading at premiums of approximately 25% or more relative to their net asset value (NAV). Put another way, buyers of these funds are paying \$1.25 or more for each \$1 worth of assets.

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## More on AII.com

- [Offbeat Offerings: Closed-End Funds](#) - A primer on investing in closed-end funds.
  - [Seeking Tax-Free Income From Closed-End Funds](#) - The guidance on what to look for given in this 2011 *AII Journal* article remains very valid today even though the data is outdated.
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## Highlights from this month's *AII Journal*

- [Micro-Cap Stocks Outperform, Often in Consecutive Years](#) - Micro-cap stock returns tend to be streaky, often showing outperformance for two or more years at a time.
  - [What Studies Say About How Oil Affects Stock Prices](#) - An analysis of more than 100 studies led to three conclusions, and some criticisms.
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## AII Sentiment Survey

Optimism pulled back after having reached a 13-week high last week. [More about this week's results.](#)

### **This week's results:**

- Bullish: 35.0%, down 3.5 points
- Neutral: 38.6%, up 2.4 points

- Bearish: 26.4%, up 1.2 points

### Historical averages:

- Bullish: 38.5%
- Neutral: 31.0%
- Bearish: 30.5%

View the [Sentiment Survey](#).

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### What's Trending on AAI

1. [The Impact of Saving Versus Return on Wealth](#)
  2. [Stocks: An Underappreciated Asset Class in Retiree Portfolios](#)
  3. [Key Questions About When to Retire](#)
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### The Week Ahead

Just four S&P 500 members are scheduled to report: Brown-Forman Corp. (**BF.B**) on Wednesday and Broadcom Inc. (**AVGO**), Cooper Companies Inc. (**COO**) and J.M. Smucker Co. (**SJM**) on Thursday.

The week's first economic report will be April factory orders, released on Monday. Tuesday will feature the Institute for Supply Management's (ISM) May non-manufacturing Index and the April JOLTS report. April international trade and revised first-quarter productivity will be released on Wednesday.

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### Local Chapter Meetings

AAII Local Chapter Meetings offer you a variety of presentations from expert speakers who will give you their view on the world of investing. A bonus of attending a Chapter Meeting near you is the

opportunity to meet other AAI members who share your interest and enthusiasm for investing. You can even share the Chapter experience with your family and friends by inviting them to attend Chapter Meetings with you!

[Upcoming Meetings »](#)