Closed end funds are mutual funds, with a fixed number of shares. Unlike regular mutual funds, where the shares have to trade at net asset value (which is the value of the securities in the fund), closed end funds shares can and often do trade at prices which are different from the net asset value.

The average closed end fund has always traded at a discount on net asset value (of between 10 and 20%) in the United States.
Closed End Funds: Price and NAV

Closed End Equity Funds: December 31, 1997

Number of Funds

Premium or Discount on NAV

Discount > 25%
Discount: 20-25%
Discount: 15-20%
Discount: 10-15%
Discount: 5-10%
Discount: 0-5%
Premium: 5-10%
Premium: 10-15%
Premium: 15-20%
Premium: > 20%
Premium > 30%

A Simple Explanation for the Closed End Discount

Assume that you have a closed-end fund that invests in ‘average risk” stocks. Assume also that you expect the market (average risk investments) to make 11.5% annually over the long term. If the closed end fund underperforms the market by 0.50%, estimate the discount on the fund.
Some closed end funds trade at a premium on net asset value. For instance, the Thai closed end funds were trading at a premium of roughly 40% on net asset value and the Indonesian fund at a premium of 80%+ on NAV on December 31, 1997. Why might an investor be willing to pay a premium over the value of the marketable securities in the fund?
Berkshire Hathaway

![Graph showing Value Per Share and Premium over Book Value from 1987 to 1997. The graph illustrates the increase in Value Per Share and the premium over book value over the years.]