ESSAYS ON CLOSED-END FUNDS:
INTERNAL VERSUS EXTERNAL MANAGEMENT AND INSIDER TRADING

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ABSTRACT

This dissertation examines two aspects of closed-end funds (CEF). First, a limited number of these funds maintain the historical management structure of internally allocating resources to investments as opposed to hiring an advisor external to the fund to position and administer the fund. Many in the managed fund universe, such as George Clark, claim shareholders are paying an onerous performance burden by investing in funds with the external management model. While I do find the internally managed funds exhibit significantly lower expense ratios than their externally managed peers, I do not find that these lower expenses translate to lesser discounts from NAV nor do they result in any superior performance except in the longest of horizons. I conclude that claims of an onerous tax inherent in the external management model to be erroneous.

Second, a portion of trading profit from insider trading has been ascribed to an omniscience of firm prospects. Due to a known portfolio of assets and little proprietary knowledge, closed-end funds provide a very stable environment in which to examine insider trading. While I do find significant insider trading relative to the fund's discount, I do not find this to be evidence of any omniscience, but merely a trading strategy based on the mean-reverting nature of the fund discount. This is a trading strategy available to all investors, not merely the insiders. I conclude that some aspects of insider trading regulation and governance reform in the managed fund arena may be overly onerous.