

# Comstock Capital Value Fund

## Shareholder Commentary

October 31, 2018

### **To Our Shareholders,**

For the quarter ended October 31, 2018, the net asset value (“NAV”) per Class A Share of the Comstock Capital Value Fund increased 7.3% compared with a decrease of 3.3% for the Standard & Poor’s (“S&P”) 500 Index. Other classes of shares are available. See page 2 for performance information for all classes.

The management of Comstock Capital Value Fund continues to view the prospects for the U.S. equity market as negative, as we have for a considerable amount of time.

We ask that you read what follows with this in mind: In our opinion, the Federal Reserve and the other major central banks of the world conducted a gigantic and radical experiment in order to save the world financial system after the bursting of the “Housing Bubble” in late 2008. While it worked in the near term, it went on for far too long. Interest rates, the most important price in a capitalist economy, were determined by central bank fiat, rather than the free market. This has resulted in mal-investment that will become evident when interest rates return to normal and loans are refinanced. The Federal Reserve balance sheet went from approximately \$800 billion to \$4.5 trillion, and now stands at \$4.2 trillion. In Europe and Japan, interest rates were (and still are) negative, with similar central bank balance sheet effects.

The point of all of this is for you, the reader, to understand that no matter what anyone tells you, or points to, as to what happened in the past to economies and markets, this is a “new ball game.” We are in “uncharted waters.” Our opinion is that for the experiment to work, and for the central banks to be able to wind down their balance sheets with no negative effect to economies and markets, means that there is/was such a thing as a free lunch, to use an old cliché. That’s because financial assets were inflated, and thus wealth was created, out of thin air. We don’t believe it can work that way without negative consequences. And we have managed portfolio exposures with those views in mind.

We are at the same time both astounded and encouraged (as it pertains to our thesis) by what we see coming out of the financial media on the recent market action. Most of the media commentary and interviews with professionals that we have observed seem centered on the same “buy the dip” mentality that has been pervasive for the last several years. We believe that mentality will prove to be dead wrong. The seeds of the future problems that have been sown by the Federal Reserve and the other major central banks of the world will not be corrected, in our view, in a matter of a few weeks or months.

## Average Annual Total Returns For the Periods Ended October 31, 2018<sup>†</sup>

Comstock Capital Value Fund	Three Months	One Year	Five Years	Ten Years	Fifteen Years	Since 4/28/87(a)	Since Fund's Inception (10/10/85)
<b>Class A (DRCVX)</b>							
Without sales charge .....	7.27%	(5.98)%	(14.41)%	(17.04)%	(11.71)%	(6.53)%	(4.92)%
With sales charge (b) .....	1.10	(11.39)	(15.41)	(17.53)	(12.06)	(6.69)	(5.07)
<b>Class AAA (COMVX) .....</b>	7.24	(5.78)	(14.34)	(17.01)	(11.68)	2.46	1.95
<b>Class C (CPCCX)</b>							
Without contingent deferred sales charge.....	7.14	(6.67)	(15.06)	(17.65)	(12.36)	(7.07)	(5.44)
With contingent deferred sales charge (c) ....	6.14	(7.60)	(15.06)	(17.65)	(12.36)	(7.07)	(5.44)
<b>Class I (CPCRX) .....</b>	7.28	(5.65)	(14.08)	(16.82)	(11.47)	(6.33)	(4.72)
S&P 500 Index .....	(3.25)	7.35	11.34	13.24	8.74	9.80(d)	10.25(e)

**In the current prospectuses dated August 28, 2018, the expense ratios for Comstock Capital Value Fund Class AAA, A, C, and I Shares are 2.75%, 2.75%, 3.50%, and 2.50%, respectively. Class AAA and Class I Shares have no sales charge. The maximum sales charge for Class A Shares and Class C Shares is 5.75% and 1.00%, respectively.**

<sup>†</sup> Returns represent past performance and do not guarantee future results. Total returns and average annual returns reflect changes in share price, reinvestment of distributions, and are net of expenses. Investment returns and the principal value of an investment will fluctuate. When shares are redeemed, they may be worth more or less than their original cost. Current performance may be lower or higher than the performance data presented. Visit [www.gabelli.com](http://www.gabelli.com) for performance information as of the most recent month end. Returns would have been lower had Gabelli Funds, LLC, the Adviser not reimbursed certain expenses of the Fund for periods prior to October 31, 2002. The Fund imposes a 2% redemption fee on shares sold or exchanged within seven days of purchase. Performance returns for periods of less than one year are not annualized. Investors should carefully consider the investment objectives, risks, sales charges, and expenses of the Fund before investing. The prospectuses contain information about these and other matters and should be read carefully before investing. To obtain a prospectus, please visit our website at [www.gabelli.com](http://www.gabelli.com). The Comstock Capital Value Fund utilizes short selling and derivatives. Short selling of securities and the use of derivatives pose special risks and may not be suitable for certain investors. Short selling is a sale of a borrowed security and losses are realized if the price of the security increases between the date the security is sold and the date the Fund replaces it. Derivatives may be riskier than other types of investments because they may respond more to changes in economic conditions than other investments. The Class A Share NAVs are used to calculate performance for the periods prior to the issuance of Class AAA Shares on December 8, 2008, and Class C Shares and Class I Shares on August 22, 1995. The actual performance of the Class C Shares would have been lower and the Class AAA Shares and Class I Shares would have been higher due to the expenses associated with the Class A Shares. The S&P 500 Index is a market capitalization weighted index of 500 large capitalization stocks commonly used to represent the U.S. equity market. Dividends are considered reinvested. You cannot invest directly in an index.

(a) On April 28, 1987, Comstock Partners, Inc., the Comstock Capital Value Fund's previous investment adviser assumed investment responsibilities and the Fund changed its investment objective to the current investment objective.

(b) Performance results include the effect of the maximum 5.75% sales charge at the beginning of the period.

(c) Assuming payment of the 1% maximum contingent deferred sales charge imposed on redemptions made within one year of purchase.

(d) Since April 30, 1987, the date closest to the Fund's current investment objective inception date for which data is available.

(e) Since September 30, 1985, the date closest to the Fund's inception date for which data is available.

We, and others, have used the term “Central Bank Bubble” to describe the state of the financial markets. It is because of the effects of the aforementioned “Central Bank Bubble” that we believe this is the beginning of the bear market that we have been looking for, rather than a dip that should be bought.

These are some of the key items that are determinate of our outlook:

- 1) The transition from QE (Quantitative Easing) to QT (Quantitative Tightening) continues apace for the Fed. This means in the fourth quarter of 2018, the Federal Reserve will be reducing its balance sheet by \$50 billion per month. While the ECB (European Central Bank) and BOJ (Bank of Japan) are holding steady and increasing their respective balance sheets at a reduced pace, it is only a matter of time before the major central banks of the free world are all in sync. If the market is anything, it is a discounting mechanism. We believe the U.S. stock market is seeing forward to that time and undergoing a repricing.
- 2) The Trump tax cut and repatriation of monies U.S. companies were keeping overseas did result in a bump for the economy. However, we believe this will be a mostly temporary phenomenon that will be offset by the effect of the increased federal debt level. The federal deficit for 2018 is projected by the non-partisan Congressional Budget Office to be \$808bn, up from \$665bn in fiscal 2017. It projects that number will be \$973bn in fiscal 2019 and over \$1tn in fiscal 2020. In addition the federal debt held by the public is projected to steadily rise to 96% of GDP by 2028, the highest since WWII. If tax increases and spending cuts do not occur, the CBO projects the debt held by the public will reach 108% of GDP by 2028. Keep in mind, total federal debt currently is over \$21tn, around 100% of GDP. The difference in the numbers is the Fed balance sheet. As we have said many times, the servicing of debt diverts resources from other potential uses. In addition, given the high and growing debt level, the exposure to interest rates is enormous. That alone could become a major factor in the ability of the government to fund projects. No one can say for sure how this will all work itself out, but it is certain that high debt and deficits are not good in the long run for economic growth.
- 3) The second largest economy in the world, China, is in a credit bubble that relative to the size of its economy is the largest in history. Economic growth (if it can be believed) has begun to slow and the Shanghai Composite Index is already down nearly 28% from its high earlier in the year. Add to that the tariffs being imposed by President Trump and it's hard to see how this will not result in continued pain for China, and the rest of the world. The potential deleterious effects of China's excesses are enormous. This is also a case of “uncharted waters.” The world hasn't seen anything like this before.
- 4) Share buybacks that take place at inflated prices are, in the long run, not in the interest of shareholders; and we do expect increased buyback activity in the near term. The financial media has been stating how stock buybacks will pick up in volume as we pass the peak in earnings season and companies come out of blackout periods, when they are restricted from all but pre-announced, non- discretionary buyback

activity. We don't doubt that is the case and would also point out that the previous two quarters have seen record buyback activity. There is also no doubt that most companies fit the description of "price insensitive buyer." In fact the last time that buyback activity was at a similar cyclical high was in 2007, nearly coincident with the 2007 market top. Buyback activity then bottomed around the time of the 2009 market low. That's as "price insensitive" as it gets! To illustrate what can go wrong, especially when a buyback is financed with debt, in early 2016, an energy company that was repurchasing stock aggressively a few years before at \$60-\$80 per share, was forced to sell about \$2 billion in stock at \$16 per share when oil went down substantially. It diluted its equity considerably, and even with the recovery in oil prices, its stock has not remotely approached the highs of the period preceding its collapse. The point of this is that in the long run buybacks are only as good as the investment decision to do a buyback in the first place. If the buyback is the best use of the company's money, so be it. But we fear that many buyback decisions are heavily influenced by the personal compensation metrics of the executives making the decision on the timing and amount of the buyback. We expect there will be a time in the future, as the bear market we expect accelerates to the down side, that investors will become very upset as it becomes apparent how much of their equity was paid as compensation to the very executives that were making buyback decisions that ultimately lost money.

We would like to thank our investors for their loyalty during what has been a very difficult period for those of us that manage assets and are in the contrarian/bearish camp. We are hopeful that this is the start of the bear market we have been anticipating, and that our investors will be in a position to benefit greatly.

November 27, 2018

**Note:** The views expressed in this Shareholder Commentary reflect those of the Portfolio Managers only through the end of the period stated in this Shareholder Commentary. The Portfolio Managers' views are subject to change at any time based on market and other conditions. The information in this Portfolio Managers' Shareholder Commentary represents the opinions of the individual Portfolio Managers and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Views expressed are those of the Portfolio Managers and may differ from those of other portfolio managers or of the Firm as a whole. This Shareholder Commentary does not constitute an offer of any transaction in any securities. Any recommendation contained herein may not be suitable for all investors. Information contained in this Shareholder Commentary has been obtained from sources we believe to be reliable, but cannot be guaranteed.

**[www.gabelli.com](http://www.gabelli.com)**

Please visit us on the Internet. Our homepage at [www.gabelli.com](http://www.gabelli.com) contains information about GAMCO Investors, Inc., the Gabelli/GAMCO Mutual Funds, IRAs, 401(k)s, current and historical quarterly reports, closing prices, and other current news. We welcome your comments and questions via e-mail at [info@gabelli.com](mailto:info@gabelli.com).

You may sign up for our e-mail alerts at [www.gabelli.com](http://www.gabelli.com) and receive early notice of quarterly report availability, news events, media sightings, and mutual fund prices and performance.

The Fund's daily net asset value ("NAV") is available in the financial press and each evening after 7:00 PM (Eastern Time) by calling 800-GABELLI (800-422-3554). Please call us during the business day, between 8:00 AM – 7:00 PM (Eastern Time), for further information.

### **e-delivery**

We are pleased to offer electronic delivery of Gabelli fund documents. Direct shareholders of our mutual funds can elect to receive their Annual and Semiannual Reports, Manager Commentaries, and Prospectuses via e-delivery. For more information or to sign up for e-delivery, please visit our website at [www.gabelli.com](http://www.gabelli.com).

### **Multi-Class Shares**

Class AAA Shares are no-load shares offered directly through selected broker/dealers. Class A and Class C Shares are targeted to the needs of investors who seek advice through financial consultants. Class I Shares are available directly through the Fund's distributor or brokers that have entered into selling agreements specifically with respect to Class I Shares. The Board of Directors determined that expanding the types of Fund shares available through various distribution options would enhance the ability of the Fund to attract additional investors.

We have separated the portfolio managers' commentary from the financial statements and investment portfolio due to corporate governance regulations stipulated by the Sarbanes-Oxley Act of 2002. We have done this to ensure that the content of the portfolio managers' commentary is unrestricted. The financial statements and investment portfolio are mailed separately from the commentary. Both the commentary and the financial statements, including the portfolio of investments, will be available on our website at [www.gabelli.com](http://www.gabelli.com).

## Gabelli/GAMCO Funds and Your Personal Privacy

---

### **Who are we?**

The Gabelli/GAMCO Funds are investment companies registered with the Securities and Exchange Commission under the Investment Company Act of 1940. We are managed by Gabelli Funds, LLC, which is affiliated with GAMCO Investors, Inc. GAMCO Investors, Inc. is a publicly held company that has subsidiaries and affiliates that provide investment advisory services for a variety of clients.

### **What kind of non-public information do we collect about you if you become a fund shareholder?**

If you apply to open an account directly with us, you will be giving us some non-public information about yourself. The non-public information we collect about you is:

- *Information you give us on your application form.* This could include your name, address, telephone number, social security number, bank account number, and other information.
- *Information about your transactions with us, any transactions with our affiliates, and transactions with the entities we hire to provide services to you.* This would include information about the shares that you buy or redeem. If we hire someone else to provide services—like a transfer agent—we will also have information about the transactions that you conduct through them.

### **What information do we disclose and to whom do we disclose it?**

We do not disclose any non-public personal information about our customers or former customers to anyone other than our affiliates, our service providers who need to know such information, and as otherwise permitted by law. If you want to find out what the law permits, you can read the privacy rules adopted by the Securities and Exchange Commission. They are in volume 17 of the Code of Federal Regulations, Part 248. The Commission often posts information about its regulations on its website, [www.sec.gov](http://www.sec.gov).

### **What do we do to protect your personal information?**

We restrict access to non-public personal information about you to the people who need to know that information in order to provide services to you or the fund and to ensure that we are complying with the laws governing the securities business. We maintain physical, electronic, and procedural safeguards to keep your personal information confidential.

**GABELLI COMSTOCK CAPITAL VALUE FUND**  
**One Corporate Center**  
**Rye, NY 10580-1422**

**Portfolio Management Team Biographies**

**Charles L. Minter** joined Gabelli Funds, LLC in 2000, when the management of the Gabelli Comstock Capital Value Fund was assumed by Gabelli Funds, LLC. Mr. Minter is currently a Director of the Fund and Co-Portfolio Manager.

Mr. Minter was one of the founders of Comstock Partners, Inc. which was formed in 1986. Prior to forming Comstock Partners, Inc., Mr. Minter worked for Merrill Lynch in Institutional Sales as a Vice President from 1976 - 1986. Mr. Minter received an M.B.A. degree with distinction from New York University's Graduate School of Business and a B.S. degree from Florida State University.

**Dennis J. DeCore** joined Gabelli Funds, LLC in 2014 as Co-Portfolio Manager of the Fund. Mr. DeCore has more than forty years of experience in the brokerage business. Prior to joining Gabelli Funds, he held positions at Merrill Lynch and Nomura Securities. Mr. DeCore received a B.S. degree in Finance and Economics from Rider University and an M.B.A. degree in Finance from New York University.

## COMSTOCK CAPITAL VALUE FUND

One Corporate Center  
Rye, NY 10580-1422

t 800-GABELLI (800-422-3554)  
f 914-921-5118  
e [info@gabelli.com](mailto:info@gabelli.com)  
[GABELLI.COM](http://GABELLI.COM)

Net Asset Value per share available daily  
by calling 800-GABELLI after 7:00 P.M.

---

### BOARD OF DIRECTORS

Anthony S. Colavita  
Attorney,  
Anthony S. Colavita, P.C.  
Vincent D. Enright  
Former Senior Vice President  
and Chief Financial Officer,  
KeySpan Corp.  
Charles L. Minter  
Former Chairman and  
Chief Executive Officer,  
Comstock Partners, Inc.  
Anthony R. Pustorino  
Certified Public Accountant,  
Professor Emeritus,  
Pace University  
Werner J. Roeder  
Former Medical Director,  
Lawrence Hospital  
Henry G. Van der Eb, CFA  
Senior Vice President,  
GAMCO Investors, Inc.

### OFFICERS AND PORTFOLIO MANAGERS

Bruce N. Alpert  
Executive Vice President  
John C. Ball  
Treasurer  
Andrea R. Mango  
Secretary  
Agnes Mullady  
Vice President  
Richard J. Walz  
Chief Compliance Officer

### DISTRIBUTOR

G.distributors, LLC

### TRANSFER AGENT AND DIVIDEND DISBURSING AGENT

DST Asset Manager Solutions, Inc.

### LEGAL COUNSEL

Paul Hastings LLP

---

This report is submitted for the general information of the shareholders of the Comstock Capital Value Fund. It is not authorized for distribution to prospective investors unless preceded or accompanied by an effective prospectus.

---



GABELLI  
FUNDS

# COMSTOCK CAPITAL VALUE FUND

*Shareholder Commentary*  
*October 31, 2018*