

GABELLI EQUITY TRUST INC  
Form POS 8C  
May 20, 2013

As filed with the Securities and Exchange Commission on May 20, 2013

Securities Act File No. 333-173819

Investment Company Act File No. 811-04700

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM N-2**

(Check Appropriate Box or Boxes)

**Registration Statement**

*under*

*the Securities Act of 1933*

**Pre-Effective Amendment No.**

**Post-Effective Amendment No. 6**

*and/or*

**Registration Statement**

*under*

*the Investment Company Act of 1940*

x **Amendment No. 53**

# **THE GABELLI EQUITY TRUST INC.**

(Exact Name of Registrant as Specified in Charter)

**One Corporate Center, Rye, New York 10580-1422**

(Address of Principal Executive Offices)

**Registrant's Telephone Number, Including Area Code: (800) 422-3554**

**Bruce N. Alpert**

**The Gabelli Equity Trust Inc.**

**One Corporate Center**

**Rye, New York 10580-1422**

**(914) 921-5100**

(Name and Address of Agent for Service)

*Copies to:*

**David M. Goldman, Esq.  
The Gabelli Equity Trust Inc.**

**One Corporate Center**

**Rye, New York 10580-1422**

**(914) 921-5100**

**Rose F. DiMartino, Esq.  
Willkie Farr & Gallagher LLP**

**787 Seventh Avenue**

**New York, New York 10019**

**(212) 728-8000**

Approximate date of proposed public offering: From time to time after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, as amended, other than securities offered in connection with a dividend reinvestment plan, check the following box. x

It is proposed that this filing will become effective (check appropriate box)

## Edgar Filing: GABELLI EQUITY TRUST INC - Form POS 8C

x When declared effective pursuant to section 8(c).

If appropriate, check the following box:

This [post-effective] amendment designates a new effective date for a previously filed [post-effective amendment] [registration statement].

This form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration number of the earlier effective registration statement for the same offering is .

### CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities	Amount Being Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee
Common Stock (2)	∞ Shares	\$∞	\$∞	\$∞
Preferred Stock (2)	∞ Shares	\$∞	\$∞	\$∞
Total	∞ Shares	\$∞	\$500,000,000(3)	\$58,050(4)

- (1) Estimated pursuant to Rule 457 solely for the purpose of determining the registration fee. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement.
- (2) Subject to Note 3 below, there is being registered hereunder an indeterminate principal amount of common stock or preferred stock as may be sold, from time to time, including subscription rights to purchase common stock or preferred stock.
- (3) In no event will the aggregate offering price of all securities offered from time to time pursuant to this Registration Statement exceed \$500 million.
- (4) Previously paid in connection with the filing of the initial registration statement for these securities on April 29, 2011 (including an unused registration fee that was previously paid in connection with the filing of a registration statement for the Registrant on October 11, 2007).

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

**The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the Registration Statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**Subject to Completion,**

**Preliminary Base Prospectus dated May 20, 2013**

**PRELIMINARY PROSPECTUS**

**\$500,000,000**

**The Gabelli Equity Trust Inc.**

**Common Stock**

**Preferred Stock**

**Subscription Rights to Purchase Common Stock**

**Subscription Rights to Purchase Preferred Stock**

*Investment Objectives.* The Gabelli Equity Trust Inc. (the Fund) is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund's primary investment objective is to achieve long-term growth of capital by investing primarily in a portfolio of equity securities consisting of common stock, preferred stock, convertible or exchangeable securities, and warrants and rights to purchase such securities. Income is a secondary investment objective. Gabelli Funds, LLC (the Investment Adviser) serves as investment adviser to the Fund. Under normal market conditions, the Fund will invest at least 80% of the value of its total assets in equity securities. The Fund was organized as a Maryland corporation on May 20, 1986 and commenced its investment operations on August 21, 1986. An investment in the Fund is not appropriate for all investors. We cannot assure you that the Fund's objectives will be achieved.

We may offer, from time to time, in one or more offerings, shares of our common stock or preferred stock, each having a par value of \$0.001 per share, or our subscription rights to purchase our common stock or preferred stock. Shares may be offered at prices and on terms to be set forth in one or more supplements to this Prospectus (each a Prospectus Supplement). You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our shares.

Our shares may be offered directly to one or more purchasers, including existing stockholders in a rights offering, through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents or underwriters involved in the sale of our shares, and will set forth any applicable purchase price, fee, commission, or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. The Prospectus Supplement relating to any sale of shares of preferred stock will set forth the liquidation preference and information about the dividend period, dividend rate, any call protection or non-call period, and other matters. The Prospectus Supplement relating to any offering of subscription rights will set forth the number of shares (preferred or common) issuable upon the exercise of each right (or number of rights) and the other terms of such rights offering. We may not sell any of our securities through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering. Shares of our common stock are listed on the New York Stock Exchange (NYSE) under the symbol GAB. Currently, the Fund's Series D Cumulative Preferred Stock, Series G Cumulative Preferred Stock and Series H Cumulative Preferred Stock are listed on the NYSE under the symbol GAB PrD, GAB PrG and GAB PrH, respectively. Any future series of fixed rate preferred shares would also likely be listed on a stock exchange. On May 17, 2013, the last reported NYSE sale price of shares of our common stock was \$6.99 per share. The net asset value of shares of the Fund's common stock at the close of business on May 17, 2013 was \$6.71 per share.

**Shares of closed-end funds often trade at a discount from net asset value. This creates a risk of loss for an investor purchasing shares in a public offering.**

**Investing in the Fund's shares involves risks. See Risk Factors and Special Considerations on page 19 for factors that should be considered before investing in shares of the Fund.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

This Prospectus may not be used to consummate sales of shares by us through agents, underwriters, or dealers unless accompanied by a Prospectus Supplement.

This Prospectus sets forth concisely the information about the Fund that a prospective investor should know before investing. You should read this Prospectus, which contains important information about the Fund, before deciding whether to invest in the shares, and retain it for future reference. A Statement of Additional Information, dated May 20, 2013, containing additional information about the Fund, has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this Prospectus. You may request a free copy of our annual and semi-annual reports, request a free copy of the Statement of Additional Information, the table of contents of which is on page 54 of this Prospectus, request other information about us and make shareholder inquiries by calling (800) GABELLI (422-3554) or by writing to the Fund, or obtain a copy (and other information regarding the Fund) from the Securities and Exchange Commission's web site (<http://www.sec.gov>).

Our shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

**You should rely only on the information contained or incorporated by reference in this Prospectus. The Fund has not authorized anyone to provide you with different information. The Fund is not making an offer to sell these securities in any state where the offer or sale is not permitted. You should not assume that the information contained in this Prospectus is accurate as of any date other than the date of this Prospectus.**

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## PROSPECTUS SUMMARY

*This is only a summary. This summary may not contain all of the information that you should consider before investing in our shares. You should review the more detailed information contained in this Prospectus and the Statement of Additional Information, dated May 20, 2013 (the SAI).*

### The Fund

The Gabelli Equity Trust Inc. is a closed-end, non-diversified management investment company organized as a Maryland corporation on May 20, 1986. Throughout this Prospectus, we refer to The Gabelli Equity Trust Inc. as the Fund or as we. See The Fund.

The Fund's outstanding shares of common stock, par value \$0.001 per share, are listed on the New York Stock Exchange under the symbol GAB. As of December 31, 2012, the net assets of the Fund attributable to its common stock were \$1,050,451,060. As of December 31, 2012, the Fund had outstanding 187,715,980 shares of common stock; 2,880 shares of Series C Auction Rate Cumulative Preferred Stock, liquidation preference \$25,000 per share (the Series C Auction Rate Preferred); 2,363,860 shares of 5.875% Series D Cumulative Preferred Stock, liquidation preference \$25 per share (the Series D Preferred); 1,120 shares of Series E Auction Rate Cumulative Preferred Stock, liquidation preference \$25,000 per share (the Series E Auction Rate Preferred); 2,816,524 shares of Series G Cumulative Preferred Stock, liquidation preference \$25 per share (the Series G Preferred); and 4,200,000 shares of 5.00% Series H Cumulative Preferred Stock, liquidation preference \$25 per share (the Series H Preferred). The Fund completed its redemption of its 7.25% Tax Advantaged Cumulative Preferred Stock (the Series A Preferred), its 7.20% Tax Advantaged Series B Cumulative Preferred Stock (the Series B Preferred) and its 6.20% Series F Cumulative Preferred Stock (the Series F Preferred) on June 17, 2003, January 8, 2007 and November 8, 2012, respectively. The Series C Auction Rate Preferred, Series D Preferred, Series E Auction Rate Preferred, Series G Preferred and Series H Preferred have the same seniority with respect to distributions and liquidation preference.

### The Offering

We may offer, from time to time, in one or more offerings, our common stock, \$0.001 par value per share and our preferred stock, \$0.001 par value per share. The shares may be offered at prices and on terms to be set forth in one or more supplements to this Prospectus (each Prospectus Supplement). We may also offer subscription rights to purchase our common stock or preferred stock. The offering price per share of our common stock will not be less than the net asset value per share of our common stock at the time we make the offering, exclusive of any underwriting commissions or discounts, provided that transferable rights offerings that meet certain conditions may be offered at a price below the then current net asset value. See Rights Offerings. You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our shares. Our shares may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents, underwriters or dealers involved in the sale of our shares, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. The Prospectus Supplement relating to any sale of preferred stock will set forth the liquidation preference and information about the dividend period, dividend rate, any call protection or non-call period and other matters. The Prospectus Supplement relating to any offering of subscription rights will set forth the number of shares (preferred or common) issuable upon the exercise of each right (or number of rights) and the other terms of such rights offering. We may not sell any of our securities through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering. Shares of our common stock are listed on the New York Stock Exchange (NYSE) under the symbol GAB. Currently, the Fund's Series D Preferred, Series G Preferred and Series H Cumulative Preferred Stock are listed on the NYSE under the symbol GAB PrD, GAB PrG and GAB PrH, respectively. Any future series of fixed rate preferred shares would also likely be listed on a stock exchange. On May 17, 2013, the last reported NYSE sale price of shares of our common stock was \$6.99 per share. The net asset value of shares of the Fund's common stock at the close of business on May 17, 2013 was \$6.71 per share.

### Investment Objectives and Policies

The Fund's primary investment objective is to achieve long-term growth of capital by investing primarily in a portfolio of equity securities consisting of common stock, preferred stock, convertible or exchangeable securities, and warrants and rights to purchase such securities selected by the Investment Adviser. Income is a secondary investment objective.

Under normal market conditions, the Fund will invest at least 80% of the value of its total assets in equity securities (the 80% Policy ). The 80% Policy may be changed without shareholder approval. The Fund will provide shareholders with notice at least 60 days prior to the implementation of any change in the 80% Policy.

The Investment Adviser selects investments on the basis of fundamental value and, accordingly, the Fund typically invests in the securities of companies that are believed by the Investment Adviser to be priced lower than justified in relation to their underlying assets. Other important factors in the selection of investments include favorable price/earnings and debt/equity ratios and strong management.

The Fund seeks to achieve its secondary investment objective of income, in part, by investing up to 10% of its total assets in a portfolio consisting primarily of high yielding, fixed income securities, such as corporate bonds, debentures, notes, convertible securities, preferred stock, and domestic and foreign government obligations. Fixed income securities purchased by the Fund may be rated as low as C by Moody's Investors Service, Inc. ( Moody's ) or D by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. ( S&P ), or may be unrated securities considered to be of equivalent quality. Securities that are rated C by Moody's are the lowest rated class and can be regarded as having extremely poor prospects of ever obtaining investment grade standing. Debt rated D by S&P is in default or is expected to default upon maturity of payment date. These debt securities, which are often referred to in the financial press as junk bonds, are predominantly speculative and involve major risk exposure to adverse conditions.

The Fund invests in equity securities across all market capitalization ranges. The Fund may invest up to 35% of its total assets in foreign securities. Among the foreign securities in which the Fund may invest are those issued by companies located in emerging markets.

No assurance can be given that the Fund's investment objectives will be achieved. See Investment Objectives and Policies.

#### **Common Stock**

Currently, 246,000,000 of the Fund's capital stock, which includes the common stock being registered with this registration statement, have been classified by the Board of Directors (the Board ) of the Fund or any duly authorized committee thereof as common stock, par value \$0.001 per share. Holders of the common stock are entitled to one vote per share held. Holders of the common stock are entitled to share equally in distributions authorized by the Fund's Board payable to the holders of such shares and in the net assets of the Fund available on liquidation for distribution to holders of such shares. The shares of common stock have noncumulative voting rights and no conversion, preemptive or other subscription rights, and are not redeemable. In the event of liquidation, each share of Fund common stock is entitled to its proportion of the Fund's assets after payment of debts and expenses and the amounts payable to holders of the Fund's preferred stock ranking senior to the shares of common stock of the Fund. As of December 31, 2012, 187,715,980 shares of common stock of the Fund were outstanding.

#### **Preferred Stock**

Currently, 24,000,000 shares of the Fund's capital stock, which includes the preferred stock being registered with this registration statement, have been classified by the Board of the Fund or any duly authorized committee thereof as preferred stock, par value \$0.001 per share. The Fund's Board may reclassify authorized and unissued shares of the Fund, previously classified as common stock, as preferred stock prior to the completion of any offering. The terms of each series of preferred stock may be fixed by the Board and may materially limit and/or qualify the rights of holders of the Fund's common stock. If the Fund's Board determines that it may be advantageous to the holders of the Fund's common stock for the Fund to utilize additional leverage, the Fund may issue additional series of fixed rate preferred stock ( Fixed Rate Preferred Stock ) or additional series of auction rate preferred stock ( Auction Rate Preferred Stock ). Any Fixed Rate Preferred Stock or Auction Rate Preferred Stock issued by the Fund will pay, as applicable, distributions at a fixed rate or at rates that will be reset frequently based on short term interest rates. (As of December 31, 2012, 2,880 shares of Series C Auction Rate Preferred, 2,363,860 shares of Series D Preferred, 1,120 shares of Series E Auction Rate Preferred, 2,816,524 shares of Series G Preferred and 4,200,000 shares of Series H Preferred were outstanding.) Leverage creates a greater risk of loss as well as a potential for more gains for the common shares than if leverage were not used. See Risk Factors and Special Considerations Leverage Risk and Certain Investment Practices Leveraging. The Fund may also engage in investment management techniques which will not be considered senior securities if the Fund establishes in a segregated account cash or other liquid securities equal to the Fund's obligations in respect of such techniques. The Fund may borrow money in accordance with its investment restrictions,

including as a temporary measure for extraordinary or emergency purposes. The Fund will not borrow for investment purposes.

### Dividends and Distributions

*Preferred Stock Distributions.* In accordance with the Fund's Articles of Incorporation (together with any amendments or supplements thereto, including any articles supplementary of the Fund establishing a series of preferred stock (the Articles Supplementary and together with the Articles of Incorporation, the Charter)) and as required by the 1940 Act, all preferred stock of the Fund must have the same seniority with respect to distributions. Accordingly, no full distribution will be declared or paid on any series of preferred stock of the Fund for any dividend period, or part thereof, unless full cumulative dividends and distributions due through the most recent dividend payment dates for all series of outstanding preferred stock of the Fund are declared and paid. If full cumulative distributions due have not been declared and made on all outstanding preferred stock of the Fund, any distributions on such preferred stock will be made as nearly pro rata as possible in proportion to the respective amounts of distributions accumulated but unmade on each such series of preferred stock on the relevant dividend payment date.

In the event that for any calendar year the total distributions on shares of the Fund's preferred stock exceed the Fund's current and accumulated earnings and profits allocable to such shares, the excess distributions will generally be treated as a tax-free return of capital (to the extent of the shareholder's tax basis in the shares). The amount treated as a tax-free return of capital will reduce a shareholder's adjusted tax basis in the preferred stock, thereby increasing the shareholder's potential taxable gain or reducing the potential taxable loss on the sale of the stock. The Fund did not make return of capital distributions to its preferred shareholders during the year ended December 31, 2012.

*Common Stock Distributions.* In order to allow its common shareholders to realize a predictable, but not assured, level of cash flow and some liquidity periodically on their investment without having to sell shares, the Fund has adopted a managed distribution policy, which may be changed at any time by the Board, of paying a minimum annual distribution of 10% of the average net asset value of the Fund to common shareholders. In the event the Fund does not generate a total return from dividends and interest received and net realized capital gains in an amount equal to or in excess of its stated distribution in a given year, the Fund may return capital as part of such distribution, which may have the effect of decreasing the asset coverage per share with respect to the Fund's preferred stock. Any return of capital should not be considered by investors as yield or total return on their investment in the Fund. For the fiscal year ended December 31, 2012, the Fund made distributions of \$0.56 per share of common stock, of which approximately \$0.39 per share was deemed a return of capital. The total 2012 distributions of \$0.56 per common share consisted of \$0.56 per share in the form of cash distributions. The Fund has made quarterly distributions with respect to its common stock since 1987. A portion of all distributions to common shareholders for the past six years have constituted a return of capital. In addition, a portion of the distributions to common shareholders during fifteen of the twenty-six fiscal years since the Fund's inception has constituted a return of capital.

Under the Fund's distribution policy, the Fund declares and pays quarterly distributions from net investment income, capital gains, and paid-in capital. The actual source of the distribution is determined after the end of the year. Pursuant to this policy, distributions during the year may be made in excess of required distributions. To the extent such distributions are made from current earnings and profits, they are considered ordinary income or long-term capital gains. The Fund's current distribution policy may restrict the Fund's ability to pass through to shareholders all of its net realized long-term capital gains as a capital gain dividend, subject to the maximum federal income tax rate of 20% (plus an additional 3.8% Medicare contribution tax on income and net gain from investments), and may cause such gains to be treated as ordinary income subject to a maximum federal income tax rate of 39.6%. ***Distributions sourced from paid-in capital should not be considered as dividend yield or the total return from an investment in the Fund. Shareholders who periodically receive the payment of a dividend or other distribution consisting of a return of capital may be under the impression that they are receiving net profits when they are not. Shareholders should not assume that the source of a distribution from the Fund is net profit.*** The composition of each distribution is estimated based on the earnings of the Fund as of the record date for each distribution. The actual composition of each of the current year's distributions will be based on the Fund's investment activity through December 31, 2013.

### Use of Proceeds

The Fund will use the net proceeds from the offering to purchase portfolio securities in accordance with its investment objectives and policies as appropriate investment opportunities are identified, which is expected to substantially be completed within three months; however, changes in market conditions could result in the Fund's anticipated investment period extending to as long as six months. The Investment Adviser (as defined below) may also use the proceeds to call existing series of preferred stock. See Use of Proceeds.

### **Exchange Listing**

The Fund's outstanding shares of common stock are listed on the NYSE, under the trading or ticker symbol GAB. Currently, the Series D Preferred, Series G Preferred and Series H Preferred are listed on the NYSE under the symbol GAB PrD, GAB PrG and GAB PrH, respectively. See Description of Capital Stock. Any additional series of Fixed Rate Preferred Stock issued by the Fund would also likely be listed on the NYSE. Subscription rights issued by the Fund may also be listed on a securities exchange.

### **Market Price of Shares**

Common shares of closed-end investment companies often trade at prices lower than their net asset value. Common shares of closed-end investment companies may trade during some periods at prices higher than their net asset value and during other periods at prices lower than their net asset value. The Fund cannot assure you that its common stock will trade at a price higher than, equal to or above net asset value. The Fund's net asset value will be reduced immediately following an offering by the sales load and the amount of the offering expenses paid by the Fund. See Use of Proceeds.

In addition to net asset value, the market price of the Fund's common shares may be affected by such factors as the Fund's dividend and distribution levels (which are affected by expenses) and stability, market liquidity, market supply and demand, unrealized gains, general market and economic conditions, and other factors. See Risk Factors and Special Considerations, Description of the Capital Stock and Repurchase of Common Stock.

The common shares are designed primarily for long term investors, and you should not purchase common shares of the Fund if you intend to sell them shortly after purchase.

Fixed rate preferred shares, if issued, may also trade at premiums to or discounts from their liquidation preference for a variety of reasons, including changes in interest rates.

### **Risk Factors and Special Considerations**

Risk is inherent in all investing. Therefore, before investing in shares of the Fund, you should consider the following risks carefully.

*Leverage Risk.* The Fund currently uses, and intends to continue to use, financial leverage for investment purposes by issuing preferred stock. As of December 31, 2012, the amount of leverage represented approximately 24% of the Fund's net assets. The Fund's leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. The use of leverage, which can be described as exposure to changes in price at a ratio greater than the amount of equity invested magnifies both the favorable and unfavorable effects of price movements in the investments made by the Fund. To the extent that the Fund determines to employ additional leverage in its investment operations, the Fund is subject to additional substantial risk of loss. The Fund cannot assure you that the issuance of preferred shares will result in a higher yield or return to the holders of shares of common stock. Also, as the Fund is utilizing leverage, a decline in net asset value could affect the ability of the Fund to make common stock distributions and such a failure to pay dividends or make distributions could result in the Fund ceasing to qualify as a regulated investment company under the Internal Revenue Code of 1986, as amended (the Code). See Taxation.

*Special Risks to Holders of Fixed Rate Preferred Stock.* Prior to any offering, there will be no public market for any additional series of Fixed Rate Preferred Stock. In the event any additional series of Fixed Rate Preferred Stock are issued, prior application will have been made to list such shares on a national securities exchange, which will likely be the NYSE. However, during an initial period, which is not expected to exceed 30 days after the date of its initial issuance, such shares may not be listed on any securities exchange. During such period, the underwriters may make a market in such shares, although they will have no obligation to do so. Consequently, an investment in such shares may be illiquid during such period. Shares of Fixed Rate Preferred Stock may trade at a premium to or discount from liquidation value for various reasons, including changes in interest rates.

*Special Risks for Holders of Auction Rate Preferred Stock.*

*Auction Risk.* Since February 2008, the auctions for the Auction Rate Preferred Stock have failed and have continued to fail. Failing means that more Auction Rate Preferred Stock is offered for sale than there are buyers for

those shares. During this period while auctions have continued to fail, holders of the Fund's Auction Rate Preferred Stock who wanted to sell their shares at par through the auction process have been unable to do so. Holders have continued to receive dividends on their Auction Rate Preferred Stock at a maximum rate determined by reference to short term rates, rather than at a price set by auction. At present, the maximum rate is equal to 175% of the AA Financial Composite Commercial Paper Rate, determined on each calculation date. For the fiscal quarter ended December 31, 2012, the dividend rates for the Series C Auction Rate Preferred and the Series E Auction Rate Preferred ranged from 0.035% to 0.210% and 0.070% to 0.280%, respectively. A failed auction is not a default and the Fund has no obligation under its Charter to redeem its Auction Rate Preferred Stock because the auctions continue to fail. The Fund cannot estimate when or if auction markets for the Auction Rate Preferred Stock will resume functioning. There appears to be a secondary market in certain auction market preferred issues, although the Fund is not aware whether there is or will be an active trading market for the Fund's shares.

If the auctions were to resume, which management does not consider to be likely, other risks would apply. For example, if you place an order (a hold order) at an auction to retain Auction Rate Preferred Stock only at a specified rate that exceeds the rate set at the auction, you will not retain your Auction Rate Preferred Stock. Additionally, if you place a hold order without specifying a rate below which you would not wish to continue to hold your shares and the auction sets a below market rate, you will receive a lower rate of return on your shares than the market rate. Finally, the dividend period may be changed, subject to certain conditions and with notice to the holders of the Auction Rate Preferred Stock, which could also affect the liquidity of your investment.

*Secondary Market Risk.* If you try to sell your Auction Rate Preferred Stock between auctions, you may not be able to sell them for their liquidation preference per share or such amount per share plus accumulated dividends. If the Fund has designated a special dividend period of more than seven days, changes in interest rates could affect the price you would receive if you sold your shares in the secondary market. Broker-dealers that maintain a secondary trading market for the Auction Rate Preferred Stock are not required to maintain this market and the Fund is not required to redeem Auction Rate Preferred Stock if either an auction or an attempted secondary market sale fails because of a lack of buyers. The Auction Rate Preferred Stock will not be registered on a stock exchange. If you sell your Auction Rate Preferred Stock to a broker-dealer or other party between auctions, you may receive less than the price you paid for them, especially when market interest rates have risen since the last auction or during a special dividend period. Due to recent market disruption most auction-rate preferred shares, including our Series C Auction Rate Preferred and Series E Auction Rate Preferred, have been unable to hold successful auctions and holders of such shares have suffered reduced liquidity, including the inability to sell such shares in a secondary market.

*Portfolio Guidelines of Rating Agencies for Preferred Stock and/or Credit Facility.* In order to obtain attractive credit quality ratings for shares of preferred stock or borrowings, the Fund must comply with investment quality, diversification and other guidelines established by the relevant rating agencies. These guidelines could affect portfolio decisions and may be more stringent than those imposed by the 1940 Act.

*Our Subscription Rights.* There is a risk that changes in yield or changes in the credit quality of the Fund may result in the underlying preferred shares purchasable upon exercise of the subscription rights being less attractive to investors at the conclusion of the subscription period. This may reduce or eliminate the value of the subscription rights. Investors who receive subscription rights may find that there is no market to sell rights they do not wish to exercise. If investors exercise only a portion of the rights, the number of shares of preferred stock or shares of common stock issued may be reduced, and the preferred stock or common stock may trade at less favorable prices than larger offerings for similar securities.

*Common Stock Distribution Policy Risk.* The Fund has adopted a policy, which may be changed at any time by the Board, of paying a minimum annual distribution of 10% of the average net asset value of the Fund to common shareholders. In the event the Fund does not generate a total return from dividends and interest received and net realized capital gains in an amount equal to or in excess of its stated distribution in a given year, the Fund may return capital as part of such distribution, which may have the effect of decreasing the asset coverage per share with respect to the preferred stock. A portion of all distributions to common shareholders for the past six years have constituted a return of capital. In addition, a portion of the distributions to holders of common stock during fifteen of the twenty-five fiscal years since the Fund's inception has constituted a return of capital. Under the Fund's distribution policy, the Fund declares and pays quarterly distributions from net investment income, capital gains, and paid-in capital. The actual source of the distribution is determined after the end of the year. Pursuant to this policy, distributions during the year may be made in excess of required distributions. To the extent such distributions are made from current earnings and profits, they are considered ordinary income or long-term capital gains. The Fund's current distribution policy may restrict the Fund's ability to pass through to shareholders all of its net realized long-term capital gains as a capital gain dividend, subject to the maximum federal income tax rate of 20% and may cause such gains to be treated as ordinary income subject to a maximum federal income tax rate of 39.6%. Distributions sourced from paid-in capital should not be considered as dividend yield or the total return from an investment in the Fund.

*Market Discount Risk.* Common shares of closed-end investment companies often trade at a discount from net asset value. This characteristic of shares of a closed-end fund is a risk separate and distinct from the risk that the Fund's net asset value may decrease. The Investment Adviser

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cannot predict whether the Fund's shares will trade at, below or above net asset value. The risk of holding shares of a closed-end fund that might trade at a discount is more pronounced for shareholders who

wish to sell their shares in a relatively short period of time after acquiring them, because, for those investors, realization of a gain or loss on their investments is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance. The Fund's common shares are not subject to redemption. Shareholders desiring liquidity may, subject to applicable securities laws, trade their shares in the Fund on the NYSE or other markets on which such shares may trade at the then-current market value, which may differ from the then-current net asset value.

*Non-Diversified Status.* As a non-diversified, closed-end management investment company under the 1940 Act, the Fund may invest a greater portion of its assets in a more limited number of issuers than may a diversified fund, and accordingly, an investment in the Fund may, under certain circumstances, present greater risk to an investor than an investment in a diversified company. See Risk Factors and Special Considerations Non-Diversified Status.

To qualify as a regulated investment company, or RIC for purposes of the Internal Revenue Code of 1986, as amended (the Code), the Fund intends to conduct its operations in a manner that will relieve it of any liability for federal income tax to the extent its earnings are distributed to shareholders. To so qualify as a regulated investment company, among other requirements, the Fund will limit its investments so that, at the close of each quarter of the taxable year:

not more than 25% of the market value of its total assets will be invested in the securities (other than U.S. government securities or the securities of other RICs) of a single issuer, any two or more issuers in which the Fund owns 20% or more of the voting securities and which are determined to be engaged in the same, similar or related trades or businesses or in the securities of one or more qualified publicly traded partnerships (as defined in the Code); and

at least 50% of the market value of the Fund's assets will be represented by cash, securities of other RICs, U.S. government securities and other securities, with such other securities limited in respect of any one issuer to an amount not greater than 5% of the value of the Fund's total assets and not more than 10% of the outstanding voting securities of such issuer.

See Taxation.

*Industry Concentration Risk.* The Fund may invest up to 25% of its assets in the securities of companies principally engaged in a single industry. In the event the Fund makes substantial investments in a single industry, the Fund would become more susceptible to adverse economic or regulatory occurrences affecting that industry. See Risk Factors and Special Considerations Industry Concentration Risk.

*Interest Rate Transactions.* The Fund may enter into swap transactions in connection with Auction Rate Preferred Stock. The use of interest rate swaps and caps is a highly specialized activity that involves certain risks to the Fund including, among others, counterparty risk and early termination risk. See How the Fund Manages Risk Interest Rate Transactions.

*Foreign Securities.* The Fund may invest up to 35% of its total assets in securities of foreign issuers. Investments in the securities of foreign issuers involve certain considerations and risks not ordinarily associated with investments in securities of domestic issuers. Foreign companies are not generally subject to uniform accounting, auditing and financial standards, and requirements comparable to those applicable to U.S. companies. Foreign securities exchanges, brokers and listed companies may be subject to less government supervision and regulation than exists in the United States. Dividend and interest income may be subject to withholding and other foreign taxes, which may adversely affect the net return on such investments. There may be difficulty in obtaining or enforcing a court judgment abroad. In addition, it may be difficult to effect repatriation of capital invested in certain countries. Also, with respect to certain countries, there are risks of expropriation, confiscatory taxation, political or social instability, or diplomatic developments that could affect assets of the Fund held in foreign countries. Dividend income the Fund receives from foreign securities may not be eligible for the special tax treatment applicable to qualified dividend income.

There may be less publicly available information about a foreign company than a U.S. company. Foreign securities markets may have substantially less volume than U.S. securities markets and some foreign company securities are less liquid than securities of otherwise comparable U.S. companies. A portfolio of foreign securities may also be adversely affected by fluctuations in the rates of exchange between the currencies of different nations and by exchange control regulations. Foreign markets also have different clearance and settlement procedures that could cause the Fund to encounter difficulties in purchasing and selling securities on such markets and may result in the Fund missing attractive investment opportunities or experiencing losses. In addition, a portfolio that includes foreign securities can expect to have a higher expense ratio because of the increased transaction costs on non-U.S. securities markets and the increased costs of maintaining the custody of foreign securities.

The Fund also may purchase sponsored American Depositary Receipts ( ADRs ) or United States dollar denominated securities of foreign issuers. ADRs are receipts issued by United States banks or trust companies in respect of securities of foreign issuers held on deposit for use in the United States securities markets. While ADRs may not necessarily be denominated in the same currency as the securities into which they may be

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converted, many of the risks associated with foreign securities may also apply to ADRs. In addition, the underlying issuers of certain depositary receipts, particularly unsponsored or unregistered depositary receipts, are under no obligation to distribute shareholder communications to the holders of such receipts, or to pass through to them any voting rights with respect to the deposited securities.

*Non-Investment Grade Securities.* The Fund may invest up to 10% of its total assets in fixed income securities rated below investment grade by recognized statistical rating agencies or unrated securities of comparable quality. These securities, which may be preferred stock or debt, are predominantly speculative and involve major risk exposure to adverse conditions. Debt securities that are not rated or that are rated lower than BBB by S&P or lower than Baa by Moody's are referred to in the financial press as junk bonds.

Generally, such lower grade securities and unrated securities of comparable quality offer a higher current yield than is offered by higher rated securities, but also (i) will likely have some quality and protective characteristics that, in the judgment of the rating organizations, are outweighed by large uncertainties or major risk exposures to adverse conditions and (ii) are

predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligation. The market values of certain of these securities also tend to be more sensitive to individual corporate developments and changes in economic conditions than higher quality securities. In addition, such securities generally present a higher degree of credit risk. The risk of loss due to default by these issuers is significantly greater because such lower grade securities and unrated securities of comparable quality generally are unsecured and frequently are subordinated to the prior payment of senior indebtedness. In light of these risks, the Investment Adviser, in evaluating the creditworthiness of an issue, whether rated or unrated, will take various factors into consideration. These may include, as applicable, the issuer's operating history, financial resources and its sensitivity to economic conditions and trends, the market support for the facility financed by the issue, the perceived ability and integrity of the issuer's management, and regulatory matters.

In addition, the market value of securities in lower rated categories is more volatile than that of higher quality securities, and the markets in which such lower rated or unrated securities are traded are more limited than those in which higher rated securities are traded. The existence of limited markets may make it more difficult for the Fund to obtain accurate market quotations for purposes of valuing its portfolio and calculating its net asset value. Moreover, the lack of a liquid trading market may restrict the availability of securities for the Fund to purchase and may also have the effect of limiting the ability of the Fund to sell securities at their fair value in response to changes in the economy or the financial markets.

Lower grade securities also present risks based on payment expectations. If an issuer calls the obligation for redemption (often a feature of fixed income securities), the Fund may have to replace the security with a lower yielding security, resulting in a decreased return for investors. Also, as the principal value of nonconvertible bonds and preferred stocks moves inversely with movements in interest rates, in the event of rising interest rates the value of the securities held by the Fund may decline proportionately more than a portfolio consisting of higher rated securities. Investments in zero coupon bonds may be more speculative and subject to greater fluctuations in value due to changes in interest rates than bonds that pay regular income streams.

As part of its investment in non-investment grade securities, the Fund may invest in securities of issuers in default. The Fund will make an investment in securities of issuers in default only when the Investment Adviser believes that such issuers will honor their obligations or emerge from bankruptcy protection under a plan pursuant to which the securities received by the Fund in exchange for its defaulted securities will have a value in excess of the Fund's investment. By investing in securities of issuers in default, the Fund bears the risk that these issuers will not continue to honor their obligations or emerge from bankruptcy protection or that the value of the securities will not otherwise appreciate.

In addition to using recognized rating agencies and other sources, the Investment Adviser also performs its own analysis of issues in seeking investments that it believes to be underrated (and thus higher yielding) in light of the financial condition of the issuer. Its analysis of issuers may include, among other things, current and anticipated cash flow and borrowing requirements, value of assets in relation to historical cost, strength of management, responsiveness to business conditions, credit standing, and current anticipated results of operations. In selecting investments for the Fund, the Investment Adviser may also consider general business conditions, anticipated changes in interest rates, and the outlook for specific industries.

Subsequent to its purchase by the Fund, an issuer of securities may cease to be rated or its rating may be reduced. In addition, it is possible that statistical rating agencies may change their ratings of a particular issuer to reflect subsequent events. Moreover, such ratings do not assess the risk of a decline in market value. None of these events will require the sale of the securities by the Fund, although the Investment Adviser will consider these events in determining whether the Fund should continue to hold the securities.

The market for lower grade and comparable unrated securities has experienced several periods of significantly adverse price and liquidity, particularly at or around times of economic recessions. Past market recessions have adversely affected the value of such securities as well as the ability of certain issuers of such securities to repay principal and pay interest thereon or to refinance such securities. The market for those securities may react in a similar fashion in the future.

*Derivative Transactions.* The Fund may participate in certain derivative transactions. Such transactions entail certain execution, market, liquidity, hedging and tax risks. Participation in the options or futures markets and in currency exchange transactions involves investment risks and transaction costs to which the Fund would not be subject absent the use of these strategies. If the Investment Adviser's prediction of movements in the direction of the securities, foreign currency or interest rate markets is inaccurate, the consequences to the Fund may leave it in a worse position than if such strategies were not used. Risks inherent in the use of options, foreign currency, swaps contracts, futures contracts and options on futures contracts, swaps contracts, securities indices and foreign currencies include:

dependence on the Investment Adviser's ability to predict correctly movements in the direction of interest rates, securities prices and currency markets;

imperfect correlation between the price of options and futures contracts and options thereon and movements in the prices of the securities or currencies being hedged;

the fact that skills needed to use these strategies are different from those needed to select portfolio securities;

the possible absence of a liquid secondary market for any particular instrument at any time;

the possible need to defer closing out certain hedged positions to avoid adverse tax consequences; and

the possible inability of the Fund to purchase or sell a security at a time that otherwise would be favorable for it to do so, or the possible need for Fund to sell a security at a disadvantageous time due to a need for the Fund to maintain cover or to segregate securities in connection with the hedging techniques.

See Risk Factors and Special Considerations Special Risks of Derivative Transactions.

*Futures Transactions.* The Fund may make investments in futures and options on futures. Risks include, but are not limited to, the following:

no assurance that futures contracts or options on futures can be offset at favorable prices;

possible reduction of the yield of the Fund due to the use of hedging;

possible reduction in value of both the securities hedged and the hedging instrument;

possible lack of liquidity due to daily limits or price fluctuations;

imperfect correlation between the contracts and the securities being hedged; and

losses from investing in futures transactions that are potentially unlimited and the segregation requirements for such transactions.

*Swap Agreements.* The Fund may enter into total rate of return, credit default, interest rate or other types of swaps and related derivatives for various purposes, including to gain economic exposure to an asset or group of assets that may be difficult or impractical to acquire or for hedging and risk management. Swap agreements involve the risk that the party with whom the Fund has entered into the swap will default on its obligation to pay the Fund and the risk that the Fund will not be able to meet its obligations to pay the other party to the agreement.

*Forward Currency Exchange Contracts.* The use of forward currency exchange contracts may involve certain risks, including the failure of the counterparty to perform its obligations under the contract and that the use of forward contracts may not serve as a complete hedge because of an imperfect correlation between movements in the prices of the contracts and the prices of the currencies hedged or used for cover.

*Counterparty Risk.* The Fund will be subject to credit risk with respect to the counterparties to the derivative contracts purchased by the Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Fund may experience significant delays in obtaining any recovery under the derivative contract in bankruptcy or other reorganization proceeding. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances.

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*Management Risk.* The Fund is subject to management risk because it is an actively managed portfolio. The Investment Adviser will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these will produce the desired results. See Risk Factors and Special Considerations Management Risk.

*Dependence on Key Personnel.* The Investment Adviser is dependent upon the expertise of Mr. Mario J. Gabelli in providing advisory services with respect to the Fund's investments. If the Investment Adviser were to lose the services of Mr. Gabelli, its ability to service the Fund could be adversely affected. There can be no assurance that a suitable replacement could be found for Mr. Gabelli in the event of his death, resignation, retirement or inability to act on behalf of the Investment Adviser. See Risk Factors and Special Considerations Dependence on Key Personnel.

*Geopolitical Events.* Geopolitical events, such as terrorist attacks and wars, have led to, and may in the future lead to, increased short-term market volatility and may have long-term effects on U.S. and world economies and markets. The nature, scope and duration of the war and occupation cannot be predicted with any certainty. Similar events in the future or other

disruptions of financial markets could affect interest rates, securities exchanges, auctions, secondary trading, ratings, credit risk, inflation, energy prices, and other factors relating to the common stock.

*Anti-Takeover Provisions.* The Charter and the By-Laws of the Fund, as amended from time to time (the By-Laws and together with the Charter, the Governing Documents ) include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to an open-end fund.

*Taxation.* The Fund has qualified, and intends to remain qualified, for federal income tax purposes as a regulated investment company. Qualification requires, among other things, compliance by the Fund with certain distribution requirements. Statutory limitations on distributions on the common stock if the Fund fails to satisfy the 1940 Act's asset coverage requirements could jeopardize the Fund's ability to meet such distribution requirements. The Fund presently intends, however, to purchase or redeem preferred stock to the extent necessary in order to maintain compliance with such asset coverage requirements. See Taxation for a more complete discussion of these and other federal income tax considerations.

*Temporary Investments.* During temporary defensive periods and during inopportune periods to be fully invested, the Fund may invest in U.S. government securities and in money market mutual funds that invest in those securities. Obligations of certain agencies and instrumentalities of the U.S. government, such as the Government National Mortgage Association, are supported by the full faith and credit of the U.S. government; others, such as those of the Export-Import Bank of the United States, are supported by the right of the issuer to borrow from the U.S. Treasury; others, such as those of the Federal National Mortgage Association, are supported by the discretionary authority of the U.S. government to purchase the agency's obligations; and still others, such as those of the Student Loan Marketing Association, are supported only by the credit of the instrumentality. No assurance can be given that the U.S. government would provide financial support to U.S. government-sponsored instrumentalities if it is not obligated to do so by law.

*Emerging Markets Risk.* The Fund may invest up to 35% of its total assets in foreign securities, including securities of issuers whose primary operations or principal trading market is in an emerging market. An emerging market country is any country that is considered to be an emerging or developing country by the International Bank for Reconstruction and Development (the World Bank ). Investing in securities of companies in emerging markets may entail special risks relating to potential political and economic instability and the risks of expropriation, nationalization, confiscation or the imposition of restrictions on foreign investment, the lack of hedging instruments and restrictions on repatriation of capital invested. Emerging securities markets are substantially smaller, less developed, less liquid and more volatile than the major securities markets. The limited size of emerging securities markets and limited trading value compared to the volume of trading in U.S. securities could cause prices to be erratic for reasons apart from factors that affect the quality of the securities. For example, limited market size may cause prices to be unduly influenced by traders who control large positions. Adverse publicity and investor perception, whether or not based on fundamental analysis, may decrease the value and liquidity of portfolio securities, especially in these markets. Other risks include high concentration of market capitalization and trading volume in a small number of issuers representing a limited number of industries, as well as a high concentration of investors and financial intermediaries; overdependence on exports, including gold and natural resources exports, making these economies vulnerable to changes in commodity prices; overburdened infrastructure and obsolete or unseasoned financial systems; environmental problems; less developed legal systems; and less reliable securities custodial services and settlement practices.

## **Management and Fees**

Gabelli Funds, LLC (the Investment Adviser ) serves as the Fund's investment adviser. The Investment Adviser's fee is computed weekly and paid monthly at the annual rate of 1.00% of the Fund's average weekly net assets plus assets attributable to any outstanding senior securities, with no deduction for the liquidation preference of any outstanding preferred stock. The fee paid by the Fund may be higher when leverage in the form of preferred stock is utilized, giving the Investment Adviser an incentive to utilize such leverage. However, the Investment Adviser has agreed to reduce the management fee on the incremental assets attributable to the currently outstanding Series C Auction Rate Preferred, Series D Preferred and Series E Auction Rate Preferred during the fiscal year if the total return of the net asset value of the common stock, including distributions and advisory fees subject to reduction for that year, does not exceed the stated dividend rate or corresponding swap rate of those particular series of preferred stock for the period. In other words, if the effective cost of the leverage for the Series C Auction Rate Preferred, Series D Preferred and Series E Auction Rate Preferred exceeds the total return (based on net asset value) on the Fund's common stock, the Investment Adviser will waive that portion of its management fee on the incremental assets attributable to the leverage for that series of preferred stock to

mitigate the negative impact of the leverage on the common shareholder's total return. This fee waiver is applicable to the portion of the Fund's assets attributable to Series C Auction Rate Preferred, Series D Preferred and Series E Auction Rate Preferred. This fee waiver, unless otherwise stated, will not apply to any preferred stock issued from this offering. The Fund's total return on the net asset value of the common stock is monitored on a monthly basis to assess whether the total return on the net asset value of the common stock exceeds the stated dividend rate or corresponding swap rate of each particular series of preferred stock for the period. The test to confirm the accrual of the management fee on the assets attributable to each particular series of preferred stock is annual. The Fund will accrue for the management fee on these assets during the fiscal year if it appears probable that the Fund will incur the management fee on those additional assets. See Management of the Fund.

For the year ended December 31, 2012, the Fund's total return on the net asset value of the common stock exceeded the stated dividend rate of the outstanding Preferred Stock. Thus, management fees with respect to the liquidation value of the Preferred Stock were accrued on these assets.

A discussion regarding the basis for the Board's approval of the continuation of the investment advisory contract of the Fund is available in the Fund's semiannual report to shareholders dated June 30, 2012.

### **Repurchase of Common Stock**

The Fund's Board has authorized the Fund (and the Fund accordingly reserves freedom of action) to repurchase shares of its common stock in the open market when the shares are trading at a discount of 10% or more from net asset value. Although the Board has authorized such repurchases, the Fund is not required to repurchase its shares. The Board has not established a limit on the amount of common stock that could be repurchased. Such repurchases are subject to certain notice and other requirements under the 1940 Act. The Fund has repurchased shares of its common stock under this authorization. See Repurchase of Common Stock.

### **Anti-Takeover Provisions**

Certain provisions of the Governing Documents may be regarded as anti-takeover provisions. Pursuant to these provisions, only one of the three classes of directors is elected each year, and the affirmative vote of the holders of 66 $\frac{2}{3}$ % of the Fund's outstanding shares of each class (voting separately) is required to authorize the conversion of the Fund from a closed-end to an open-end investment company. The overall effect of these provisions is to render more difficult the accomplishment of a merger with, or the assumption of control by, a principal stockholder, or the conversion of the Fund to open-end status. These provisions may have the effect of depriving Fund stockholders of an opportunity to sell their stock at a premium above the prevailing market price. See Anti-Takeover Provisions of the Fund's Governing Documents.

### **Custodian, Transfer Agent and Dividend Disbursing Agent**

The Bank of New York Mellon Corporation (BNY Mellon), located at 135 Santilli Highway, Everett, Massachusetts 02149, serves as the custodian (the Custodian) of the Fund's assets pursuant to a custody agreement. Under the custody agreement, the Custodian holds the Fund's assets in compliance with the 1940 Act. For its services, the Custodian will receive a monthly fee paid by the Fund based upon, among other things, the average value of the total assets of the Fund, plus certain charges for securities transactions and out-of-pocket expenses.

Rules adopted under the 1940 Act permit the Fund to maintain its foreign securities in the custody of certain eligible foreign banks and securities depositories. Pursuant to those rules, any foreign securities in the portfolio of the Fund may be held by subcustodians approved by the Board in accordance with the regulations of the Securities and Exchange Commission (the SEC). Selection of any such subcustodians will be made by the Board following a consideration of a number of factors, including but not limited to the reliability and financial stability of the institution, the ability of the institution to perform capably custodial services for the Fund, the reputation of the institution in its national market, the political and economic stability of the country or countries in which the subcustodians are located, and risks of potential nationalization or expropriation of assets of the Fund.

Computershare Trust Company, N.A. (Computershare), located at 250 Royall Street, Canton, Massachusetts 02021, serves as the Fund's dividend disbursing agent, as agent under the Fund's Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan (the Plan) and as transfer agent and registrar with respect to the Fund's common shares.

Computershare also serves as the transfer agent, registrar, dividend disbursing agent and redemption agent with respect to the Series D Preferred, Series G Preferred and Series H Preferred.

BNY Mellon, located at 100 Church Street, New York, New York 10286, serves as the auction agent, transfer agent, registrar, dividend disbursing agent and redemption agent with respect to the Series C Auction Rate Preferred and the Series E Auction Rate Preferred. See Custodian, Transfer Agent and Dividend Disbursing Agent.

**SUMMARY OF FUND EXPENSES**

The following table shows the Fund's expenses, including preferred stock offering expenses, as a percentage of net assets attributable to common stock.

**Shareholder Transaction Expenses**

Sales Load (as a percentage of offering price)	2.08%(1)
Offering Expenses Borne by the Fund (excluding Preferred Stock Offering Expenses) (as a percentage of offering price)	0.04%(1)
Dividend Reinvestment Plan Fees	None (2)
Preferred Stock Offering Expenses Borne by the Fund (as a percentage of net assets attributable to common shares)	0.07%(3)

**Percentage of Net**

**Assets**

**Attributable**

**to Common Stock (5)**

**Annual Expenses**

Management Fees	1.42%(4)
Interest on Borrowed Funds	None
Other Expenses	0.15%(4)
Total Annual Expenses	1.57%
Dividends on Preferred Stock	1.85%(5)
Total Annual Expenses and Dividends on Preferred Stock	3.42%

- (1) Estimated maximum amount based on offering of \$250 million in shares of common stock and \$250 million in shares of preferred stock. The actual amounts in connection with any offering will be set forth in the Prospectus Supplement if applicable.
- (2) Shareholders participating in the Fund's Automatic Dividend Reinvestment and Voluntary Cash Purchase Plans would pay \$0.75 plus their pro rata share of brokerage commissions per transaction to purchase shares and \$2.50 plus their pro rata share of brokerage commissions per transaction to sell shares. See Automatic Dividend Reinvestment and Voluntary Cash Purchase Plans.
- (3) Assumes issuance of \$250 million in liquidation preference of fixed rate preferred stock and net assets attributable to common stock of \$1.14 billion (which includes issuance of \$250 million in common shares). The actual amounts in connection with any offering will be set forth in the Prospectus Supplement if applicable.
- (4) The Investment Adviser's fee is 1.00% annually of the Fund's average weekly net assets plus assets attributable to any outstanding senior securities, with no deduction for the liquidation preference of any outstanding preferred stock. Consequently, if the Fund has preferred stock outstanding, the investment management fees and other expenses as a percentage of net assets attributable to common stock will be higher than if the Fund does not utilize a leveraged capital structure. Other Expenses are based on estimated amounts for the current year assuming completion of the proposed issuances.
- (5) Dividends on Preferred Stock represent the aggregate of (1) the estimated annual distributions on the existing preferred stock outstanding and (2) the distributions that would be made assuming \$250 million of preferred stock is issued with a fixed dividend rate of 6.00%. There can, of course, be no guarantee that any preferred stock would be issued or, if issued, the terms thereof.

The purpose of the table above and the example below is to help you understand all fees and expenses that you, as a holder of common stock, would bear directly or indirectly.

The following example illustrates the expenses (including the maximum estimated sales load of \$10 and estimated offering expenses of \$0.34 from the issuance of \$250 million in common stock) you would pay on a \$1,000 investment in common stock, assuming a 5% annual portfolio total return.\* The actual amounts in connection with any offering will be set forth in the Prospectus Supplement if applicable.

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Total Expenses Incurred	\$ 44	\$ 114	\$ 186	\$ 377

\* **The example should not be considered a representation of future expenses.** The example is based on Total Annual Expenses and Dividends on Preferred Stock shown in the table above and assumes that the amounts set forth in the table do not change and that all distributions are reinvested at net asset value. Actual expenses may be greater or less than those assumed. Moreover, the Fund's actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

The example includes Dividends on Preferred Stock. If Dividends on Preferred Stock were not included in the example calculation, the expenses would be as follows (based on the same assumptions as above).

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Total Expenses Incurred	\$ 26	\$ 60	\$ 95	\$ 196

#### FINANCIAL HIGHLIGHTS

The selected data below sets forth the per share operating performance and ratios for the periods presented. The financial information was derived from and should be read in conjunction with the Financial Statements of the Fund and Notes thereto, which are incorporated by reference into this Prospectus and the SAI. The financial information for the fiscal year ended December 31, 2012 and for each of the preceding fiscal periods presented, has been audited by PricewaterhouseCoopers LLP, the Fund's independent registered public accounting firm, whose unqualified report on such Financial Statements is incorporated by reference into the SAI.

Selected data for a share outstanding throughout each period:

	<b>Year Ended December 31,</b>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Operating Performance:</b>					
Net asset value, beginning of period	\$ 5.20	5.85	\$ 5.03	\$ 4.14	\$ 9.22
Net investment income	0.09	0.07	0.05	0.06	0.12
Net realized and unrealized gain/(loss) on investments, written options, futures contracts, swap contracts, and foreign currency transactions	0.97	(0.08)	1.35	1.62	(4.30)
Total from investment operations	1.06	(0.01)	1.40	1.68	(4.18)
<b>Distributions to Preferred Shareholders:(a)</b>					
Net investment income	(0.03)	(0.06)	(0.05)	(0.07)	(0.11)
Net realized gain	(0.05)	(0.01)			
Return of capital			(0.02)		
Total distributions to preferred shareholders	(0.08)	(0.07)	(0.07)	(0.07)	(0.11)



<b>Net Increase/(Decrease) in Net Assets Attributable to Common Shareholders Resulting from Operations</b>	0.98	(0.08)	1.33	1.61	(4.29)
<b>Distributions to Common Shareholders:</b>					
Net investment income	(0.06)	(0.02)		(0.00)(e)	(0.00)(e)
Net realized gain	(0.11)	(0.00)(e)			
Return of capital	(0.39)	(0.55)	(0.51)	(0.72)	(0.80)
Total distributions to common shareholders	(0.56)	(0.57)	(0.51)	(0.72)	(0.80)
<b>Fund Share Transactions:</b>					
Increase in net asset value from common stock share transactions				0.00(e)	0.01
Increase in net asset value from repurchase of preferred shares				0.00(e)	0.00(e)
Recapture of gain on sale of Fund shares by an affiliate			0.00(e)		
Offering costs for preferred shares charged to paid-in capital	(0.02)				0.00(e)
Offering costs for issuance of rights charged to paid-in capital					
Total fund share transactions	(0.02)		0.00(e)	0.00(e)	0.01
<b>Net Asset Value Attributable to Common Shareholders, End of Period</b>	\$ 5.60	\$ 5.20	\$ 5.85	\$ 5.03	\$ 4.14
NAV total return	19.05%	(1.17)%	28.15%	44.10%	(49.06)%
Market value, end of period	\$ 5.58	\$ 4.99	\$ 5.67	\$ 5.04	\$ 3.70
Investment total return	23.62%	(2.15)%	23.96%	61.56%	(54.77)%
<b>Ratios to Average Net Assets and Supplemental Data:</b>					
Net assets including liquidation value of preferred shares, end of period (in 000 s)	\$ 1,384,961	\$ 1,265,307	\$ 1,364,172	\$ 1,215,626	\$ 1,106,614
Net assets attributable to common shares, end of period (in 000 s)	\$ 1,050,451	\$ 959,950	\$ 1,058,815	\$ 910,269	\$ 724,076
Ratio of net investment income to average net assets attributable to common shares before preferred distributions	1.54%	1.26%	0.92%	1.53%	1.73%
Ratio of operating expenses to average net assets attributable to common shares before fees waived	1.48%	1.48%	1.50%	1.74%	1.52%
Ratio of operating expenses to average net assets attributable to common shares net of fee reduction, if any	1.48%	1.19%	1.50%	1.72%	1.19%
Ratio of operating expenses to average net assets including liquidation value of preferred shares before fees waived	1.12%	1.15%	1.14%	1.22%	1.14%

Ratio of operating expenses to average net assets including liquidation value of preferred shares net of fee reduction, if any	1.12%	0.92%	1.14%	1.20%	0.89%
Portfolio turnover rate	4.2%	6.3%	5.5%	6.7%	13.5%

**Preferred Stock:****Auction Rate Series C Cumulative Preferred Stock**

Liquidation value, end of period (in 000 s)	\$ 72,000	\$ 72,000	\$ 72,000	\$ 72,000	\$ 117,000
Total shares outstanding (in 000 s)	3	3	3	3	5
Liquidation preference per share	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Average market value (c)	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Asset coverage per share	\$ 103,507	\$ 103,593	\$ 111,687	\$ 99,525	\$ 72,320

**5.875% Series D Cumulative Preferred Stock**

Liquidation value, end of period (in 000 s)	\$ 59,097	\$ 59,097	\$ 59,097	\$ 59,097	\$ 72,532
Total shares outstanding (in 000 s)	\$ 2,364	\$ 2,364	2,364	2,364	2,901
Liquidation preference per share	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Average market value (b)	\$ 25.75	\$ 25.35	\$ 25.03	\$ 23.39	\$ 22.69
Asset coverage per share	\$ 103.51	\$ 103.59	\$ 111.69	\$ 99.53	\$ 72.32

**Auction Rate Series E Cumulative Preferred Stock**

Liquidation value, end of period (in 000 s)	\$ 28,000	\$ 28,000	\$ 28,000	\$ 28,000	\$ 45,000
Total shares outstanding (in 000 s)	1	1	1	1	2
Liquidation preference per share	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Average market value (c)	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Asset coverage per share	\$ 103,507	\$ 103,593	\$ 111,687	\$ 99,525	\$ 72,320

**6.200% Series F Cumulative Preferred Stock**

Liquidation value, end of period (in 000 s)		\$ 146,260	\$ 146,260	\$ 146,260	\$ 148,007
Total shares outstanding (in 000 s)		5,850	5,850	5,850	5,920
Liquidation preference per share		\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Average market value (b)		\$ 25.57	\$ 25.71	\$ 24.08	\$ 23.48
Asset coverage per share		\$ 103.59	\$ 111.69	\$ 99.53	\$ 72.32

**Series G Cumulative Preferred Stock**

Liquidation value, end of period (in 000 s)	\$ 70,413
Total shares outstanding (in 000 s)	2,817
Liquidation preference per share	\$ 25.00
Average market value (b)	\$ 26.01
Asset coverage per share	\$ 103.51

**5.000% Series H Cumulative Preferred Stock**

Liquidation value, end of period (in 000 s)	\$ 105,000
Total shares outstanding (in 000 s)	4,200
Liquidation preference per share	\$ 25.00
Average market value (b)	\$ 25.55
Asset coverage per share	\$ 103.51

<b>Asset Coverage (d)</b>	414%	414%	447%	398%	289%
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Based on net asset value per share, adjusted for reinvestment of distributions at prices obtained under the Fund's dividend reinvestment plan.

Based on market value per share, adjusted for reinvestment of distributions at prices determined under the Fund's dividend reinvestment plan.

- (a) Calculated based upon average common shares outstanding on the record dates throughout the periods.
- (b) Based on weekly prices.
- (c) Liquidation value. Since February 2008, the weekly auctions have failed. Holders that have submitted orders have not been able to sell any or all of their shares in the auctions.

- (d) Asset coverage is calculated by combining all series of preferred stock.
- (e) Amount represents less than \$0.005 per share.

#### USE OF PROCEEDS

The Investment Adviser expects that it will initially invest the proceeds of the offering in high quality short-term debt securities and instruments. The Investment Adviser anticipates that the investment of the proceeds will be made in accordance with the Fund's investment objectives and policies as appropriate investment opportunities are identified, which is expected to substantially be completed within three months; however, changes in market conditions could result in the Fund's anticipated investment period extending to as long as six months. The Investment Adviser may also use the proceeds to call existing series of preferred stock.

#### THE FUND

The Fund is a non-diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized as a Maryland corporation on May 20, 1986. The Fund commenced its investment operations on August 21, 1986. The Fund's principal office is located at One Corporate Center, Rye, New York 10580-1422, and its telephone number is (800) 422-3554.

#### INVESTMENT OBJECTIVES AND POLICIES

##### Investment Objectives

The Fund's primary investment objective is to achieve long-term growth of capital by investing primarily in a portfolio of equity securities consisting of common stock, preferred stock, convertible or exchangeable securities, and warrants and rights to purchase such securities selected by the Investment Adviser. Income is a secondary investment objective. The investment objectives of long-term growth of capital and income are fundamental policies of the Fund. These fundamental policies and the investment limitations described in the SAI under the caption

Investment Restrictions cannot be changed without the approval of the holders of a majority of the Fund's outstanding shares of preferred stock voting as a separate class and the approval of the holders of a majority of the Fund's outstanding voting securities. Such majority votes require, in each case, the lesser of (i) 67% of the Fund's applicable shares represented at a meeting at which more than 50% of the Fund's applicable shares outstanding are represented, whether in person or by proxy, or (ii) more than 50% of the outstanding shares of the applicable class.

Under normal market conditions, the Fund will invest at least 80% of the value of its total assets in equity securities. The 80% Policy may be changed without shareholder approval. The Fund will provide shareholders with notice at least 60 days prior to the implementation of any change in the 80% Policy.

The Investment Adviser selects investments on the basis of fundamental value and, accordingly, the Fund typically invests in the securities of companies that are believed by the Investment Adviser to be priced lower than justified in relation to their underlying assets. Other important factors in the selection of investments include favorable price/earnings and debt/equity ratios and strong management.

The Fund seeks to achieve its secondary investment objective of income, in part, by investing up to 10% of its total assets in fixed-income securities rated as low as C by Moody's or D by S&P or may be unrated securities considered to be of equivalent quality. Securities that are rated C by Moody's are the lowest rated class and can be regarded as having extremely poor prospects of ever obtaining investment-grade standing. Debt rated D by S&P is in default or is expected to default upon maturity of payment date. These debt securities, which are often referred to in the financial press as junk bonds, are predominantly speculative and involve major risk exposure to adverse conditions.

The Fund invests in equity securities across all market capitalization ranges. The Fund may invest up to 35% of its total assets in foreign securities. Among the foreign securities in which the Fund may invest are those issued by companies located in emerging markets.

No assurance can be given that the Fund's investment objectives will be achieved.

##### Investment Methodology of the Fund

In selecting securities for the Fund, the Investment Adviser normally will consider the following factors, among others:

the Investment Adviser's own evaluations of the private market value (as defined below), cash flow, earnings per share and other fundamental aspects of the underlying assets and business of the company;

the potential for capital appreciation of the securities;

the interest or dividend income generated by the securities;

the prices of the securities relative to other comparable securities;

whether the securities are entitled to the benefits of call protection or other protective covenants;

the existence of any anti-dilution protections or guarantees of the security; and

the diversification of the portfolio of the Fund as to issuers.

The Investment Adviser's investment philosophy with respect to equity securities is to identify assets that are selling in the public market at a discount to their private market value. The Investment Adviser defines private market value as the value informed purchasers are willing to pay to acquire assets with similar characteristics. The Investment Adviser also normally evaluates an issuer's free cash flow and long-term earnings trends. Finally, the Investment Adviser looks for a catalyst, something indigenous to the company, its industry or country, that will surface additional value.

#### **Certain Investment Practices**

*Foreign Securities.* The Fund may invest up to 35% of its total assets in foreign securities. Among the foreign securities in which the Fund may invest are those issued by companies located in developing countries, which are countries in the initial stages of their industrialization cycles. Investing in the equity and debt markets of developing countries involves exposure to economic structures that are generally less diverse and less mature, and to political systems that may have less stability, than those of developed countries. The markets of developing countries historically have been more volatile than the markets of the more mature economies of developed countries, but often have provided higher rates of return to investors.

The Fund may also invest in the debt securities of foreign governments. Although such investments are not a principal strategy of the Fund, there is no independent limit on its ability to invest in the debt securities of foreign governments.

*Temporary Defensive Investments.* Subject to the Fund's investment restrictions, when a temporary defensive period is believed by the Investment Adviser to be warranted (temporary defensive periods), the Fund may, without limitation, hold cash or invest its assets in securities of United States government sponsored instrumentalities, in repurchase agreements in respect of those instruments, and in certain high-grade commercial paper instruments. During temporary defensive periods, the Fund may also invest in money market mutual funds that invest primarily in securities of United States government sponsored instrumentalities and repurchase agreements in respect of those instruments. Obligations of certain agencies and instrumentalities of the United States government, such as the Government National Mortgage Association, are supported by the full faith and credit of the United States government; others, such as those of the Export-Import Bank of the United States, are supported by the right of the issuer to borrow from the United States Treasury; others, such as those of the Federal National Mortgage Association, are supported by the discretionary authority of the United States government to purchase the agency's obligations; and still others, such as those of the Student Loan Marketing Association, are supported only by the credit of the instrumentality. No assurance can be given that the United States government would provide financial support to United States government sponsored instrumentalities if it is not obligated to do so by law. During temporary defensive periods, the Fund may be less likely to achieve its secondary investment objective of income.

*Non-Investment Grade Securities.* The Fund may invest up to 10% of its total assets in fixed income securities rated below investment grade by recognized statistical rating agencies or unrated securities of comparable quality. These securities, which may be preferred stock or debt, are predominantly speculative and involve major risk exposure to adverse conditions. Debt securities that are not rated or that are rated lower than BBB by S&P or lower than Baa by Moody's are referred to in the financial press as junk bonds.

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Generally, such lower grade securities and unrated securities of comparable quality offer a higher current yield than is offered by higher rated securities, but also (i) will likely have some quality and protective characteristics that, in the judgment of the rating organizations, are outweighed by large uncertainties or major risk exposures to adverse conditions and (ii) are predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligation. The market values of certain of these securities also tend to be more sensitive to individual corporate developments and changes in economic conditions than higher quality securities. In addition, such securities generally present a higher degree of credit risk. The risk of loss due to default by these issuers is significantly greater because such lower grade securities and unrated securities of comparable quality generally are unsecured and frequently are subordinated.

to the prior payment of senior indebtedness. In light of these risks, the Investment Adviser, in evaluating the creditworthiness of an issue, whether rated or unrated, will take various factors into consideration, which may include, as applicable, the issuer's operating history, financial resources and its sensitivity to economic conditions and trends, the market support for the facility financed by the issue, the perceived ability and integrity of the issuer's management and regulatory matters.

In addition, the market value of securities in lower rated categories is more volatile than that of higher quality securities, and the markets in which such lower rated or unrated securities are traded are more limited than those in which higher rated securities are traded. The existence of limited markets may make it more difficult for the Fund to obtain accurate market quotations for purposes of valuing its portfolio and calculating its net asset value. Moreover, the lack of a liquid trading market may restrict the availability of securities for the Fund to purchase and may also have the effect of limiting the ability of the Fund to sell securities at their fair value in response to changes in the economy or the financial markets. Lower grade securities also present risks based on payment expectations. If an issuer calls the obligation for redemption (often a feature of fixed income securities), the Fund may have to replace the security with a lower yielding security, resulting in a decreased return for investors. Also, as the principal value of nonconvertible bonds and preferred stocks moves inversely with movements in interest rates, in the event of rising interest rates, the value of the securities held by the Fund may decline proportionately more than a portfolio consisting of higher rated securities. Investments in zero coupon bonds may be more speculative and subject to greater fluctuations in value due to changes in interest rates than bonds that pay regular income streams.

As part of its investment in non-investment grade securities, the Fund may invest in securities of issuers in default. The Fund will make an investment in securities of issuers in default only when the Investment Adviser believes that such issuers will honor their obligations or emerge from bankruptcy protection under a plan pursuant to which the securities received by the Fund in exchange for its defaulted securities will have a value in excess of the Fund's investment. By investing in securities of issuers in default, the Fund bears the risk that these issuers will not continue to honor their obligations or emerge from bankruptcy protection or that the value of the securities will not otherwise appreciate.

In addition to using recognized rating agencies and other sources, the Investment Adviser also performs its own analysis of issues in seeking investments that it believes to be underrated (and thus higher yielding) in light of the financial condition of the issuer. Its analysis of issuers may include, among other things, current and anticipated cash flow and borrowing requirements, value of assets in relation to historical cost, strength of management, responsiveness to business conditions, credit standing, and current anticipated results of operations. In selecting investments for the Fund, the Investment Adviser may also consider general business conditions, anticipated changes in interest rates, and the outlook for specific industries.

Subsequent to its purchase by the Fund, an issue of securities may cease to be rated or its rating may be reduced. In addition, it is possible that statistical rating agencies may change their ratings of a particular issue to reflect subsequent events. Moreover, such ratings do not assess the risk of a decline in market value. None of these events will require the sale of the securities by the Fund, although the Investment Adviser will consider these events in determining whether the Fund should continue to hold the securities.

The market for lower grade and comparable unrated securities has experienced several periods of significantly adverse price and liquidity, particularly at or around times of economic recessions. Past market recessions have adversely affected the value of such securities as well as the ability of certain issuers of such securities to repay principal and pay interest thereon or to refinance such securities. The market for those securities may react in a similar fashion in the future.

*Futures Contracts and Options on Futures.* On behalf of the Fund, the Investment Adviser may, subject to the Fund's investment restrictions and guidelines of the Board, purchase and sell financial futures contracts and options thereon which are traded on a commodities exchange or board of trade for certain hedging, yield enhancement and risk management purposes. These futures contracts and related options may be on debt securities, financial indices, securities indices, United States government securities and foreign currencies. A financial futures contract is an agreement to purchase or sell an agreed amount of securities or currencies at a set price for delivery in the future. A sale of a futures contract (or a short futures position) means the assumption of a contractual obligation to deliver the assets underlying the contract at a specified price at a specified future time. A purchase of a futures contract (or a long futures position) means the assumption of a contractual obligation to acquire the assets underlying the contract at a specified price at a specified future time. Certain futures contracts, including stock and bond index futures, are settled on a net cash payment basis rather than by the sale and delivery of the assets underlying the futures contracts. No consideration will be paid or received by the Fund upon the purchase or sale of a futures contract. Initially, the Fund will be required to deposit with the broker an amount of cash or cash equivalents equal to approximately 1% to 10% of the contract amount (this amount is subject to change by the exchange or board of trade on which the contract is traded and brokers or members of such board of trade may charge a higher amount). This amount is known as initial margin and is in the nature of a performance bond or good faith deposit on the contract. Subsequent payments, known as variation margin, to and from the broker will be made daily as the price of the index or security underlying the futures contract fluctuates. At any time prior to the expiration of a futures contract, the Fund may close the position by taking an opposite position, which will operate to terminate its existing position in the contract.

An option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract at a specified exercise price at any time prior to the expiration of the option. Upon exercise of an option, the delivery of the futures position by the

writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance in the writer's futures margin account attributable to that contract, which represents the amount by which the market price of the futures contract exceeds, in the case of a call option, or is less than, in the case of a put option, the exercise price of the option on the futures contract. The potential loss related to the purchase of an option on a futures contract is limited to the premium paid for the option (plus transaction costs). Because the value of the option purchased is fixed at the point of sale, there are no daily cash payments by the purchaser to reflect changes in the value of the underlying contract; however, the value of the option does change daily and that change would be reflected in the net assets of the Fund.

Futures and options on futures entail certain risks, including but not limited to the following: no assurance that futures contracts or options on futures can be offset at favorable prices, possible reduction of the yield of the Fund due to the use of hedging, possible reduction in value of both the securities hedged and the hedging instrument, possible lack of liquidity due to daily limits on price fluctuations, imperfect correlation between the contracts and the securities being hedged, losses from investing in futures transactions that are potentially unlimited and the segregation requirements described below.

In the event the Fund sells a put option or enters into long futures contracts, under current interpretations of the 1940 Act, an amount of cash, U.S. government securities or other liquid securities equal to the market value of the contract must be deposited and maintained in a segregated account with the Fund's custodian to collateralize the positions, in order for the Fund to avoid being treated as having issued a senior security in the amount of its obligations. For short positions in futures contracts and sales of call options, the Fund may establish a segregated account (not with a futures commission merchant or broker) with cash or liquid securities that, when added to amounts deposited with a futures commission merchant or a broker as margin, equal the market value of the instruments or currency underlying the futures contract or call option or the market price at which the short positions were established.

The Investment Adviser has claimed an exclusion, granted to operators of registered investment companies like the Fund, from registration as a commodity pool operator (CPO) with respect to the Fund under the Commodity Exchange Act (the CEA), and, therefore, is not subject to registration or regulation with respect to the Fund under the CEA. As a result, the Fund is limited in its ability to use commodity futures (which include futures on broad-based securities indexes and interest rate futures) or options on commodity futures, engage in certain swaps transactions or make certain other investments (whether directly or indirectly through investments in other investment vehicles) for purposes other than bona fide hedging, as defined in the rules of the Commodity Futures Trading Commission. With respect to transactions other than for bona fide hedging purposes, either: (1) the aggregate initial margin and premiums required to establish the Fund's positions in such investments may not exceed 5% of the liquidation value of its portfolio (after accounting for unrealized profits and unrealized losses on any such investments); or (2) the aggregate net notional value of such instruments, determined at the time the most recent position was established, may not exceed 100% of the liquidation value of its portfolio (after accounting for unrealized profits and unrealized losses on any such positions). In addition to meeting one of the foregoing trading limitations, the Fund may not market itself as a commodity pool or otherwise as a vehicle for trading in the futures, options or swaps markets. If the Investment Adviser were required to register as a CPO with respect to the Fund, compliance with additional registration and regulatory requirements would increase Fund expenses. Other potentially adverse regulatory initiatives could also develop.

*Swap Contracts.* On behalf of the Fund, the Investment Adviser may, subject to the Fund's investment restrictions and guidelines established by the Board, enter into swap transactions. Swap contracts generally will be used by the Fund for the purpose of seeking to increase the income of the Fund. The use of swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In a typical swap transaction on an equity security, a set of future cash flows is exchanged between two counterparties. One of these cash flow streams will typically be based on a reference interest rate combined with the performance of a notional value of shares of a stock. The other will be based on the performance of the shares of a stock. Depending on the general state of short-term interest rates and the returns on the Fund's portfolio securities at the time an equity swap transaction reaches its scheduled termination date, there is a risk that the Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as on the expiring transaction.

*Options.* On behalf of the Fund, the Investment Adviser may, subject to the guidelines of the Board, purchase or sell (*i.e.*, write) options on securities, securities indices and foreign currencies which are listed on a national securities exchange or in the U.S. over-the-counter (OTC) markets as a means of achieving additional return or of hedging the value of the Fund's portfolio. The Fund may write covered call options on common stocks that it owns or has an immediate right to acquire through conversion or exchange of other securities in an amount not to exceed 25% of total assets or invest up to 10% of its total assets in the purchase of put options on common stocks that the Fund owns or may acquire through the conversion or exchange of other securities that it owns.

A call option is a contract that gives the holder of the option the right to buy from the writer (seller) of the call option, in return for a premium paid, the security underlying the option at a specified exercise price at any time during the term of the option. The writer of the call option has the obligation upon exercise of the option to deliver the underlying security upon payment of the exercise price during the option period.

A put option is a contract that gives the holder of the option the right to sell to the writer (seller), in return for the premium, the underlying security at a specified price during the term of the option. The writer of the put, who receives the premium, has the obligation to buy the underlying security upon exercise, at the exercise price during the option period.

If the Fund has written an option, it may terminate its obligation by effecting a closing purchase transaction. This is accomplished by purchasing an option of the same series as the option previously written. There can be no assurance that a closing purchase transaction can be effected when the Fund so desires.

An exchange-traded option may be closed out only on an exchange which provides a secondary market for an option of the same series. Although the Fund will generally purchase or write only those options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange will exist for any particular option.

A call option is covered if the Fund owns the underlying instrument covered by the call or has an absolute and immediate right to acquire that instrument without additional cash consideration upon conversion or exchange of another instrument held in its portfolio (or for additional cash consideration held in a segregated account by its custodian). A call option is also covered if the Fund holds a call on the same instrument as the call written where the exercise price of the call held is (i) equal to or less than the exercise price of the call written or (ii) greater than the exercise price of the call written if the difference is maintained by the Fund in cash, U.S. government obligations or other high-grade short-term obligations in a segregated account with its custodian. A put option is covered if the Fund maintains cash or other high-grade short-term obligations with a value equal to the exercise price in a segregated account with its custodian, or else holds a put on the same instrument as the put written where the exercise price of the put held is equal to or greater than the exercise price of the put written. If the Fund has written an option, it may terminate its obligation by effecting a closing purchase transaction. This is accomplished by purchasing an option of the same series as the option previously written. However, once the Fund has been assigned an exercise notice, it will be unable to effect a closing purchase transaction. Similarly, if the Fund is the holder of an option, it may liquidate its position by effecting a closing sale transaction. This is accomplished by selling an option with the same terms as the option previously purchased. There can be no assurance that either a closing purchase or sale transaction can be effected when the Fund so desires.

The Fund will realize a profit from a closing transaction if the price of the transaction is less than the premium it received from writing the option or is more than the premium it paid to purchase the option; the Fund will realize a loss from a closing transaction if the price of the transaction is more than the premium it received from writing the option or is less than the premium it paid to purchase the option. Since call option prices generally reflect increases in the price of the underlying security, any loss resulting from the repurchase of a call option may also be wholly or partially offset by unrealized appreciation of the underlying security. Other principal factors affecting the market value of a put or a call option include supply and demand, interest rates, the current market price and price volatility of the underlying security and the time remaining until the expiration date. Gains and losses on investments in options depend, in part, on the ability of the Investment Adviser to predict correctly the effect of these factors. The use of options cannot serve as a complete hedge since the price movement of securities underlying the options will not necessarily follow the price movements of the portfolio securities subject to the hedge.

An option position may be closed out only on an exchange that provides a secondary market for an option with the same terms or in a private transaction. Although the Fund will generally purchase or write only those options for which there appears to be an active secondary

market, there is no assurance that a liquid secondary market on an exchange will exist for any particular option. In such event, it might not be possible to effect closing transactions in particular options, so that the Fund would have to exercise its options in order to realize any profit and would incur brokerage commissions upon the exercise of call options and upon the subsequent disposition of underlying securities for the exercise of put options. If the Fund, as a covered call option writer, is unable to effect a closing purchase transaction in a secondary market, it will not be able to sell the underlying security until the option expires or it delivers the underlying security upon exercise or otherwise covers the position.

In addition to options on securities, the Fund may also purchase and sell call and put options on securities indices. A stock index reflects in a single number the market value of many different stocks. Relative values are assigned to the stocks included in an index and the index fluctuates with changes in the market values of the stocks. The options give the holder the right to receive a cash settlement during the term of the option based on the difference between the exercise price and the value of the index. By writing a put or call option on a securities index, the Fund is obligated, in return for the premium received, to make delivery of this amount. The Fund may offset its position in the stock index options prior to expiration by entering into a closing transaction on an exchange or it may let the option expire unexercised.

The Fund may also buy or sell put and call options on foreign currencies. A put option on a foreign currency gives the purchaser of the option the right to sell a foreign currency at the exercise price until the option expires. A call option on a foreign currency gives the purchaser of the option the right to purchase the currency at the exercise price until the option expires. Currency options traded on U.S. or other exchanges may be subject to position limits which may limit the ability of the Fund to reduce foreign currency risk using such options. Over-the-counter options differ from exchange-traded options in that they are two-party contracts with price and other terms negotiated between buyer and seller and generally do not have as much market liquidity as exchange-traded options. Over-the-counter options are considered illiquid securities.

Use of options on securities indices entails the risk that trading in the options may be interrupted if trading in certain securities included in the index is interrupted. The Fund will not purchase these options unless the Investment Adviser is satisfied with the development, depth and liquidity of the market and the Investment Adviser believes the options can be closed out.

Price movements in the portfolio of the Fund may not correlate precisely with the movements in the level of an index and, therefore, the use of options on indices cannot serve as a complete hedge and will depend, in part, on the ability of the Investment Adviser to predict correctly movements in the direction of the stock market generally or of a particular industry. Because options on securities indices require settlement in cash, the Fund may be forced to liquidate portfolio securities to meet settlement obligations.

Although the Investment Adviser will attempt to take appropriate measures to minimize the risks relating to the Fund's writing of put and call options, there can be no assurance that the Fund will succeed in any option writing program it undertakes.

*Securities Index Futures Contracts and Options Thereon.* Purchases or sales of securities index futures contracts are used for hedging purposes to attempt to protect the Fund's current or intended investments from broad fluctuations in stock or bond prices. For example, the Fund may sell securities index futures contracts in anticipation of or during a market decline to attempt to offset the decrease in market value of its securities portfolio that might otherwise result. If such decline occurs, the loss in value of portfolio securities may be offset, in whole or part, by gains on the futures position. When the Fund is not fully invested in the securities market and anticipates a significant market advance, it may purchase securities index futures contracts in order to gain rapid market exposure that may, in part or entirely, offset increases in the cost of securities that it intends to purchase. As such purchases are made, the corresponding positions in securities index futures contracts will be closed out. The Fund may write put and call options on securities index futures contracts for hedging purposes.

*Currency Futures and Options Thereon.* Generally, foreign currency futures contracts and options thereon are similar to the interest rate futures contracts and options thereon discussed previously. By entering into currency futures and options thereon, the Fund will seek to establish the rate at which it will be entitled to exchange U.S. dollars for another currency at a future time. By selling currency futures, the Fund will seek to establish the number of dollars it will receive at delivery for a certain amount of a foreign currency. In this way, whenever the Fund anticipates a decline in the value of a foreign currency against the U.S. dollar, the Fund can attempt to "lock in" the U.S. dollar value of some or all of the securities held in its portfolio that are denominated in that currency. By purchasing currency futures, the Fund can establish the number of dollars it will be required to pay for a specified amount of a foreign currency in a future month. Thus, if the Fund intends to buy securities in the future and expects the U.S. dollar to decline against the relevant foreign currency during the period before the purchase is effected, the Fund can attempt to "lock in" the price in U.S. dollars of the securities it intends to acquire.

The purchase of options on currency futures will allow the Fund, for the price of the premium and related transaction costs it must pay for the option, to decide whether or not to buy (in the case of a call option) or to sell (in the case of a put option) a futures contract at a specified price at any time during the period before the option expires. If the Investment Adviser, in purchasing an option, has been correct in its judgment concerning the direction in which the price of a foreign currency would move as against the U.S. dollar, the Fund may exercise the option and thereby take a futures position to hedge against the risk it had correctly anticipated or close out the option position at a gain that will offset, to some extent, currency exchange losses otherwise suffered by the Fund. If exchange rates move in a way the Fund did not anticipate, however, the Fund will have incurred the expense of the option without obtaining the expected benefit; any such movement in exchange rates may also thereby reduce, rather than enhance, the Fund's profits on its underlying securities transactions.

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*Forward Currency Exchange Contracts.* Subject to guidelines of the Board, the Fund may enter into forward foreign currency exchange contracts to protect the value of its portfolio against future changes in the level of currency exchange rates. The Fund may enter into such contracts on a spot (i.e., cash) basis at the rate then prevailing in the currency exchange market or on a forward basis, by entering into a forward contract to purchase or sell currency. A forward contract on foreign currency is an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days agreed upon by the parties from the date of the contract at a price set on the date of the contract. The Fund's dealings in forward contracts generally will be limited to hedging involving either specific transactions or portfolio positions. The Fund does not have an independent limitation on its investments in foreign currency futures contracts and options on foreign currency futures contracts.

At or before the maturity of a forward sale contract, the Fund may either sell a portfolio security and make delivery of the currency, or retain the security and offset its contractual obligations to deliver the currency by purchasing a second contract pursuant to which the Fund will obtain, on the same maturity date, the same amount of the currency which it is obligated to deliver. If the Fund retains the portfolio security and engages in an offsetting transaction, the Fund, at the time of execution of the offsetting transaction, will incur a gain or a loss to the extent that movement has occurred in forward contract prices. Should forward prices decline during the period between entering into a forward contract by the Fund for the sale of a currency and the date it enters into an offsetting contract for the purchase of the currency, the Fund will realize a gain to the extent the price of the currency it has agreed to purchase is less than the price of the currency it has agreed to sell. Should forward prices increase, the Fund will suffer a loss to the extent the price of the currency it has agreed to purchase exceeds the price of the currency it has agreed to sell. Closing out forward purchase contracts involves similar offsetting transactions.

The cost to the Fund of engaging in currency transactions varies with factors such as the currency involved, the length of the contract period and the market conditions then prevailing. Because forward transactions in currency exchange are usually conducted on a principal basis, no fees or commissions are involved. The use of foreign currency contracts does not eliminate fluctuations in the underlying prices of the securities, but it does establish a rate of exchange that can be achieved in the future. In addition, although forward currency contracts limit the risk of loss due to a decline in the value of the hedged currency, they also limit any potential gain that might result if the value of the currency increases.

If a decline in any currency is generally anticipated by the Investment Adviser, the Fund may not be able to contract to sell the currency at a price above the level to which the currency is anticipated to decline.

*Repurchase Agreements.* The Fund may enter into repurchase agreements with banks and non-bank dealers of United States government securities which are listed as reporting dealers of the Federal Reserve Bank and which furnish collateral at least equal in value or market price to the amount of their repurchase obligation. In a repurchase agreement, the Fund purchases a debt security from a seller who undertakes to repurchase the security at a specified resale price on an agreed future date. Repurchase agreements are generally for one business day and generally will not have a duration of longer than one week. The SEC has taken the position that, in economic reality, a repurchase agreement is a loan by a fund to the other party to the transaction secured by securities transferred to the fund. The resale price generally exceeds the purchase price by an amount which reflects an agreed upon market interest rate for the term of the repurchase agreement. The Fund's risk is primarily that, if the seller defaults, the proceeds from the disposition of the underlying securities and other collateral for the seller's obligation may be less than the repurchase price. If the seller becomes insolvent, the Fund might be delayed in or prevented from selling the collateral. In the event of a default or bankruptcy by a seller, the Fund will promptly seek to liquidate the collateral. To the extent that the proceeds from any sale of the collateral upon a default in the obligation to repurchase is less than the repurchase price, the Fund will experience a loss. If the financial institution that is a party to the repurchase agreement petitions for bankruptcy or becomes subject to the United States Bankruptcy Code, the law regarding the rights of the Fund is unsettled. As a result, under extreme circumstances, there may be a restriction on the Fund's ability to sell the collateral and the Fund could suffer a loss.

*Loans of Portfolio Securities.* To increase income, the Fund may lend its portfolio securities to securities broker-dealers or financial institutions if (i) the loan is collateralized in accordance with applicable regulatory requirements and (ii) no loan will cause the value of all loaned securities to exceed 20% of the value of its total assets. If the borrower fails to maintain the requisite amount of collateral, the loan automatically terminates and the Fund could use the collateral to replace the securities while holding the borrower liable for any excess of replacement cost over the value of the collateral. As with any extension of credit, there are risks of delay in recovery and in some cases even loss of rights in collateral should the borrower of the securities fail financially.

While these loans of portfolio securities will be made in accordance with guidelines approved by the Fund's Board, there can be no assurance that borrowers will not fail financially. On termination of the loan, the borrower is required to return the securities to the Fund, and any gain or loss in the market price during the loan would inure to the Fund. If the counterparty to the loan petitions for bankruptcy or becomes subject to the United States Bankruptcy Code, the law regarding the Fund's

rights is unsettled. As a result, under these circumstances, there may be a restriction on the Fund's ability to sell the collateral and it would suffer a loss.

*Borrowing.* The Fund may borrow money in accordance with its investment restrictions, including as a temporary measure for extraordinary or emergency purposes. It may not borrow for investment purposes.

*Leveraging.* As provided in the 1940 Act, and subject to compliance with the Fund's investment limitations, the Fund may issue senior securities representing stock, such as preferred stock, so long as immediately following such issuance of stock, its total assets exceed 200% of the amount of such stock. The use of leverage magnifies the impact of changes in net asset value. For example, a fund that uses 33% leverage will show a 1.5% increase or decline in net asset value for each 1% increase or decline in the value of its total assets. In addition, if the cost of leverage exceeds the return on the securities acquired with the proceeds of leverage, the use of leverage will diminish, rather than enhance, the return to the Fund. The use of leverage generally increases the volatility of returns to the Fund.

Further information on the investment objectives and policies of the Fund is set forth in the SAI.

*Investment Restrictions.* The Fund has adopted certain investment restrictions as fundamental policies of the Fund. Under the 1940 Act, a fundamental policy may not be changed without the vote of a majority, as defined in the 1940 Act, of the outstanding voting securities of the Fund (voting together as a single class). In addition, pursuant to the Fund's Articles Supplementary of each series of preferred stock, a majority, as defined in the 1940 Act, of the outstanding preferred stock of the Fund (voting separately as a single class) is also required to change a fundamental policy, as defined in the 1940 Act. The Fund's investment restrictions are more fully discussed under "Investment Restrictions" in the SAI.

*Portfolio Turnover.* The Fund does not engage in the trading of securities for the purpose of realizing short-term profits, but adjusts its portfolio as it deems advisable in view of prevailing or anticipated market conditions to accomplish its investment objectives. A high rate of portfolio turnover involves correspondingly greater brokerage commission expenses than a lower rate, and such expenses must be borne by the Fund and its shareholders. High portfolio turnover may also result in the realization of substantial net short-term capital gains and any distributions resulting from such gains will be taxable at ordinary income rates for United States federal income tax purposes. The Fund's portfolio turnover rates for the fiscal years ended December 31, 2012 and 2011 were 4.2% and 6.3%, respectively. The portfolio turnover rate is calculated by dividing the lesser of sales or purchases of portfolio securities by the average monthly value of a fund's portfolio securities. For purposes of this calculation, portfolio securities exclude purchases and sales of debt securities having a maturity at the date of purchase of one year or less.

## RISK FACTORS AND SPECIAL CONSIDERATIONS

Investors should consider the following risk factors and special considerations associated with investing in the Fund:

### **Leverage Risk**

The Fund uses financial leverage for investment purposes by issuing preferred stock. As of December 31, 2012, the amount of leverage represented approximately 24% of the Fund's net assets. The Series C Auction Rate Preferred, Series D Preferred, Series E Auction Rate Preferred, Series G Preferred and Series H Preferred have the same seniority with respect to distributions and liquidation preference. Preferred stock has seniority over common stock.

The Fund's use of leverage, which can be described as exposure to changes in price at a ratio greater than the amount of equity invested, either through the issuance of preferred stock, borrowing or other forms of market exposure, magnifies both the favorable and unfavorable effects of price movements in the investments made by the Fund. The Fund's leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. The Fund cannot assure that the issuance of preferred stock will result in a higher yield or return to the holders of the common stock.

**Preferred Stock Risk.** The issuance of preferred stock causes the net asset value and market value of the common stock to become more volatile. If the dividend rate on the preferred stock approaches the net rate of return on the Fund's investment portfolio, the benefit of leverage to the holders of the common stock would be reduced. If the dividend rate on the preferred stock plus the management fee annual rate of 1.00% (as applicable) exceeds the net rate of return on the Fund's portfolio, the leverage will result in a lower rate of return to the holders of common stock than if the Fund had not issued preferred stock.

Any decline in the net asset value of the Fund's investments would be borne entirely by the holders of common stock. Therefore, if the market value of the Fund's portfolio declines, the leverage will result in a greater decrease in net asset value to the holders of common stock than if the Fund were not leveraged. This greater net asset value decrease will also tend to cause a greater decline in the market price for the common stock. The Fund might be in danger of failing to maintain the required asset coverage of the preferred stock or of losing its ratings on the preferred stock or, in an extreme case, the Fund's current investment income might not be sufficient to meet the dividend requirements on the preferred stock. In order to counteract such an event, the Fund might need to liquidate investments in order to fund a redemption of some or all of the preferred stock.

In addition, the Fund would pay (and the holders of common stock will bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred shares, including the advisory fees on the incremental assets attributable to such shares.

Holders of preferred stock may have different interests than holders of common stock and may at times have disproportionate influence over the Fund's affairs. Holders of preferred stock, voting separately as a single class, would have the right to elect two members of the Board at all times and in the event dividends become two full years in arrears would have the right to elect a majority of the Directors until such arrearage is completely eliminated. In addition, preferred shareholders have class voting rights on certain matters, including changes in fundamental investment restrictions and conversion of the fund to open-end status, and accordingly can veto any such changes.

Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of the Fund's common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair the Fund's ability to maintain its qualification as a regulated investment company for federal income tax purposes. While the Fund intends to redeem its preferred stock to the extent necessary to enable the Fund to distribute its income as required to maintain its qualification as a regulated investment company under the Code, there can be no assurance that such actions can be effected in time to meet the Code requirements.

**Portfolio Guidelines of Rating Agencies for Preferred Stock and/or Credit Facility.** In order to obtain and maintain attractive credit quality ratings for preferred stock, the Fund must comply with investment quality, diversification and other guidelines established by the relevant rating agencies. These guidelines could affect portfolio decisions and may be more stringent than those imposed by the 1940 Act.

**Impact on Common Stock.** The following table is furnished in response to requirements of the SEC. It is designed to illustrate the effect of leverage on common stock total return, assuming investment portfolio total returns (comprised of net investment income of the Fund, realized gains or losses of the Fund and changes in the value of the securities held in the Fund's portfolio) of -10%, -5%, 0%, 5% and 10%. These assumed investment portfolio returns are hypothetical figures and are not necessarily indicative of the investment portfolio returns experienced or expected to be experienced by the Fund. See Risks. The table further reflects leverage representing 23% of the Fund's net assets, the Fund's current projected blended annual average leverage dividend or interest rate of 3.918%, a management fee at an annual rate of 1.00% of the liquidation preference of any outstanding preferred shares and estimated annual incremental expenses attributable to any outstanding preferred shares of 0.01% of the Fund's net assets attributable to common shares.

Assumed Portfolio Total Return (Net of Expenses)	(10)%	(5)%	0%	5%	10%
Common Stock Total Return	(14.45)%	(7.96)%	1.47%	5.03%	11.52%

Common stock total return is composed of two elements – the common share distributions paid by the Fund (the amount of which is largely determined by the taxable income of the Fund (including realized gains or losses) after paying interest on any debt and/or dividends on any preferred shares) and unrealized gains or losses on the value of the securities the Fund owns. As required by SEC rules, the table assumes that the Fund is more likely to suffer capital losses than to enjoy total return. For example, to assume a total return of 0% the Fund must assume that the income it receives on its investments is entirely offset by expenses and losses in the value of those investments.

### **Special Risks to Holders of Fixed Rate Preferred Stock**

*Illiquidity Prior to Exchange Listing.* Prior to the offering, there will be no public market for any additional series of Fixed Rate Preferred Stock. In the event any additional series of Fixed Rate Preferred Stock are issued, prior application will have been made to list such shares on a national securities exchange, which will likely be the NYSE. However, during an initial period, which is not expected to exceed 30 days after the date of its initial issuance, such shares may not be listed on any securities exchange. During such period, the underwriters may make a market in such shares, though, they will have no obligation to do so. Consequently, an investment in such shares may be illiquid during such period.

*Market Price Fluctuation.* Shares of Fixed Rate Preferred Stock may trade at a premium to or discount from liquidation value for various reasons, including changes in interest rates.

### **Special Risks for Holders of Auction Rate Preferred Stock**

*Auction Risk.* Since February 2008, the auctions for the Auction Rate Preferred Stock have failed and have continued to fail. Failing means that more Auction Rate Preferred Stock is offered for sale than there are buyers for those shares. During this period while auctions have continued to fail, holders of the Fund's Auction Rate Preferred Stock who wanted to sell their shares at par through the auction process have been unable to do so. Holders have continued to receive dividends on their Auction Rate Preferred Stock at a maximum rate determined by reference to short term rates, rather than at a price set by auction. At present the maximum rate is equal to 175% of the AA Financial Composite Commercial Paper Rate, determined on each calculation date. For the fiscal quarter ended December 31, 2012, the dividend rates for the Series C Auction Rate Preferred and the Series E Auction Rate Preferred ranged from 0.035% to 0.210 and 0.070% to 0.280%, respectively. A failed auction is not a default and the Fund has no obligation under its Charter to redeem its Auction Rate Preferred Stock because the auctions continue to fail. The Fund cannot estimate when or if auction markets for the Auction Rate Preferred Stock will resume functioning. There appears to be a secondary market in certain auction market preferred issues, although the Fund is not aware whether there is or will be an active trading market for the Fund's shares.

If the auctions were to resume, which management does not consider to be likely, other risks would apply. For example, if you place an order (a hold order) at an auction to retain Auction Rate Preferred Stock only at a specified rate that exceeds the rate set at the auction, you will not retain your Auction Rate Preferred Stock. Additionally, if you place a hold order without specifying a rate below which you would not wish to continue to hold your shares and the auction sets a below-market rate, you will receive a lower rate of return on your shares than the market rate. Finally, the dividend period may be changed, subject to certain conditions and with notice to the holders of the Auction Rate Preferred Stock, which could also affect the liquidity of your investment.

*Secondary Market Risk.* If you try to sell your Auction Rate Preferred Stock between auctions, you may not be able to sell them for their liquidation preference per share or such amount per share plus accumulated dividends. If the Fund has designated a special dividend period of more than seven days, changes in interest rates could affect the price you would receive if you sold your shares in the secondary market. Broker-dealers that maintain a secondary trading market for the Auction Rate Preferred Stock are not required to maintain this market and the Fund is not required to redeem Auction Rate Preferred Stock if either an auction or an attempted secondary market sale fails because of a lack of buyers. The Auction Rate Preferred Stock will not be registered on a stock exchange. If you sell your Auction Rate Preferred Stock to a broker-dealer or other party between auctions, you may receive less than the price you paid for them.

### **Special Risks for Holders of Subscription Rights**

There is a risk that changes in yield or changes in the credit quality of the Fund may result in the underlying preferred stock or common stock purchasable upon exercise of the subscription rights being less attractive to investors at the conclusion of the subscription period. This may reduce or eliminate the value of the subscription rights. Investors who receive subscription rights may find that there is no market to sell rights they do not wish to exercise. If investors exercise only a portion of the rights, the number of preferred shares issued may be reduced, and the preferred stock or common stock may trade at less favorable prices than larger offerings for similar securities.

### **Common Stock Distribution Policy Risk**

The Fund has adopted a policy, which may be changed at any time by the Board, of paying a minimum annual distribution of 10% of the average net asset value of the Fund to common shareholders. In the event the Fund does not generate a total return from dividends and interest received and net realized capital gains in an amount equal to or in excess of its stated distribution in a given year, the Fund may return capital as part of such distribution, which may have the effect of decreasing the asset coverage per share with respect to the Fund's preferred stock. Any return of capital should not be considered by investors as yield or total return on their investment in the Fund. For the fiscal year ended December 31, 2012, the Fund



made distributions of \$0.56 per share of common stock, of which approximately \$0.39 per share was deemed a return of capital. The total 2012 distributions of \$0.56 per share of common stock consisted of \$0.56 per share in the form of cash distributions. The Fund has made quarterly distributions with respect to its common stock since 1987. A portion of the distributions to common shareholders during sixteen of the twenty-five fiscal years since the Fund's inception has constituted a return of capital. The composition of each distribution is estimated based on the earnings of the Fund as of the record date for each distribution. The actual composition of each of the current year's distributions will be based on the Fund's investment activity through the end of the calendar year.

### **Value Investing Risk**

The Fund invests in dividend-paying common and preferred stocks that the Investment Adviser believes are undervalued or inexpensive relative to other investments. These types of securities may present risks in addition to the general risks associated with investing in common and preferred stocks. These securities generally are selected on the basis of an issuer's fundamentals relative to current market price. Such securities are subject to the risk of mis-estimation of certain fundamental factors. In addition, during certain time periods market dynamics may strongly favor growth stocks of issuers that do not display strong fundamentals relative to market price based upon positive price momentum and other factors. Disciplined adherence to a value investment mandate during such periods can result in significant underperformance relative to overall market indices and other managed investment vehicles that pursue growth style investments and/or flexible equity style mandates.

### **Non-Diversified Status**

The Fund is classified as a non-diversified investment company under the 1940 Act, which means it is not limited by the 1940 Act in the proportion of its assets that may be invested in the securities of a single issuer. As a non-diversified investment company, the Fund may invest in the securities of individual issuers to a greater degree than a diversified investment company. As a result, the Fund may be more vulnerable to events affecting a single issuer and therefore subject to greater volatility than a fund that is more broadly diversified. Accordingly, an investment in the Fund may present greater risk to an investor than an investment in a diversified company. To qualify as a regulated investment company, or RIC, for purposes of the Code, the Fund has in the past conducted and intends to conduct its operations in a manner that will relieve it of any liability for federal income tax to the extent its earnings are distributed to shareholders. To so qualify as a regulated investment company, among other requirements, the Fund will limit its investments so that, at the close of each quarter of the taxable year:

not more than 25% of the market value of its total assets will be invested in the securities (other than United States government securities or the securities of other RICs) of a single issuer, any two or more issuers in which the fund owns 20% or more of the voting securities and which are determined to be engaged in the same, similar or related trades or businesses or in the securities of one or more qualified publicly traded partnerships (as defined in the Code); and

at least 50% of the market value of the Fund's assets will be represented by cash, securities of other regulated investment companies, United States government securities and other securities, with such other securities limited in respect of any one issuer to an amount not greater than 5% of the value of its assets and not more than 10% of the outstanding voting securities of such issuer.

### **Market Value and Net Asset Value**

The Fund is a non-diversified, closed-end management investment company. Shares of closed-end funds are bought and sold in the securities markets and may trade at either a premium to or discount from net asset value. Listed shares of closed-end investment companies often trade at discounts from net asset value. This characteristic of shares of a closed-end fund is a risk separate and distinct from the risk that its net asset value may decrease. The Fund cannot predict whether its listed stock will trade at, below or above net asset value. Since inception, the Fund's shares of common stock have traded at both premiums to and discounts from net asset value. As of December 31, 2012, the shares closed at a discount of 0.36%. Shareholders desiring liquidity may, subject to applicable securities laws, trade their Fund shares on the NYSE or other markets on which such shares may trade at the then-current market value, which may differ from the then-current net asset value. Shareholders will incur brokerage or other transaction costs to sell stock.

### **Industry Concentration Risk**

The Fund may invest up to 25% of its total assets in securities of a single industry. Should the Fund choose to do so, the net asset value of the Fund will be more susceptible to factors affecting those particular types of companies, which, depending on the particular industry, may include, among others: governmental regulation; inflation; cost increases in raw



materials, fuel and other operating expenses; technological innovations that may render existing products and equipment obsolete; and increasing interest rates resulting in high interest costs on borrowings needed for capital investment, including costs associated with compliance with environmental and other regulations. In such circumstances, the Fund's investments may be subject to greater risk and market fluctuation than a fund that had securities representing a broader range of industries.

### **Special Risks Related to Preferred Securities**

There are special risks associated with the Fund's investing in preferred securities, including:

*Deferral.* Preferred securities may include provisions that permit the issuer, at its discretion, to defer dividends or distributions for a stated period without any adverse consequences to the issuer. If the Fund owns a preferred security that is deferring its dividends or distributions, the Fund may be required to report income for tax purposes although it has not yet received such income.

*Non-Cumulative Dividends.* Some preferred securities are non-cumulative, meaning that the dividends do not accumulate and need not ever be paid. A portion of the portfolio may include investments in non-cumulative preferred securities, whereby the issuer does not have an obligation to make up any arrearages to its shareholders. Should an issuer of a non-cumulative preferred security held by the Fund determine not to pay dividends or distributions on such security, the Fund's return from that security may be adversely affected. There is no assurance that dividends or distributions on non-cumulative preferred securities in which the Fund invests will be declared or otherwise made payable.

*Subordination.* Preferred securities are subordinated to bonds and other debt instruments in an issuer's capital structure in terms of priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than more senior debt security instruments.

*Liquidity.* Preferred securities may be substantially less liquid than many other securities, such as common stocks or U.S. government securities.

*Limited Voting Rights.* Generally, preferred security holders (such as the Fund) have no voting rights with respect to the issuing company unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may be entitled to elect a number of directors to the issuer's board. Generally, once all the arrearages have been paid, the preferred security holders no longer have voting rights.

*Special Redemption Rights.* In certain varying circumstances, an issuer of preferred securities may redeem the securities prior to a specified date. For instance, for certain types of preferred securities, a redemption may be triggered by a change in federal income tax or securities laws. A redemption by the issuer may negatively impact the return of the security held by the Fund.

### **Market Disruption Risk**

Certain events have a disruptive effect on the securities markets, such as terrorist attacks, war and other geopolitical events. The Fund cannot predict the effects of similar events in the future on the U.S. economy. Lower rated securities and securities of issuers with smaller market capitalizations tend to be more volatile than higher rated securities and securities of issuers with larger market capitalizations so that these events and any actions resulting from them may have a greater impact on the prices and volatility of lower rated securities and securities of issuers with smaller market capitalizations than on higher rated securities and securities of issuers with larger market capitalizations.

### **Interest Rate Transactions**

The Fund may enter into interest rate swap or cap transactions in relation to all or a portion of its Auction Rate Preferred Stock in order to manage the impact on its portfolio of changes in the dividend rate of such stock. Through these transactions the Fund may, for example, obtain the equivalent of a fixed rate for such Auction Rate Preferred Stock that is lower than the Fund would have to pay if it issued Fixed Rate Preferred Stock. The use of interest rate swaps and caps is a highly specialized activity that involves certain risks to the Fund including, among others, counterparty risk and early termination risk. See [How the Fund Manages Risk Interest Rate Transactions](#).

**Foreign Securities**

The Fund may invest up to 35% of its total assets in securities of foreign issuers, determined at the time of purchase. Investments in the securities of foreign issuers involve certain considerations and risks not ordinarily associated with

investments in securities of domestic issuers. Foreign companies are not generally subject to uniform accounting, auditing and financial standards, and requirements comparable to those applicable to United States companies. Foreign securities exchanges, brokers and listed companies may be subject to less government supervision and regulation than exists in the United States. Dividend and interest income may be subject to withholding and other foreign taxes, which may adversely affect the net return on such investments. There may be difficulty in obtaining or enforcing a court judgment abroad. In addition, it may be difficult to effect repatriation of capital invested in certain countries. Also, with respect to certain countries, there are risks of expropriation, confiscatory taxation, political or social instability or diplomatic developments that could affect assets of the Fund held in foreign countries. Dividend income that the Fund receives from foreign securities may not be eligible for the special tax treatment applicable to qualified dividend income.

There may be less publicly available information about a foreign company than a United States company. Foreign securities markets may have substantially less volume than United States securities markets and some foreign company securities are less liquid than securities of otherwise comparable United States companies. A portfolio of foreign securities may also be adversely affected by fluctuations in the rates of exchange between the currencies of different nations and by exchange control regulations. Foreign markets also have different clearance and settlement procedures that could cause the Fund to encounter difficulties in purchasing and selling securities on such markets and may result in the Fund missing attractive investment opportunities or experiencing loss. In addition, a portfolio that includes foreign securities can expect to have a higher expense ratio because of the increased transaction costs on non-United States securities markets and the increased costs of maintaining the custody of foreign securities.

The Fund also may purchase sponsored American Depositary Receipts ( ADRs ) or United States dollar denominated securities of foreign issuers. ADRs are receipts issued by United States banks or trust companies in respect of securities of foreign issuers held on deposit for use in the United States securities markets. While ADRs may not necessarily be denominated in the same currency as the securities into which they may be converted, many of the risks associated with foreign securities may also apply to ADRs. In addition, the underlying issuers of certain depositary receipts, particularly unsponsored or unregistered depositary receipts, are under no obligation to distribute shareholder communications to the holders of such receipts, or to pass through to them any voting rights with respect to the deposited securities.

### **Emerging Markets**

The Fund may invest up to 35% of its total assets in foreign securities, including securities of issuers whose primary operations or principal trading market is in an emerging market. An emerging market country is any country that is considered to be an emerging or developing country by the International Bank for Reconstruction and Development (the World Bank ). Investing in securities of companies in emerging markets may entail special risks relating to potential political and economic instability and the risks of expropriation, nationalization, confiscation or the imposition of restrictions on foreign investment, the lack of hedging instruments and restrictions on repatriation of capital invested. Emerging securities markets are substantially smaller, less developed, less liquid and more volatile than the major securities markets. The limited size of emerging securities markets and limited trading value compared to the volume of trading in U.S. securities could cause prices to be erratic for reasons apart from factors that affect the quality of the securities. For example, limited market size may cause prices to be unduly influenced by traders who control large positions. Adverse publicity and investors' perceptions, whether or not based on fundamental analysis, may decrease the value and liquidity of portfolio securities, especially in these markets. Other risks include high concentration of market capitalization and trading volume in a small number of issuers representing a limited number of industries, as well as a high concentration of investors and financial intermediaries; overdependence on exports, including gold and natural resources exports, making these economies vulnerable to changes in commodity prices; overburdened infrastructure and obsolete or unseasoned financial systems; environmental problems; less developed legal systems; and less reliable securities custodial services and settlement practices.

### **Smaller Companies**

The Fund may invest in smaller companies that may benefit from the development of new products and services. These smaller companies may present greater opportunities for capital appreciation, and may also involve greater investment risk than larger, more established companies. For example, smaller companies may have more limited product lines, market or financial resources and their securities may trade less frequently and in lower volume than the securities of larger, more established companies. As a result, the prices of the securities of such smaller companies may fluctuate to a greater degree than the prices of securities of other issuers.

### **Investment Companies**

The Fund may invest in the securities of other investment companies to the extent permitted by law. To the extent the Fund invests in the common equity of investment companies, the Fund will bear its ratable share of any such investment

company's expenses, including management fees. The Fund will also remain obligated to pay management fees to the Investment Adviser with respect to the assets invested in the securities of other investment companies. In these circumstances holders of the Fund's common stock will be subject to duplicative investment expenses.

### **Non-Investment Grade Securities**

The Fund may invest up to 10% of its total assets in fixed income securities rated below investment grade by recognized statistical rating agencies or unrated securities of comparable quality. These securities, which may be preferred stock or debt, are predominantly speculative and involve major risk exposure to adverse conditions. Debt securities that are not rated or that are rated lower than BBB by S&P or lower than Baa by Moody's are referred to in the financial press as junk bonds. Such securities are subject to greater risks than investment grade securities, which reflect their speculative character, including the following:

greater volatility;

greater credit risk;

potentially greater sensitivity to general economic or industry conditions;

potential lack of attractive resale opportunities (illiquidity); and

additional expenses to seek recovery from issuers who default.

Fixed income securities purchased by the Fund may be rated as low as C by Moody's or D by S&P or may be unrated securities considered to be of equivalent quality. Securities that are rated C by Moody's are the lowest rated class and can be regarded as having extremely poor prospects of ever obtaining investment-grade standing. Debt rated D by S&P is in default or is expected to default upon maturity of payment date.

The market value of lower rated securities may be more volatile than the market value of higher rated securities and generally tends to reflect the market's perception of the creditworthiness of the issuer and short-term market developments to a greater extent than more highly rated securities, which primarily reflect fluctuations in general levels of interest rates. Generally, such non-investment grade securities and unrated securities of comparable quality offer a higher current yield than is offered by higher rated securities, but also (i) will likely have some quality and protective characteristics that, in the judgment of the rating organizations, are outweighed by large uncertainties or major risk exposures to adverse conditions and (ii) are predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligation. The market values of certain of these securities also tend to be more sensitive to individual corporate developments and changes in economic conditions than higher quality securities. In addition, such securities generally present a higher degree of credit risk. The risk of loss due to default by these issuers is significantly greater because such non-investment grade securities and unrated securities of comparable quality generally are unsecured and frequently are subordinated to the prior payment of senior indebtedness. In light of these risks, the Investment Adviser, in evaluating the creditworthiness of an issue, whether rated or unrated, will take various factors into consideration, which may include, as applicable, the issuer's operating history, financial resources and its sensitivity to economic conditions and trends, the market support for the facility financed by the issue, the perceived ability and integrity of the issuer's management, and regulatory matters.

Non-investment grade securities also present risks based on payment expectations. If an issuer calls the obligation for redemption (often a feature of fixed income securities), the Fund may have to replace the security with a lower yielding security, resulting in a decreased return for investors. Also, as the principal value of nonconvertible bonds and preferred stocks moves inversely with movements in interest rates, in the event of rising interest rates the value of the securities held by the Fund may decline proportionately more than a portfolio consisting of higher rated securities. Investments in zero coupon bonds may be more speculative and subject to greater fluctuations in value due to changes in interest rates than bonds that pay regular income streams.

Ratings are relative and subjective, and are not absolute standards of quality. Securities ratings are based largely on the issuer's historical financial condition and the rating agencies' analysis at the time of rating. Consequently, the rating assigned to any particular security is not necessarily a reflection of the issuer's current financial condition.

As part of its investment in lower grade securities, the Fund may invest in securities of issuers in default. The Fund will make an investment in securities of issuers in default only when the Investment Adviser believes that such issuers will honor their obligations or emerge from bankruptcy protection under a plan pursuant to which the securities received by the Fund in exchange for its defaulted securities will have a value in excess of the Fund's investment. By investing in securities of issuers in default, the Fund bears the risk that these issuers will not continue to honor their obligations or emerge from bankruptcy protection or that the value of the securities will not otherwise appreciate.

### **Equity Risk**

Investing in the Fund involves equity risk, which is the risk that the securities held by the Fund will fall in market value due to adverse market and economic conditions, perceptions regarding the industries in which the issuers of securities held by the Fund participate and the particular circumstances and performance of particular companies whose securities the Fund holds. An investment in the Fund represents an indirect economic stake in the securities owned by the Fund, which are for the most part traded on securities exchanges or in the over-the-counter markets. The market value of these securities, like other market investments, may move up or down, sometimes rapidly and unpredictably. The net asset value of the Fund may at any point in time be worth less than the amount at the time the shareholder invested in the Fund, even after taking into account any reinvestment of distributions.

### **Special Risks of Derivative Transactions**

The Fund may participate in derivative transactions. Such transactions entail certain execution, market, liquidity, hedging and tax risks. Participation in the options, futures or swaps markets and in currency exchange transactions involves investment risks and transaction costs to which the Fund would not be subject absent the use of these strategies. If the Investment Adviser's prediction of movements in the direction of the securities, foreign currency and interest rate markets are inaccurate, the consequences to the Fund may leave it in a worse position than if such strategies were not used. Risks inherent in the use of options, foreign currency, futures contracts and options on futures contracts, securities indices and foreign currencies include:

dependence on the Investment Adviser's ability to predict correctly movements in the direction of interest rates, securities prices and currency markets;

imperfect correlation between the price of options and futures contracts and options thereon and movements in the prices of the securities or currencies being hedged;

the fact that skills needed to use these strategies are different from those needed to select portfolio securities;

the possible absence of a liquid secondary market for any particular instrument at any time;

the possible need to defer closing out certain hedged positions to avoid adverse tax consequences; and

the possible inability of the Fund to purchase or sell a security at a time that otherwise would be favorable for it to do so, or the possible need for the Fund to sell a security at a disadvantageous time due to a need for the Fund to maintain cover or to segregate securities in connection with the hedging techniques.

Options, futures contracts, swaps contracts, and options thereon and forward contracts on securities and currencies may be traded on foreign exchanges. Such transactions may not be regulated as effectively as similar transactions in the United States, may not involve a clearing mechanism and related guarantees, and are subject to the risk of governmental actions affecting trading in, or the prices of, foreign securities. The value of such positions also could be adversely affected by (i) other complex foreign political, legal and economic factors, (ii) lesser availability than in the United States of data on which to make trading decisions, (iii) delays in the ability of the Fund to act upon economic events occurring in the foreign markets during non-business hours in the United States, (iv) the imposition of different exercise and settlement terms and procedures and margin requirements than in the United States and (v) less trading volume. Exchanges on which options, futures, swaps, and options on futures or swaps are traded may impose limits on the positions that the Fund may take in certain circumstances.

#### **Futures Transactions**

Futures and options on futures entail certain risks, including but not limited to the following:

no assurance that futures contracts or options on futures can be offset at favorable prices;

possible reduction of the yield of the Fund due to the use of hedging;

possible reduction in value of both the securities hedged and the hedging instrument;

possible lack of liquidity due to daily limits or price fluctuations;

imperfect correlation between the contracts and the securities being hedged; and

losses from investing in futures transactions that are potentially unlimited and the segregation requirements for such transactions. The Fund's ability to establish and close out positions in futures contracts and options thereon will be subject to the development and maintenance of liquid markets. Although the Fund generally will purchase or sell only those futures contracts and options thereon for which there appears to be a liquid market, there is no assurance that a liquid market on an exchange will exist for any particular futures contract or option thereon at any particular time.

In the event no liquid market exists for a particular futures contract or option thereon in which the Fund maintains a position, it will not be possible to effect a closing transaction in that contract or to do so at a satisfactory price and the Fund would have to either make or take delivery under the futures contract or, in the case of a written option, wait to sell the underlying securities until the option expires or is exercised or, in the case of a purchased option, exercise the option. In the case of a futures contract or an option thereon which the Fund has written and which the Fund is unable to close, the Fund would be required to maintain margin deposits on the futures contract or option thereon and to make variation margin payments until the contract is closed.

Successful use of futures contracts and options thereon and forward contracts by the Fund is subject to the ability of the Investment Adviser to predict correctly movements in the direction of interest and foreign currency rates. If the Investment Adviser's expectations are not met, the Fund will be in a worse position than if a hedging strategy had not been pursued. For example, if the Fund has hedged against the possibility of an increase in interest rates that would adversely affect the price of securities in its portfolio and the price of such securities increases instead, the Fund will lose part or all of the benefit of the increased value of its securities because it will have offsetting losses in its futures positions. In addition, in such situations, if the Fund has insufficient cash to meet daily variation margin requirements, it may have to sell securities to meet the requirements. These sales may be, but will not necessarily be, at increased prices that reflect the rising market. The Fund may have to sell securities at a time when it is disadvantageous to do so.

For a further description, see Investment Objectives and Policies Investment Practices in the SAI.

### **Swap Agreements**

The Fund may enter into total rate of return, credit default, interest rate or other types of swaps and related derivatives for various purposes, including to gain economic exposure to an asset or group of assets that may be difficult or impractical to acquire or for hedging and risk management. Swap agreements involve the risk that the party with whom a Fund has entered into the swap will default on its obligation to pay a Fund and the risk that a Fund will not be able to meet its obligations to pay the other party to the agreement.

### **Forward Currency Exchange Contracts**

The use of forward currency exchange contracts may involve certain risks, including the failure of the counterparty to perform its obligations under the contract and that the use of forward contracts may not serve as a complete hedge because of an imperfect correlation between movements in the prices of the contracts and the prices of the currencies hedged or used for cover. For a further description of such investments, see [Investment Objectives and Policies](#) [Investment Practices](#) in the SAI.

### **Counterparty Risk**

The Fund will be subject to credit risk with respect to the counterparties to the derivative contracts purchased by the Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Fund may experience significant delays in obtaining any recovery under the derivative contract in bankruptcy or other reorganization proceeding. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances.

### **Loans of Portfolio Securities**

Consistent with applicable regulatory requirements and the Fund's investment restrictions, the Fund may lend its portfolio securities to securities broker-dealers or financial institutions, provided that such loans are callable at any time by the Fund (subject to notice provisions described in the SAI) and are at all times secured by cash or cash equivalents, which are maintained in a segregated account pursuant to applicable regulations and that are at least equal to the market value, determined daily, of the loaned securities. The advantage of such loans is that the Fund continues to receive the income on the loaned securities while at the same time earning interest on the cash amounts deposited as collateral, which will be invested in short-term obligations. The Fund will not lend its portfolio securities if such loans are not permitted by the laws or regulations of any state in which its shares are qualified for sale. The Fund's loans of portfolio securities will be collateralized in accordance with applicable regulatory requirements.

For a further description of such loans of portfolio securities, see [Investment Objectives and Policies](#) [Certain Investment Practices](#) [Loans of Portfolio Securities](#).

### **Management Risk**

The Fund is subject to management risk because it is an actively managed portfolio. The Investment Adviser applies investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these will produce the desired results.

### **Dependence on Key Personnel**

Mario J. Gabelli serves as the Fund's portfolio manager. The Investment Adviser is dependent upon the expertise of Mr. Mario J. Gabelli in providing advisory services with respect to the Fund's investments. If the Investment Adviser were to lose the services of Mr. Gabelli, its ability to service the Fund could be adversely affected. There can be no assurance that a suitable replacement could be found for Mr. Gabelli in the event of his death, resignation, retirement or inability to act on behalf of the Investment Adviser.

### **Anti-Takeover Provisions of the Fund's Governing Documents**

The Fund's Governing Documents include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to an open-end fund. See Anti-Takeover Provisions of the Fund's Governing Documents.

### **Status as a Regulated Investment Company**

The Fund has qualified, and intends to remain qualified, for federal income tax purposes as a regulated investment company under Subchapter M of the Code. Qualification requires, among other things, compliance by the Fund with certain distribution requirements. Statutory limitations on distributions on the common stock if the Fund fails to satisfy the 1940 Act's asset coverage requirements could jeopardize the Fund's ability to meet such distribution requirements. The Fund presently intends, however, to purchase or redeem preferred stock to the extent necessary in order to maintain compliance with such asset coverage requirements. See Taxation for a more complete discussion of these and other federal income tax considerations.

### **Temporary Investments**

During temporary defensive periods and during inopportune periods to be fully invested, the Fund may invest in U.S. government securities and in money market mutual funds that invest in those securities. Obligations of certain agencies and instrumentalities of the U.S. government, such as the Government National Mortgage Association, are supported by the full faith and credit of the U.S. government; others, such as those of the Export-Import Bank of the United States, are supported by the right of the issuer to borrow from the U.S. Treasury; others, such as those of the Federal National Mortgage Association, are supported by the discretionary authority of the U.S. government to purchase the agency's obligations; and still others, such as those of the Student Loan Marketing Association, are supported only by the credit of the instrumentality. No assurance can be given that the U.S. government would provide financial support to U.S. government-sponsored instrumentalities if it is not obligated to do so by law.

## **HOW THE FUND MANAGES RISK**

### **Investment Restrictions**

The Fund has adopted certain investment limitations, some of which are fundamental policies of the Fund, designed to limit investment risk and maintain portfolio diversification. Under the 1940 Act, a fundamental policy may not be changed without the vote of a majority, as defined in the 1940 Act, of the outstanding voting securities of the Fund (voting together as a single class). In addition, pursuant to the Articles Supplementary of each of the series of preferred stock, a majority, as defined in the 1940 Act, of the outstanding shares of preferred stock of the Fund (voting separately as a single class) is also required to change a fundamental policy. The Fund may become subject to guidelines that are more limiting than its current investment restrictions in order to obtain and maintain ratings from Moody's and S&P on its preferred stock.

### **Interest Rate Transactions**

The Fund may enter into interest rate swap or cap transactions in relation to all or a portion of its Auction Rate Preferred Stock in order to manage the impact on its portfolio of changes in the dividend rate of such stock. Through these transactions, the Fund may, for example, obtain the equivalent of a fixed rate for such Auction Rate Preferred Stock that is lower than the Fund would have to pay if it issued Fixed Rate Preferred Stock.

The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In an interest rate swap, the Fund would agree to pay to the other party to the interest rate swap (which is known as the counterparty) periodically a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund periodically a variable rate payment that is intended to approximate the Fund's variable rate payment obligation on its Auction Rate Preferred Stock. In an interest rate cap, the Fund would pay a premium to the counterparty to the interest rate cap and, to the extent that a specified variable rate index exceeds



a predetermined fixed rate, would receive from the counterparty payments of the difference based on the notional amount of such cap. Interest rate swap and cap transactions introduce additional risk because the Fund would remain obligated to pay preferred stock dividends or distributions when due in accordance with the Articles Supplementary of the relevant series of the Auction Rate Preferred Stock even if the counterparty defaulted. Depending on the general state of short-term interest rates and the returns on the Fund's portfolio securities at that point in time, such a default could negatively affect the Fund's ability to make dividend or distribution payments on the Auction Rate Preferred Stock. In addition, at the time an interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the Fund's ability to make dividend or distribution payments on the Auction Rate Preferred Stock. To the extent there is a decline in interest rates, the value of the interest rate swap or cap could decline, resulting in a decline in the asset coverage for the Auction Rate Preferred Stock. A sudden and dramatic decline in interest rates may result in a significant decline in the asset coverage. Under the Articles Supplementary for each series of the preferred stock, if the Fund fails to maintain the required asset coverage on the outstanding preferred stock or fails to comply with other covenants, the Fund may be required to redeem some or all of these shares. The Fund generally may redeem any series of Auction Rate Preferred Stock, in whole or in part, at its option at any time (usually on a dividend or distribution payment date), other than during a non-call period. Such redemption would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transactions. Early termination of a swap could result in a termination payment by the Fund to the counterparty, while early termination of a cap could result in a termination payment to the Fund.

The Fund will usually enter into swaps or caps on a net basis; that is, the two payment streams will be netted out in a cash settlement on the payment date or dates specified in the instrument, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. The Fund intends to segregate cash or liquid securities having a value at least equal to the value of the Fund's net payment obligations under any swap transaction, marked to market daily. The Fund will monitor any such swap with a view to ensuring that the Fund remains in compliance with all applicable regulatory investment policy and tax requirements.

## MANAGEMENT OF THE FUND

### General

The Board (who, with its officers, are described in the SAI) has overall responsibility for the management of the Fund. The Board decides upon matters of general policy and reviews the actions of the Investment Adviser.

### The Investment Adviser

The Investment Adviser is a New York limited liability company which serves as an investment adviser to sixteen open-end and ten closed-end registered management investment companies and a Luxembourg SICAV with combined aggregate net assets in excess of \$20.5 billion as of December 31, 2012. The Investment Adviser is a registered investment adviser under the Investment Advisers Act of 1940, as amended. Mr. Mario J. Gabelli may be deemed a controlling person of the Investment Adviser on the basis of his controlling interest in GBL, the parent company of the Investment Adviser. The Investment Adviser has several affiliates that provide investment advisory services: GAMCO Asset Management, Inc., a wholly owned subsidiary of GBL, acts as investment adviser for individuals, pension trusts, profit sharing trusts and endowments, and as sub-adviser to certain third party investment funds, which include registered investment companies, and had assets under management of approximately \$15.0 billion as of December 31, 2012; Teton Advisors, Inc., an affiliate of the Investment Adviser with assets under management of approximately \$1.3 billion as of December 31, 2012, acts as investment adviser to The TETON Westwood Funds; Gabelli Securities, Inc., a majority owned subsidiary of GBL, acts as investment adviser to certain alternative investment products, consisting primarily of risk arbitrage and merchant banking limited partnerships and offshore companies, with assets under management of approximately \$920 million as of December 31, 2012; and Gabelli Fixed Income LLC, an indirect wholly owned subsidiary of GBL, acts as investment adviser for separate accounts having assets under management of approximately \$60 million as of December 31, 2012. Teton Advisors, Inc. was spun off by GBL in March 2009 and is an affiliate of GBL by virtue of Mr. Gabelli's ownership of GGCP, Inc., the principal shareholder of Teton Advisors, Inc. as of December 31, 2012.

The Investment Adviser has sole investment discretion for the Fund's assets under the supervision of the Fund's Board and in accordance with the Fund's stated policies. The Investment Adviser will select investments for the Fund and will place purchase and sale orders on behalf of the Fund.

The Investment Adviser is obligated to pay expenses associated with providing the services contemplated by the Fund's investment advisory agreement (the Advisory Agreement), including compensation of and office space for its officers and employees connected with investment and economic research, trading and investment management and administration of the Fund (but excluding costs associated with the calculation of the net asset value and allocated costs of the chief compliance officer function and officers of the Fund that are employed by the Fund and are not employed by the Investment Adviser), and the fees of all Directors of the Fund who are affiliated with the Investment Adviser.

In addition to the fees of the Investment Adviser, the Fund is responsible for the payment of all other expenses incurred in the operation of the Fund, which include, among other things, offering expenses, expenses for legal and Independent Registered Public Accounting Firm services, rating agency fees, costs of printing proxies, stock certificates and shareholder reports, charges of the custodian, any subcustodian, auction agent, transfer agent(s) and dividend disbursing agent expenses in connection with its respective automatic dividend reinvestment and voluntary cash purchase plan, SEC fees, fees and expenses of unaffiliated directors, accounting and pricing costs, including costs of calculating the net asset value of the Fund, membership fees in trade associations, fidelity bond coverage for its officers and employees, directors' and officers' errors and omission insurance coverage, interest, brokerage costs, taxes, stock exchange listing fees and expenses, expenses of qualifying its shares for sale in various states, litigation and other extraordinary or non-recurring expenses, and other expenses properly payable by the Fund.

### **Advisory Agreement**

Under the terms of the Advisory Agreement, the Investment Adviser manages the portfolio of the Fund in accordance with its stated investment objectives and policies, makes investment decisions for the Fund, and places orders to purchase and sell securities on behalf of the Fund and manages the Fund's other business and affairs, all subject to the supervision and direction of its Board. In addition, under the Advisory Agreement, the Investment Adviser oversees the administration of all aspects of the Fund's business and affairs and provides, or arranges for others to provide, at the Investment Adviser's expense, certain enumerated services, including maintaining the Fund's books and records, preparing reports to its shareholders and supervising the calculation of the net asset value of its stock. All expenses of computing the Fund's net asset value, including any equipment or services obtained solely for the purpose of pricing shares of stock or valuing the Fund's investment portfolio, will be an expense of the Fund under the Advisory Agreement unless the Investment Adviser voluntarily assumes responsibility for such expense. During fiscal year 2012, the Fund reimbursed the Investment Adviser \$45,000 in connection with the cost of computing the Fund's net asset value.

The Advisory Agreement combines investment advisory and administrative responsibilities in one agreement. For services rendered by the Investment Adviser on behalf of the Fund under the Advisory Agreement, the Fund pays the Investment Adviser a fee computed weekly and paid monthly at the annual rate of 1.00% of the Fund's average weekly net assets plus the liquidation value of any outstanding preferred stock and any other outstanding senior securities. The Investment Adviser has agreed to reduce the management fee on the incremental assets attributable to the Series C Auction Rate Preferred, Series D Preferred and Series E Auction Rate Preferred during the fiscal year if the total return of the net asset value of the common stock, including distributions and management fees subject to reduction for that year, does not exceed the stated dividend rate or corresponding swap rate of each particular series of preferred stock for the period. In other words, if the effective cost of the leverage for the Series C Auction Rate Preferred, Series D Preferred and Series E Auction Rate Preferred exceeds the total return (based on net asset value) on the Fund's common stock, the Investment Adviser will waive that portion of its management fee on the incremental assets attributable to the leverage for that series of preferred stock to mitigate the negative impact of the leverage on the common shareholder's total return. This fee waiver is applicable to the portion of the Fund's assets attributable to Series C Auction Rate Preferred, Series D Preferred and Series E Auction Rate Preferred. This fee waiver, unless otherwise stated, will not apply to any preferred stock issued from this offering. The Fund's total return on the net asset value of its common stock is monitored on a monthly basis to assess whether the total return on the net asset value of its common stock exceeds the stated dividend rate or corresponding swap rate of each particular series of outstanding preferred stock for the period. The test to confirm the accrual of the management fee on the assets attributable to each particular series of preferred stock is annual. The Fund will accrue for the management fee on these assets during the fiscal year if it appears probable that the Fund will incur the management fee on those assets.

For the year ended December 31, 2012, the Fund's total return on the net asset value of the common stock exceeded the stated dividend rate of the outstanding Preferred Stock. Thus, management fees with respect to the liquidation value of the Preferred Stock were accrued.

The Advisory Agreement provides that in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations and duties thereunder, the Investment Adviser is not liable for any error of judgment or mistake of law or for any loss suffered by the Fund. As part of the Advisory Agreement, the Fund has agreed that the name Gabelli is the Investment Adviser's property, and that in the event the Investment Adviser ceases to act as an investment adviser to the Fund, the Fund will change its name to one not including Gabelli.

Pursuant to its terms, the Advisory Agreement will remain in effect with respect to the Fund from year to year if approved annually (i) by the Fund's Board or by the holders of a majority of the Fund's outstanding voting securities and (ii) by a majority of the Directors who are not interested persons (as defined in the 1940 Act) of any party to the Advisory Agreement, by vote cast in person at a meeting called for the purpose of voting on such approval.

A discussion regarding the basis of the Board's approval of the Advisory Agreement is available in the Fund's semiannual report to shareholders for the six months ended June 30, 2012.

### **Selection of Securities Brokers**

The Advisory Agreement contains provisions relating to the selection of securities brokers to effect the portfolio transactions of the Fund. Under those provisions, the Investment Adviser may (i) direct Fund portfolio brokerage to G.research, Inc. ( G.research ) (formerly Gabelli & Company, Inc.) or other broker-dealer affiliates of the Investment Adviser and (ii) pay commissions to brokers other than G.research that are higher than might be charged by another qualified broker to obtain brokerage and/or research services considered by the Investment Adviser to be useful or desirable for its investment management of the Fund and/or its other advisory accounts or those of any investment adviser affiliated with it. The SAI contains further information about the Advisory Agreement, including a more complete description of the advisory and expense arrangements, exculpatory and brokerage provisions, as well as information on the brokerage practices of the Fund.

### **Portfolio Managers**

Mario J. Gabelli is currently and has been responsible for the day-to-day management of the Fund since its inception. Mr. Gabelli has served as Chairman and Chief Executive Officer of GAMCO Investors, Inc. and its predecessors since 1976. Mr. Gabelli is the Chief Investment Officer Value Portfolios for the Investment Adviser and GAMCO Asset Management Inc. Mr. Gabelli serves as portfolio manager for several funds in the Gabelli fund family and is a director of several funds in the Gabelli fund family. Because of the diverse nature of Mr. Gabelli's responsibilities, he will devote less than all of his time to the day-to-day management of the Fund. Mr. Gabelli is also Chief Executive Officer of GGCP, Inc., as well as Chairman of the Board of Lynch Interactive Corporation, a multimedia and communication services company.

Mr. Zahid Siddique has been an associate portfolio manager since August 2010. Mr. Siddique joined GAMCO in 2005 as a research analyst covering the global industrial and infrastructure sectors. Previously, he worked as an equity analyst at Tribeca Investments, a Citigroup hedge fund. Prior to that, he was a consultant at GE Capital and American Management Systems, where he advised on several restructuring, strategic, and operational assignments. Mr. Siddique received a B.A. in Mathematics from Hamilton College and a B.S. in Industrial Engineering from Columbia University, where he was recognized by the National Industrial Engineering Honor Society. He also holds an MBA from the Columbia University Graduate School of Business.

The SAI provides additional information about the Portfolio Managers' compensation, other accounts managed by the Portfolio Managers and the Portfolio Managers' ownership of securities in the Fund.

### **Sub-Administrator**

The Investment Adviser has entered into a sub-administration agreement with BNY Mellon Investment Servicing (US) Inc. (the Sub-Administrator) pursuant to which the Sub-Administrator provides certain administrative services necessary for the Fund's operations that do not include the investment and portfolio management services provided by the Investment Adviser. For these services and the related expenses borne by the Sub-Administrator, the Investment Adviser pays a prorated monthly fee at the annual rate of 0.0275% of the first \$10 billion of the aggregate average net assets of the Fund and all other funds advised by the Investment Adviser and Teton Advisors, Inc. and administered by the Sub-Administrator, 0.0125% of the aggregate average net assets exceeding \$10 billion and 0.01% of the aggregate average net assets in excess of \$15 billion. The Sub-Administrator has its principal office at 760 Moore Road, King of Prussia, Pennsylvania 19406.

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## Regulatory Matters

On April 24, 2008, the Investment Adviser entered into a settlement with the SEC to resolve an inquiry regarding prior frequent trading in shares of the GAMCO Global Growth Fund (the "Global Growth Fund") by one investor who was banned from the Global Growth Fund in August 2002. Under the terms of the settlement, the Investment Adviser, without admitting or denying the SEC's findings and allegations, paid \$16 million (which included a \$5 million civil monetary penalty). On the same day, the SEC filed a civil action in the U.S. District Court for the Southern District of New York against the Executive Vice President and Chief Operating Officer of the Investment Adviser, alleging violations of certain federal securities laws arising from the same matter. The officer, who is also an officer of the Global Growth Fund and other funds in the Gabelli/GAMCO complex, including this Fund, denies the allegations and is continuing in his positions with the Investment Adviser and the funds. The settlement by the Investment Adviser did not have, and the resolution of the action against the officer is not expected to have, a material adverse impact on the Investment Adviser or its ability to fulfill its obligations under the Investment Advisory Agreement.

## PORTFOLIO TRANSACTIONS

Principal transactions are not entered into with affiliates of the Fund. However, G.research, an affiliate of the Investment Adviser, may execute portfolio transactions on stock exchanges and in the over-the-counter markets on an agency basis and receive a stated commission therefor. For a more detailed discussion of the Fund's brokerage allocation practices, see "Portfolio Transactions" in the SAI.

## DIVIDENDS AND DISTRIBUTIONS

The Fund intends to pay a quarterly distribution of an amount determined each quarter by the Board of Directors. Under the Fund's current distribution policy, the Fund intends to pay a minimum annual distribution of 10% of the average net asset value of the Fund within a calendar year or an amount sufficient to satisfy the minimum distribution requirements of the Internal Revenue Code, whichever is greater. The average net asset value of the Fund is based on the average net asset values as of the last day of the four preceding calendar quarters during the year. Each quarter, the Board reviews the amount of any potential distribution and the income, capital gain, or capital available. The Board continues to monitor the Fund's distribution level, taking into consideration the Fund's net asset value and the financial market environment. The Fund's distribution policy is subject to modification by the Board at any time. The distribution rate should not be considered the dividend yield or total return on an investment in the Fund. This policy permits common shareholders to realize a predictable, but not assured, level of cash flow and some liquidity periodically with respect to their shares of common stock without having to sell their shares. The Fund may retain for reinvestment, and pay the resulting federal income taxes on, its net capital gain, if any, although the Fund reserves the authority to distribute its net capital gain in any year. To avoid paying income tax at the corporate level, the Fund distributes substantially all of its investment company taxable income and net capital gain. A portion of all distributions to common shareholders for the past five years have constituted a return of capital. Shareholders who periodically receive the payment of a dividend or other distribution consisting of a return of capital may be under the impression that they are receiving net profits when they are not. Shareholders should not assume that the source of a distribution from the Fund is net profit.

Long-term capital gains, qualified dividend income, ordinary income, and paid-in capital, if any, will be allocated on a pro-rata basis to all distributions to common shareholders for the year. The estimated components of each distribution are updated and provided to shareholders of record in a notice accompanying the distribution and are available on our website ([www.gabelli.com](http://www.gabelli.com)). Pursuant to this policy, distributions during the year may be made in excess of required distributions. To the extent such distributions are made from current earnings and profits, they are considered ordinary income or long-term capital gains. The Fund's current distribution policy may restrict the Fund's ability to pass through to shareholders all of its net realized long-term capital gains as a capital gain dividend, subject to federal income tax rates of 15% for individuals with income below \$400,000 (\$450,000 if married filing jointly), 20% for individuals with any income above those amounts that is net long-term capital gain or qualified dividend income (described in "Taxation" below) and 0% at certain income levels, and may cause such gains to be treated as ordinary income subject to a maximum federal income tax rate of 39.6%. Distributions sourced from paid-in capital should not be considered as dividend yield or the total return from an investment in the Fund. Shareholders who periodically receive the payment of a dividend or other distribution consisting of a return of capital may be under the impression that they are receiving net profits when they are not. Shareholders should not assume that the source of a distribution from the Fund is net profit. The final determination of the sources of all distributions in 2013 will be made after year end and can vary from the quarterly estimates. All shareholders with taxable accounts will receive written notification regarding the components and tax treatment for all 2013 distributions in early 2014 via Form 1099-DIV.

If, for any calendar year, the total quarterly distributions to common shareholders and the amount of distributions on any preferred stock issued by the Fund exceed investment company taxable income and net capital gain (prior to any adjustment for a capital loss carryover from a prior year), the excess will generally be treated as a tax-free return of capital up to the amount of a shareholder's tax basis in the stock. Any distributions to the holders of common or preferred stock which constitute tax-free return of capital will reduce a shareholder's tax basis in such stock, thereby increasing such shareholder's potential taxable gain or reducing his or her potential taxable loss on the sale of the stock. Any amounts distributed to a shareholder in excess of the basis in the stock will generally be taxable to the shareholder as capital gain.

In the event the Fund distributes amounts in excess of its investment company taxable income and net capital gain, such distributions will decrease the Fund's total assets and, therefore, have the likely effect of increasing its expense ratio, as the Fund's fixed expenses will become a larger percentage of the Fund's average net assets. In addition, in order to make such distributions, the Fund might have to sell a portion of its investment portfolio at a time when independent investment judgment might not dictate such action.

The Fund, along with other closed-end registered investment companies advised by the Investment Adviser, has obtained an exemption from Section 19(b) of the 1940 Act and Rule 19b-1 thereunder permitting it to make periodic distributions of long-term capital gains provided that any distribution policy of the Fund with respect to its common stock calls for periodic (e.g., quarterly or semi-annually, but in no event more frequently than monthly) distributions in an amount equal to a fixed percentage of the Fund's average net asset value over a specified period of time or market price per share of common stock at or about the time of distribution or payment of a fixed dollar amount. The exemption also permits the Fund to make distributions with respect to its preferred stock in accordance with such stock's terms. See Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan.

#### **ISSUANCE OF COMMON STOCK**

During the twelve months ended December 31, 2012, the Fund did not have any transactions in shares of common stock, except pursuant to its dividend reinvestment policy. G.research an affiliate of Gabelli Funds, LLC, the Fund's Investment Adviser, may act as dealer manager for future offerings.

#### **AUTOMATIC DIVIDEND REINVESTMENT AND VOLUNTARY CASH PURCHASE PLAN**

Under the Fund's Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan (the Plan), a shareholder whose common shares are registered in his or her own name will have all distributions reinvested automatically by Computershare Trust Company, N.A. (Computershare), which is agent under the Plan, unless the shareholder elects to receive cash. Distributions with respect to shares registered in the name of a broker-dealer or other nominee (that is, in street name) will be reinvested by the broker or nominee in additional shares under the Plan, unless the service is not provided by the broker or nominee or the shareholder elects to receive distributions in cash. Investors who own common shares registered in street name should consult their broker-dealers for details regarding reinvestment. All distributions to investors who do not participate in the Plan will be paid by check mailed directly to the record holder by Computershare as dividend-disbursing agent.

#### **Enrollment in the Plan**

It is the policy of the Fund to automatically reinvest dividends. As a registered shareholder, you automatically become a participant in the Fund's Plan. The Plan authorizes the Fund to issue common shares to participants upon an income dividend or a capital gains distribution regardless of whether the shares are trading at a discount or a premium to net asset value. All distributions to shareholders whose shares are registered in their own names will be automatically reinvested pursuant to the Plan in additional shares of the Fund. Plan participants may send their share certificates to Computershare to be held in their dividend reinvestment account. Registered shareholders wishing to receive their distribution in cash must submit this request in writing to:

The Gabelli Equity Trust Inc.

c/o Computershare

P.O. Box 43010

Providence, RI 02940-3010

Shareholders requesting this cash election must include the shareholder's name and address as they appear on the share certificate. Shareholders with additional questions regarding the Plan, or requesting a copy of the terms of the Plan may contact Computershare at (800) 336-6983.

If your shares are held in the name of a broker, bank, or nominee, you should contact such institution. If such institution is not participating in the Plan, your account will be credited with a cash dividend. In order to participate in the Plan through such institution, it may be necessary for you to have your shares taken out of street name and re-registered in your own name. Once registered in your own name, your dividends will be automatically reinvested. Certain brokers participate in the Plan. Shareholders holding shares in street name at participating institutions will have dividends automatically reinvested. Shareholders wishing a cash dividend at such institution must contact their broker to make this change.

The number of common shares distributed to participants in the Plan in lieu of cash dividends is determined in the following manner. Under the Plan, whenever the market price of the Fund's common shares is equal to or exceeds net asset value at the time shares are valued for purposes of determining the number of shares equivalent to the cash dividends or capital gains distribution, participants are issued common shares valued at the greater of (i) the net asset value as most recently determined or (ii) 95% of the then current market price of the Fund's common shares. The valuation date is the dividend or distribution payment date or, if that date is not a NYSE trading day, the next trading day. If the net asset value of the common shares at the time of valuation exceeds the market price of the common shares, participants will receive shares from the Fund valued at market price. If the Fund should declare a dividend or capital gains distribution payable only in cash, Computershare will buy common shares in the open market, or on the NYSE or elsewhere, for the participants' accounts, except that Computershare will endeavor to terminate purchases in the open market and cause the Fund to issue shares at net asset value if, following the commencement of such purchases, the market value of the common shares exceed the then current net asset value.

The automatic reinvestment of dividends and capital gains distributions will not relieve participants of any income tax which may be payable on such distributions. A participant in the Plan will be treated for U.S. federal income tax purposes as having received, on a dividend payment date, a dividend or distribution in an amount equal to the cash the participant could have received instead of shares.

The Fund reserves the right to amend or terminate the Plan as applied to any voluntary cash payments made and any dividend or distribution paid subsequent to written notice of the change sent to the members of the Plan at least 90 days before the record date for such dividend or distribution. The Plan also may be amended or terminated by Computershare on at least 90 days' written notice to participants in the Plan.

#### **Voluntary Cash Purchase Plan**

The Voluntary Cash Purchase Plan is yet another vehicle for our shareholders to increase their investment in the Fund. In order to participate in the Voluntary Cash Purchase Plan, shareholders must have their shares registered in their own name.

Participants in the Voluntary Cash Purchase Plan have the option of making additional cash payments to Computershare for investments in the Fund's shares at the then current market price. Shareholders may send an amount from \$250 to \$10,000. Computershare will use these funds to purchase shares in the open market on or about the 1st and 15th of each month. Computershare will charge each shareholder who participates \$0.75, plus a pro rata share of the brokerage commissions. Brokerage charges for such purchases are expected to be less than the usual brokerage charge for such transactions. It is suggested that any voluntary cash payments be sent to Computershare, P.O. Box 43010, Providence, RI 02940-3010 such that Computershare receives such payments approximately 10 days before the 1st and 15th of the month. Funds not received at least five days before the investment date shall be held for investment until the next purchase date. A payment may be withdrawn without charge if notice is received by Computershare at least 48 hours before such payment is to be invested.

Shareholders wishing to liquidate shares held at Computershare must do so in writing or by telephone. Please submit your request to the above mentioned address or telephone number. Include in your request your name, address and account number. The cost to liquidate shares is \$2.50 per transaction as well as the brokerage commission incurred. Brokerage charges are expected to be less than the usual brokerage charge for such transactions.

For more information regarding the Automatic Dividend Reinvestment Plan and Voluntary Cash Purchase Plan, brochures are available by calling (914) 921-5070 or by writing directly to the Fund.

The Fund reserves the right to amend or terminate the Plans as applied to any voluntary cash payments made and any dividend or distribution paid subsequent to written notice of the change sent to the members of the Plan at least 90 days

before the record date for such dividend or distribution. The Plan also may be amended or terminated by Computershare on at least 90 days written notice to participants in the Plan.

### DESCRIPTION OF THE CAPITAL STOCK

*The following is a brief description of the terms of the Fund's common stock, preferred stock, subscription rights to purchase common stock and subscription rights to purchase preferred stock. This description does not purport to be complete and is qualified by reference to the Fund's Governing Documents. For complete terms of the common stock and preferred stock, please refer to the actual terms of such series, which are set forth in the Governing Documents. For complete terms of the subscription rights, please refer to the actual terms of such subscription rights which will be set forth in subscription rights agreement relating to such subscription rights.*

#### Common Stock

Pursuant to an amendment to the Fund's Articles of Incorporation that was approved by shareholders in 2004, the Board may increase or decrease the aggregate number of shares of stock of the Fund or the number of shares of any class or series that the Fund has authority to issue without shareholder approval. The Fund is currently authorized to issue 246,000,000 shares of common stock, par value \$0.001 per share. Holders of the common stock are entitled to one vote per share held. Holders of the common stock are entitled to share equally in distributions authorized by the Fund's Board payable to the holders of such shares and in the net assets of the Fund available on liquidation for distribution to holders of such shares. The shares of common stock have noncumulative voting rights and no conversion, preemptive or other subscription rights, and are not redeemable. In the event of liquidation, each share of Fund common stock is entitled to its proportion of the Fund's assets after payment of debts and expenses and the amounts payable to holders of the Fund's preferred stock ranking senior to the shares of common stock of the Fund as described below.

Offerings of stock require approval by the Board. Any additional offering of common stock will be subject to the requirements of the 1940 Act, which provides that common stock may not be issued at a price below the then current net asset value, exclusive of sales load, except in connection with an offering to existing holders of common stock or with the consent of a majority of the Fund's outstanding voting securities.

The Fund's outstanding common stock is listed and traded on the NYSE under the symbol GAB. The average weekly trading volume of the common stock on the NYSE during the period from January 1, 2011 through December 31, 2011 was 1,740,000 shares. The average weekly trading volume of the common stock on the NYSE during the period from January 1, 2012 through December 31, 2012 was 1,161,000 shares.

The Fund's net asset value per share will be reduced immediately following the offering of common shares by the amount of the sales load and offering expenses paid by the Fund. See Use of Proceeds. Unlike open-end funds, closed-end funds like the Fund do not continuously offer shares and do not provide daily redemptions. Rather, if a shareholder determines to buy additional common shares or sell shares already held, the shareholder may do so by trading through a broker on the NYSE or otherwise.

Shares of closed-end investment companies often trade on an exchange at prices lower than net asset value. The Fund's shares of common stock have traded in the market at both premiums to and discounts from net asset value. Over the Fund's twenty-five year history, the range fluctuated from a 38% premium in June 2002 to a 27% discount in December 1987. Beginning in early 2001, the market price of the Fund exceeded the net asset value and this premium continued through August 2005. The previous extended period over which the premium existed occurred during the twenty month period from August 1993 to March 1995. As of December 31, 2012, the market price of the Fund closed at a 0.36% discount to its net asset value. Because the market value of the common shares may be influenced by such factors as dividend and distribution levels (which are in turn affected by expenses), dividend and distribution stability, net asset value, market liquidity, relative demand for and supply of such shares in the market, unrealized gains, general market and economic conditions and other factors beyond the control of the Fund, the Fund cannot assure you that common shares will trade at a price equal to or higher than net asset value in the future. The common shares are designed primarily for long-term investors and you should not purchase the common shares if you intend to sell them soon after purchase.

The Fund's common shareholders vote as a single class to elect the Fund's Board and on additional matters with respect to which the 1940 Act, the Governing Documents or resolutions adopted by the Directors provide for a vote of the Fund's common shareholders. The Fund's common shareholders and preferred shareholders vote together as a single class, except that the preferred shareholders vote as a separate class to elect two of the directors of the Fund. See Anti-Takeover Provisions of the Fund's Governing Documents.

The Fund may repurchase its shares of common stock from time to time as and when it deems such repurchase advisable, subject to maintaining required asset coverage for each series of outstanding preferred stock. The Board has adopted a policy to authorize such repurchases when the shares are trading at a discount of 10% or more (or such other percentage as the Board may determine from time to time) from the net asset value of the shares. Although the Board has authorized such repurchases, the Fund is not required to repurchase its shares. The policy does not limit the amount of common stock that can be repurchased. The percentage of the discount from net asset value at which share repurchases will be authorized may be changed at any time by the Board. Through December 31, 2012, the Fund has not repurchased shares of its common stock under this authorization.

### Preferred Stock

Currently, 24,000,000 shares of the Fund's capital stock, which include the preferred stock being registered with this registration statement, have been classified by the Board as preferred stock, par value \$0.001 per share. The Fund's Board may reclassify authorized and unissued shares of the Fund, previously classified as common stock, as preferred stock prior to the completion of any offering. The terms of each series of preferred stock may be fixed by the Board and may materially limit and/or qualify the rights of the holders of the Fund's common stock. As of December 31, 2012, the Fund had 2,880 outstanding shares of Series C Auction Rate Preferred, 2,363,860 outstanding shares of Series D Preferred, 1,120 outstanding shares of Series E Auction Rate Preferred, 2,816,524 outstanding shares of Series G Preferred and 4,200,000 outstanding shares of Series H Preferred.

Distributions on the Series C Auction Rate Preferred accumulate at a variable maximum rate based on short term rates. At present the maximum rate is equal to 175% of the AA Financial Composite Commercial Paper Rate determined on each calculation date. Prior to the failing of auctions for the Fund's Series C Auction Rate Preferred, these securities paid dividends set at a weekly auction (*See Auctions for Auction Rate Preferred Stock* below). The liquidation preference of the Series C Auction Rate Preferred is \$25,000 per share. The Fund generally may redeem the outstanding Series C Auction Rate Preferred, in whole or in part, at any time other than during a non-call period. The Series C Auction Rate Preferred is not traded on any public exchange.

Distributions on the Series D Preferred accumulate at an annual rate of 5.875% of the liquidation preference of \$25 per share, are cumulative from the date of original issuance thereof, and are payable quarterly on March 26, June 26, September 26 and December 26 of each year. The Fund's outstanding Series D Preferred is redeemable at the liquidation preference plus accumulated but unpaid dividends (whether or not earned or declared) at the option of the Fund at any time. The Series D Preferred is listed and traded on the NYSE under the symbol GAB PrD.

Distributions on the Series E Auction Rate Preferred accumulate at a variable maximum rate based on short term rates. At present the maximum rate is equal to 175% of the AA Financial Composite Commercial Paper Rate determined on each calculation date. Prior to the failing of auctions for the Fund's Series E Auction Rate Preferred, these securities paid dividends set at a weekly auction (*See Auctions for Auction Rate Preferred Stock* below). The liquidation preference of the Series E Auction Rate Preferred is \$25,000 per share. The Fund generally may redeem the outstanding Series E Auction Rate Preferred, in whole or in part, at any time other than during a non-call period. The Series E Auction Rate Preferred is not traded on any public exchange.

Distributions on the Series G Preferred accumulate (i) at an annual rate of 6.00% of the liquidation preference of \$25 per share prior to August 1, 2013, and (ii) at an annual rate of 5.00% of the liquidation preference of \$25 per share after this date, are cumulative from the date of original issuance thereof, and are payable quarterly on March 26, June 26, September 26 and December 26 of each year. The Fund's outstanding Series G Preferred is redeemable at the liquidation preference plus accumulated but unpaid dividends (whether or not earned or declared) at the option of the Fund following the expiration of the five year call protection on August 1, 2017. The Series G Preferred is listed and traded on the NYSE under the symbol GAB PrG.

Distributions on the Series H Preferred accumulate at an annual rate of 5.00% of the liquidation preference of \$25 per share, are cumulative from the date of original issuance thereof, and are payable quarterly on March 26, June 26, September 26 and December 26 of each year. The Fund's outstanding Series H Preferred is redeemable at the liquidation preference plus accumulated but unpaid dividends (whether or not earned or declared) at the option of the Fund following the expiration of the five year call protection on October 3, 2017. The Series H Preferred is listed and traded on the NYSE under the symbol GAB PrH.

If the Fund issues any additional series of preferred stock, it will pay dividends to the holders at either a fixed rate or a rate that will be reset frequently based on short-term interest rates, as described in the Prospectus Supplement accompanying each preferred stock offering.

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The following table shows (i) the classes of capital stock authorized, (ii) the number of shares authorized in each class, and (iii) the number of shares outstanding in each class as of March 31, 2012.

Title Of Class	Amount	
	Outstanding	Authorized
Common Stock	187,715,980	237,024,900
Series A Preferred	0	5,367,900
Series B Preferred	0	6,600,000
Series C Auction Rate Preferred	2,880	5,200
Series D Preferred	2,363,860	3,000,000
Series E Auction Rate Preferred	1,120	2,000
Series F Preferred	0	6,000,000
Series G Preferred	2,816,524	7,800,000
Series H Preferred	4,200,000	4,200,000

As of December 31, 2012, the Fund does not hold any shares of capital stock for its account. Upon a liquidation, each holder of preferred stock will be entitled to receive out of the assets of the Fund available for distribution to shareholders (after payment of claims of the Fund's creditors but before any distributions with respect to the Fund's common stock or any other class of capital stock of the Fund ranking junior to the preferred stock as to liquidation payments) an amount per share equal to such share's liquidation preference plus any accumulated but unpaid distributions (whether or not earned or declared, excluding interest thereon) to the date of distribution, and such shareholders shall be entitled to no further participation in any distribution or payment in connection with such liquidation. Each series of preferred stock ranks on a parity with any other series of preferred stock of the Fund as to the payment of distributions and the distribution of assets upon liquidation, and is junior to the Fund's obligations with respect to any outstanding senior securities representing debt. The preferred stock carries one vote per share on all matters on which such shares are entitled to vote. The preferred shares will, upon issuance, be fully paid and nonassessable and will have no preemptive, exchange or conversion rights. The Board may by resolution classify or reclassify any authorized but unissued capital shares of the Fund from time to time by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions or terms or conditions of redemption. The Fund will not issue any class of capital stock senior to the preferred stock.

*Rating Agency Guidelines.* The Fund expects that it will be required under Moody's and S&P guidelines to maintain assets having in the aggregate a discounted value at least equal to the Basic Maintenance Amount (as defined below) for its outstanding preferred stock with respect to the separate guidelines Moody's and S&P has each established for determining discounted value. To the extent any particular portfolio holding does not satisfy the applicable rating agency's guidelines, all or a portion of such holding's value will not be included in the calculation of discounted value (as defined by such rating agency). The Moody's and S&P guidelines also impose certain diversification requirements and industry concentration limitations on the Fund's overall portfolio, and apply specified discounts to securities held by the Fund (except certain money market securities). The Basic Maintenance Amount is equal to (i) the sum of (a) the aggregate liquidation preference of any preferred shares then outstanding plus (to the extent not included in the liquidation preference of such preferred stock) an amount equal to the aggregate accumulated but unpaid distributions (whether or not earned or declared) in respect of such preferred stock, (b) the total principal of any debt (plus accrued and projected interest), (c) certain Fund expenses and (d) certain other current liabilities (excluding any unmade distributions on the Fund's common stock) less (ii) the Fund's (a) cash and (b) assets consisting of indebtedness which (y) mature prior to or on the date of redemption or repurchase of the preferred stock and are U.S. government securities or evidences of indebtedness rated at least Aaa, P-1, VMIG-1 or MIG-1 by Moody's or AAA, SP-1+ or A-1+ by S&P, and (z) is held by the Fund for distributions, the redemption or repurchase of preferred stock or the Fund's liabilities.

If the Fund does not cure in a timely manner a failure to maintain a discounted value of its portfolio equal to the Basic Maintenance Amount in accordance with the requirements of the applicable rating agency or agencies then rating the preferred stock at the request of the Fund, the Fund may, and in certain circumstances will be required to, mandatorily redeem preferred stock, as described below under **Redemption**.

The Fund may, but is not required to, adopt any modifications to the rating agency guidelines that may hereafter be established by Moody's and S&P. Failure to adopt any such modifications, however, may result in a change in the relevant rating agency's ratings or a withdrawal of such ratings altogether. In addition, any rating agency providing a rating for the preferred stock at the request of the Fund may, at any time, change or withdraw any such rating. The Board, without further action by the shareholders, may amend, alter, add to or repeal certain of the definitions and related provisions that have been adopted by the Fund pursuant to the rating agency guidelines if the Board determines that such modification is necessary to

prevent a reduction in rating of the preferred stock by Moody's and S&P, as the case may be, is in the best interests of the holders of common stock and is not adverse to the holders of preferred stock in view of advice to the Fund by Moody's and S&P (or such other rating agency then rating the preferred stock at the request of the Fund) that such modification would not adversely affect, as the case may be, its then current rating of the preferred stock.

With respect to Auction Rate Preferred Stock, the Board may amend the Articles Supplementary definition of Maximum Rate (the maximum rate as defined below under Distributions on the Preferred Shares Maximum Rate ) to increase the percentage amount by which the applicable reference rate is multiplied or to increase the applicable spread to which the reference rate is added to determine the maximum rate without the vote or consent of the holders of the preferred stock or any other shareholder of the Fund, but only after consultation with the broker-dealers and with confirmation from each applicable rating agency that the Fund could meet applicable rating agency asset coverage tests immediately following any such increase.

As described by Moody's and S&P, the ratings assigned to each series of preferred stock are assessments of the capacity and willingness of the Fund to pay the obligations of each such series. The ratings on these series of preferred stock are not recommendations to purchase, hold or sell shares of any series, inasmuch as the ratings do not comment as to market price or suitability for a particular investor. The rating agency guidelines also do not address the likelihood that an owner of preferred stock will be able to sell such shares on an exchange, in an auction or otherwise. The ratings are based on current information furnished to Moody's and S&P by the Fund and the Investment Adviser and information obtained from other sources. The ratings may be changed, suspended or withdrawn as a result of changes in, or the unavailability of, such information.

The rating agency guidelines apply to each series of preferred stock only so long as such rating agency is rating such series at the request of the Fund. The Fund pays fees to Moody's and S&P for rating the preferred stock.

*Asset Maintenance Requirements.* In addition to the requirements summarized under Rating Agency Guidelines above, the Fund must also satisfy asset maintenance requirements under the 1940 Act with respect to its preferred stock. Under the 1940 Act, debt or additional preferred stock may be issued only if immediately after such issuance the value of the Fund's total assets (less ordinary course liabilities) is at least 300% of the amount of any debt outstanding and at least 200% of the amount of any preferred stock and debt outstanding. The Fund is required under the applicable Articles Supplementary to determine whether it has, as of the last business day of each March, June, September and December of each year for its Series D Preferred, Series E Preferred and Series H Preferred, and as of the last business day of each month for its Series C Preferred, an asset coverage (as defined in the 1940 Act) of at least 200% (or such higher or lower percentage as may be required at the time under the 1940 Act) with respect to all outstanding senior securities of the Fund that are debt or stock, including any outstanding preferred stock. If the Fund fails to maintain the asset coverage required under the 1940 Act on such dates and such failure is not cured on or before 60 days, in the case of the Fixed Rate Preferred Stock, or 10 business days, in the case of the Auction Rate Preferred Stock, the Fund may, and in certain circumstances will be required to, mandatorily redeem shares of preferred stock sufficient to satisfy such asset coverage. See Redemption below.

*Distributions.* In connection with the offering of one or more additional series of preferred stock, an accompanying Prospectus Supplement will specify whether dividends on such preferred stock will be based on a fixed or variable rate. If such Prospectus Supplement specifies that dividends will be paid at a fixed rate, holders of such Fixed Rate Preferred Stock will be entitled to receive, out of funds legally available therefor, cumulative cash distributions, at an annual rate set forth in the applicable Prospectus Supplement, payable with such frequency as set forth in the applicable Prospectus Supplement. Such distributions will accumulate from the date on which such shares are issued.

In the alternative, the Prospectus Supplement may state that the holders of one or more series of Auction Rate Preferred Stock are entitled to receive cash distributions at annual rates stated as a percentage of liquidation preference, that will vary from dividend period to dividend period. The liquidation preference per share and the dividend rate for the initial dividend period for any such series of preferred stock will be the rate set forth in the Prospectus Supplement for such series. For subsequent dividend periods, each such series of preferred stock will pay distributions based on a rate set at an auction, normally held weekly, but not in excess of a maximum rate. Dividend periods generally will be seven days, and the dividend periods generally will begin on the first business day after an auction. In most instances, distributions are also paid weekly, on the business day following the end of the dividend period. The Fund, subject to some limitations, may change the length of the dividend periods, designating them as special dividend periods, as described below under Designation of Special Dividend Periods.

*Distribution Payments.* Except as described below, the dividend payment date for a series of Auction Rate Preferred Stock will be the first business day after the dividend period ends. The dividend payment dates for special dividend periods of more

(or less) than seven days will be set out in the notice designating a special dividend period. See Designation of Special Dividend Periods for a discussion of payment dates for a special dividend period.

If a dividend payment date for a series of Auction Rate Preferred Stock is not a business day because the NYSE is closed for business for more than three consecutive business days due to an act of God, natural disaster, act of war, civil or military disturbance, act of terrorism, sabotage, riots or a loss or malfunction of utilities or communications services, or the dividend payable on such date can not be paid for any such reason, then:

the dividend payment date for the affected dividend period will be the next business day on which the Fund and its paying agent, if any, are able to cause the distributions to be paid using their reasonable best efforts;

the affected dividend period will end on the day it would have ended had such event not occurred and the dividend payment date had remained the scheduled date; and

the next dividend period will begin and end on the dates on which it would have begun and ended had such event not occurred and the dividend payment date remained the scheduled date.

*Determination of Dividend Rates.* The Fund computes the distributions per share for a series of Auction Rate Preferred Stock by multiplying the applicable rate determined at the auction by a fraction, the numerator of which normally is the number of days in such dividend period and the denominator of which is 360. This applicable rate is then multiplied by the liquidation preference per share of such series to arrive at the distribution per share.

*Maximum Rate.* The dividend rate for a series of Auction Rate Preferred Stock that results from an auction for such shares will not be greater than the applicable maximum rate. The maximum rate for any standard dividend period will be the greater of the applicable percentage of the reference rate or the reference rate plus the applicable spread. The reference rate will be the applicable LIBOR Rate (as defined below) for a dividend period of fewer than 365 days or the Treasury Index Rate (as defined below) for a dividend period of 365 days or more. The applicable percentage and the applicable spread will be determined based on the lower of the credit ratings assigned to such series of preferred shares by Moody's and S&P on the auction date for such period (as set forth in the table below). If Moody's and/or S&P do not make such rating available, the rate will be determined by reference to equivalent ratings issued by a substitute rating agency. In the case of a special dividend period, (1) the Fund will communicate the maximum applicable rate in a notice of special rate period for such dividend payment period, (2) the applicable percentage and applicable spread will be determined on the date two business days before the first day of such special dividend period and (3) the reference rate will be the applicable LIBOR Rate for a dividend period of fewer than 365 days or the Treasury Index Rate for a dividend period of 365 days or more.

The LIBOR Rate, as described in greater detail in the Articles Supplementary, is the applicable London Inter-Bank Offered Rate for deposits in U.S. dollars for the period most closely approximating the applicable dividend period for the preferred stock.

The Treasury Index Rate, as described in greater detail in the Articles Supplementary, is the average yield to maturity for certain U.S. Treasury securities having substantially the same length to maturity as the applicable dividend period for the preferred stock.

There is no minimum dividend rate in respect of any dividend period.

*Effect of Failure to Pay Distributions in a Timely Manner.* If the Fund fails to pay the paying agent the full amount of any distribution or redemption price, as applicable, for a series of Auction Rate Preferred Stock in a timely manner, the dividend rate for the dividend period following such a failure to pay (such period referred to as the default period) and any subsequent dividend period for which such default is continuing will be a default rate to be calculated under the applicable Articles Supplementary. In the event that the Fund fully pays all default amounts due during a dividend period, the dividend rate for the remainder of that dividend period will be, as the case may be, the applicable rate (for the first dividend period following a dividend default) or the then maximum rate (for any subsequent dividend period for which such default is continuing).

*Designation of Special Dividend Periods.* The Fund may instruct the auction agent to hold auctions more or less frequently than weekly and may designate dividend periods longer or shorter than one week. The Fund may do this if, for example, the Fund expects that short-term rates might increase or market conditions otherwise change, in an effort to optimize the potential benefit of the Fund's leverage for holders of its common stock. The Fund does not currently expect to hold auctions and pay distributions less frequently than weekly or establish dividend periods longer or shorter than one week. If the Fund designates a special dividend period, changes in interest rates could affect the price received if preferred shares are sold in the secondary market.

Any designation of a special dividend period for a series of Auction Rate Preferred Stock will be effective only if (i) notice thereof has been given as provided for in the Governing Documents, (ii) any failure to pay in a timely manner to the auction agent the full amount of any distribution on, or the redemption price of, any preferred stock has been cured as provided for in the Governing Documents, (iii) the auction immediately preceding the special dividend period was not a failed auction, (iv) if the Fund has mailed a notice of redemption with respect to any preferred stock, the Fund has deposited with the paying agent all funds necessary for such redemption and (v) the Fund has confirmed that as of the auction date next preceding the first day of such special dividend period, it has assets with an aggregate discounted value at least equal to the Basic Maintenance Amount, and the Fund has provided notice of such designation and a Basic Maintenance Report to each rating agency then rating the preferred stock at the request of the Fund.

The dividend payment date for any such special dividend period will be set out in the notice designating the special dividend period. In addition, for special dividend periods of at least 91 days, dividend payment dates will occur on the first business day of each calendar month within such dividend period and on the business day following the last day of such dividend period.

Before the Fund designates a special dividend period: (i) at least seven business days (or two business days in the event the duration of the dividend period prior to such special dividend period is less than eight days) and not more than 30 business days before the first day of the proposed special dividend period, the Fund will issue a press release stating its intention to designate a special dividend period and inform the auction agent of the proposed special dividend period by telephonic or other means and confirm it in writing promptly thereafter and (ii) the Fund must inform the auction agent of the

proposed special dividend period by 3:00 p.m., New York City time on the second business day before the first day of the proposed special dividend period.

#### **Restrictions on Dividends and Other Distributions for the Preferred Stock**

So long as any preferred stock is outstanding, the Fund may not pay any dividend or distribution (other than a dividend or distribution paid in common stock or in options, warrants or rights to subscribe for or purchase common stock) in respect of the common stock or call for redemption, redeem, purchase or otherwise acquire for consideration any common stock (except by conversion into or exchange for shares of the Fund ranking junior to the preferred stock as to the payment of dividends or distributions and the distribution of assets upon liquidation), unless:

the Fund has declared and paid (or provided to the relevant dividend paying agent) all cumulative distributions on the Fund's outstanding preferred stock due on or prior to the date of such common stock dividend or distribution;

the Fund has redeemed the full number of shares of preferred stock to be redeemed pursuant to any mandatory redemption provision in the Fund's Governing Documents; and

after making the distribution, the Fund meets applicable asset coverage requirements described under Rating Agency Guidelines and Asset Maintenance Requirements.

No full distribution will be declared or made on any series of preferred stock for any dividend period, or part thereof, unless full cumulative distributions due through the most recent dividend payment dates therefor for all outstanding series of preferred stock of the Fund ranking on a parity with such series as to distributions have been or contemporaneously are declared and made. If full cumulative distributions due have not been made on all outstanding preferred stock of the Fund ranking on a parity with such series of preferred stock as to the payment of distributions, any distributions being paid on the preferred stock will be paid as nearly pro rata as possible in proportion to the respective amounts of distributions accumulated but unmade on each such series of preferred stock on the relevant dividend payment date. The Fund's obligation to make distributions on the preferred stock will be subordinate to its obligations to pay interest and principal, when due, on any senior securities representing debt.

#### **Redemption**

*Mandatory Redemption Relating to Asset Coverage Requirements.* The Fund may, at its option, consistent with its Governing Documents and the 1940 Act, and in certain circumstances will be required to, mandatorily redeem preferred stock in the event that:

the Fund fails to maintain the asset coverage requirements specified under the 1940 Act on a quarterly valuation date and such failure is not cured on or before 60 days, in the case of the Fixed Rate Preferred Stock, or 10 business days, in the case of the Auction Rate Preferred Stock, following such failure; or

the Fund fails to maintain the asset coverage requirements as calculated in accordance with the applicable rating agency guidelines as of any monthly valuation date, and such failure is not cured on or before 10 business days after such valuation date.

The redemption price for preferred stock subject to mandatory redemption will be the liquidation preference, as stated in the Articles Supplementary of each existing series of preferred stock or the Prospectus Supplement accompanying the issuance of any additional series of preferred stock, plus an amount equal to any accumulated but unpaid distributions (whether or not earned or declared) to the date fixed for redemption, plus (in the case of preferred stock having a dividend period of more than one year) any applicable redemption premium determined by the Board and included in the Articles Supplementary.

The number of shares of preferred stock that will be redeemed in the case of a mandatory redemption will equal the minimum number of outstanding shares of preferred stock, the redemption of which, if such redemption had occurred immediately prior to the opening of business on the applicable cure date, would have resulted in the relevant asset coverage requirement having been met or, if the required asset coverage cannot be so restored, all of the shares of preferred stock. In the event that shares of preferred stock are redeemed due to a failure to satisfy the 1940 Act asset coverage requirements, the Fund may, but is not required to, redeem a sufficient number of shares of preferred stock so that the Fund's assets exceed the asset coverage requirements under the 1940 Act after the redemption by 10% (that is, 220% asset coverage). In the

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event that shares of preferred stock are redeemed due to a failure to satisfy applicable rating agency guidelines, the Fund may, but is not required to, redeem a sufficient number of shares of preferred stock so that the Fund's discounted portfolio value (as determined in accordance with the applicable rating agency guidelines) after redemption exceeds the asset coverage requirements of each applicable rating agency by up to 10% (that is, 110% rating agency asset coverage).

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If the Fund does not have funds legally available for the redemption of, or is otherwise unable to redeem, all the shares of preferred stock to be redeemed on any redemption date, the Fund will redeem on such redemption date that number of shares for which it has legally available funds, or is otherwise able to redeem, from the holders whose shares are to be redeemed ratably on the basis of the redemption price of such shares, and the remainder of those shares to be redeemed will be redeemed on the earliest practicable date on which the Fund will have funds legally available for the redemption of, or is otherwise able to redeem, such shares upon written notice of redemption.

If fewer than all shares of the Fund's outstanding preferred stock are to be redeemed, the Fund, at its discretion and subject to the limitations of the Charter, the 1940 Act, and Maryland law, will select the one or more series of preferred stock from which shares will be redeemed and the amount of preferred stock to be redeemed from each such series. If fewer than all shares of a series of preferred stock are to be redeemed, such redemption will be made as among the holders of that series pro rata in accordance with the respective number of shares of such series held by each such holder on the record date for such redemption (or by such other equitable method as the Fund may determine). If fewer than all shares of preferred stock held by any holder are to be redeemed, the notice of redemption mailed to such holder will specify the number of shares to be redeemed from such holder, which may be expressed as a percentage of shares held on the applicable record date.

*Optional Redemption of Fixed Rate Preferred Stock.* Shares of Fixed Rate Preferred Stock are not subject to optional redemption by the Fund until the date, if any, specified in the applicable Prospectus or Prospectus Supplement, unless such redemption is necessary, in the judgment of the Fund, to maintain the Fund's status as a regulated investment company under the Code. Commencing on such date and thereafter, the Fund may at any time redeem such Fixed Rate Preferred Stock in whole or in part for cash at a redemption price per share equal to the liquidation preference per share plus accumulated and unpaid distributions (whether or not earned or declared) to the redemption date. Such redemptions are subject to the notice requirements set forth under Redemption Procedures and the limitations of the Charter, the 1940 Act and Maryland law.

*Optional Redemption of Auction Rate Preferred Stock.* The Fund generally may redeem Auction Rate Preferred Stock, in whole or in part, at its option at any time (usually on a dividend or distribution payment date), other than during a non-call period. The Fund may designate a non-call period during a dividend period of more than seven days. In the case of such preferred stock having a dividend period of one year or less, the redemption price per share will equal the liquidation preference plus an amount equal to any accumulated but unpaid distributions thereon (whether or not earned or declared) to the redemption date, and in the case of such preferred stock having a dividend period of more than one year, the redemption price per share will equal the liquidation preference plus any redemption premium applicable during such dividend period. Such redemptions are subject to the notice requirements set forth under Redemption Procedures and the limitations of the Charter, the 1940 Act and Maryland law.

*Redemption Procedures.* A notice of redemption with respect to an optional redemption will be given to the holders of record of preferred stock selected for redemption not less than 15 days (subject to NYSE requirements), in the case of Fixed Rate Preferred Stock, and not less than seven days, in the case of Auction Rate Preferred Stock, nor, in both cases, more than 40 days prior to the date fixed for redemption. Preferred shareholders may receive shorter notice in the event of a mandatory redemption. Each notice of redemption will state (i) the redemption date, (ii) the number or percentage of shares of preferred stock to be redeemed (which may be expressed as a percentage of such shares outstanding), (iii) the CUSIP number(s) of such shares, (iv) the redemption price (specifying the amount of accumulated distributions to be included therein), (v) the place or places where such shares are to be redeemed, (vi) that distributions on the shares to be redeemed will cease to accumulate on such redemption date, (vii) the provision of the Articles Supplementary under which the redemption is being made and (viii) any conditions precedent to such redemption. No defect in the notice of redemption or in the mailing thereof will affect the validity of the redemption proceedings, except as required by applicable law.

The holders of preferred shares, whether subject to a variable or fixed rate, will not have the right to redeem any of their shares at their option.

### **Liquidation Rights**

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Fund, the holders of preferred stock then outstanding will be entitled to receive a preferential liquidating distribution, which is expected to equal the original purchase price per preferred share plus accumulated and unpaid dividends, whether or not declared, before any distribution of assets is made to holders of common stock. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of preferred stock will not be entitled to any further participation in any distribution of assets by the Fund.

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## Voting Rights

Except as otherwise stated in this Prospectus, specified in the Fund's Charter or resolved by the Board or as otherwise required by applicable law, holders of preferred stock shall be entitled to one vote per share held on each matter submitted to a vote of the shareholders of the Fund and will vote together with holders of common stock and of any other preferred stock then outstanding as a single class.

In connection with the election of the Fund's Directors, holders of the outstanding shares of preferred stock, voting together as a single class, will be entitled at all times to elect two of the Fund's Directors, and the remaining Directors will be elected by holders of common stock and holders of preferred stock, voting together as a single class. In addition, if (i) at any time dividends and distributions on outstanding shares of preferred stock are unpaid in an amount equal to at least two full years' dividends and distributions thereon and sufficient cash or specified securities have not been deposited with the applicable paying agent for the payment of such accumulated dividends and distributions or (ii) at any time holders of any other series of preferred stock are entitled to elect a majority of the Directors of the Fund under the 1940 Act or the applicable Articles Supplementary creating such shares, then the number of Directors constituting the Board automatically will be increased by the smallest number that, when added to the two Directors elected exclusively by the holders of preferred stock as described above, would then constitute a simple majority of the Board as so increased by such smallest number. Such additional Directors will be elected by the holders of the outstanding shares of preferred stock, voting together as a single class, at a special meeting of shareholders which will be called as soon as practicable and will be held not less than ten nor more than twenty days after the mailing date of the meeting notice. If the Fund fails to send such meeting notice or to call such a special meeting, the meeting may be called by any preferred shareholder on like notice. The terms of office of the persons who are Directors at the time of that election will continue. If the Fund thereafter pays, or declares and sets apart for payment in full, all dividends and distributions payable on all outstanding shares of preferred stock for all past dividend periods or the holders of other series of preferred stock are no longer entitled to elect such additional Directors, the additional voting rights of the holders of the preferred stock as described above will cease, and the terms of office of all of the additional Directors elected by the holders of the preferred stock (but not of the Directors with respect to whose election the holders of common stock were entitled to vote or the two Directors the holders of preferred stock have the right to elect as a separate class in any event) will terminate automatically.

So long as shares of preferred stock are outstanding, the Fund will not, without the affirmative vote of the holders of a majority (as defined in the 1940 Act) of the shares of preferred stock outstanding at the time, and present and voting on such matter, voting separately as one class, amend, alter or repeal the provisions of the Fund's Charter whether by merger, consolidation or otherwise, so as to materially adversely affect any of the rights, preferences or powers expressly set forth in the Charter with respect to such shares of preferred stock, unless the Fund obtains written confirmation from Moody's, S&P or any such other rating agency then rating the preferred stock that such amendment, alteration or repeal would not impair the rating then assigned by such rating agency to the preferred stock, in which case the vote or consent of the holders of the preferred stock is not required. Also, to the extent permitted under the 1940 Act, in the event shares of more than one series of preferred stock are outstanding, the Fund will not approve any of the actions set forth in the preceding sentence which materially adversely affect the rights, preferences or powers expressly set forth in the Charter with respect to such shares of a series of preferred stock differently than those of a holder of shares of any other series of preferred stock without the affirmative vote of the holders of at least a majority of the shares of preferred stock of each series materially adversely affected and outstanding at such time (each such materially adversely affected series voting separately as a class to the extent its rights are affected differently). For purposes of this paragraph, no matter shall be deemed to adversely affect any right, preference or power unless such matter (i) adversely alters or abolishes any preferential right of such series; (ii) creates, adversely alters or abolishes any right in respect of redemption of such series; or (iii) creates or adversely alters (other than to abolish) any restriction on transfer applicable to such series.

Under the Charter and applicable provisions of the 1940 Act or Maryland law, the affirmative vote of a majority of the votes entitled to be cast by holders of outstanding shares of the preferred stock, voting together as a single class, will be required to approve any plan of reorganization adversely affecting the preferred stock. The approval of 66 $\frac{2}{3}$ % of each class, voting separately, of the Fund's outstanding voting stock is required to authorize the conversion of the Fund from a closed-end to an open-end investment company. The approval of a majority (as that term is defined in the 1940 Act) of the Fund's outstanding preferred stock and a majority (as that term is defined in the 1940 Act) of the Fund's outstanding voting securities are required to approve any action requiring a vote of security holders under Section 13(a) of the 1940 Act (other than a conversion of the Fund from a closed-end to an open-end investment company), including, among other things, changes in the Fund's investment objectives or changes in the investment restrictions described as fundamental policies under "Investment Objectives and Policies" in this Prospectus and the SAI, "How the Fund Manages Risk" "Investment Restrictions" in this Prospectus and "Investment Restrictions" in the SAI. For purposes of this paragraph, except as otherwise

required under the 1940 Act, the majority of the outstanding preferred stock means, in accordance with Section 2(a)(42) of the 1940 Act, the vote, at the annual or a special meeting of the shareholders of the Fund duly called (i) of 67% or more of the shares of preferred stock present at such meeting, if the holders of more than 50% of the outstanding shares of preferred stock are present or represented by proxy, or (ii) more than 50% of the outstanding shares of preferred stock, whichever is less. The class vote of holders of preferred stock described above in each case will be in addition to a separate vote of the requisite percentage of common stock, and any other preferred stock, voting together as a single class, that may be necessary to authorize the action in question.

The calculation of the elements and definitions of certain terms of the rating agency guidelines may be modified by action of the Board without further action by the shareholders if the Board determines that such modification is necessary to prevent a reduction in rating of the shares of preferred stock by Moody's and/or S&P (or such other rating agency then rating the preferred stock at the request of the Fund), as the case may be, or is in the best interests of the holders of common stock and is not adverse to the holders of preferred stock in view of advice to the Fund by the relevant rating agencies that such modification would not adversely affect its then-current rating of the preferred stock.

The foregoing voting provisions will not apply to any series of preferred stock if, at or prior to the time when the act with respect to which such vote otherwise would be required will be effected, such stock will have been redeemed or called for redemption and sufficient cash or cash equivalents provided to the applicable paying agent to effect such redemption. The holders of preferred stock will have no preemptive rights or rights to cumulative voting.

#### **Limitation on Issuance of Preferred Stock**

So long as the Fund has preferred stock outstanding, subject to receipt of approval from the rating agencies of each series of preferred stock outstanding, and subject to compliance with the Fund's investment objectives, policies and restrictions, the Fund may issue and sell shares of one or more other series of additional preferred stock provided that the Fund will, immediately after giving effect to the issuance of such additional preferred stock and to its receipt and application of the proceeds thereof (including, without limitation, to the redemption of preferred stock to be redeemed out of such proceeds), have an asset coverage for all senior securities of the Fund which are stock, as defined in the 1940 Act, of at least 200% of the sum of the liquidation preference of the shares of preferred stock of the Fund then outstanding and all indebtedness of the Fund constituting senior securities and no such additional preferred stock will have any preference or priority over any other preferred stock of the Fund upon the distribution of the assets of the Fund or in respect of the payment of dividends or distributions.

The Fund will consider from time to time whether to offer additional preferred stock or securities representing indebtedness and may issue such additional securities if the Board concludes that such an offering would be consistent with the Fund's Charter and applicable law, and in the best interest of existing common shareholders.

*Book Entry.* Shares of Fixed Rate Preferred Stock sold through this offering will initially be held in the name of Cede & Co. as nominee for DTC. The Fund will treat Cede & Co. as the holder of record of such shares for all purposes. In accordance with the procedures of DTC, however, purchasers of Fixed Rate Preferred Stock will be deemed the beneficial owners of shares purchased for purposes of dividends, voting and liquidation rights.

Shares of Auction Rate Preferred Stock will initially be held by the auction agent as custodian for Cede & Co., in whose name the shares of Auction Rate Preferred Stock will be registered. The Fund will treat Cede & Co. as the holder of record of the such shares for all purposes.

#### **Subscription Rights**

*General.* We may issue subscription rights to holders of our (i) common stock to purchase common or preferred stock or (ii) preferred stock to purchase common or preferred stock (subject to applicable law). Subscription rights may be issued independently or together with any other offered security and may or may not be transferable by the person purchasing or receiving the subscription rights. In connection with a subscription rights offering to holders of our common or preferred stock, we would distribute certificates or other documentation evidencing the subscription rights and a prospectus supplement to our common or preferred stockholders as of the record date that we set for determining the shareholders eligible to receive subscription rights in such subscription rights offering.

The applicable prospectus supplement would describe the following terms of the subscription rights in respect of which this prospectus is being delivered:

the period of time the offering would remain open (which will be open a minimum number of days such that all record holders would be eligible to participate in the offering and will not be open longer than 120 days);

the underwriter or distributor, if any, of the subscription rights and any associated underwriting fees or discounts applicable to purchases of the rights;

the title of such subscription rights;

the exercise price for such subscription rights (or method of calculation thereof);

the number of such subscription rights issued in respect of each share of common stock or each share of preferred stock;

the number of rights required to purchase a single share of common stock or share of preferred stock;

the extent to which such subscription rights are transferable and the market on which they may be traded if they are transferable;

if applicable, a discussion of the material U.S. federal income tax considerations applicable to the issuance or exercise of such subscription rights;

the date on which the right to exercise such subscription rights will commence, and the date on which such right will expire (subject to any extension);

the extent to which such subscription rights include an over-subscription privilege with respect to unsubscribed securities and the terms of such over-subscription privilege;

any termination right we may have in connection with such subscription rights offering; and

any other terms of such subscription rights, including exercise, settlement and other procedures and limitations relating to the transfer and exercise of such subscription rights.

*Exercise of Subscription Rights.* A certain number of subscription rights would entitle the holder of the subscription right(s) to purchase for cash such number of shares of common stock or shares of preferred stock at such exercise price as in each case is set forth in, or be determinable as set forth in, the prospectus supplement relating to the subscription rights offered thereby. Subscription rights would be exercisable at any time up to the close of business on the expiration date for such subscription rights set forth in the prospectus supplement. After the close of business on the expiration date, all unexercised subscription rights would become void. Upon expiration of the rights offering and the receipt of payment and the subscription rights certificate or other appropriate documentation properly executed and completed and duly executed at the corporate trust office of the subscription rights agent, or any other office indicated in the prospectus supplement, the shares of common stock or shares of preferred stock purchased as a result of such exercise will be issued as soon as practicable. To the extent permissible under applicable law, we may determine to offer any unsubscribed offered securities directly to persons other than stockholders, to or through agents, underwriters or dealers or through a combination of such methods, as set forth in the applicable prospectus supplement.

#### **ANTI-TAKEOVER PROVISIONS OF THE FUND S GOVERNING DOCUMENTS**

The Fund presently has provisions in its Governing Documents that could have the effect of limiting, in each case:

the ability of other entities or persons to acquire control of the Fund;

the Fund's freedom to engage in certain transactions; or

the ability of the Fund's Directors or shareholders to amend the Governing Documents or effectuate changes in the Fund's management.

These provisions of the Governing Documents may be regarded as anti-takeover provisions. The Board is divided into three classes, each having a term of three years. Each year the term of one class of Directors will expire. Accordingly, only those Directors in one class may be changed in any one year, and it would require two years to change a majority of the Board. Further, one Director in each of two of the classes of the Fund is elected solely by the holders of the Fund's preferred stock and cannot be removed or replaced by the holders of the common stock. The affirmative vote of a majority of the shares present at a meeting of stockholders duly called and at which a quorum is present is required to elect a Director. A classified Board may have the effect of maintaining the continuity of management and, thus, make it more difficult for the stockholders

of the Fund to change the majority of Directors. A Director of the Fund may be removed only for cause by a vote of a majority of the votes entitled to be cast for the election of Directors of the Fund.

In addition, the affirmative vote of the holders of  $66\frac{2}{3}\%$  of the outstanding voting shares of the Fund, and the vote of a majority (as defined in the 1940 Act) of the holders of preferred shares, voting as a single class, is required to authorize the conversion of the Fund from a closed-end to an open-end investment company or generally to authorize any of the following transactions:

the merger or consolidation of the Fund with any entity;

the issuance of any securities of the Fund for cash to any entity or person;

the sale, lease or exchange of all or any substantial part of the assets of the Fund to any entity or person (except assets having an aggregate fair market value of less than \$1,000,000 over a 12-month period); or

the sale, lease or exchange to the Fund, in exchange for securities of the Fund, of any assets of any entity or person (except assets having an aggregate fair market value of less than \$1,000,000 over a 12-month period); if such person or entity is directly, or indirectly through affiliates, the beneficial owner of more than 5% of the outstanding shares of the Fund. Such vote would not be required, however, when, under certain circumstances, the Board approves the transaction or when each class of voting securities of the entity that is the other party to any of the above-listed transactions is (directly or indirectly) majority owned by the Fund.

The Fund's Bylaws provide that the affirmative vote of two-thirds of the entire Board of Directors shall be required to approve or declare advisable:

- (1) Any amendment to the Charter to make the Fund's common stock a redeemable security or to convert the Fund, whether by merger or otherwise, from a closed-end company to an open-end company (as defined in the 1940 Act);
- (2) The liquidation or dissolution of the Fund and any amendment to the Charter to effect any such liquidation or dissolution; or
- (3) Any merger, consolidation, share exchange or sale or exchange of all or substantially all of the assets of the Fund that Maryland law requires be approved by the stockholders of the Fund.

Further, unless a higher percentage is provided for under the Charter, the affirmative vote of a majority (as defined in the 1940 Act) of the votes entitled to be cast by holders of outstanding shares of the Fund's preferred stock, voting as a separate class, will be required to approve any plan of reorganization adversely affecting such stock or any action requiring a vote of security holders under Section 13(a) of the 1940 Act, including, among other things, changing the Fund's subclassification as a closed-end investment company, changing the Fund's investment objectives or changing its fundamental investment restrictions.

Maryland corporations that are subject to the Securities Exchange Act of 1934, as amended (the 1934 Act), and have at least three outside directors, such as the Fund, may by board resolution elect to become subject to certain corporate governance provisions set forth in the Maryland General Corporation Law, even if such provisions are inconsistent with the corporation's charter and by-laws. Accordingly, notwithstanding the Fund's Governing Documents, under Maryland law the Board may elect by resolution (and the filing of Articles Supplementary) to, among other things:

require that the call of special meetings by shareholders be permitted only at the request of shareholders entitled to cast at least a majority of the votes entitled to be cast at such meeting;

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reserve for the Board the right to fix the number of Fund Directors;

provide that Directors are subject to removal only by the vote of the stockholders entitled to cast two-thirds of the votes entitled to be cast generally in the election of Directors; and

retain for the Board sole authority to fill any vacancies on the Board, with any Director so appointed to serve for the balance of the unexpired term rather than only until the next annual meeting of shareholders.

The Governing Documents of the Fund presently: (i) require holders of not less than a majority of the votes entitled to be cast to call a special meeting of stockholders; and (ii) provide that the Board shall fix the number of Fund Directors. On

December 3, 2010, in accordance with Maryland law, the Fund's Board elected by resolution and approved Articles Supplementary to vest in the Board the sole power to fill any vacancies on the Board, with any Director so elected to serve for the full term of the directorship in which the vacancy occurred and until his or her successor is duly elected and qualifies.

Under the Maryland General Corporation Law, if the directors have been divided into classes, unless the charter provides otherwise (which the Charter does not), a director may be removed only for cause by the affirmative vote of a majority of all the votes entitled to be cast generally for the election of directors. The Board could elect in the future to be subject to the provision of Maryland law that would increase the vote required to remove a Director to two-thirds of all the votes entitled to be cast.

The Fund's Bylaws provide that, with respect to an annual meeting of stockholders, nominations or persons for election to the Board of Directors and the proposal of business to be considered by stockholders may be made only (1) by or at the direction of the Board of Directors or (2) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of the Bylaws. With respect to special meetings of stockholders, only the business specified in the Fund's notice of the meeting may be brought before the meeting. Nominations of persons for election to the Board of Directors at a special meeting may be made only (1) by or at the direction of the Board of Directors or (2) provided that a special meeting has been called for the purpose of electing directors, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the Bylaws.

The Fund's Bylaws provide that special meetings of stockholders may be called by the Board of Directors and certain of the Fund's officers. Additionally, the Fund's Bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the Fund upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

The provisions of the Governing Documents and Maryland law described above could have the effect of depriving the owners of stock in the Fund of opportunities to sell their shares at a premium over prevailing market prices, by discouraging a third party from seeking to obtain control of the Fund in a tender offer or similar transaction. The overall effect of these provisions is to render more difficult the accomplishment of a merger or the assumption of control by a principal stockholder.

The Governing Documents of the Fund are on file with the SEC.

#### **CLOSED-END FUND STRUCTURE**

The Fund is a non-diversified, closed-end management investment company (commonly referred to as a closed-end fund). Closed-end funds differ from open-end funds (which are generally referred to as mutual funds) in that closed-end funds generally list their shares for trading on a stock exchange and do not redeem their shares at the request of a shareholder. This means that if you wish to sell your shares of a closed-end fund you must trade them on the market like any other stock at the prevailing market price at that time. In a mutual fund, if the shareholder wishes to sell shares of the fund, the mutual fund will redeem or buy back the shares at net asset value. Also, mutual funds generally offer new shares on a continuous basis to new investors, and closed-end funds generally do not. The continuous inflows and outflows of assets in a mutual fund can make it difficult to manage the fund's investments. By comparison, closed-end funds are generally able to stay more fully invested in securities that are consistent with their investment objectives, to have greater flexibility to make certain types of investments and to use certain investment strategies such as financial leverage and investments in illiquid securities.

Shares of closed-end funds often trade at a discount to their net asset value. Because of this possibility and the recognition that any such discount may not be in the interest of shareholders, the Fund's Board might consider from time to time engaging in open-market repurchases, tender offers for shares or other programs intended to reduce a discount. We cannot guarantee or assure, however, that the Fund's Board will decide to engage in any of these actions. Nor is there any guarantee or assurance that such actions, if undertaken, would result in the shares trading at a price equal or close to net asset value per share. The Board might also consider converting the Fund to an open-end mutual fund, which would also require a supermajority vote of the shareholders of the Fund and a separate vote of any outstanding preferred shares. We cannot assure you that the Fund's common shares will not trade at a discount.

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### REPURCHASE OF COMMON STOCK

The Fund is a non-diversified, closed-end management investment company and as such its shareholders do not, and will not, have the right to require the Fund to repurchase their shares. The Fund, however, may repurchase shares of its common stock from time to time as and when it deems such a repurchase advisable. The Board has authorized such repurchases to be made when shares of the Fund's common stock are trading at a discount from net asset value of 10% or more (or such other percentage as the Board of the Fund may determine from time to time). Although the Board has authorized such repurchases, the Fund is not required to repurchase shares of its common stock. The Board has not established a limit on the number of shares that could be purchased during such period. Pursuant to the 1940 Act, the Fund may repurchase shares of its common stock on a securities exchange (provided that the Fund has informed its shareholders within the preceding six months of its intention to repurchase such shares) or pursuant to tenders and may also repurchase shares privately if the Fund meets certain conditions regarding, among other things, distribution of net income for the preceding fiscal year, status of the seller, price paid, brokerage commissions, prior notice to shareholders of an intention to purchase shares and purchasing in a manner and on a basis that does not discriminate unfairly against the other shareholders through their interests in the Fund.

Shares repurchased by the Fund will revert to the status of authorized but unissued shares and will be available for reissuance. The Fund may incur debt to finance share repurchase transactions. Any gain in the value of the investments of the Fund during the term of the borrowing that exceeds the interest paid on the amount borrowed would cause the net asset value of the Fund's shares to increase more rapidly than in the absence of borrowing. Conversely, any decline in the value of the investments of the Fund would cause the net asset value of the Fund's shares to decrease more rapidly than in the absence of borrowing. Borrowing money thus creates an opportunity for greater capital gains but at the same time increases exposure to capital risk.

When the Fund repurchases shares of its common stock for a price below net asset value, the net asset value of the shares of common stock that remain outstanding shares will be enhanced, but this does not necessarily mean that the market price of the outstanding common shares will be affected, either positively or negatively. Further, interest on borrowings to finance share repurchase transactions will reduce the net income of the Fund. The repurchase of common stock will reduce the total assets of the Fund available for investment and may increase the Fund's expense ratio.

The Fund does not currently have an established tender offer program or established schedule for considering tender offers. No assurance can be given that the Board will decide to undertake any such tender offers in the future, or, if undertaken, that they will reduce any market discount.

### RIGHTS OFFERINGS

The Fund may in the future, and at its discretion, choose to make offerings of subscription rights to purchase its common stock or preferred stock to its common stockholders or its preferred stockholders. A future rights offering may be transferable or non-transferable. Any such future rights offering will be made in accordance with the 1940 Act. Under the laws of Maryland, the Board is authorized to approve rights offerings without obtaining shareholder approval. The staff of the SEC has interpreted the 1940 Act as not requiring shareholder approval of a transferable rights offering to purchase common stock at a price below the then current net asset value so long as certain conditions are met, including: (i) a good faith determination by a fund's Board that such offering would result in a net benefit to existing shareholders; (ii) the offering fully protects shareholders' preemptive rights and does not discriminate among shareholders (except for the possible effect of not offering fractional rights); (iii) management uses its best efforts to ensure an adequate trading market in the rights for use by shareholders who do not exercise such rights; and (iv) the ratio of a transferable rights offering does not exceed one new share for each three rights held.

### NET ASSET VALUE

The net asset value of the Fund's shares is computed based on the market value of the securities it holds and determined daily as of the close of the regular trading day on the NYSE. For purposes of determining the Fund's net asset value per share, portfolio securities listed or traded on a nationally recognized securities exchange or traded in the U.S. over-the-counter market for which market quotations are readily available are valued at the last quoted sale price or a market's official closing price as of the close of business on the day the securities are being valued. If there were no sales that day, the security is valued at the average of the closing bid and asked prices or, if there were no asked prices quoted on that day, then the security is valued at the closing bid price on that day. If no bid or asked prices are quoted on such day, the security is valued

at the most recently available price or, if the Board so determines, by such other method as the Board shall determine in good faith to reflect its fair market value. Portfolio securities traded on more than one national securities exchange or market are valued according to the broadest and most representative market, as determined by the Investment Adviser.

Portfolio securities primarily traded on a foreign market are generally valued at the preceding closing values of such securities on the relevant market, but may be fair valued pursuant to procedures established by the Board if market conditions change significantly after the close of the foreign market but prior to the close of business on the day the securities are being valued. Debt instruments with remaining maturities of 60 days or less that are not credit impaired are valued at amortized cost, unless the Board determines such amount does not reflect the securities fair value, in which case these securities will be fair valued as determined by the Board. Debt instruments having a maturity greater than 60 days for which market quotations are readily available are valued at the average of the latest bid and asked prices. If there were no asked prices quoted on such day, the security is valued using the closing bid price. Futures contracts are valued at the closing settlement price of the exchange or board of trade on which the applicable contract is traded.

Securities and assets for which market quotations are not readily available are fair valued as determined by the Board. Fair valuation methodologies and procedures may include, but are not limited to: analysis and review of available financial and non-financial information about the company; comparisons to the valuation and changes in valuation of similar securities, including a comparison of foreign securities to the equivalent U.S. dollar value ADR securities at the close of the U.S. exchange; and evaluation of any other information that could be indicative of the value of the security.

The Fund obtains valuations on the basis of prices provided by one or more pricing services approved by the Board. All other investment assets, including restricted and not readily marketable securities, are valued in good faith at fair value under procedures established by and under the general supervision and responsibility of the Fund's Board.

In addition, whenever developments in one or more securities markets after the close of the principal markets for one or more portfolio securities and before the time as of which the Fund determines its net asset value would, if such developments had been reflected in such principal markets, likely have more than a minimal effect on the Fund's net asset value per share, the Fund may fair value such portfolio securities based on available market information as of the time the Fund determines its net asset value.

*NYSE Closings.* The holidays (as observed) on which the NYSE is closed, and therefore days upon which shareholders cannot purchase or sell shares, currently are: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day and on the preceding Friday or subsequent Monday when a holiday falls on a Saturday or Sunday, respectively.

#### **LIMITATION ON DIRECTORS AND OFFICERS' LIABILITY**

The Governing Documents provide that the Fund will indemnify its Directors and officers and may indemnify its employees or agents against liabilities and expenses incurred in connection with litigation in which they may be involved because of their positions with the Fund, to the fullest extent permitted by law. However, nothing in the Governing Documents protects or indemnifies a Director, officer, employee or agent of the Fund against any liability to which such person would otherwise be subject in the event of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her position.

#### **TAXATION**

The following discussion is a brief summary of certain federal income tax considerations affecting the Fund and the purchase, ownership and disposition of the Fund's shares. A more complete discussion of the tax rules applicable to the Fund and its shareholders can be found in the SAI that is incorporated by reference into this Prospectus. This discussion assumes you are a U.S. person (as defined for U.S. federal income tax purposes) and that you hold your shares as capital assets. This discussion is based upon current provisions of the Code, the regulations promulgated thereunder and judicial and administrative authorities, all of which are subject to change or differing interpretations by the courts or the Internal Revenue Service (the "IRS"), possibly with retroactive effect. No ruling has been or will be sought from the IRS regarding any matter discussed herein. Counsel to the Fund has not rendered and will not render any legal opinion regarding any tax consequences.

relating to the Fund or an investment in the Fund. No attempt is made to present a detailed explanation of all federal tax concerns affecting the Fund and its shareholders (including shareholders owning large positions in the Fund).

**The discussion set forth herein does not constitute tax advice and potential investors are urged to consult their own tax advisers to determine the tax consequences to them of investing in the Fund.**

#### **Taxation of the Fund**

The Fund has elected to be treated and has qualified, and intends to continue to qualify, as a regulated investment company under Subchapter M of the Code. Accordingly, the Fund must, among other things, meet the following requirements regarding the source of its income and the diversification of its assets:

- (i) The Fund must derive in each taxable year at least 90% of its gross income from the following sources, which are referred to herein as "Qualifying Income": (a) dividends, interest (including tax-exempt interest), payments with respect to certain securities loans, and gains from the sale or other disposition of stock, securities or foreign currencies, and other income (including but not limited to gain from options, futures and forward contracts) derived with respect to its business of investing in such stock, securities or foreign currencies; and (b) interests in publicly traded partnerships that are treated as partnerships for U.S. federal income tax purposes and that derive less than 90% of their gross income from the items described in (a) above (each a "Qualified Publicly Traded Partnership").
- (ii) The Fund must diversify its holdings so that, at the end of each quarter of each taxable year (a) at least 50% of the market value of the Fund's total assets is represented by cash and cash items (including receivables), U.S. government securities, the securities of other regulated investment companies and other securities, with such other securities limited, in respect of any one issuer, to an amount not greater than 5% of the value of the Fund's total assets and not more than 10% of the outstanding voting securities of such issuer and (b) not more than 25% of the market value of the Fund's total assets is invested in the securities (other than U.S. government securities and the securities of other regulated investment companies) of (I) any one issuer, (II) any two or more issuers in which the Fund owns 20% or more of the voting stock and that are determined to be engaged in the same business or similar or related trades or businesses or (III) any one or more Qualified Publicly Traded Partnerships.

As a regulated investment company, the Fund generally will not be subject to U.S. federal income tax on income and gains that the Fund distributes to its shareholders, provided that it distributes each taxable year at least the sum of (i) 90% of the Fund's investment company taxable income (which includes, among other items, dividends, interest and the excess of any net short-term capital gain over net long-term capital loss and other taxable income, other than any net long-term capital gain, reduced by deductible expenses) determined without regard to the deduction for dividends paid and (ii) 90% of the Fund's net tax-exempt interest (the excess of its gross tax-exempt interest over certain disallowed deductions). The Fund intends to distribute substantially all of such income at least annually. The Fund will be subject to income tax at regular corporate rates on any taxable income or gains that it does not distribute to its shareholders.

The Code imposes a 4% nondeductible excise tax on the Fund to the extent the Fund does not distribute by the end of any calendar year an amount at least equal to the sum of (i) 98% of its ordinary income (not taking into account any capital gain or loss) for the calendar year and (ii) 98.2% of its capital gain in excess of its capital loss (adjusted for certain ordinary losses) for a one-year period generally ending on October 31 of the calendar year (unless an election is made to use the Fund's fiscal year). In addition, the minimum amounts that must be distributed in any year to avoid the excise tax will be increased or decreased to reflect any under-distribution or over-distribution, as the case may be, from the previous year. While the Fund intends to distribute any income and capital gain in the manner necessary to minimize imposition of the 4% excise tax, there can be no assurance that sufficient amounts of the Fund's taxable income and capital gain will be distributed to entirely avoid the imposition of the excise tax. In that event, the Fund will be liable for the excise tax only on the amount by which it does not meet the foregoing distribution requirement.

If for any taxable year the Fund does not qualify as a regulated investment company, all of its taxable income (including its net capital gain) will be subject to tax at regular corporate rates without any deduction for distributions to shareholders.

#### **Taxation of Shareholders**

Distributions paid to you by the Fund from its net realized long-term capital gains, if any, that the Fund reports as capital gains dividends (capital gain dividends) are taxable as long-term capital gains, regardless of how long you have held your shares. All other dividends paid to you by the Fund (including dividends from short-term capital gains) from its current or accumulated earnings and profits (ordinary income dividends) are generally subject to tax as ordinary income.



Special rules apply, however, to ordinary income dividends paid to individuals with respect to taxable years beginning on or before December 31, 2012. If you are an individual, any such ordinary income dividend that you receive from the Fund generally will be eligible for taxation at the Federal rates applicable to long-term capital gains (currently at a maximum rate of 15%) to the extent that (i) the ordinary income dividend is attributable to qualified dividend income (i.e., generally dividends paid by U.S. corporations and certain foreign corporations) received by the Fund, (ii) the Fund satisfies certain holding period and other requirements with respect to the stock on which such qualified dividend income was paid and (iii) you satisfy certain holding period and other requirements with respect to your shares. There can be no assurance as to what portion of the Fund's ordinary income dividends will constitute qualified dividend income.

Beginning in 2013, a 3.8 percent Medicare contribution tax will be imposed on net investment income, including interest, dividends, and capital gain, of U.S. individuals with income exceeding \$200,000 (or \$250,000 if married filing jointly), and of estates and trusts.

Any distributions you receive that are in excess of the Fund's current or accumulated earnings and profits will be treated as a tax-free return of capital to the extent of your adjusted tax basis in your shares, and thereafter as capital gain from the sale of shares. The amount of any Fund distribution that is treated as a tax-free return of capital will reduce your adjusted tax basis in your shares, thereby increasing your potential gain or reducing your potential loss on any subsequent sale or other disposition of your shares.

Dividends and other taxable distributions are taxable to you even if they are reinvested in additional common shares of the Fund. Dividends and other distributions paid by the Fund are generally treated under the Code as received by you at the time the dividend or distribution is made. If, however, the Fund pays you a dividend in January that was declared in the previous October, November or December and you were the shareholder of record on a specified date in one of such months, then such dividend will be treated for tax purposes as being paid by the Fund and received by you on December 31 of the year in which the dividend was declared.

The Fund will send you information after the end of each year setting forth the amount and tax status of any distributions paid to you by the Fund.

The sale or other disposition of shares of the Fund will generally result in capital gain or loss to you, and will be long-term capital gain or loss if you have held such shares for more than one year at the time of sale. Any loss upon the sale or exchange of shares held for six months or less will be treated as long-term capital loss to the extent of any capital gain dividends received (including amounts credited as an undistributed capital gain dividend) by you with respect to such shares. Any loss you realize on a sale or exchange of shares will be disallowed if you acquire other shares (whether through the automatic reinvestment of dividends or otherwise) within a 61-day period beginning 30 days before and ending 30 days after your sale or exchange of the shares. In such case, your tax basis in the shares acquired will be adjusted to reflect the disallowed loss.

The Fund may be required to withhold, for U.S. federal backup withholding tax purposes, 28% of the dividends, distributions and redemption proceeds payable to shareholders who fail to provide the Fund (or its agent) with their correct taxpayer identification number (in the case of individuals, generally, their social security number) or to make required certifications, or who have been notified by the IRS that they are subject to backup withholding. Certain shareholders are exempt from backup withholding. Backup withholding is not an additional tax and any amount withheld may be refunded or credited against your U.S. federal income tax liability, if any, provided that you furnish the required information to the IRS.

### **Taxation of Holders of Subscription Rights**

As more fully described below, upon receipt of a subscription right, a preferred shareholder generally will be treated as receiving a taxable distribution in an amount equal to the fair market value of the subscription right the preferred shareholder receives.

To the extent that the distribution is made out of the Fund's earnings and profits, the subscription right will be a taxable dividend to the preferred shareholder. If the amount of the distribution received by the preferred shareholder exceeds such shareholder's proportionate share of the Fund's earnings and profits, the excess will reduce the preferred shareholder's tax basis in the preferred shares with respect to which the subscription right was issued (the old share). To the extent that the excess is greater than the preferred shareholder's tax basis in the old shares, such excess will be treated as gain from the sale of the old shares. If the preferred shareholder held the old shares for more than one year, such gain will be treated as long-term capital gain.

A preferred shareholder's tax basis in the subscription rights received will equal the fair market value of the subscription rights on the date of the distribution.

A preferred shareholder who allows the subscription rights received to expire generally will recognize a short-term capital loss. Capital losses are deductible only to the extent of capital gains (subject to an exception for individuals under which \$3,000 of capital losses may be offset against ordinary income).

A preferred shareholder who sells the subscription rights will recognize a gain or loss equal to the difference between the amount realized on the sale and the preferred shareholder's tax basis in the subscription rights as described above.

A preferred shareholder will not recognize any gain or loss upon the exercise of the subscription rights received in the rights offering. The tax basis of the shares acquired through exercise of the subscription rights (the new shares) will equal the sum of the subscription price for the new shares and the preferred shareholder's tax basis in the subscription rights as described above. The holding period for the new shares acquired through exercise of the subscription rights will begin on the day following the date on which the subscription rights are exercised.

### **Conclusion**

The foregoing is a general and abbreviated summary of the provisions of the Code and the Treasury regulations in effect as they directly govern the taxation of the Fund and its shareholders. These provisions are subject to change by legislative or administrative action, and any such change may be retroactive.

### **CUSTODIAN, TRANSFER AGENT AND DIVIDEND DISBURSING AGENT**

BNY Mellon located at 135 Santilli Highway, Everett, Massachusetts 02149, serves as the Custodian of the Fund's assets pursuant to a custody agreement. Under the custody agreement, the Custodian holds the Fund's assets in compliance with the 1940 Act. For its services, the Custodian receives a monthly fee paid by the Fund based upon, among other things, the average weekly value of the total assets of the Fund, plus certain charges for securities transactions and out-of-pocket expenses.

Rules adopted under the 1940 Act permit the Fund to maintain its foreign securities in the custody of certain eligible foreign banks and securities depositories. Pursuant to those rules, any foreign securities in the portfolio of the Fund may be held by subcustodians approved by the Board in accordance with the regulations of the SEC. Selection of any such subcustodians will be made by the Board following a consideration of a number of factors, including but not limited to the reliability and financial stability of the institution, the ability of the institution to perform capably custodial services for the Fund, the reputation of the institution in its national market, the political and economic stability of the country or countries in which the subcustodians are located, and risks of potential nationalization or expropriation of assets of the Fund.

Computershare, located at 250 Royall Street, Canton, Massachusetts 02021, serves as the Fund's dividend disbursing agent, as agent under the Fund's Plan and as transfer agent and registrar with respect to the common stock of the Fund.

Computershare also serves as the Fund's transfer agent, registrar, dividend disbursing agent and redemption agent with respect to the Series D Preferred and Series F Preferred.

BNY Mellon, located at One Wall Street, New York, New York 10286, serves as the auction agent, transfer agent, registrar, dividend disbursing agent and redemption agent with respect to the Series C Auction Rate Preferred and Series E Auction Rate Preferred.

### **PLAN OF DISTRIBUTION**

We may sell securities through underwriters or dealers, directly to one or more purchasers, including existing holders of our common stock or preferred stock in a rights offering, through agents, to or through underwriters or dealers, or through a combination of any such methods of sale. The applicable Prospectus Supplement will identify any underwriter or agent involved in the offer and sale of our securities, any sales loads, discounts, commissions, fees or other compensation paid to any underwriter, dealer or agent, the offering price, net proceeds and use of proceeds and the terms of any sale. In the case of a rights offering to existing holders of our common stock or preferred stock, the applicable prospectus supplement will set

forth the number of rights required to purchase a single share of common stock or a single share of preferred stock and the other terms of such rights offering.

The distribution of our shares may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at prevailing market prices at the time of sale, at prices related to such prevailing market prices, or at negotiated prices, provided, however, that the offering price per share in the case of common shares, must equal or exceed the net asset value per share, exclusive of any underwriting commissions or discounts, of our common shares.

We may sell our shares directly to, and solicit offers from, institutional investors or others who may be deemed to be underwriters as defined in the Securities Act of 1933 (the Securities Act ) for any resales of the securities. In this case, no underwriters or agents would be involved. We may use electronic media, including the Internet, to sell offered securities directly.

In connection with the sale of our shares, underwriters or agents may receive compensation from us in the form of discounts, concessions or commissions. Underwriters may sell our shares to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of our shares may be deemed to be underwriters under the Securities Act, and any discounts and commissions they receive from us and any profit realized by them on the resale of our shares may be deemed to be underwriting discounts and commissions under the Securities Act. Any such underwriter or agent will be identified and any such compensation received from us will be described in the applicable Prospectus Supplement. The maximum commission or discount to be received by any FINRA member or independent broker-dealer will not exceed eight percent. We will not pay any compensation to any underwriter or agent in the form of warrants, options, consulting or structuring fees or similar arrangements.

If a Prospectus Supplement so indicates, we may grant the underwriters an option to purchase additional shares at the public offering price, less the underwriting discounts and commissions, within 45 days from the date of the Prospectus Supplement, to cover any overallocments.

Under agreements into which we may enter, underwriters, dealers and agents who participate in the distribution of our shares may be entitled to indemnification by us against certain liabilities, including liabilities under the Securities Act. Underwriters, dealers and agents may engage in transactions with us, or perform services for us, in the ordinary course of business.

If so indicated in the applicable Prospectus Supplement, we will ourselves, or will authorize underwriters or other persons acting as our agents to solicit offers by certain institutions to purchase our shares from us pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contacts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by us. The obligation of any purchaser under any such contract will be subject to the condition that the purchase of the shares shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts. Such contracts will be subject only to those conditions set forth in the Prospectus Supplement, and the Prospectus Supplement will set forth the commission payable for solicitation of such contracts.

To the extent permitted under the 1940 Act and the rules and regulations promulgated thereunder, the underwriters may from time to time act as brokers or dealers and receive fees in connection with the execution of our portfolio transactions after the underwriters have ceased to be underwriters and, subject to certain restrictions, each may act as a broker while it is an underwriter.

A Prospectus and accompanying Prospectus Supplement in electronic form may be made available on the websites maintained by underwriters. The underwriters may agree to allocate a number of securities for sale to their online brokerage account holders. Such allocations of securities for Internet distributions will be made on the same basis as other allocations. In addition, securities may be sold by the underwriters to securities dealers who resell securities to online brokerage account holders.

In order to comply with the securities laws of certain states, if applicable, our shares offered hereby will be sold in such jurisdictions only through registered or licensed brokers or dealers.

### **LEGAL MATTERS**

Certain legal matters will be passed on by Willkie Farr & Gallagher LLP, 787 Seventh Avenue, New York, New York 10019-6099, counsel to the Fund, in connection with the offering of the Fund's securities. Counsel for the Fund will rely, as to certain matters of Maryland law, on Venable LLP, 750 E. Pratt Street, Baltimore, Maryland 21202.

### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

PricewaterhouseCoopers LLP serves as the independent registered public accounting firm of the Fund and audits the financial statements of the Fund. PricewaterhouseCoopers LLP is located at 300 Madison Avenue, New York, New York 10017.

### **ADDITIONAL INFORMATION**

The Fund is subject to the informational requirements of the 1934 Act and the 1940 Act, and in accordance therewith files reports and other information with the SEC. Reports, proxy statements and other information filed by the Fund with the SEC pursuant to the informational requirements of such Acts can be inspected and copied at the public reference facilities maintained by the SEC, 100 F Street, N.E., Washington, D.C. 20549. The SEC maintains a web site at <http://www.sec.gov> containing reports, proxy and information statements and other information regarding registrants, including the Fund, that file electronically with the SEC.

The Fund's common stock, Series D Preferred, Series G Preferred and Series H Preferred are listed on the NYSE. Reports, proxy statements and other information concerning the Fund and filed with the SEC by the Fund will be available for inspection at the NYSE, 11 Wall Street, New York, New York, 10005.

This Prospectus constitutes part of a Registration Statement filed by the Fund with the SEC under the Securities Act and the 1940 Act. This Prospectus omits certain of the information contained in the Registration Statement, and reference is hereby made to the Registration Statement and related exhibits for further information with respect to the Fund and the securities offered hereby. Any statements contained herein concerning the provisions of any document are not necessarily complete, and, in each instance, reference is made to the copy of such document filed as an exhibit to the Registration Statement or otherwise filed with the SEC. Each such statement is qualified in its entirety by such reference. The complete Registration Statement may be obtained from the SEC upon payment of the fee prescribed by its rules and regulations or free of charge through the SEC's web site (<http://www.sec.gov>).

### **PRIVACY PRINCIPLES OF THE FUND**

The Fund is committed to maintaining the privacy of its shareholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information the Fund collects, how the Fund protects that information and why, in certain cases, the Fund may share information with select other parties.

Generally, the Fund does not receive any non-public personal information relating to its shareholders, although certain non-public personal information of its shareholders may become available to the Fund. The Fund does not disclose any non-public personal information about its shareholders or former shareholders to anyone, except as permitted by law or as is necessary in order to service shareholder accounts (for example, to a transfer agent or third party administrator).

The Fund restricts access to non-public personal information about its shareholders to employees of the Fund, the Investment Adviser, and its affiliates with a legitimate business need for the information. The Fund maintains physical, electronic and procedural safeguards designed to protect the non-public personal information of its shareholders.

**TABLE OF CONTENTS OF STATEMENT OF ADDITIONAL INFORMATION**

An SAI dated as of May 20, 2013, has been filed with the SEC and is incorporated by reference in this Prospectus. An SAI may be obtained without charge by writing to the Fund at its address at One Corporate Center, Rye, New York 10580-1422 or by calling the Fund toll-free at (800) GABELLI (422-3554). The Table of Contents of the SAI is as follows:

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No dealer, salesperson or other person has been authorized to give any information or to make any representations in connection with this offering other than those contained in this Prospectus in connection with the offer contained herein, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Fund, the Investment Adviser or the underwriters. Neither the delivery of this Prospectus nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Fund since the date hereof or that the information contained herein is correct as of any time subsequent to its date. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the securities to which it relates. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy such securities in any circumstance in which such an offer or solicitation is unlawful.

**\$500,000,000**

**THE GABELLI EQUITY TRUST INC.**

**Common Stock**

**Preferred Stock**

**Subscription Rights to Purchase Common Stock**

**Subscription Rights to Purchase Preferred Stock**

**PROSPECTUS**

**May 20, 2013**

THE GABELLI EQUITY TRUST INC.

**The information in this Prospectus Supplement is not complete and may be changed. The Fund may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and is not soliciting offers to buy these securities in any state where the offer or sale is not permitted.**

Filed Pursuant to Rule 497(c)

Registration Statement No. 333-173819

**PROSPECTUS SUPPLEMENT**

(To Prospectus dated , 2013)

# The Gabelli Equity Trust Inc.

## Common Stock

We are offering for sale shares of our common stock. Our common stock is traded on the New York Stock Exchange ( NYSE ) under the symbol GAB. Our 5.875% Series D Cumulative Preferred Stock ( Series D Preferred ) and our 6.20% Series F Cumulative Preferred Stock ( Series F Preferred ) are traded on the NYSE under the symbol GAB PrD and GAB PrF , respectively. Our Series C Auction Rate Cumulative Preferred Stock ( Series C Auction Rate Preferred Stock ) and Series E Auction Rate Cumulative Preferred Stock ( Series E Auction Rate Preferred Stock ) are not traded on a stock exchange. The last reported sale price for our common stock on , was \$ per share. The net asset value of the Fund s common shares at the close of business on [ ], 2013 was \$[ ] per share.

You should review the information set forth under Risk Factors and Special Considerations on page of the accompanying Prospectus before investing in our common shares.

	Per Share	Total (1)
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to us	\$	\$

(1) The aggregate expenses of the offering are estimated to be \$ , which represents approximately \$ per share. The underwriters may also purchase up to an additional common stock from us at the public offering price, less underwriting discounts and commissions, to cover over-allotments, if any, within 30 days after the date of this Prospectus Supplement. If the over-allotment option is exercised in full, the total proceeds, before expenses, to the Fund would be \$ and the total underwriting discounts and commissions would be \$ . The common shares will be ready for delivery on or about , .

You should read this Prospectus Supplement and the accompanying Prospectus before deciding whether to invest in our common shares and retain it for future reference. The Prospectus Supplement and the accompanying Prospectus contain important information about us. Material that has been incorporated by reference and other information about us can be obtained from us by calling 800-GABELLI (422-3554) or from the Securities and Exchange Commission s ( SEC ) website (<http://www.sec.gov>).

**NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

, 2013



You should rely only on the information contained or incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. Neither the Fund nor the underwriters have authorized anyone to provide you with different information. The Fund is not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this Prospectus Supplement and the accompanying Prospectus is accurate as of any date other than the date of this Prospectus Supplement and the accompanying Prospectus, respectively. Our business, financial condition, results of operations and prospects may have changed since those dates. In this Prospectus Supplement and in the accompanying Prospectus, unless otherwise indicated, Fund, us, our and we refer to The Gabelli Equity Trust Inc. This Prospectus Supplement also includes trademarks owned by other persons.

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**CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

This Prospectus Supplement, the accompanying Prospectus and the Statement of Additional Information contain forward-looking statements. Forward-looking statements can be identified by the words may, will, intend, expect, estimate, continue, plan, anticipate, and similar terms, and the negative of such terms. Such forward-looking statements may be contained in this Prospectus Supplement as well as in the accompanying Prospectus. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect our actual results are the performance of the portfolio of securities we hold, the price at which our shares will trade in the public markets and other factors discussed in our periodic filings with the SEC.

Although we believe that the expectations expressed in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in the Risk Factors and Special Considerations section of the accompanying prospectus. All forward-looking statements contained or incorporated by reference in this Prospectus Supplement or the accompanying Prospectus are made as of the date of this Prospectus Supplement or the accompanying Prospectus, as the case may be. Except for our ongoing obligations under the federal securities laws, we do not intend, and we undertake no obligation, to update any forward-looking statement. The forward-looking statements contained in this Prospectus Supplement, any accompanying Prospectus and the Statement of Additional Information are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended (the Securities Act ).

Currently known risk factors that could cause actual results to differ materially from our expectations include, but are not limited to, the factors described in the Risk Factors and Special Considerations section of the accompanying Prospectus. We urge you to review carefully those sections for a more detailed discussion of the risks of an investment in our common stock.

### TABLE OF FEES AND EXPENSES

The following tables are intended to assist you in understanding the various costs and expenses directly or indirectly associated with investing in our common stock as a percentage of net assets attributable to common stock. Amounts are for the current fiscal year after giving effect to anticipated net proceeds of the offering, assuming that we incur the estimated offering expenses, including preferred stock offering expenses.

#### Shareholder Transaction Expenses

Sales Load (as a percentage of offering price)	[ ]%
Offering Expenses Borne by the Fund (as a percentage of offering price)	[ ]%
Dividend Reinvestment Plan Fees	None(1)

	Percentage of Net Assets Attributable to Common Stock
<b>Annual Expenses</b>	
Management Fees	[ ]%(2)
Interest on Borrowed Funds	[ ]
Other Expenses	[ ]%(2)
<b>Total Annual Expenses</b>	[ ]%
Dividends on Preferred Stock	%
<b>Total Annual Expenses and Dividends on Preferred Stock</b>	[ ]%(2)

- (1) You will be charged a \$[2.50] service charge and pay brokerage charges if you direct the plan agent to sell your common stock held in a dividend reinvestment account.
- (2) The Investment Adviser's fee is 1.00% annually of the Fund's average weekly net assets, plus assets attributable to any outstanding senior securities with no deduction for the liquidation preference of any outstanding preferred shares. Consequently, in as much as the Fund has preferred shares outstanding, the investment management fees and other expenses as a percentage of net assets attributable to common shares are higher than if the Fund did not utilize a leveraged capital structure. Other Expenses are based on estimated amounts for the current year assuming completion of the proposed issuances.

#### Example

The following example illustrates the expenses (including the maximum estimated sales load of \$[ ] and estimated offering expenses of \$[ ] from the issuance of \$[ ] million in common stock) you would pay on a \$1,000 investment in common stock, assuming a 5% annual portfolio total return.\* The actual amounts in connection with any offering will be set forth in the Prospectus Supplement if applicable.

	1 Year	3 Years	5 Years	10 Years
Total Expenses Incurred				

\* **The example should not be considered a representation of future expenses.** The example assumes that the amounts set forth in the Annual Expenses table are accurate and that all distributions are reinvested at net asset value. Actual expenses may be greater or less than those assumed. Moreover, the Fund's actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

#### USE OF PROCEEDS

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We estimate the total net proceeds of the offering to be \$ ( \$ if the over-allotment option is exercised in full), based on the public offering price of \$ per share and after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

The Investment Adviser expects that it will initially invest the proceeds of the offering in high-quality short-term debt securities and instruments. The Investment Adviser anticipates that the investment of the proceeds will be made in accordance with the Fund's investment objectives and policies as appropriate investment opportunities are identified, which is expected to

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be substantially completed within three months; however, changes in market conditions could result in the Fund's anticipated investment period extending to as long as six months.

**FINANCIAL HIGHLIGHTS**

[To be provided.]

**PRICE RANGE OF COMMON STOCK**

The following table sets forth for the quarters indicated, the high and low sale prices on the New York Stock Exchange per share of our common stock and the net asset value and the premium or discount from net asset value per share at which the shares of common stock were trading, expressed as a percentage of net asset value, at each of the high and low sale prices provided.

[To be provided.]

The last reported price for our common stock on \_\_\_\_\_, \_\_\_\_\_ was \$ \_\_\_\_\_ per share.

**PLAN OF DISTRIBUTION**

[To be provided.]

**LEGAL MATTERS**

Certain legal matters will be passed on by Willkie Farr & Gallagher LLP, New York, New York, counsel to the Fund in connection with the offering of the common stock. Certain legal matters in connection with this offering will be passed upon for the underwriters by \_\_\_\_\_ . Willkie Farr & Gallagher LLP and [ ] may rely as to certain matters of Maryland law on the opinion of [ ] .

**THE GABELLI EQUITY TRUST INC.**

**The Gabelli Equity Trust Inc.**

**Common Stock**

**PROSPECTUS SUPPLEMENT**

, 2013

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THE GABELLI EQUITY TRUST INC.

**The information in this Prospectus Supplement is not complete and may be changed. The Fund may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and is not soliciting offers to buy these securities in any state where the offer or sale is not permitted.**

Filed Pursuant to Rule 497(c)

Registration Statement No. 333-173819

## PROSPECTUS SUPPLEMENT

(To Prospectus dated [ ] , 2013)

## Shares

### Series [ ] Preferred Stock

The Gabelli Equity Trust Inc. (the Fund, we, us or our ) is offering [ ] shares of [ ]% Series [ ] Preferred Shares (the Series [ ] Preferred Shares ). The Series [ ] Preferred Shares will constitute a separate series of the Fund's preferred shares. Investors in Series [ ] Preferred Shares will be entitled to receive cumulative cash dividends at a rate of [ ]% per annum. Dividends and distributions on Series [ ] Preferred Shares will be payable [ ].

The Series [ ] Preferred Shares are redeemable at our option on or after [ ], and are subject to mandatory redemption by us in certain circumstances.

The Fund is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act ). The Fund's primary investment objective is to achieve long-term growth of capital by investing primarily in a portfolio of equity securities consisting of common stock, preferred stock, convertible or exchangeable securities, and warrants and rights to purchase such securities. The Fund's investment adviser is Gabelli Funds, LLC (the Investment Adviser ).

The Fund's common shares are listed on the New York Stock Exchange ( NYSE ) under the symbol GAB. Currently, the Fund's 5.875% Series D Cumulative Preferred Stock ( Series D Preferred ), Series G Cumulative Preferred Stock ( Series G Preferred ) and 5.00% Series H Cumulative Preferred Stock ( Series H Preferred ) are listed on the NYSE under the symbol GAB PrD, GAB PrG and GAB PrH, respectively. Any future series of fixed rate preferred shares would also likely be listed on a stock exchange. On [ ], 2013, the last reported NYSE sale price of shares of our common stock was \$[ ] per share. The net asset value of shares of the Fund's common stock at the close of business on [ ], 2013 was \$[ ] per share.

Application has been made to list the Series [ ] Preferred Shares on the [ ]. The Series [ ] Preferred Shares are expected to commence trading on the [ ] within [ ] days of the date of issuance.

An investment in the Fund is not appropriate for all investors. We cannot assure you that the Fund's investment objectives will be achieved. You should read this Prospectus Supplement and the accompanying Prospectus before deciding whether to invest in Series [ ] Preferred Shares and retain it for future reference. The Prospectus Supplement and the accompanying Prospectus contain important information about us. Material that has been incorporated by reference and other information about us can be obtained from us by calling 800-GABELLI (422-3554) or from the Securities and Exchange Commission's ( SEC ) website (<http://www.sec.gov>).

**Investing in Series [ ] Preferred Shares involves certain risks that are described in the Special Characteristics and Risks of the Series [ ] Preferred Shares section of this Prospectus Supplement and the Risk Factors and Special Considerations section beginning on page [ ] of the accompanying Prospectus.**

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	<b>Per Share</b>	<b>Total (1)</b>
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to us	\$	\$

(1) The aggregate expenses of the offering are estimated to be \$ \_\_\_\_\_, which represents approximately \$ \_\_\_\_ per share. The Underwriters are expected to deliver the Series \_\_\_\_\_ Preferred Stock in book-entry form through the Depository Trust Company on or about \_\_\_\_\_.

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You should rely only on the information contained or incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. Neither the Fund nor the underwriters have authorized anyone to provide you with different information. The Fund is not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this Prospectus Supplement and the accompanying Prospectus is accurate as of any date other than the date of this Prospectus Supplement and the accompanying Prospectus, respectively. Our business, financial condition, results of operations and prospects may have changed since those dates. In this Prospectus Supplement and in the accompanying Prospectus, unless otherwise indicated, Fund, us, our and we refer to The Gabelli Equity Trust Inc. This Prospectus Supplement also includes trademarks owned by other persons.

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**CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

This Prospectus Supplement, the accompanying Prospectus and the Statement of Additional Information contain forward-looking statements. Forward-looking statements can be identified by the words may, will, intend, expect, estimate, continue, plan, anticipate, and similar terms, or the negative of such terms. Such forward-looking statements may be contained in this Prospectus Supplement as well as in the accompanying Prospectus. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect our actual results are the performance of the portfolio of securities we hold, the price at which our shares will trade in the public markets and other factors discussed in our periodic filings with the SEC.

Although we believe that the expectations expressed in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in the Risk Factors and Special Considerations section of the accompanying prospectus. All forward-looking statements contained or incorporated by reference in this Prospectus Supplement or the accompanying Prospectus are made as of the date of this Prospectus Supplement or the accompanying Prospectus, as the case may be. Except for our ongoing obligations under the federal securities laws, we do not intend, and we undertake no obligation, to update any forward-looking statement. The forward-looking statements contained in this Prospectus Supplement, any accompanying Prospectus and the Statement of Additional Information are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended (the Securities Act ).

Currently known risk factors that could cause actual results to differ materially from our expectations include, but are not limited to, the factors described in the Risk Factors and Special Considerations section of the accompanying Prospectus. We urge you to review carefully those sections for a more detailed discussion of the risks of an investment in our preferred stock.

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**SUMMARY OF THE TERMS OF THE SERIES                      PREFERRED STOCK**

<b>The Fund</b>	The Gabelli Equity Trust Inc. (the Fund ) is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act ). The Fund's primary investment objective is to achieve long-term growth of capital by investing primarily in a portfolio of equity securities consisting of common stock, preferred stock, convertible or exchangeable securities, and warrants and rights to purchase such securities. Income is a secondary investment objective. Gabelli Funds, LLC (the Investment Adviser ) serves as investment adviser to the Fund. Under normal market conditions, the Fund will invest at least 80% of the value of its total assets in equity securities. The Fund was organized as a Maryland corporation on May 20, 1986 and commenced its investment operations on August 21, 1986. The Fund's common shares are traded on the New York Stock Exchange (the NYSE ) under the symbol GAB.
<b>Securities Offered</b>	[        ] shares of [        ]% Series [        ] Preferred Shares (the Series [        ] Preferred Shares ). Series [        ] Preferred Shares shall constitute a separate series of preferred shares of the Fund.
<b>Dividend Rate</b>	Dividends and distributions on Series [        ] Preferred Shares are cumulative from their original issue date at the annual rate of [        ]%.
<b>Dividend Payment Date</b>	Holders of Series [        ] Preferred Shares shall be entitled to receive, when, as and if declared by, or under authority granted by, the Board of Directors, out of funds legally available therefor, cumulative cash dividends and distributions. Dividends and distributions will be paid [        ], commencing on [        ].
<b>Liquidation Preference</b>	[\$[        ] per share.
<b>Use of Proceeds</b>	[The Fund expects to use the proceeds of the offering of the Series [        ] Preferred Shares to redeem the outstanding shares of its [        ]% Series [        ] Preferred Shares (the Series [        ] Preferred Shares ). Amounts in excess of the redemption amount for all outstanding Series [        ] Preferred Shares may be used to call other existing series of preferred shares of the Fund or for investment purposes consistent with the investment objectives of the Fund.]

The Investment Adviser anticipates that any investment of the proceeds will be made in accordance with the Fund's investment objectives and policies as appropriate investment opportunities are identified, which is expected to be substantially completed in approximately three months; however, the identification of appropriate investment opportunities pursuant to the Fund's investment style or changes in market conditions may cause the investment period to extend as long as six months.

Pending such redemption and/or investment, the proceeds will be held in high quality short-term debt securities and similar instruments. *See Use of Proceeds.*

**Non-Call Period/Redemption** [The Series [ ] Preferred Shares generally may not be called for redemption at the option of the Fund prior to [ ]. The Fund reserves the right, however, to redeem the Series [ ] Preferred Shares at any time if it is necessary, in the judgment of the Board of Directors, to meet tax, regulatory or rating agency asset coverage requirements.

Commencing [ ], and thereafter, to the extent permitted by the 1940 Act and Maryland law, the Fund may at any time, upon notice of redemption, redeem the Series [ ] Preferred Shares in whole or in part at the liquidation preference per share plus accumulated unpaid dividends through the date of redemption.]

**Stock Exchange Listing** Application will be made to list the Series [ ] Preferred Shares on the [ ]. Prior to the offering, there has been no public market for Series [ ] Preferred Shares. It is anticipated that trading on the [ ] will begin within [ ] days from the date of this Prospectus Supplement. During such period, the underwriters do not intend to make a market in Series [ ] Preferred Shares. Consequently, it is anticipated that, prior to the commencement of trading on the [ ], an investment in Series [ ] Preferred Shares will be illiquid.

**Taxation/ERISA** See *Taxation and Employee Benefit Plan and IRA Considerations*.

**DESCRIPTION OF THE SERIES [ ] PREFERRED SHARES**

The following is a brief description of the terms of the Series [ ] Preferred Shares. This is not a complete description and is subject to and entirely qualified by reference to the Fund's Statement of Preferences creating and fixing the rights of the Series [ ] Preferred Shares (the Statement ). The Statement is attached as an exhibit to post-effective amendment number [ ] to the Fund's registration statement. Copies may be obtained as described under Additional Information in the accompanying Prospectus. Any capitalized terms in this section and the Special Characteristics and Risks of the Series [ ] Preferred Shares section of this Prospectus Supplement that are not defined have the meaning assigned to them in the Statement.

The Fund's declaration of trust (the Declaration ) authorizes its Board of Directors to issue shares of beneficial interest of the Fund, \$0.001 par value per share, without the approval of common shareholders. The Declaration authorizes the Board of Directors to issue an unlimited number of shares of beneficial interest. All Series [ ] Preferred Shares will have a liquidation preference of \$[ ] per share. Holders of Series [ ] Preferred Shares shall be entitled to receive cumulative cash dividends and distributions at the rate of [ ]% per annum (computed on the basis of a 360-day year consisting of twelve 30-day months) of the \$[ ] liquidation preference on the Series [ ] Preferred Shares. Dividends and distributions on Series [ ] Preferred Shares will accumulate from the date of their original issue, which is [ ].

The Series [ ] Preferred Shares, when issued by the Fund and paid for pursuant to the terms of this Prospectus Supplement and the accompanying Prospectus, will be fully paid and non-assessable and will have no preemptive, exchange or conversion rights. The Board of Directors may by resolution classify or reclassify any issued and unissued Series [ ] Preferred Shares from time to time by setting or changing the preferences, rights, voting powers, restrictions, limitations as to dividends and distributions, qualifications or terms or conditions of redemption of such shares.

## USE OF PROCEEDS

We estimate the total net proceeds of the offering to be \$[ ] based on the public offering price of \$[ ] per share and after deduction of the underwriting discounts and commissions and estimated offering expenses payable by the Fund.

[The Fund expects to use the proceeds of the offering of the Series [ ] Preferred Shares to redeem the outstanding Series [ ] Preferred Shares. Amounts in excess of the redemption amount for all outstanding Series [ ] Preferred Shares may be used to call other existing series of preferred shares of the Fund or for investment purposes consistent with the investment objectives of the Fund.]

The Investment Adviser anticipates that any investment of the proceeds will be made in accordance with the Fund's investment objectives and policies as appropriate investment opportunities are identified, which is expected to be substantially completed in approximately three months; however, the identification of appropriate investment opportunities pursuant to the Fund's investment style or changes in market conditions may cause the investment period to extend as long as six months. Pending such investment, the proceeds will be held in high quality short-term debt securities and similar instruments.

## CAPITALIZATION

[To be provided.]

## ASSET COVERAGE RATIO

Pursuant to the 1940 Act, the Fund generally will not be permitted to declare any dividend, or declare any other distribution, upon any outstanding common shares, or purchase any such common shares, unless, in every such case, all preferred shares issued by the Fund have at the time of declaration of any such dividend or distribution or at the time of any such purchase an asset coverage of at least 200% ( 1940 Act Asset Coverage Requirement ) after deducting the amount of such dividend, distribution, or purchase price, as the case may be. As of the date of this Prospectus Supplement, all of the Fund's outstanding preferred shares are expected to have asset coverage on the date of issuance of the Series [ ] Preferred Shares of approximately [ ]%.

In addition to the 1940 Act Asset Coverage Requirement, the Fund is subject to certain restrictions on investments imposed by guidelines of one or more rating agencies, which have issued ratings for certain of the preferred shares and may issue a rating for the Series [ ] Preferred Shares.

## SPECIAL CHARACTERISTICS AND RISKS OF THE SERIES [ ] PREFERRED STOCK

### Dividends

Holders of Series [ ] Preferred Shares shall be entitled to receive cumulative cash dividends and distributions at the rate of [ ]% per annum (computed on the basis of a 360-day year consisting of twelve 30-day months) of the \$[ ] liquidation preference on the Series [ ] Preferred Shares. Dividends and distributions on Series [ ] Preferred Shares will accumulate from the date of their original issue, which is [ ].

Dividends and distributions will be payable quarterly on [ ] (each a Dividend Payment Date ) commencing on [ ] (or, if any such day is not a business day, then on the next succeeding business day) to holders of record of Series [ ] Preferred Shares as they appear on the shareholder register of the Fund at the close of business on the fifth preceding business day. Dividends and distributions on Series [ ] Preferred Shares shall accumulate from the date on which the shares are originally issued. Each period beginning on and including a Dividend Payment Date (or the date of original issue, in the case of the first dividend period after issuance of the Series [ ] Preferred Shares) and ending on but excluding the next succeeding Dividend Payment Date is referred to herein as a Dividend Period. Dividends and distributions on account of arrears for any past Dividend Period or in connection with the redemption of Series [ ] Preferred Shares may be declared and paid at any time, without reference to any Dividend Payment Date, to holders of record on such date as shall be fixed by the Board of Directors.

No full dividends or distributions will be declared or paid on Series [ ] Preferred Shares for any Dividend Period or part thereof unless full cumulative dividends and distributions due through the most recent Dividend Payment Dates therefor for all series of preferred shares of the Fund ranking on a parity with the Series [ ] Preferred Shares as to the payment of dividends and distributions have been or contemporaneously are declared and paid through the most recent Dividend Payment Dates therefor. If full cumulative dividends and distributions due have not been paid on all outstanding preferred shares of the Fund, any dividends and distributions being paid on such preferred shares (including the Series [ ] Preferred Shares) will be paid as nearly pro rata as possible in proportion to the respective amounts of dividends and distributions accumulated but unpaid on each such series of preferred shares on the relevant Dividend Payment Date.



**Restrictions on Dividend, Redemption and Other Payments.**

Under the 1940 Act, the Fund is not permitted to issue preferred shares (such as the Series [ ] Preferred Shares) unless immediately after such issuance the Fund will have an asset coverage of at least 200% (or such other percentage as may in the future be specified in or under the 1940 Act as the minimum asset coverage for senior securities representing shares of a closed-end investment company as a condition of declaring distributions, purchases or redemptions of its shares). In general, the term *asset coverage* for this purpose means the ratio the value of the total assets of the Fund, less all liabilities and indebtedness not represented by senior securities, bears to the aggregate amount of senior securities representing indebtedness of the Fund plus the aggregate of the involuntary liquidation preference of the preferred shares. The involuntary liquidation preference refers to the amount to which the preferred shares would be entitled on the involuntary liquidation of the Fund in preference to a security junior to them. The Fund also is not permitted to declare any cash dividend or other distribution on its common shares or purchase its common shares unless, at the time of such declaration or purchase, the Fund satisfies this 200% asset coverage requirement after deducting the amount of the distribution or purchase price, as applicable.

In addition, the Fund may be limited in its ability to declare any cash distribution on its shares of beneficial interest (including the Series [ ] Preferred Shares) or purchase its shares of beneficial interest (including the Series [ ] Preferred Shares) unless, at the time of such declaration or purchase, the Fund has an asset coverage on its indebtedness, if any, of at least 300% after deducting the amount of such distribution or purchase price, as applicable. The 1940 Act contains an exception, however, that permits dividends to be declared upon any preferred shares issued by the Fund (including the Series [ ] Preferred Shares) if the Fund's indebtedness has an asset coverage of at least 200% at the time of declaration after deducting the amount of the dividend. In general, the term *asset coverage* for this purpose means the ratio which the value of the total assets of the Fund, less all liabilities and indebtedness not represented by senior securities, bears to the aggregate amount of senior securities representing indebtedness of the Fund.

The term *senior security* does not include any promissory note or other evidence of indebtedness in any case where such a loan is for temporary purposes only and in an amount not exceeding 5% of the value of the total assets of the Fund at the time when the loan is made. A loan is presumed under the 1940 Act to be for temporary purposes if it is repaid within 60 days and is not extended or renewed; otherwise it is presumed not to be for temporary purposes. For purposes of determining whether the 200% and 300% asset coverage requirements described above apply in connection with dividends or distributions on or purchases or redemptions of Series [ ] Preferred Shares, the asset coverages may be calculated on the basis of values calculated as of a time within 48 hours (not including Sundays or holidays) next preceding the time of the applicable determination.

**Voting Rights**

Except as otherwise provided in the Fund's governing documents or a resolution of the Board of Directors or its delegatee, or as required by applicable law, holders of Series [ ] Preferred Shares shall have no power to vote on any matter except matters submitted to a vote of the Fund's common shares. In any matter submitted to a vote of the holders of the common shares, each holder of Series [ ] Preferred Shares shall be entitled to one vote for each Series [ ] Preferred Share held and the holders of all outstanding preferred shares, including Series [ ] Preferred Shares, and the common shares shall vote together as a single class; provided, however, that at any meeting of the shareholders of the Fund held for the election of Directors, the holders of the outstanding preferred shares, including Series [ ] Preferred Shares, shall be entitled, as a class, to the exclusion of the holders of all other classes of shares of beneficial interest of the Fund, to elect a number of Fund directors, such that following the election of directors at the meeting of the shareholders, the Fund's Board of Directors shall contain two directors elected by the holders of the outstanding preferred shares, including the Series [ ] Preferred Shares.

During any period in which any one or more of the conditions described below shall exist (such period being referred to herein as a *Voting Period*), the number of directors constituting the Board of Directors shall be increased by the smallest number of additional directors that, when added to the two directors elected exclusively by the holders of outstanding preferred shares, would constitute a simple majority of the Board of Directors as so increased by such smallest number, and the holders of outstanding preferred shares, including the Series [ ] Preferred Shares, voting separately as one class (to the exclusion of the holders of all other classes of shares of beneficial interest of the Fund) shall be entitled to elect such smallest number of additional directors. The Fund and the Board of Directors shall take all necessary actions, including amending the Fund's governing documents, to effect an increase in the number of directors as described in the preceding sentence. A *Voting Period* shall commence:

- (i) if at any time accumulated dividends and distributions on the outstanding Series [ ] Preferred Shares equal to at least two full years' dividends and distributions shall be due and unpaid; or
- (ii)

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if at any time holders of any other preferred shares are entitled to elect a majority of the Directors of the Fund under the 1940 Act or Statement or other instrument creating such shares.

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## Redemption

*Mandatory Redemption.* Under certain circumstances, the Series [ ] Preferred Shares will be subject to mandatory redemption by the Fund out of funds legally available therefor in accordance with the Statement and applicable law.

If the Fund fails to have asset coverage, as determined in accordance with Section 18(h) of the 1940 Act, of at least 200% with respect to all outstanding senior securities of the Fund which are shares, including all outstanding Series [ ] Preferred Shares (or such other asset coverage as may in the future be specified in or under the 1940 Act as the minimum asset coverage for senior securities which are shares of a closed-end investment company as a condition of declaring dividends on its common shares), and such failure is not cured as of the cure date specified in the Statement, (i) the Fund shall give a notice of redemption with respect to the redemption of a sufficient number of preferred shares, which at the Fund's determination (to the extent permitted by the 1940 Act and Maryland law) may include any proportion of Series [ ] Preferred Shares, to enable it to meet the asset coverage requirements, and, at the Fund's discretion, such additional number of Series [ ] Preferred Shares or other preferred shares in order for the Fund to have asset coverage with respect to the Series [ ] Preferred Shares and any other preferred shares remaining outstanding after such redemption as great as 210%, and (ii) deposit an amount with Computershare Trust Company, N.A., and its successors or any other dividend-disbursing agent appointed by the Fund, having an initial combined value sufficient to effect the redemption of the Series [ ] Preferred Shares or other preferred shares to be redeemed.

On such cure date, the Fund shall redeem, out of funds legally available therefor, the number of preferred shares, which, to the extent permitted by the 1940 Act and Maryland law, at the option of the Fund may include any proportion of Series [ ] Preferred Shares or any other series of preferred shares, equal to the minimum number of shares the redemption of which, if such redemption had occurred immediately prior to the opening of business on such cure date, would have resulted in the Fund having asset coverage immediately prior to the opening of business on such cure date in compliance with the 1940 Act or, if asset coverage cannot be so restored, all of the outstanding Series [ ] Preferred Shares, at a price equal to \$[ ] per share plus accumulated but unpaid dividends and distributions (whether or not earned or declared by the Fund) through the date of redemption.

*Optional Redemption.* Prior to [ ], the Series [ ] Preferred Shares are not subject to optional redemption by the Fund unless the redemption is necessary, in the judgment of the Board of Directors, to maintain the Fund's status as a regulated investment company under Subchapter M of the Internal Revenue Code. Commencing [ ] and thereafter, to the extent permitted by the 1940 Act and Maryland law, the Fund may at any time upon notice redeem the Series [ ] Preferred Shares in whole or in part at a price equal to the liquidation preference per share plus accumulated but unpaid dividends through the date of redemption.

## Liquidation

In the event of any liquidation, dissolution or winding up of the affairs of the Fund, whether voluntary or involuntary, the holders of Series [ ] Preferred Shares shall be entitled to receive out of the assets of the Fund available for distribution to shareholders, after satisfying claims of creditors but before any distribution or payment shall be made in respect of the Fund's common shares or any other shares of the Fund ranking junior to the Series [ ] Preferred Shares as to liquidation payments, a liquidation distribution in the amount of \$[ ] per share (the Liquidation Preference), plus an amount equal to all unpaid dividends and distributions accumulated to and including the date fixed for such distribution or payment (whether or not earned or declared by the Fund, but excluding interest thereon), and such holders shall be entitled to no further participation in any distribution or payment in connection with any such liquidation, dissolution or winding up of the Fund.

If, upon any liquidation, dissolution or winding up of the affairs of the Fund, whether voluntary or involuntary, the assets of the Fund available for distribution among the holders of all outstanding Series [ ] Preferred Shares, and any other outstanding shares of a class or series of the Fund's preferred shares ranking on a parity with the Series [ ] Preferred Shares as to payment upon liquidation, shall be insufficient to permit the payment in full to such holders of Series [ ] Preferred Shares of the Liquidation Preference plus accumulated and unpaid dividends and distributions and the amounts due upon liquidation with respect to such other preferred shares of the Fund, then such available assets shall be distributed among the holders of Series [ ] Preferred Shares and such other preferred shares of the Fund ratably in proportion to the respective preferential liquidation amounts to which they are entitled. Unless and until the Liquidation Preference plus accumulated and unpaid dividends and distributions has been paid in full to the holders of Series [ ] Preferred Shares, no dividends or distributions will be made to holders of the Fund's common shares or any other shares of the Fund ranking junior to the Series [ ] Preferred Shares as to liquidation.

## Stock Exchange Listing

Application has been made to list the Series [ ] Preferred Shares on the [ ]. The Series [ ] Preferred Shares are expected to commence trading on the [ ] within [ ] days of the date of issuance.



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## Risks

Risk is inherent in all investing. Therefore, before investing in the Series [ ] Preferred Shares you should consider the risks carefully. See Risk Factors and Special Considerations in the Prospectus. Primary risks associated with an investment in the Series [ ] Preferred Shares include:

*Market Price Risk.* The market price for the Series [ ] Preferred Shares will be influenced by changes in interest rates, the perceived credit quality of the Series [ ] Preferred Shares and other factors, and may be higher or lower than the liquidation preference of the Series [ ] Preferred Shares. There is currently no market for the Series [ ] Preferred Shares.

*Liquidity Risk.* Currently, there is no public market for the Series [ ] Preferred Shares. As noted above, an application has been made to list the Series [ ] Preferred Shares on the [ ]. However, during an initial period which is not expected to exceed [ ] days after the date of its issuance, the Series [ ] Preferred Shares will not be listed on any securities exchange. During such period, the underwriters do not intend to make a market in the Series [ ] Preferred Shares. No assurances can be provided that listing on any securities exchange or market making by the underwriters will result in the market for Series [ ] Preferred Shares being liquid at any time.

*Redemption Risk.* The Fund may at any time redeem Series [ ] Preferred Shares to the extent necessary to meet regulatory asset coverage requirements or requirements imposed by credit rating agencies. For example, if the value of the Fund's investment portfolio declines, thereby reducing the asset coverage for the Series [ ] Preferred Shares, the Fund may be obligated under the terms of the Series [ ] Preferred Shares to redeem some or all of the Series [ ] Preferred Shares. In addition, commencing [ ], the Fund will be able to call the Series [ ] Preferred Shares at the option of the Fund. Investors may not be able to reinvest the proceeds of any redemption in an investment providing the same or a higher dividend rate than that of the Series [ ] Preferred Shares.

The Series [ ] Preferred Shares are not a debt obligation of the Fund. The Series [ ] Preferred Shares are junior in respect of distributions and liquidation preference to any indebtedness incurred by the Fund, and are of the same ranking as the distributions and liquidation preference of the Series D Preferred Shares, Series G Preferred Shares and Series H Preferred Shares. Although unlikely, precipitous declines in the value of the Fund's assets could result in the Fund having insufficient assets to redeem all of the Series [ ] Preferred Shares for the full redemption price.

*Credit Rating Risk.* The Fund is seeking a credit rating on the Series [ ] Preferred Shares. Any credit rating that is issued on the Series [ ] Preferred Shares could be reduced or withdrawn while an investor holds Series [ ] Preferred Shares. A reduction or withdrawal of the credit rating would likely have an adverse effect on the market value of the Series [ ] Preferred Shares. In addition, a credit rating does not eliminate or mitigate the risks of investing in the Series [ ] Preferred Shares.]

*Distribution Risk.* The Fund may not meet the asset coverage requirements or earn sufficient income from its investments to make distributions on the Series [ ] Preferred Shares.

## TAXATION

[To be provided.]

## EMPLOYEE BENEFIT PLAN AND IRA CONSIDERATIONS

[To be provided.]

## UNDERWRITING

[To be provided.]

## LEGAL MATTERS

Certain legal matters will be passed on by Willkie Farr & Gallagher LLP, New York, New York, counsel to the Fund in connection with the offering of the Series [ ] Preferred Stock. Certain legal matters in connection with this offering will be passed upon for the underwriters by . Willkie Farr & Gallagher LLP and [ ] may rely as to certain matters of Maryland law on the opinion of [ ].



**THE GABELLI EQUITY TRUST INC.**

**The Gabelli Equity Trust Inc.**

**Shares**

**% Series [ ] [ ] Preferred Stock**

**(Liquidation Preference \$ per share)**

**PROSPECTUS SUPPLEMENT**

**, 2013**

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THE GABELLI EQUITY TRUST INC.

**The information in this Prospectus Supplement is not complete and may be changed. The Fund may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and is not soliciting offers to buy these securities in any state where the offer or sale is not permitted.**

Filed Pursuant to Rule 497(c)

Registration Statement No. 333-173819

**PROSPECTUS SUPPLEMENT**

(To Prospectus dated [REDACTED], 2013)

## **Rights for [REDACTED] Shares**

# **Subscription Rights for Common Stock**

The Gabelli Equity Trust Inc. (the Fund, we, us or our) is issuing subscription rights (the Rights) to our common stockholders to purchase additional shares of common stock.

The Fund is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund's primary investment objective is to achieve long-term growth of capital by investing primarily in a portfolio of equity securities consisting of common stock, preferred stock, convertible or exchangeable securities and warrants and rights to purchase such securities. Income is a secondary investment objective. The Fund's investment adviser is Gabelli Funds, LLC (the Investment Adviser).

Shares of our common stock are traded on the New York Stock Exchange (NYSE) under the symbol GAB. On [REDACTED], 2013 (the last trading date prior to the Common Stock trading ex-Rights), the last reported net asset value per share of the Common Stock was \$ [REDACTED] and the last reported sales price per share of Common Stock on the NYSE was \$ [REDACTED].

An investment in the Fund is not appropriate for all investors. We cannot assure you that the Fund's investment objective will be achieved. You should read this Prospectus Supplement and the accompanying Prospectus before deciding whether to invest in common shares and retain it for future reference. The Prospectus Supplement and the accompanying Prospectus contain important information about us. Material that has been incorporated by reference and other information about us can be obtained from us by calling 800-GABELLI (422-3554) or from the Securities and Exchange Commission's (SEC) website (<http://www.sec.gov>). For additional information all holders of rights should contact the Information Agent, [REDACTED], toll-free at [REDACTED] or please send written request to: [REDACTED].

**Investing in common stock through Rights involves certain risks that are described in the Special Characteristics and Risks of the Rights Offering section beginning on page S-[REDACTED] of the Prospectus Supplement.**

**STOCKHOLDERS WHO DO NOT EXERCISE THEIR RIGHTS MAY, AT THE COMPLETION OF THE OFFERING, OWN A SMALLER PROPORTIONAL INTEREST IN THE FUND THAN IF THEY EXERCISED THEIR RIGHTS. AS A RESULT OF THE OFFERING YOU MAY EXPERIENCE DILUTION OR ACCRETION OF THE AGGREGATE NET ASSET VALUE OF YOUR SHARES OF COMMON STOCK DEPENDING UPON WHETHER THE FUND'S NET ASSET VALUE PER SHARE OF COMMON STOCK IS ABOVE OR BELOW THE SUBSCRIPTION PRICE ON THE EXPIRATION DATE.**

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Per Share	Total
Subscription price of Common Shares to shareholders exercising Rights	\$	\$
Underwriting discounts and commissions	[ ]	[ ]
Proceeds, before expenses, to the Fund (1)	\$	\$

(1) The aggregate expenses of the offering are estimated to be \$[ ].  
 The common stock is expected to be ready for delivery in book-entry form through the Depository Trust Company on or about , 2013. If the offer is extended, the common stock is expected to be ready for delivery in book-entry form through the Depository Trust Company on or about , 2013.

The date of this Prospectus Supplement is , 2013

You should rely only on the information contained or incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The Fund has not authorized anyone to provide you with different information. The Fund is not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this Prospectus Supplement and the accompanying Prospectus is accurate as of any date other than the date of this Prospectus Supplement and the accompanying Prospectus, respectively. Our business, financial condition, results of operations and prospects may have changed since those dates. In this Prospectus Supplement and in the accompanying Prospectus, unless otherwise indicated, Fund, us, our and we refer to The Gabelli Equity Trust Inc. This Prospectus Supplement also includes trademarks owned by other persons.

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**CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

This Prospectus Supplement, the accompanying Prospectus and the Statement of Additional Information contain forward-looking statements. Forward-looking statements can be identified by the words may, will, intend, expect, estimate, continue, plan, anticipate, and similar, the negative of such terms. Such forward-looking statements may be contained in this Prospectus Supplement as well as in the accompanying Prospectus. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect our actual results are the performance of the portfolio of securities we hold, the price at which our shares will trade in the public markets and other factors discussed in our periodic filings with the SEC.

Although we believe that the expectations expressed in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in the Risk Factors and Special Considerations section of the accompanying Prospectus and Special Characteristics and Risks of the Rights Offering in this Prospectus Supplement. All forward-looking statements contained or incorporated by reference in this Prospectus Supplement or the accompanying Prospectus are made as of the date of this Prospectus Supplement or the accompanying Prospectus, as the case may be. Except for our ongoing obligations under the federal securities laws, we do not intend, and we undertake no obligation, to update any forward-looking statement. The forward-looking statements contained in this Prospectus Supplement, any accompanying Prospectus and the Statement of Additional Information are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended (the Securities Act ).

Currently known risk factors that could cause actual results to differ materially from our expectations include, but are not limited to, the factors described in the Risk Factors and Special Considerations section of the accompanying Prospectus as well as in the Special Characteristics and Risks of the Rights Offering section of this Prospectus Supplement. We urge you to review carefully those sections for a more detailed discussion of the risks of an investment in the common stock.

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**SUMMARY OF THE TERMS OF THE RIGHTS OFFERING**

<b>Terms of the Offer</b>	[ ] transferable subscription right (a Right ) will be issued for each share of common stock of the Fund (each, a Common Share, and collectively, the Common Stock ) held on the record date. Rights are expected to trade on the [ ]. The Rights will allow common shareholders to subscribe for new shares of Common Stock of the Fund. [ ] shares of Common Stock of the Fund are outstanding as of [ ], 2013. [ ] Rights will be required to purchase one Common Share. [An over-subscription privilege will be offered[, subject to the right of the Board of Directors of the Fund (the Board ) to eliminate the over-subscription privilege.]] [ ] shares of Common Stock of the Fund will be issued if all Rights are exercised. [Additional Common Stock will be issued if the over-subscription privilege is exercised.] See Terms of the Rights Offering. <b>[Any Common Stock issued as a result of the rights offering will not be record date shares for the Fund's quarterly dividend to be paid on [ ], 2013 and will not be entitled to receive such dividend.]</b>
<b>Amount Available for Primary Subscription</b>	Approximately \$[ ], before expenses.
<b>Title</b>	Subscription Rights to Acquire Common Stock
<b>Subscription Price</b>	Rights may be exercised at a price of \$ per share of Common Stock (the Subscription Price ). See Terms of the Offer.
<b>Record Date</b>	Rights will be issued to holders of record of the Fund's Common Stock on , 2013 (the Record Date ). See Terms of the Offer.
<b>Number of Rights Issued</b>	Right will be issued in respect of each share of Common Stock of the Fund outstanding on the Record Date. See Terms of the Offer.
<b>Number of Rights Required to Purchase One Common Share</b>	A holder of Rights may purchase share of Common Stock of the Fund for every Rights exercised. The number of Rights to be issued to a stockholder on the Record Date will be rounded up to the nearest number of Rights evenly divisible by . See Terms of the Offer.
<b>Over-Subscription Privilege</b>	[Rights holders on the Record Date ( Record Date Shareholders ) who fully exercise all Rights initially issued to them are entitled to buy those shares of Common Stock, referred to as primary over-subscription shares, that were not purchased by other Rights holders at the same Subscription Price. If enough primary over-subscription shares are available, all such requests will be honored in full. If the requests for primary over-subscription shares exceed the primary over-subscription shares available, the available primary over-subscription shares will be allocated pro rata among those fully exercising Record Date Shareholders who over-subscribe based on the number of Rights originally issued to them by the Fund. Common Stock acquired pursuant to the over-subscription privilege are subject to allotment. <i>Rights acquired in the secondary market may not participate in the over-subscription privilege.</i>
	[In addition, in the event that the Fund's per share net asset value at the end of the Subscription Period (described below) is equal to or less than the Subscription Price, the Fund, in its sole discretion, may determine to issue additional Common Stock in an amount of up to [ ]% of the shares issued pursuant to the primary subscription, referred to as secondary over-subscription shares. Should the Fund determine to issue some or all of the secondary over-subscription shares, they will be allocated only among Record Date Shareholders who submitted over-subscription requests. Secondary over-subscription shares will be allocated pro rata among those fully exercising Record Date Shareholders who over-subscribe based on the number of Rights originally issued to them by the Fund. <i>Rights acquired in the secondary market may not participate in the over-subscription privilege.</i> ]

[Notwithstanding the above, the Board has the right in its absolute discretion to eliminate the over-subscription privilege with respect to either or both primary over-subscription shares and secondary over-subscription shares if it considers it to be in the best interest of the Fund to do so. The Board may make that determination at any time, without prior notice to Rights holders or others, up to and including the tenth day following the Expiration Date (as defined below).] *See Over-Subscription Privilege.* ]

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<b>Transfer of Rights</b>	The Rights will be transferable. <i>See Terms of the Rights Offering, Sales by Rights Agent and Method of Transferring Rights.</i>
<b>Subscription Period</b>	The Rights may be exercised at any time after issuance and prior to expiration of the Rights, which will be 5:00 PM Eastern Time on _____, 2013 (the Expiration Date ) (the Subscription Period ). <i>See Terms of the Offer and Method of Exercise of Rights.</i>
<b>Offer Expenses</b>	The expenses of the Offer are expected to be approximately \$[ _____ ]. <i>See Use of Proceeds.</i>
<b>Solicitation Fee</b>	\$[ _____ ] per Common Share to broker-dealers that have executed and delivered a soliciting dealer agreement and have solicited the exercise of Rights. <i>See Underwriting.</i>
<b>Sale of Rights</b>	The Rights are transferable until the completion of the Subscription Period and will be admitted for trading on the [ _____ ]. Although no assurance can be given that a market for the Rights will develop, trading in the Rights on the [ _____ ] is expected to begin three Business Days prior to the Record Date and may be conducted until the close of trading on the last [ _____ ] trading day prior to the completion of the Subscription Period. For purposes of this Prospectus, a Business Day shall mean any day on which trading is conducted on the [ _____ ].

The value of the Rights, if any, will be reflected by the market price. Rights may be sold by individual holders or may be submitted to the Rights Agent (defined below) for sale. Any Rights submitted to the Rights Agent for sale must be received by the Rights Agent on or before [ \_\_\_\_\_ ], 2013, [ \_\_\_\_\_ ] Business Days prior to the completion of the Subscription Period, due to normal settlement procedures.

Rights that are sold will not confer any right to acquire any Common Stock in any [primary or secondary] over-subscription, and any Record Date shareholder who sells any Rights will not be eligible to participate in the [primary or secondary] over-subscription privilege, if any.

Trading of the Rights on the [ \_\_\_\_\_ ] will be conducted on a when-issued basis until and including the date on which the Subscription Certificates are mailed to Record Date Shareholders and thereafter will be conducted on a regular-way basis until and including the last [ \_\_\_\_\_ ] trading day prior to the completion of the Subscription Period. The shares are expected to begin trading ex-Rights [ \_\_\_\_\_ ] Business Days prior to the Record Date.

If the Rights Agent receives Rights for sale in a timely manner, it will use its best efforts to sell the Rights on the [ \_\_\_\_\_ ]. The Rights Agent will also attempt to sell any Rights (i) a Rights holder is unable to exercise because the Rights represent the right to subscribe for less than one new Common Share or (ii) attributable to shareholders whose record addresses are outside the United States [and Canada], or who have an APO or FPO address. *See Foreign Restrictions.*

Any commissions will be paid by the selling Rights holders. Neither the Fund nor the Rights Agent will be responsible if Rights cannot be sold and neither has guaranteed any minimum sales price for the Rights. If the Rights can be sold, sales of these Rights will be deemed to

have been effected at the weighted average price received by the Rights Agent on the day such Rights are sold, less any applicable brokerage commissions, taxes and other expenses.

Shareholders are urged to obtain a recent trading price for the Rights on the [ ] from their broker, bank, financial advisor or the financial press.

**Banks, broker-dealers and trust companies that hold shares for the accounts of others are advised to notify those persons that purchase Rights in the secondary market that such Rights will not participate in any over-subscription privilege. See *Terms of the Rights Offering and Sales by Rights Agent.***

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**Use of Proceeds**

The Fund estimates the net proceeds of the Offer to be approximately \$[ ]. This figure is based on the Subscription Price per share of \$ [ ] and assumes all new shares of Common Stock offered are sold and that the expenses related to the Offer estimated at approximately \$[ ] are paid.

The Investment Adviser anticipates that investment of the proceeds will be made in accordance with the Fund's investment objectives and policies as appropriate investment opportunities are identified, which is expected to be substantially completed in approximately three months; however, the identification of appropriate investment opportunities pursuant to the Fund's investment style or changes in market conditions may cause the investment period to extend as long as six months. Pending such investment, the proceeds will be held in high quality short-term debt securities and instruments. *See Use of Proceeds* .

**Taxation/ERISA**

*See Employee Plan Considerations.*

**Rights Agent**

[To be provided.]

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**DESCRIPTION OF THE RIGHTS OFFERING**
**Terms of the Rights Offering**

The Fund is issuing to shareholders of record as of [ ], 2013 ( the Record Date , and such shareholders, the Record Date Shareholders ) Rights to subscribe for shares of Common Stock of the Fund. Each Record Date Shareholder is being issued [ ] transferable Right for each Common Share owned on the Record Date. The Rights entitle the holder to acquire for \$[ ] (the Subscription Price ) one new Common Share for each [ ] Rights held rounded up to the nearest number of Rights evenly divisible by [ ]. Fractional shares will not be issued upon the exercise of the Rights. Accordingly, Common Stock may be purchased only pursuant to the exercise of Rights in integral multiples of [ ]. In the case of Common Stock held of record by Cede & Co. ( Cede ), as nominee for the Depository Trust Company ( DTC ), or any other depository or nominee, the number of Rights issued to Cede or such other depository or nominee will be adjusted to permit rounding up (to the nearest number of Rights evenly divisible by [ ]) of the Rights to be received by beneficial owners for whom it is the holder of record only if Cede or such other depository or nominee provides to the Fund on or before the close of business on [ ], 2013 written representation of the number of Rights required for such rounding. Rights may be exercised at any time during the period (the Subscription Period ) which commences on [ ], 2013, and ends at [5:00] PM Eastern Time on [ ], 2013 (the Expiration Date ). The right to acquire one Common Share for each [ ] Rights held during the Subscription Period (or any extension thereof) at the Subscription Price will be referred to in the remainder of this prospectus supplement as the Subscription. *Rights will expire on the Expiration Date and thereafter may not be exercised. Any Common Stock issued as a result of the rights offering will not be record date shares for the Fund's monthly dividend to be paid on [ ], 2013 and will not be entitled to receive such dividend.*

Rights may be evidenced by subscription certificates or may be uncertificated and evidenced by other appropriate documentation ( Subscription Certificates ). The number of Rights issued to each holder will be stated on the Subscription Certificate delivered to the holder. The method by which Rights may be exercised and shares paid for is set forth below in Method of Exercise of Rights and Payment for Shares. A Rights holder will have no right to rescind a purchase after [ ] (the Rights Agent ) has received payment. See Payment for Shares below. It is anticipated that the Common Stock issued pursuant to an exercise of Rights will be listed on the [ ].

[Rights holders who are Record Date Shareholders are entitled to subscribe for additional Common Stock at the same Subscription Price pursuant to the over-subscription privilege, subject to certain limitations, subject to allotment and subject to the right of the Board to eliminate the over-subscription privilege. See Over-Subscription Privilege below.]

For purposes of determining the maximum number of shares of Common Stock that may be acquired pursuant to the offer, broker-dealers, trust companies, banks or others whose shares are held of record by Cede or by any other depository or nominee will be deemed to be the holders of the Rights that are held by Cede or such other depository or nominee on their behalf.

The Rights are transferable until the completion of the Subscription Period and will be admitted for trading on the [ ]. Assuming a market exists for the Rights, the Rights may be purchased and sold through usual brokerage channels and also sold through the Rights Agent. Although no assurance can be given that a market for the Rights will develop, trading in the Rights on the [ ] is expected to begin [ ] Business Days prior to the Record Date and may be conducted until the close of trading on the last [ ] trading day prior to the completion of the Subscription Period. For purposes of this Prospectus Supplement, a Business Day means any day on which trading is conducted on the [ ]. Trading of the Rights on the [ ] is expected to be conducted on a when-issued basis until and including the date on which the Subscription Certificates are mailed to Record Date Shareholders and thereafter is expected to be conducted on a regular way basis until and including the last [ ] trading day prior to the completion of the Subscription Period. The method by which Rights may be transferred is set forth below under Method of Transferring Rights. The shares of Common Stock are expected to begin trading ex-Rights [ ] Business Days prior to the Record Date.

Nominees who hold the Fund's Common Stock for the account of others, such as banks, broker-dealers, trustees or depositories for securities, should notify the respective beneficial owners of such shares as soon as possible to ascertain such beneficial owners' intentions and to obtain instructions with respect to the Rights. If the beneficial owner so instructs, the nominee should complete the Subscription Certificate and submit it to the Rights Agent with proper payment. In addition, beneficial owners of the Common Stock or Rights held through such a nominee should contact the nominee and request the nominee to effect transactions in accordance with such beneficial owner's instructions.

[Participants in the Fund's Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan (the Plan ) will be issued Rights in respect of the Common Stock held in their accounts in the Plan. Participants wishing to exercise these Rights must exercise the Rights in accordance with the procedures set forth in Method of Exercise of Rights and Payment for Shares. ]

**Important Dates to Remember**

Please note that the dates in the table below may change if the rights offering is extended.

EVENT	DATE
Record Date	[ ], 2013
Subscription Period	[ ], 2013 through [ ], 2013
Expiration Date*	[ ], 2013
Payment for Guarantees of Delivery Due*	[ ], 2013
Issuance Date	[ ], 2013
Confirmation Date	[ ], 2013

\* A shareholder exercising Rights must deliver by 5:00 PM Eastern Time on [ ], 2013 either (a) a Subscription Certificate and payment for shares or (b) a notice of guaranteed delivery.

**[Over-Subscription Privilege**

The Board has the right in its absolute discretion to eliminate the over-subscription privilege with respect to either or both primary over-subscription shares and secondary over-subscription shares if it considers it to be in the best interest of the Fund to do so. The Board may make that determination at any time, without prior notice to Rights holders or others, up to and including the tenth day following the Expiration Date. If the primary or secondary over-subscription privilege is not eliminated, it will operate as set forth below.

Rights holders who are Record Date Shareholders and who fully exercise their Rights are entitled to subscribe for additional shares of Common Stock at the same Subscription Price pursuant to the over-subscription privilege, subject to certain limitations and subject to allotment.

Record Date Shareholders who fully exercise all Rights initially issued to them are entitled to buy those shares of Common Stock, referred to as primary over-subscription shares, that were not purchased by other Rights holders at the same Subscription Price. If enough primary over-subscription shares are available, all such requests will be honored in full. If the requests for primary over-subscription shares exceed the primary over-subscription shares available, the available primary over-subscription shares will be allocated pro rata among those fully exercising Record Date Shareholders who over-subscribe based on the number of Rights originally issued to them by the Fund. Common Stock acquired pursuant to the over-subscription privilege are subject to allotment.

In addition, in the event that the Fund's per share net asset value at the end of the Subscription Period is equal to or less than the Subscription Price, the Fund, in its sole discretion, may determine to issue additional Common Stock in an amount of up to [ ]% of the shares issued pursuant to the primary subscription, referred to as secondary over-subscription shares. Should the Fund determine to issue some or all of the secondary over-subscription shares, they will be allocated only among Record Date Shareholders who submitted over-subscription requests. Secondary over-subscription shares will be allocated pro rata among those fully exercising Record Date Shareholders who over-subscribe based on the number of Rights originally issued to them by the Fund. *Rights acquired in the secondary market may not participate in the over-subscription privilege.*

Record Date Shareholders who are fully exercising their Rights during the Subscription Period should indicate, on the Subscription Certificate that they submit with respect to the exercise of the Rights issued to them, how many shares of Common Stock they are willing to acquire pursuant to the over-subscription privilege. *Rights acquired in the secondary market may not participate in the over-subscription privilege.*

To the extent sufficient shares of Common Stock are not available to fulfill all over-subscription requests, unsubscribed Common Stock (the Excess Shares ) will be allocated pro-rata among those Record Date Shareholders who over-subscribe based on the number of shares of the Fund's Common Stock owned by the Record Date Shareholder on the Record Date. The allocation process may involve a series of allocations in order to assure that the total number of shares of Common Stock available for over-subscriptions is distributed on a pro rata basis.

The formula to be used in allocating the Excess Shares is as follows:

$$\frac{\text{Shareholder's Record Date Position}}{\text{Total Record Date Position of All Over-Subscribers}} \times \text{Excess Shares Remaining}$$



Banks, broker-dealers, trustees and other nominee holders of rights will be required to certify to the Rights Agent, before any over-subscription privilege may be exercised with respect to any particular beneficial owner, as to the aggregate number of Rights exercised during the Subscription Period and the number of shares of Common Stock subscribed for pursuant to the over-subscription privilege by such beneficial owner and that such beneficial owner's subscription was exercised in full. Nominee holder over-subscription forms and beneficial owner certification forms will be distributed to banks, broker-dealers, trustees and other nominee holders of Rights with the Subscription Certificates. Nominees should also notify holders purchasing Rights in the secondary market that such Rights may not participate in the over-subscription privilege.

The Fund will not offer or sell any shares of Common Stock that are not subscribed for during the Subscription Period or pursuant to the over-subscription privilege.

The Fund has been advised that the Investment Adviser and each of the Fund's Directors may exercise some or all of the Rights initially issued to them, and may request additional Common Stock pursuant to the over-subscription privilege. In addition, Mario J. Gabelli or his affiliated entities may also purchase Common Stock during the Subscription Period and pursuant to the over-subscription privilege.]

### **Sales by Rights Agent**

Holders of Rights who are unable or do not wish to exercise any or all of their Rights may instruct the Rights Agent to sell any unexercised Rights. The Subscription Certificates representing the Rights to be sold by the Rights Agent must be received on or before [ ], 2013. Upon the timely receipt of the appropriate instructions to sell Rights, the Rights Agent will use its best efforts to complete the sale and will remit the proceeds of sale, net of any commissions, to the holders. The Rights Agent will also attempt to sell any Rights attributable to shareholders whose record addresses are outside the United States [and Canada], or who have an APO or FPO address. The selling Rights holder will pay all brokerage commissions incurred by the Rights Agent. These sales may be effected by the Rights Agent. [ ] (the Dealer Manager ), a registered broker-dealer, may also act on behalf of its clients to purchase or sell Rights in the open market and be compensated for its services at a commission of up to \$[ ] per Right, provided that, if the Rights trade at a value of \$0.01 or less at the time of such sale, then no commission will be charged. The Rights Agent will automatically attempt to sell any unexercised Rights that remain unclaimed as a result of Subscription Certificates being returned by the postal authorities as undeliverable as of the fourth business day prior to the Expiration Date. These sales will be made net of commissions, taxes and any other expenses paid on behalf of the nonclaiming holders of Rights. Proceeds from those sales will be held by Computershare Trust Company, N.A., in its capacity as the Fund's transfer agent, for the account of the nonclaiming holder of Rights until the proceeds are either claimed or escheated. There can be no assurance that the Rights Agent will be able to complete the sale of any of these Rights and neither the Fund nor the Rights Agent has guaranteed any minimum sales price for the Rights. All of these Rights will be sold at the market price, if any, through an exchange or market trading the Rights. If the Rights can be sold, sales of the Rights will be deemed to have been effected at the weighted average price received by the Rights Agent on the day such Rights are sold, less any applicable brokerage commissions, taxes and other expenses.

Shareholders are urged to obtain a recent trading price for the Rights on the [ ] from their broker, bank, financial advisor or the financial press.

### **Method of Transferring Rights**

The value of the Rights, if any, will be reflected by the market price. Rights may be sold by individual holders or may be submitted to the Rights Agent for sale. Any Rights submitted to the Rights Agent for sale must be received by the Rights Agent on or before [ ], 2013, one Business Day prior to the completion of the Subscription Period, due to normal settlement procedures.

[Rights that are sold will not confer any right to acquire any Common Stock in any primary or secondary over-subscription, and any Record Date Shareholder who sells any Rights will not be eligible to participate in the primary or secondary over-subscription, if any.]

The Rights evidenced by a single Subscription Certificate may be transferred in whole by endorsing the Subscription Certificate for transfer in accordance with the accompanying instructions. A portion of the Rights evidenced by a single Subscription Certificate (but not fractional Rights) may be transferred by delivering to the Rights Agent a Subscription Certificate properly endorsed for transfer, with instructions to register the portion of the Rights evidenced thereby in the name of the transferee (and to issue a new Subscription Certificate to the transferee evidencing the transferred Rights). In this event, a new Subscription Certificate evidencing the balance of the Rights will be issued to the Rights holder or, if the Rights holder so instructs, to an additional transferee.

Holders wishing to transfer all or a portion of their Rights (but not fractional Rights) should promptly transfer such Rights to ensure that: (i) the transfer instructions will be received and processed by the Rights Agent, (ii) a new Subscription Certificate will be issued and transmitted to the transferee or transferees with respect to transferred Rights, and to the transferor with respect to retained Rights, if any, and (iii) the Rights evidenced by the new Subscription Certificates will be exercised or sold by the recipients thereof prior to the Expiration Date. Neither the Fund

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nor the Rights Agent shall have any liability to a transferee or transferor of Rights if Subscription Certificates are not received in time for exercise or sale prior to the Expiration Date.

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Except for the fees charged by the Rights Agent (which will be paid by the Fund as described below), all commissions, fees and other expenses (including brokerage commissions and transfer taxes) incurred in connection with the purchase, sale or exercise of Rights will be for the account of the transferor of the Rights, and none of these commissions, fees or expenses will be borne by the Fund or the Rights Agent.

The Fund anticipates that the Rights will be eligible for transfer through, and that the exercise of the Rights may be effected through, the facilities of DTC (Rights exercised through DTC are referred to as DTC Exercised Rights ).

**Rights Agent**

The Rights Agent is[ ]. The Rights Agent will receive from the Fund an amount estimated to be \$[ ], comprised of the fee for its services and the reimbursement for certain expenses related to the Rights offering.

**Information Agent**

INQUIRIES BY ALL HOLDERS OF RIGHTS SHOULD BE DIRECTED TO: THE INFORMATION AGENT, [[ ]]; HOLDERS MAY ALSO CONSULT THEIR BROKERS OR NOMINEES.

**Method of Exercise of Rights**

Rights may be exercised by completing and signing the reverse side of the Subscription Certificate and mailing it in the envelope provided, or otherwise delivering the completed and signed Subscription Certificate to the Rights Agent, together with payment for the Common Stock as described below under Payment for Shares. Rights may also be exercised through a Rights holder s broker, who may charge the Rights holder a servicing fee in connection with such exercise.

Completed Subscription Certificates must be received by the Rights Agent prior to 5:00 PM Eastern Time, on the Expiration Date (unless payment is effected by means of a notice of guaranteed delivery as described below under Payment for Shares ). The Subscription Certificate and payment should be delivered to the Rights Agent at the following address:

If By Mail:

The Gabelli Equity Trust Inc.

[ ]

If By Overnight Courier:

The Gabelli Equity Trust Inc.

[ ]

**Payment for Shares**

Holders of Rights who acquire Common Stock in the Subscription may choose between the following methods of payment:

(1) A Subscription will be accepted by the Rights Agent if, prior to [5:00 PM] Eastern Time on the Expiration Date, the Rights Agent has received a written notice of guaranteed delivery from a bank, a trust company, or a [ ] member, guaranteeing delivery of (i) payment of the full Subscription Price for the Common Stock subscribed for in the Rights offering [and, if eligible, for any additional Common Stock subscribed for pursuant to the over-subscription privilege], and (ii) a properly completed and executed Subscription Certificate. The Rights Agent will not honor a notice of guaranteed delivery if a properly completed and executed Subscription Certificate and full payment is not received by the Rights Agent by the close of business on the third business day after the Expiration Date. The notice of guaranteed delivery may be delivered to the Rights Agent in the same manner as Subscription Certificates at the addresses set forth above, or may be transmitted to the Rights Agent by facsimile transmission (fax number [ ]; telephone number to confirm receipt [ ]).

(2) Alternatively, a holder of Rights can send the Subscription Certificate together with payment in the form of a check for the Common Stock subscribed for in the Rights offering and, if eligible, for any additional Common Stock subscribed for pursuant to the over-subscription privilege, to the Rights Agent based on the Subscription Price of \$[ ] per Common Share. To be accepted, the payment, together with the executed Subscription Certificate, must be received by the Rights Agent at the addresses noted above prior to [5:00 PM] Eastern Time on the

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Expiration Date. The Rights Agent will deposit all share purchase checks received by it prior to the final due date into a segregated interest-bearing account pending proration and distribution of Common Stock. The Rights Agent will not accept cash as a means of payment for Common Stock.

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EXCEPT AS OTHERWISE SET FORTH BELOW, A PAYMENT PURSUANT TO THIS METHOD MUST BE IN UNITED STATES DOLLARS BY MONEY ORDER OR CHECK DRAWN ON A BANK LOCATED IN THE CONTINENTAL UNITED STATES (OR FOR ELIGIBLE CANADIAN RESIDENTS, A BANK LOCATED IN CANADA), MUST BE PAYABLE TO THE GABELLI EQUITY TRUST INC. AND MUST ACCOMPANY AN EXECUTED SUBSCRIPTION CERTIFICATE TO BE ACCEPTED.

If a holder of Rights who acquires Common Stock pursuant to the Rights offering does not make payment of all amounts due, the Fund reserves the right to take any or all of the following actions: (i) find other purchasers for such subscribed-for and unpaid-for Common Stock; (ii) apply any payment actually received by it toward the purchase of the greatest whole number of Common Stock which could be acquired by such holder upon exercise of the Rights or any over-subscription privilege; (iii) sell all or a portion of the Common Stock purchased by the holder, in the open market, and apply the proceeds to the amounts owed; and (iv) exercise any and all other rights or remedies to which it may be entitled, including, without limitation, the right to set off against payments actually received by it with respect to such subscribed Common Stock and to enforce the relevant guarantee of payment.

Any payment required from a holder of Rights must be received by the Rights Agent prior to 5:00 PM Eastern Time on the Expiration Date, or if the Rights holder has elected to make payment by means of a notice of guaranteed delivery, by the close of business on the third business day after the Expiration Date. Whichever of the two methods of payment described above is used, issuance and delivery of certificates for the Common Stock purchased are subject to collection of checks and actual payment pursuant to any notice of guaranteed delivery.

Within ten business days following the Expiration Date (the Confirmation Date), a confirmation will be sent by the Rights Agent to each holder of Rights (or, if the Common Stock are held by Cede or any other depository or nominee, to Cede or such other depository or nominee), showing (i) the number of shares of Common Stock acquired pursuant to the Subscription, (ii) the number of shares of Common Stock, if any, acquired pursuant to the over-subscription privilege, and (iii) the per share and total purchase price for the Common Stock. Any payment required from a holder of Rights must be received by the Rights Agent on or prior to the Expiration Date, or if the Rights holder has elected to make payment by means of a notice of guaranteed delivery, on the third business day after the Expiration Date. Any excess payment to be refunded by the Fund to a holder of Rights, or to be paid to a holder of Rights as a result of sales of Rights on its behalf by the Rights Agent, will be mailed by the Rights Agent to the holder within fifteen business days after the Expiration Date. If any Rights holder exercises its right to acquire Common Stock pursuant to the over-subscription privilege, any excess payment which would otherwise be refunded to the Rights holder will be applied by the Fund toward payment for Common Stock acquired pursuant to exercise of the over-subscription privilege, if any.

A Rights holder will have no right to rescind a purchase after the Rights Agent has received payment either by means of a notice of guaranteed delivery or a check.

Holders, such as broker-dealers, trustees or depositories for securities, who hold Common Stock for the account of others, should notify the respective beneficial owners of the Common Stock as soon as possible to ascertain such beneficial owners' intentions and to obtain instructions with respect to the Rights. If the beneficial owner so instructs, the record holder of the Rights should complete Subscription Certificates and submit them to the Rights Agent with the proper payment. In addition, beneficial owners of Common Stock or Rights held through such a holder should contact the holder and request that the holder effect transactions in accordance with the beneficial owner's instructions. **Banks, broker-dealers, trustees and other nominee holders that hold Common Stock of the Fund for the accounts of others are advised to notify those persons that purchase Rights in the secondary market that such Rights may not participate in any over-subscription privilege offered.**

THE INSTRUCTIONS ACCOMPANYING THE SUBSCRIPTION CERTIFICATES SHOULD BE READ CAREFULLY AND FOLLOWED IN DETAIL. DO NOT SEND SUBSCRIPTION CERTIFICATES TO THE FUND.

THE METHOD OF DELIVERY OF SUBSCRIPTION CERTIFICATES AND PAYMENT OF THE SUBSCRIPTION PRICE TO THE RIGHTS AGENT WILL BE AT THE ELECTION AND RISK OF THE RIGHTS HOLDERS, BUT IF SENT BY MAIL IT IS RECOMMENDED THAT THE CERTIFICATES AND PAYMENTS BE SENT BY REGISTERED MAIL, PROPERLY INSURED, WITH RETURN RECEIPT REQUESTED, AND THAT A SUFFICIENT NUMBER OF DAYS BE ALLOWED TO ENSURE DELIVERY TO THE RIGHTS AGENT AND CLEARANCE OF PAYMENT PRIOR TO [5:00 PM] EASTERN TIME, ON THE EXPIRATION DATE. BECAUSE UNCERTIFIED PERSONAL CHECKS MAY TAKE AT LEAST FIVE BUSINESS DAYS TO CLEAR, YOU ARE STRONGLY URGED TO PAY, OR ARRANGE FOR PAYMENT, BY MEANS OF A CERTIFIED OR CASHIER'S CHECK OR MONEY ORDER.

All questions concerning the timeliness, validity, form and eligibility of any exercise of Rights will be determined by the Fund, whose determinations will be final and binding. The Fund in its sole discretion may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as it may determine, or reject the purported exercise of any Right. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as the Fund determines in its sole discretion. Neither the Fund nor the Rights Agent will be under any duty to give notification of any defect or irregularity in connection with the submission of Subscription Certificates or incur any liability for failure to give such notification.

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### Foreign Restrictions

Subscription Certificates will only be mailed to Record Date Shareholders whose addresses are within the United States [and Canada] (other than an APO or FPO address). Because the offering of the Rights will not be registered in any jurisdiction other than the United States [and Canada], the Rights Agent will attempt to sell all of the Rights issued to shareholders outside of these jurisdictions and remit the net proceeds, if any, to such shareholders. If the Rights can be sold, sales of these Rights will be deemed to have been effected at the weighted average price received by the Rights Agent on the day the Rights are sold, less any applicable brokerage commissions, taxes and other expenses.

### Employee Benefit Plan and IRA Considerations

Rights holders that are employee benefit plans subject to limitations imposed by the Internal Revenue Code of 1986, as amended (the Code), such as employee plans subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA), Keogh Plans and Individual Retirement Accounts (IRA) (each a Benefit Plan and collectively, Benefit Plans), should be aware that the use of additional contributions of cash outside of the Benefit Plan to exercise Rights may be treated as additional contributions to the Benefit Plan. When taken together with contributions previously made, such deemed additional contributions may be in excess of tax limitations and subject the Rights holder to excise taxes for excess or nondeductible contributions. In the case of Benefit Plans qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended (the Code), additional contributions could cause the maximum contribution limitations of Section 415 of the Code or other qualification rules to be violated. Benefit Plans contemplating making additional contributions to exercise Rights should consult with their legal and tax counsel prior to making such contributions.

Benefit Plans and other tax exempt entities, including governmental plans, should also be aware that if they borrow to finance their exercise of Rights, they may become subject to the tax on unrelated business taxable income (UBTI) under Section 511 of the Code. If any portion of an IRA is used as security for a loan, the portion so used may also be treated as distributed to the IRA depositor.

A Benefit Plan may also be subject to laws, such as ERISA, that impose certain requirements on the Benefit Plan and on those persons who are fiduciaries with respect to the Benefit Plans. Such requirements may include prudence and diversification requirements and require that investments be made in accordance with the documents governing the Benefit Plan. The exercise of Rights by a fiduciary for a Benefit Plan should be considered in light of such fiduciary requirements.

In addition, ERISA and the Code prohibit certain transactions involving the assets of a Benefit Plan and certain persons (referred to as parties in interest for purposes of ERISA and disqualified persons for purposes of the Code) having certain relationships to such Benefit Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a nonexempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code (or with respect to certain Benefit Plans, such as IRAs, a prohibited transaction may cause the Benefit Plan to lose its tax-exempt status). In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions (PTCEs) that may apply to the exercise of the Rights and holding of the Common Stock. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers, PTCE 84-24 governing purchases of shares in investment companies) and PTCE 75-1 respecting sales of securities. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code each provides a limited exemption, commonly referred to as the service provider exemption, from the prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions between a Benefit Plan and a person that is a party in interest and/or a disqualified person (other than a fiduciary or an affiliate that, directly or indirectly, has or exercises any discretionary authority or control or renders any investment advice with respect to the assets of any Benefit Plan involved in the transaction) solely by reason of providing services to the Benefit Plan or by relationship to a service provider, provided that the Benefit Plan receives no less, nor pays no more, than adequate consideration. There can be no assurance that all of the conditions of any such exemptions or any other exemption will be satisfied at the time that the Rights are exercised, or thereafter while the Common Stock are held, if the facts relied upon for utilizing a prohibited transaction exemption change.

Due to the complexity of these rules and the penalties for noncompliance, fiduciaries of Benefit Plans should consult with their legal and tax counsel regarding the consequences of their exercise of Rights under ERISA, the Code and other similar laws.

### TABLE OF FEES AND EXPENSES

The following tables are intended to assist you in understanding the various costs and expenses directly or indirectly associated with investing in our common stock as a percentage of net assets attributable to common stock. Amounts are for the current fiscal year after giving effect to anticipated net proceeds of the offering, assuming that we incur the estimated offering expenses, including preferred stock offering expenses.

#### Shareholder Transaction Expenses

Sales Load (as a percentage of offering price)	[ ]%
Offering Expenses Borne by the Fund (as a percentage of offering price)	[ ]%
Dividend Reinvestment Plan Fees	None(1)

	Percentage of Net Assets Attributable to Common Stock
<b>Annual Expenses</b>	
Management Fees	[ ]%(2)
Interest on Borrowed Funds	[ ]
Other Expenses	[ ]%(2)
<b>Total Annual Expenses</b>	[ ]%
Dividends on Preferred Stock	%
<b>Total Annual Expenses and Dividends on Preferred Stock</b>	[ ]%(2)

- (1) You will be charged a \$[2.50] service charge and pay brokerage charges if you direct the plan agent to sell your common stock held in a dividend reinvestment account.
- (2) The Investment Adviser's fee is 1.00% annually of the Fund's average weekly net assets, with no deduction for the liquidation preference of any outstanding preferred shares. Consequently, in as much as the Fund has preferred shares outstanding, the investment management fees and other expenses as a percentage of net assets attributable to common shares are higher than if the Fund did not utilize a leveraged capital structure. Other Expenses are based on estimated amounts for the current year assuming completion of the proposed issuances.

#### Example

The following example illustrates the expenses (including the maximum estimated sales load of \$[ ] and estimated offering expenses of \$[ ] from the issuance of \$[ ] million in common stock) you would pay on a \$1,000 investment in common stock, assuming a 5% annual portfolio total return.\* The actual amounts in connection with any offering will be set forth in the Prospectus Supplement if applicable.

	1 Year	3 Years	5 Years	10 Years
Total Expenses Incurred				

- \* **The example should not be considered a representation of future expenses.** The example assumes that the amounts set forth in the Annual Expenses table are accurate and that all distributions are reinvested at net asset value. Actual expenses may be greater or less than those assumed. Moreover, the Fund's actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

#### USE OF PROCEEDS

The Fund estimates the net proceeds of the Offer to be \$[ ], based on the Subscription Price per share of \$[ ], assuming all new shares of Common Stock offered are sold and that the expenses related to the Offer estimated at approximately \$[ ] are paid and after deduction of the underwriting discounts and commissions.

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The Investment Adviser expects that it will initially invest the proceeds of the offering in high-quality short-term debt securities and instruments. The Investment Adviser anticipates that the investment of the proceeds will be made in accordance with the Fund's investment objectives and policies as appropriate investment opportunities are identified, which is expected to

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be substantially completed within three months; however, the identification of appropriate investment opportunities pursuant to the Fund's investment style or changes in market conditions may cause the investment period to extend as long as six months.

#### CAPITALIZATION

[To be provided.]

#### PRICE RANGE OF COMMON SHARES

The following table sets forth for the quarters indicated, the high and low sale prices on the NYSE per share of our common shares and the net asset value and the premium or discount from net asset value per share at which the common shares were trading, expressed as a percentage of net asset value, at each of the high and low sale prices provided.

[To be provided.]

On \_\_\_\_\_, 2012, the last reported net asset value per share of the Common Stock was \$ \_\_\_\_\_ and the last reported sales price per share of Common Stock on the NYSE was \$ \_\_\_\_\_.

#### SPECIAL CHARACTERISTICS AND RISKS OF THE RIGHTS

Risk is inherent in all investing. Therefore, before investing in the Common Shares you should consider the risks associated with such an investment carefully. See Risk Factors and Special Considerations in the Prospectus. The following summarizes some of the matters that you should consider before investing in the Fund through the Offer:

*Dilution.* Shareholders who do not exercise their Rights may, at the completion of the Subscription Period, own a smaller proportional interest in the Fund than if they exercised their Rights. As a result of the Offer, you may experience dilution in net asset value per share if the subscription price is below the net asset value per share at the completion of the Subscription Period. If the Subscription Price per share is below the net asset value per share of the Fund's shares at the completion of the Subscription Period, you will experience an immediate dilution of the aggregate net asset value of your shares if you do not participate in the Offer and you will experience a reduction in the net asset value per share of your shares whether or not you participate in the Offering.

If you do not exercise all of your Rights, you may own a smaller proportional interest in the Fund when the Rights offering is over. In addition, you will experience an immediate dilution of the aggregate net asset value per share of your Common Shares if you do not participate in the Rights offering and will experience a reduction in the net asset value per share whether or not you exercise your Rights, if the Subscription Price is below the Fund's net asset value per Common Share on the Expiration Date, because:

the offered Common Shares are being sold at less than their current net asset value;

you will indirectly bear the expenses of the Rights offering; and

the number of Common Shares outstanding after the Rights offering will have increased proportionately more than the increase in the amount of the Fund's net assets.

On the other hand, if the Subscription Price is above the Fund's net asset value per share on the Expiration Date, you may experience an immediate accretion of the aggregate net asset value per share of your Common Shares even if you do not exercise your Rights and an immediate increase in the net asset value per share of your Shares whether or not you participate in the Offer, because:

the offered Common Shares are being sold at more than their current net asset value after deducting the expenses of the Rights offering; and

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the number of Common Shares outstanding after the Rights offering will have increased proportionately less than the increase in the amount of the Fund's net assets.

[Furthermore, if you do not participate in the Over-Subscription Privilege, if it is available, your percentage ownership may also be diluted.] The Fund cannot state precisely the amount of any dilution because it is not known at this time what the net asset value per share will be on the Expiration Date or what proportion of the Rights will be exercised. The impact of the Rights offering on net asset value per share is shown by the following examples, assuming a \$[ ] Subscription Price:

<b>Scenario 1: (assumes net asset value per share is above subscription price)<sup>(1)</sup></b>	
NAV	[ ]
Subscription Price	[ ]
Reduction in NAV(\$) <sup>(2)</sup>	[ ]
Reduction in NAV(%)	[ ]
<b>Scenario 2: (assumes net asset value per share is below subscription price)<sup>(1)</sup></b>	
NAV	[ ]
Subscription Price	[ ]
Increase in NAV(\$) <sup>(2)</sup>	[ ]
Increase in NAV(%)	[ ]

- (1) Both examples assume the full Primary Subscription and Secondary Over-Subscription Privilege are exercised. Actual amounts may vary due to rounding.
- (2) Assumes \$[ ] in estimated offering expenses.

If you do not wish to exercise your Rights, you should consider selling them as set forth in this Prospectus Supplement. Any cash you receive from selling your Rights may serve as partial compensation for any possible dilution of your interest in the Fund. The Fund cannot give assurance, however, that a market for the Rights will develop or that the Rights will have any marketable value.

[The Fund's largest shareholders, Record Date Shareholders of more than 5% of the outstanding Common Shares of the Fund, could increase their percentage ownership in the Fund through the exercise of the Primary Subscription and Over-Subscription Privilege.]

*Leverage.* Leverage creates a greater risk of loss, as well as a potential for more gain, for the Common Shares than if leverage were not used. Following the completion of the Offer, the Fund's amount of leverage outstanding will decrease. The leverage of the Fund as of [ ] was [ ]%. After the completion of the Offer, the leverage of the Fund is expected to decrease to [ ]%. The use of leverage for investment purposes creates opportunities for greater total returns but at the same time increases risk. When leverage is employed, the net asset value, market price of the Common Shares and the yield to holders of Common Shares may be more volatile. Any investment income or gains earned with respect to the amounts borrowed in excess of the interest due on the borrowing will augment the Fund's income. Conversely, if the investment performance with respect to the amounts borrowed fails to cover the interest on such borrowings, the value of the Fund's common shares may decrease more quickly than would otherwise be the case, and distributions on the Common Shares would be reduced or eliminated. Interest payments and fees incurred in connection with such borrowings will reduce the amount of net income available for distribution to common shareholders.

Because the fee paid to the Investment Adviser is calculated on the basis of the Fund's average weekly net assets, which include the proceeds of leverage, the dollar amount of the management fee paid by the Fund to the Investment Adviser will be higher (and the Investment Adviser will be benefited to that extent) when leverage is utilized. The Investment Adviser will

utilize leverage only if it believes such action would result in a net benefit to the Fund's shareholders after taking into account the higher fees and expenses associated with leverage (including higher management fees).

The Fund's leveraging strategy may not be successful.

*Increase in Share Price Volatility; Decrease in Share Price.* The Offer may result in an increase in trading of the Common Shares, which may increase volatility in the market price of the Common Shares. The Offer may result in an increase in the number of shareholders wishing to sell their Common Shares, which would exert downward price pressure on the price of Common Shares.

*Under-Subscription.* It is possible that the Offer will not be fully subscribed. Under-subscription of the Offer could have an impact on the net proceeds of the Offer and whether the Fund achieves any benefits.

#### **TAXATION**

[To be provided.]

#### **UNDERWRITING**

[To be provided.]

#### **LEGAL MATTERS**

Certain legal matters will be passed on by Willkie Farr & Gallagher LLP, counsel to the Fund, in connection with this rights offering. Willkie Farr & Gallagher LLP may rely as to certain matters of Maryland law on the opinion of [ ].

**THE GABELLI EQUITY TRUST INC.**

**The Gabelli Equity Trust Inc.**

**Shares of Common Stock**

**Issuable Upon Exercise of Rights to**

**Subscribe to Such Shares of Common Stock**

**PROSPECTUS SUPPLEMENT**

**, 2013**

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THE GABELLI EQUITY TRUST INC.

**The information in this Prospectus Supplement is not complete and may be changed. The Fund may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and is not soliciting offers to buy these securities in any state where the offer or sale is not permitted.**

Filed Pursuant to Rule 497(c)

Registration Statement No. 333-173819

PROSPECTUS SUPPLEMENT

(To Prospectus dated , 2013)

## Rights for Shares

### Subscription Rights for % Series [ ] Preferred Stock

The Gabelli Equity Trust Inc. (the Fund , we , us or our ) is issuing subscription rights (the Rights ) to our [common][preferred] stockholders to purchase shares of % Series [ ] Preferred Stock (the Series [ ] Preferred Stock ).

The Fund is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act ). The Fund's primary investment objective is to achieve long-term growth of capital by investing primarily in a portfolio of equity securities consisting of common stock, preferred stock, convertible or exchangeable securities and warrants and rights to purchase such securities. Income is a secondary investment objective. The Fund's investment adviser is Gabelli Funds, LLC (the Investment Adviser ).

Shares of our common stock are traded on the New York Stock Exchange ( NYSE ) under the symbol GAB. On , 2013 (the last trading date prior to the Common Stock trading ex-Rights), the last reported net asset value per share of the Common Stock was \$ and the last reported sales price per share of Common Stock on the NYSE was \$ . Shares of our 5.875% Series D Cumulative Preferred Stock ( Series D Preferred ) and our 6.20% Series F Cumulative Preferred Stock ( Series F Preferred ) are traded on the NYSE under the symbol GAB PrD. and GAB PrF , respectively. On [ ], 2013 ( the last trading day prior to the [ ] Preferred Stock trading ex-Rights), the last reported sales price per share of [ ] Preferred Stock on the NYSE was \$[ ] .

An investment in the Fund is not appropriate for all investors. We cannot assure you that the Fund's investment objective will be achieved. You should read this Prospectus Supplement and the accompanying Prospectus before deciding whether to invest in common shares and retain it for future reference. The Prospectus Supplement and the accompanying Prospectus contain important information about us. Material that has been incorporated by reference and other information about us can be obtained from us by calling 800-GABELLI (422-3554) or from the Securities and Exchange Commission's ( SEC ) website (<http://www.sec.gov>). For additional information all holders of rights should contact the Information Agent, [ ], toll-free at [ ] or please send written request to: [ ] .

**Investing in preferred stock through Rights involves certain risks that are described in the Special Characteristics and Risks of the Rights Offering section beginning on page S-[ ] of the Prospectus Supplement.**

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NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	<b>Per Share Total</b>	
Subscription price of Preferred Stock to shareholders exercising Rights	\$	\$
Underwriting discounts and commissions	[     ]	[     ]
Proceeds, before expenses, to the Fund (1)	\$	\$

(1) The aggregate expenses of the offering are estimated to be \$[            ].  
 The preferred stock is expected to be ready for delivery in book-entry form through the Depository Trust Company on or about           , 2013. If the offer is extended, the preferred stock is expected to be ready for delivery in book-entry form through the Depository Trust Company on or about           , 2013.

The date of this Prospectus Supplement is           , 2013

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You should rely only on the information contained or incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The Fund has not authorized anyone to provide you with different information. The Fund is not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this Prospectus Supplement and the accompanying Prospectus is accurate as of any date other than the date of this Prospectus Supplement and the accompanying Prospectus, respectively. Our business, financial condition, results of operations and prospects may have changed since those dates. In this Prospectus Supplement and in the accompanying Prospectus, unless otherwise indicated, Fund, us, our and we refer to The Gabelli Equity Trust Inc. This Prospectus Supplement also includes trademarks owned by other persons.

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**CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

This Prospectus Supplement, the accompanying Prospectus and the Statement of Additional Information contain forward-looking statements. Forward-looking statements can be identified by the words may, will, intend, expect, estimate, continue, plan, anticipate, and similar, the negative of such terms. Such forward-looking statements may be contained in this Prospectus Supplement as well as in the accompanying Prospectus. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect our actual results are the performance of the portfolio of securities we hold, the price at which our shares will trade in the public markets and other factors discussed in our periodic filings with the SEC.

Although we believe that the expectations expressed in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in the Risk Factors and Special Considerations section of the accompanying Prospectus and Special Characteristics and Risks of the Rights Offering in this Prospectus Supplement. All forward-looking statements contained or incorporated by reference in this Prospectus Supplement or the accompanying Prospectus are made as of the date of this Prospectus Supplement or the accompanying Prospectus, as the case may be. Except for our ongoing obligations under the federal securities laws, we do not intend, and we undertake no obligation, to update any forward-looking statement. The forward-looking statements contained in this Prospectus Supplement, any accompanying Prospectus and the Statement of Additional Information are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended (the Securities Act ).

Currently known risk factors that could cause actual results to differ materially from our expectations include, but are not limited to, the factors described in the Risk Factors and Special Considerations section of the accompanying Prospectus as well as in the Special Characteristics and Risks of the Rights Offering section of this Prospectus Supplement. We urge you to review carefully those sections for a more detailed discussion of the risks of an investment in the preferred stock.

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**SUMMARY OF THE TERMS OF THE RIGHTS OFFERING**

<b>Terms of the Offer</b>	[ ] [transferable] [non-transferable] subscription rights (a Right ) will be issued for each [ ] share of the Fund held on the record date and are expected to trade in the [ ] exchange. These Rights will allow [ ] shareholders to subscribe for new [ shares] of the Fund. [ ] shares of [ ] are outstanding as of [ ], 2013. [ ] Rights will be required to purchase [ ] share of [ ]. [An over-subscription privilege will be offered.][ ] shares of [ ] will be issued if all Rights are exercised. See Terms of the Offering.
<b>Amount Available for</b>	
<b>Primary Subscription</b>	[\$[ ]
<b>Title</b>	Subscription Rights for Series [ ] Preferred Stock
<b>Exercise Price</b>	Rights may be exercised at a price of \$ per share of Preferred Stock (the Subscription Price ). See Terms of the Offer.
<b>Record Date</b>	Rights will be issued to holders of record of the Fund s [Common Stock][Preferred Stock] on , 2012 (the Record Date ). See Terms of the Offer.
<b>Number of Rights Issued</b>	Right will be issued in respect of each share of [Common Stock][Preferred Stock] of the Fund outstanding on the Record Date. See Terms of the Offer.
<b>Number of Rights</b>	
<b>Required to Purchase</b>	A holder of Rights may purchase share of Preferred Stock of the Fund for every Rights exercised. The number of Rights to be issued to a stockholder on the Record Date will be rounded up to the nearest number of Rights evenly divisible by . See Terms of the Offer.
<b>One Preferred Share</b>	
<b>Over-Subscription</b>	[Rights holders who are shareholders of [ ] on the Record Date are entitled to subscribe for additional [ ] shares at the same Subscription Price, subject to certain limitations and subject to allotment. To the extent sufficient shares of [ ] are not available to fulfill all over-subscription requests, unsubscribed shares of [ ] will be allocated pro-rata among those shareholders who over-subscribe based on the number of the Fund s shares of [ ] owned on the Record Date. See Over-Subscription Privilege. ]
<b>Privilege</b>	
<b>Transfer of Rights</b>	The Rights [will be] [will not be] transferable. See Terms of the Offering, Sales by Rights Agent, and Method of Transferring Rights.
<b>Subscription Period</b>	The Rights may be exercised at any time after issuance and prior to expiration of the Rights, which will be 5:00 PM Eastern Time on , 2013 (the Expiration Date )(the Subscription Period ). See Terms of the Offer and Method of Exercise of Rights.
<b>Offer Expenses</b>	The expenses of the Offer are expected to be approximately \$[ ]. See Use of Proceeds.
<b>Solicitation Fee</b>	[\$[ ] per [ ] share to broker-dealers that have executed and delivered a soliciting dealer agreement and have solicited the exercise of Rights, subject to a maximum payment of \$[ ] to any single broker-dealer. See Underwriting.
<b>Use of Proceeds</b>	The Fund estimates the net proceeds of the Offer to be approximately \$[ ]. This figure is based on the Exercise Price per share of \$ and assumes all new shares of Series [ ]Preferred Stock offered are sold and that the expenses related to the Offer estimated at approximately \$[ ] are paid.

[The Fund currently intends to call within [ ] months after expiration of the Subscription Period all outstanding shares of [ ] that are not surrendered by holders to purchase [ ] in the offering. Amounts in excess of the redemption amount for all outstanding shares of [ ] will be used for investment purposes consistent with the investment objectives of the Fund.]

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[The Investment Adviser anticipates that investment of the proceeds will be made in accordance with the Fund's investment objectives and policies as appropriate investment opportunities are identified, which is expected to be substantially completed in approximately three months; however, the identification of appropriate investment opportunities pursuant to the Fund's investment style or changes in market conditions may cause the investment period to extend as long as six months. Pending such investment, the proceeds will be held in high quality short-term debt securities and instruments.] *See Use of Proceeds* .

### **Taxation/ERISA**

*See Employee Plan Considerations.*

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Rights Agent [To be provided.]

**TERMS OF THE SERIES PREFERRED STOCK**

Issue Series [ ] [Cumulative] [Puttable] [and] [Callable] Preferred Stock  
 Dividend Rate The dividend rate [for the initial dividend period]<sup>1</sup> will be %.  
 Dividend Payment Rate [Dividends will be paid when, as and if declared on , , and , commencing .]<sup>2</sup> The payment date for the initial dividend period will be .]<sup>1</sup>  
 [Regular Dividend Period Regular dividend periods will be days.]<sup>1</sup>  
 Liquidation Preference \$ per share  
 [Non-Call Period The shares may not be called for redemption at the option of the Fund prior to .]<sup>2</sup>  
 [Stock Exchange Listing]<sup>2</sup>

- 1 Applicable only if the preferred shares being offered are auction rate shares.
- 2 Applicable only if the preferred shares being offered are fixed rate shares.

**DESCRIPTION OF THE RIGHTS OFFERING**

**Terms of the Rights Offering**

The Fund is issuing to shareholders of record of shares of [ ] as of [ ] ( the Record Date , and such shareholders, the Record Date Preferred Shareholders ) Rights to subscribe for the [ ]. Each [ ] is being issued [ ] transferable Rights for each [ ] share owned on the Record Date. The Rights entitle the holders to acquire for (i) \$[ ] in cash, (ii) by surrender of shares of [ ] at liquidation preference, or (iii) any combination of cash and such shares (the Subscription Price ) one [ ] Share for each [ ] Rights. Fractional shares will not be issued upon the exercise of the Rights. Accordingly, [ ] Shares may be purchased only pursuant to the exercise of Rights in integral multiples of [ ]. Rights may be exercised at any time during the period which commences on [ ], and ends at 5:00 PM Eastern Time on [ ] (the Subscription Period ). The right to acquire [ ] additional [ ] Share for [ ] Rights held during the Subscription Period at the Subscription Price will be referred to in the remainder of this prospectus supplement as the Subscription.

Rights may be evidenced by subscription certificates or other appropriate documentation ( Subscription Certificates ). The number of Rights issued to each holder will be stated on the Subscription Certificate delivered to the holder. The method by which Rights may be exercised and shares paid for is set forth below in Method of Exercise of Rights and Payment for Shares. A Rights holder will have no right to rescind a purchase after [ ] (the Rights Agent ) has received payment. See Payment for Shares below. It is anticipated that the [ ] Shares issued pursuant to an exercise of Rights will be listed on the [ ].

[Rights holders who are Record Date [ ] Shareholders are entitled to subscribe for additional [ ] Shares at the same Subscription Price pursuant to the over-subscription privilege, subject to certain limitations and subject to allotment. See Over-Subscription Privilege below.]

For purposes of determining the maximum number of shares a Record Date [ ] Shareholder may acquire pursuant to the offer, broker-dealers, trust companies, banks or others whose shares are held of record by Cede & Co. ( Cede ), as nominee

for the Depository Trust Company or by any other depository or nominee will be deemed to be the holders of the Rights that are held by Cede or such other depository or nominee on their behalf.

The Rights are transferable until [5:00 PM] Eastern Time [ ] (the Expiration Date ) and are expected to be admitted for trading on the [ ]. Assuming a market exists for the Rights, the Rights may be purchased and sold through usual brokerage channels and sold through the Rights Agent. Although no assurance can be given that a market for the Rights will develop, trading in the Rights through the [ ] is expected to begin [ ] business days before the Record Date and may be conducted until the close of trading through the last [ ] trading day prior to the Expiration Date. Trading of the Rights on the [ ] is expected to be conducted on a when-issued basis until and including the date on which the Subscription Certificates are mailed to Record Date [ ] Shareholders and thereafter is expected to be conducted on a regular way basis until and including the last [ ] trading day prior to the Expiration Date. [The method by which Rights may be transferred is set forth below under Method of Transferring Rights. ] The [ ] shares are expected to begin trading ex-Rights [ ] business days prior to the Record Date as determined and announced by [ ].

Nominees who hold the Fund s [ ] shares for the account of others, such as banks, broker-dealers, trustees or depositories for securities, should notify the respective beneficial owners of such shares as soon as possible to ascertain such beneficial owners' intentions and to obtain instructions with respect to the Rights. If the beneficial owner so instructs, the nominee will complete the Subscription Certificate and submit it to the Rights Agent with proper payment. In addition, beneficial owners of the [ ] shares or Rights held through such a nominee should contact the nominee and request the nominee to effect transactions in accordance with such beneficial owner's instructions.

### Important Dates to Remember

Please note that the dates in the table below may change if the rights offering is extended.

EVENT	DATE
Record Date	[ ]
Subscription Period	[ ]**
Expiration Date*	[ ]**
Payment for Guarantees of Delivery Due*	[ ]**
Confirmation Date	[ ]**

\* A shareholder exercising Rights must deliver by [5:00 PM] Eastern Time on [ ] either (a) a Subscription Certificate and payment for shares or (b) a notice of guaranteed delivery.

\*\* Unless the offer is extended to a date no later than [ ].

### [Over-Subscription Privilege

Rights holders who are Record Date [ ] Shareholders and who fully exercise their Rights are entitled to subscribe for additional [ ] Shares at the same Subscription Price pursuant to the over-subscription privilege, subject to certain limitations and subject to allotment.

Record Date [ ] Shareholders who are fully exercising their Rights during the subscription period should indicate, on the Subscription Certificate which they submit with respect to the exercise of the Rights issued to them, how many [ ] Shares they are willing to acquire pursuant to the over-subscription privilege. Rights acquired in the secondary market may not participate in the over-subscription privilege.

To the extent sufficient [ ] Shares are not available to fulfill all over-subscription requests, unsubscribed [ ] Shares will be allocated pro-rata among those Record Date [ ] Shareholders who over-subscribe based on the number of the Fund s [ ] shares owned on the Record Date. The allocation process may involve a series of allocations in order to assure that the total number of [ ] Shares available for over-subscriptions is distributed on a pro rata basis.

Banks, broker-dealers, trustees and other nominee holders of rights will be required to certify to the Rights Agent, before any over-subscription privilege may be exercised with respect to any particular beneficial owner, as to the aggregate number of Rights exercised during the Subscription Period and the number of [ ] Shares subscribed for pursuant to the over-subscription privilege by such beneficial owner and that such beneficial owner's Subscription was exercised in full. Nominee holder over-subscription forms and beneficial owner certification forms will be distributed to banks, broker-dealers, trustees and other nominee holders of rights with the Subscription Certificates. Nominees should also notify holders purchasing Rights in the secondary market that such Rights may not participate in the over-subscription privilege.

The Fund will not offer or sell any [ ] Shares that are not subscribed for during the Subscription Period or pursuant to the over-subscription privilege.

[The Fund has been advised that the Investment Adviser and each of the Fund's Directors may exercise some or all of the Rights initially issued to them, and may request additional [ ] Shares pursuant to the over-subscription privilege. In addition, Mario J. Gabelli or his affiliated entities may also purchase [ ] Shares during the Subscription Period and pursuant to the over-subscription privilege.]

### **Sales by Rights Agent**

Holders of Rights who are unable or do not wish to exercise any or all of their Rights may instruct the Rights Agent to sell any unexercised Rights. The Subscription Certificates representing the Rights to be sold by the Rights Agent must be received on or before [ ]. Upon the timely receipt of the appropriate instructions to sell Rights, the Rights Agent will use its best efforts to complete the sale and will remit the proceeds of sale, net of any commissions, to the holders. If the Rights can be sold, sales of the Rights will be deemed to have been effected at the weighted average price received by the Rights Agent on the day such Rights are sold. The selling Rights holder will pay all brokerage commissions incurred by the Rights Agent, [ ], (the Dealer Manager ) a registered broker-dealer and an affiliate of the Investment Adviser. The Dealer Manager may also act on behalf of its clients to purchase or sell Rights in the open market. The Rights Agent will automatically attempt to sell any unexercised Rights that remain unclaimed as a result of Subscription Certificates being returned by the postal authorities as undeliverable as of the fourth business day prior to the Expiration Date. These sales will be made net of any commissions on behalf of the nonclaiming holders of Rights. Proceeds from those sales will be held by [ ], in its capacity as the Fund's transfer agent, for the account of the nonclaiming holder of rights until the proceeds are either claimed or escheated. There can be no assurance that the Rights Agent will be able to complete the sale of any of these Rights and neither the Fund nor the Rights Agent has guaranteed any minimum sales price for the Rights. [All of these Rights will be sold at the market price, if any, through an exchange or market trading the Rights.]

### **[Method of Transferring Rights**

The Rights evidenced by a single Subscription Certificate may be transferred in whole by endorsing the Subscription Certificate for transfer in accordance with the accompanying instructions. A portion of the Rights evidenced by a single Subscription Certificate (but not fractional Rights) may be transferred by delivering to the Rights Agent a Subscription Certificate properly endorsed for transfer, with instructions to register the portion of the Rights evidenced thereby in the name of the transferee (and to issue a new Subscription Certificate to the transferee evidencing the transferred Rights). In this event, a new Subscription Certificate evidencing the balance of the Rights will be issued to the Rights holder or, if the Rights holder so instructs, to an additional transferee.

Holders wishing to transfer all or a portion of their Rights (but not fractional Rights) should allow at least [ ] business days prior to the Expiration Date for (i) the transfer instructions to be received and processed by the Rights Agent, (ii) a new Subscription Certificate to be issued and transmitted to the transferee or transferees with respect to transferred Rights, and to the transferor with respect to retained Rights, if any, and (iii) the Rights evidenced by the new Subscription Certificates to be exercised or sold by the recipients thereof. Neither the Fund nor the Rights Agent shall have any liability to a transferee or transferor of Rights if Subscription Certificates are not received in time for exercise or sale prior to the Expiration Date.

Except for the fees charged by the Rights Agent (which will be paid by the Fund as described below), all commissions, fees and other expenses (including brokerage commissions and transfer taxes) incurred in connection with the purchase, sale or exercise of Rights will be for the account of the transferor of the Rights, and none of these commissions, fees or expenses will be paid by the Fund or the Rights Agent.

The Fund anticipates that the Rights will be eligible for transfer through, and that the exercise of the Subscription may be effected through, the facilities of DTC (Rights exercised through DTC are referred to as DTC Exercised Rights .)]

### Rights Agent

The Rights Agent is [ ]. The Rights Agent will receive from the Fund an amount estimated to be \$[ ] comprised of the fee for its services and the reimbursement for certain expenses related to the rights offering. INQUIRIES BY ALL HOLDERS OF RIGHTS SHOULD BE DIRECTED TO: THE INFORMATION AGENT, [ ]; HOLDERS MAY ALSO CONSULT THEIR BROKERS OR NOMINEES.

### Method of Exercise of Rights

Rights may be exercised by completing and signing the reverse side of the Subscription Certificate and mailing it in the envelope provided, or otherwise delivering the completed and signed Subscription Certificate to the Rights Agent, together with payment for the [ ] Shares (including any surrender of [ ] shares) as described below under Payment for Shares. Rights may also be exercised through a Rights holder's broker, who may charge the Rights holder a servicing fee in connection with such exercise.

Completed Subscription Certificates must be received by the Rights Agent prior to 5:00 PM Eastern Time, on the Expiration Date (unless payment is effected by means of a notice of guaranteed delivery as described below under Payment for Shares ). The Subscription Certificate and payment should be delivered to the Rights Agent at the following address:

If By Mail:

The Gabelli Equity Trust Inc.

[ ]

If By Overnight Courier:

The Gabelli Equity Trust Inc.

[ ]

### Payment for Shares

Holders of Rights who acquire [ ] Shares in the Subscription may choose between the following methods of payment:

- (1) A subscription will be accepted by the Rights Agent if, prior to 5:00 PM Eastern Time, on the Expiration Date, the Rights Agent has received a written notice of guaranteed delivery from a bank, a trust company, or a [ ] member, guaranteeing delivery of (i) payment of the full Subscription Price for the [ ] Shares subscribed for in the Subscription and, if eligible, for any additional [ ] Shares subscribed for pursuant to the over-subscription privilege, and (ii) a properly completed and executed Subscription Certificate. The Rights Agent will not honor a notice of guaranteed delivery if a properly completed and executed Subscription Certificate and full payment is not received by the Rights Agent by the close of business on the third business day after the Expiration Date. The notice of guaranteed delivery may be delivered to the Rights Agent in the same manner as Subscription Certificates at the addresses set forth above, or may be transmitted to the Rights Agent by facsimile transmission [(fax number [ ]]; telephone number to confirm receipt [ ]].
- (2) Alternatively, a holder of Rights can send the Subscription Certificate together with payment in the form of (i) a check; (ii) by surrender of shares of [ ] at liquidation preference; or (iii) any combination of a check and such shares for the [ ] Shares subscribed for in the Subscription and, if eligible, for any additional [ ] Shares subscribed for pursuant to the over-subscription privilege, to the Rights Agent based on the Subscription Price of \$[ ] per [ ] Share. To be accepted, the payment (including surrender of the number of [ ] shares forming a portion of such payment), together with the executed Subscription Certificate, must be received by the Rights Agent at the addresses noted above prior to [5:00 PM] Eastern Time on the Expiration Date. The Rights Agent will deposit all share purchase checks received by it prior to the final due date into a segregated interest-bearing account, and will hold any surrendered

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shares of [ ], in each case pending proration and distribution of [ ] Shares. The Rights Agent will not accept cash as a means of payment for [ ] Shares.

[EXCEPT AS OTHERWISE SET FORTH BELOW AND EXCEPT FOR SURRENDERS OF [ ] SHARES, A PAYMENT PURSUANT TO THIS METHOD MUST BE IN UNITED STATES DOLLARS BY MONEY ORDER OR CHECK DRAWN ON A BANK LOCATED IN THE CONTINENTAL UNITED STATES, MUST BE PAYABLE TO THE GABELLI EQUITY TRUST INC. AND MUST ACCOMPANY AN EXECUTED SUBSCRIPTION CERTIFICATE TO BE ACCEPTED. ]

Any payment required from a holder of Rights must be received by the Rights Agent prior to [5:00 PM] Eastern Time on the Expiration Date, or if the Rights holder has elected to make payment by means of a notice of guaranteed delivery, by the close of business on the [ ] business day after the Expiration Date. All payments by a holder of Rights must be in United States dollars by money order or check drawn on a bank located in the continental United States and payable to The Gabelli Equity Trust Inc. except that holders of Rights who are residents of Canada may make payment in United States dollars by money order or check drawn on a bank located in Canada. Whichever of the two methods of payment described above is used, issuance and delivery of certificates for the [ ] Shares purchased are subject to collection of checks and [ ] shares, as well as actual payment pursuant to any notice of guaranteed delivery.

Within ten business days following the Expiration Date (the Confirmation Date ), a confirmation will be sent by the Rights Agent to each holder of Rights (or, if the [ ] shares are held by Cede or any other depository or nominee, to Cede or such other depository or nominee), showing (i) the number of [ ] Shares acquired pursuant to the Subscription, (ii) [the number of [ ] Shares, if any, acquired pursuant to the over-subscription privilege, and (iii)] the per share and total purchase price for the [ ] Shares. Any payment required from a holder of Rights must be received by the Rights Agent on the Expiration Date, or if the Rights holder has elected to make payment by means of a notice of guaranteed delivery, on the [ ] business day after the Expiration Date. Any excess payment (including any excess surrendered shares of [ ]) to be refunded by the Fund to a holder of Rights, or to be paid to a holder of Rights as a result of sales of Rights on his behalf by the Rights Agent, and all interest accrued on the holder's excess payment will be mailed by the Rights Agent to the holder within fifteen business days after the Expiration Date. Interest on the excess payment will accrue through the date that is one business day prior to the mail date of the reimbursement check. [If any Rights holder exercises its right to acquire [ ] Shares pursuant to the over-subscription privilege, any excess payment which would otherwise be refunded to the Rights holder will be applied by the Fund toward payment for [ ] Shares acquired pursuant to exercise of the over-subscription privilege.]

A Rights holder will have no right to rescind a purchase after the Rights Agent has received payment either by means of a notice of guaranteed delivery, delivery of [ ] shares, or a check.

If a holder of Rights who acquires [ ] Shares pursuant to the Subscription does not make payment of any amounts due, the Fund reserves the right to take any or all of the following actions: (i) find other purchasers for such subscribed-for and unpaid-for [ ] Shares; (ii) apply any payment actually received by it toward the purchase of the greatest whole number of [ ] Shares which could be acquired by such holder upon exercise of the Subscription or over-subscription privilege; (iii) sell all or a portion of the [ ] Shares purchased by the holder in the open market and apply the proceeds to the amounts owed; and (iv) exercise any and all other rights or remedies to which it may be entitled, including, without limitation, the right to set off against payments actually received by it with respect to such subscribed [ ] Shares and to enforce the relevant guaranty of payment.

Holders, such as broker-dealers, trustees or depositories for securities, who hold [ ] shares for the account of others, should notify the respective beneficial owners of the [ ] shares as soon as possible to ascertain such beneficial owners' intentions and to obtain instructions with respect to the Rights. If the beneficial owner so instructs, the record holder of the Rights should complete Subscription Certificates and submit them to the Rights Agent with the proper payment. In addition, beneficial owners of [ ] shares or Rights held through such a holder should contact the holder and request the holder to effect transactions in accordance with the beneficial owner's instructions. Banks, broker-dealers, trustees and other nominee holders that hold [ ] shares of the Fund for the accounts of others are advised to notify those persons that purchase Rights in the secondary market that such Rights may not participate in the over-subscription privilege.

The instructions accompanying the Subscription Certificates should be read carefully and followed in detail. DO NOT SEND SUBSCRIPTION CERTIFICATES TO THE FUND.

The method of delivery of Subscription Certificates and payment of the subscription price to the Rights Agent will be at the election and risk of the Rights holders, but if sent by mail it is recommended that the certificates and payments be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the Rights Agent and clearance of payment prior to [5:00 PM] Eastern Time, on the Expiration Date. Because uncertified personal checks may take at least five business days to clear, you are strongly urged to pay, or arrange for payment, by means of a certified or cashier's check or money order.

All questions concerning the timeliness, validity, form and eligibility of any exercise of Rights will be determined by the Fund, whose determinations will be final and binding. The Fund in its sole discretion may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as it may determine, or reject the purported exercise of any Right. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as the Fund determines in its sole discretion. Neither the Fund nor the Rights Agent will be under any duty to give notification of any defect or irregularity in connection with the submission of Subscription Certificates or incur any liability for failure to give such notification.

#### **Foreign Restrictions**

Subscription Certificates will only be mailed to Record Date [ ] Shareholders whose addresses are within the United States and Canada (other than an APO or FPO address). Record Date [ ] Shareholders whose addresses are outside the United States and Canada or who have an APO or FPO address and who wish to subscribe to the rights offering either in part or in full should contact the Rights Agent by written instruction or recorded telephone conversation no later than three business days prior to the Expiration Date. The Fund will determine whether the offering may be made to any such shareholder. If the Rights Agent has received no instruction by the third business day prior to the Expiration Date or the Fund has determined that the rights offering may not be made to a particular shareholder, the Rights Agent will attempt to sell all of such shareholder's Rights and remit the net proceeds, if any, to such shareholders. If the Rights can be sold, sales of these Rights will be deemed to have been effected at the weighted average price received by the Rights Agent on the day the Rights are sold, less any applicable brokerage commissions, taxes and other expenses.

#### **Employee Plan Considerations**

[To be provided.]

#### **USE OF PROCEEDS**

The Fund estimates the net proceeds of the Offer to be \$[ ], based on the Subscription Price per share of \$[ ], assuming all new shares of Series [ ] Preferred Stock offered are sold and that the expenses related to the Offer estimated at approximately \$[ ] are paid and after deduction of the underwriting discounts and commissions.

The Investment Adviser expects that it will initially invest the proceeds of the offering in high-quality short-term debt securities and instruments. The Investment Adviser anticipates that the investment of the proceeds will be made in accordance with the Fund's investment objectives and policies as appropriate investment opportunities are identified, which is expected to be substantially completed within three months; however, the identification of appropriate investment opportunities pursuant to the Fund's investment style or changes in market conditions may cause the investment period to extend as long as six months.

#### **CAPITALIZATION**

The following table sets forth the unaudited capitalization of the Fund as of [ ].

[To be provided.]

#### **ASSET COVERAGE RATIO**

Pursuant to the Investment Company Act of 1940, as amended (the 1940 Act ), the Fund will not be permitted to declare any dividend, or declare any other distribution, upon any outstanding shares of common stock, unless, in every such case, all shares of preferred stock issued by the Fund have at the time of declaration of any such dividend or distribution or at the time

of any such purchase an asset coverage of at least 200% ( 1940 Act Asset Coverage Requirement ) after deducting the amount of such dividend, distribution, or purchase price, as the case may be. The Fund's shares of preferred stock are expected to have an initial asset coverage on the date of issuance of approximately [ ]%.

### SPECIAL CHARACTERISTICS AND RISKS OF THE SHARES

#### Dividends

[To be provided.]

#### Voting Rights

Except as otherwise provided in the Fund's governing documents or a resolution of the Board of Directors or its delegatee, or as required by applicable law, holders of [ ] Shares shall have no power to vote on any matter except matters submitted to a vote of the Fund's shares of common stock. In any matter submitted to a vote of the holders of the shares of common stock, each holder of [ ] Shares shall be entitled to one vote for each [ ] Share held and the holders of all outstanding shares of preferred stock, including [ ] Shares, and the shares of common stock shall vote together as a single class; provided, however, that at any meeting of the shareholders of the Fund held for the election of Directors, the holders of the outstanding shares of preferred stock, including [ ] Shares, shall be entitled, as a class, to the exclusion of the holders of all other classes of capital stock of the Fund, to elect a number of Fund directors, such that following the election of directors at the meeting of the shareholders, the Fund's Board of Directors shall contain two directors elected by the holders of the outstanding shares of preferred stock, including the [ ] Shares.

During any period in which any one or more of the conditions described below shall exist (such period being referred to herein as a Voting Period ), the number and/or composition of directors constituting the Board of Directors shall be adjusted as necessary to permit the holders of outstanding shares of preferred stock, including the [ ] Shares, voting separately as one class (to the exclusion of the holders of all other classes of capital stock of the Fund) to elect the number of directors that, when added to the two directors elected exclusively by the holders of outstanding shares of preferred stock, would constitute a simple majority of the Board of Directors as so adjusted. The Fund and the Board of Directors shall take all necessary actions, including effecting the removal of directors or amendment of the Fund's governing documents, to effect an adjustment of the number and/or composition of directors as described in the preceding sentence. A Voting Period shall commence:

- (i) if at any time accumulated dividends and distributions on the outstanding [ ] Shares equal to at least two full years' dividends and distributions shall be due and unpaid; or
- (ii) if at any time holders of any other shares of preferred stock are entitled to elect a majority of the Directors of the Fund under the 1940 Act or Articles Supplementary creating such shares.

#### [Puts and Redemptions

The Fund will redeem all or any part of the [ ] Shares that holders have properly submitted for redemption [and not withdrawn] during the 30-day period prior to each of [ ] and [ ], at the liquidation preference, plus any accumulated and unpaid dividends.

The Fund may redeem all or any part of the [ ] Shares, upon not less than 30 nor more than 60 days' prior notice, at the liquidation preference, plus any accumulated and unpaid dividends, at any time on or after [ ].]

#### Stock Exchange Listing

An application will be made to list the [ ] Shares on the [ ]. The [ ] Shares are expected to commence trading on the [ ] within [ ] days of the date of issuance.

## Risks

Risk is inherent in all investing. Therefore, before investing in the [ ] Shares you should consider the risks carefully. See Risk Factors and Special Considerations in the Prospectus. Primary risks specially associated with an investment in the [ ] include:

**Market Price Risk.** The market price for the Series [ ] Preferred will be influenced by changes in interest rates, the perceived credit quality of the Series [ ] Preferred and other factors, and may be higher or lower than the liquidation preference of the Series [ ] Preferred.

**Liquidity Risk.** Prior to this offering, there has been no public market for the Series [ ] Preferred. As noted above, an application will be made to list the Series [ ] Preferred on the [ ]. [However, during an initial period which is not expected to exceed [ ] days after the date of its issuance, the Series [ ] Preferred will not be listed on any securities exchange. The dealer-manager may make a market in the Series [ ] Preferred; however, it has no obligation to do so.] No assurances can be provided that listing on any securities exchange or market making by the dealer-manager will result in the market for Series [ ] Preferred being liquid at any time.

**Reinvestment Risk.** The Fund may at any time redeem shares of Series [ ] Preferred to the extent necessary to meet regulatory asset coverage requirements. For example, if the value of the Fund's investment portfolio declines, thereby reducing the asset coverage for the Series [ ] Preferred, the Fund may be obligated under the terms of the Series [ ] Preferred to redeem shares of the Series [ ] Preferred. Investors may not be able to reinvest the proceeds of any redemption in an investment providing the same or a better rate than that of the Series [ ] Preferred.

**Distribution Risk.** The Fund may not meet the asset coverage requirements or earn sufficient income from its investments to make distributions on the Series [ ] Preferred.

**Redemption Risk.** The Series [ ] Preferred is not an obligation of the Fund. The Series [ ] Preferred is junior in respect of distributions and liquidation preference to any indebtedness incurred by the Fund, and is of the same ranking as the distributions and liquidation preference as the [ ] shares. Although unlikely, precipitous declines in the value of the Fund's assets could result in the Fund having insufficient assets to redeem all of the Series [ ] Preferred for the full redemption price.

**[The Investment Adviser and Mr. Gabelli have Certain Conflicts of Interest Relating to the Preferred Stock.** As of [ ], Mario Gabelli was the beneficial owner of [ ] Shares, representing [ ]% of the Fund's outstanding Series [ ] Preferred Shares. The other Directors collectively own [ ] of the [ ]. Mr. Gabelli has advised the Fund that he may participate in the rights offering to purchase Series [ ] Preferred Shares. The Directors, or a committee thereof, determine the dividend rate on the Series [ ] Preferred Shares at such times and in such manner as is specified in this Registration Statement. Because of the possible perception of a conflict of interest, Mr. Gabelli has agreed to recuse himself from all discussions by the Board of Directors or committee thereof related to the determination of the dividend rate for the Series [ ] Preferred Shares for any period following initial issuance.

The Investment Adviser receives advisory compensation in respect of the total assets of the Fund, including assets representing the liquidation preference of the Series [ ] Preferred Shares (but not with respect to the Fund's Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock), without regard to whether the Fund earns an incremental return from such assets for the benefit of the common stockholders. In addition, Mr. Gabelli receives incentive-based variable compensation based on a percentage of net revenues received by the Investment Adviser for managing the Fund, which will be greater to the extent that the Fund has preferred shares outstanding. Consequently, both the Investment Adviser, which is controlled by Mr. Gabelli, and Mr. Gabelli himself have a conflict of interest with respect to the Series [ ] Preferred Shares inasmuch as each stands to benefit from the issuance of such shares whether or not such issuance benefits holders of the shares of common stock.]

## TAXATION

Please refer to the Taxation sections in the Fund Prospectus and Fund Statement of Additional Information for a description of the consequences of investing in the preferred shares of the Fund.

### UNDERWRITING

[ ], which is a broker-dealer and member of the Financial Industry Regulatory Authority will act as dealer manager for the rights offering (henceforth, the Dealer Manager ). Under the terms and subject to the conditions contained in the Dealer Manager Agreement among the Fund, the Investment Adviser, and the Dealer Manager (the Dealer Manager Agreement ), the Dealer Manager will provide financial structuring services and marketing services in connection with the offering and will solicit the exercise of Rights [and participation in the over-subscription privilege]. The Fund has agreed to pay the Dealer Manager a fee for its financial structuring, marketing and soliciting services equal to \$[ ] per [ ] Rights exercised pursuant to the rights offering. The Dealer Manager fee will be borne by the Fund and indirectly by all of the Fund s common stockholders.

The Dealer Manager will reallocate to other broker-dealers that have executed and delivered a soliciting dealer agreement and have solicited the exercise of Rights solicitation fees equal to \$[ ] for each [ ] Share issued pursuant to exercise of Rights as a result of their soliciting efforts. Fees will be paid to the broker-dealer designated on the applicable portion of the Subscription Certificates.

The Fund and the Investment Adviser have each agreed to indemnify the Dealer Manager or contribute to losses arising out of certain liabilities, including liabilities under the Securities Act. The Dealer Manager Agreement also provides that the Dealer Manager will not be subject to any liability to the Fund in rendering the services contemplated by the Dealer Manager Agreement except for any act of bad faith, willful misconduct or gross negligence of the Dealer Manager or reckless disregard by the Dealer Manager of its obligations and duties under the Dealer Manager Agreement.

[Prior to the expiration of the rights offering, the Dealer Manager may independently offer for sale Rights or [ ] Shares to be acquired by it through purchasing and exercising Rights, at prices it sets, although the Dealer Manager will not charge commissions for the sale of such Rights on behalf of holders of Rights. The Dealer Manager s fee for its financial structuring, marketing and soliciting services is independent of any gains or losses that may be realized by the Dealer Manager through the purchase and exercise of Rights or purchase and sale of [ ] Shares.]

In the ordinary course of their businesses, the Dealer Manager and/or its affiliates may engage in investment banking or financial transactions with the Fund, the Investment Adviser and their affiliates.

The principal business address of [ ] is [ ].

### LEGAL MATTERS

Certain legal matters will be passed on by Willkie Farr & Gallagher LLP, counsel to the Fund, in connection with this rights offering. Certain legal matters in connection with this offering will be passed on for the underwriters by [ ]. Willkie Farr & Gallagher LLP may rely as to certain matters of Maryland law on the opinion of [ ].

**THE GABELLI EQUITY TRUST INC.**

**The Gabelli Equity Trust Inc.**

**Shares of            % Series [   ] [   ] Preferred Stock**

**Issuable Upon Exercise of Rights to**

**Subscribe to Such Shares of Preferred Stock**

**PROSPECTUS SUPPLEMENT**

**, 2013**

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THE INFORMATION IN THIS PROSPECTUS SUPPLEMENT IS NOT COMPLETE AND MAY BE CHANGED. THE FUND MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING OFFERS TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

THE GABELLI EQUITY TRUST INC.

PRELIMINARY PROSPECTUS SUPPLEMENT  
(To Prospectus dated [ ], 2013)

Filed Pursuant to Rule 497(c)  
Registration Statement No. 333-173819

[ ] Rights

### Subscription Rights to Acquire Common Shares and Preferred Shares

The Gabelli Equity Trust Inc. (the Fund, we, us or our ) is issuing subscription rights (the Rights ) to our common shareholders to purchase additional common shares and newly issued preferred shares. The Rights may only be exercised to purchase an equal number of common shares and preferred shares and may not be exercised to purchase only common shares or preferred shares or an unequal number of common shares and preferred shares.

The Fund is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act ). The Fund's primary investment objective is to achieve long-term growth of capital by investing primarily in a portfolio of equity securities consisting of common stock, preferred stock, convertible or exchangeable securities and warrants and rights to purchase such securities. Income is a secondary investment objective. The Fund's investment adviser is Gabelli Funds, LLC (the Investment Adviser ).

Shares of our common stock are listed on the New York Stock Exchange ( NYSE ) under the symbol GAB. On [ ], 2013, the last reported net asset value per share of our common stock was \$[ ] and the last reported sales price per share of our common stock on the NYSE was \$[ ]. Shares of our 5.875% Series D Cumulative Preferred Stock (the Series D Preferred Shares ), our Series G Cumulative Preferred Stock (the Series G Preferred Shares ) and our 5.00% Series H Cumulative Preferred Stock (the Series H Preferred Shares ) are traded on the NYSE under the symbol GAB PrD, GAB PrG, and GAB PrH, respectively. On [ ], 2013, the last reported sales prices per share of Series D Preferred Shares, Series G Preferred Shares and Series H Preferred Shares on the NYSE were \$[ ], \$[ ], and \$[ ] respectively. Our Series C Auction Rate Cumulative Preferred Stock (the Series C Preferred Shares ) and our Series E Auction Rate Cumulative Preferred Stock (the Series E Preferred Shares ) are not traded on a stock exchange.

An investment in the Fund is not appropriate for all investors. We cannot assure you that the Fund's investment objective will be achieved. You should read this Prospectus Supplement and the accompanying Prospectus before deciding whether to invest in the Fund and retain it for future reference. The Prospectus Supplement and the accompanying Prospectus contain important information about us. Material that has been incorporated by reference and other information about us can be obtained from us by calling 800-GABELLI (422-3554) or from the Securities and Exchange Commission's ( SEC ) website (<http://www.sec.gov>). For additional information all holders of rights should contact the Information Agent, [ ].

**Investing in common shares and preferred shares through Rights involves certain risks. You should review the information set forth under Risk Factors and Special Considerations in the accompanying Prospectus as well as in the Special Risks of the Offering and the Preferred Shares section of this Prospectus Supplement before investing in the common shares and preferred shares.**

	Per Share	Total
Subscription price per common share to holders exercising Rights (1)	\$ [ ]	\$ [ ]
Subscription price per preferred share to holders exercising Rights (1)	\$ [ ]	\$ [ ]
Underwriting discounts and commissions (2)	\$ [ ]	\$ [ ]
Proceeds, before expenses, to the Fund (3)	\$ [ ]	\$ [ ]

- (1) The Rights may only be exercised to purchase an equal number of common shares and preferred shares and may not be exercised to purchase only common shares or preferred shares or an unequal number of common shares and preferred shares.
- (2) Based on a Dealer Manager solicitation fee of \$[ ] per common share issued.
- (3) The aggregate expenses of the offering (excluding underwriting discounts and commissions) are estimated to be \$[ ].

**NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**[NO SECURITIES REGULATORY AUTHORITY IN CANADA HAS EXPRESSED AN OPINION ABOUT THESE SECURITIES AND IT IS AN OFFENSE TO CLAIM OTHERWISE. THIS OFFERING WILL NOT BE MADE IN ANY PROVINCE OF CANADA WHERE IT IS NOT PERMITTED BY LAW.]**

**SHAREHOLDERS WHO DO NOT EXERCISE THEIR RIGHTS MAY, AT THE COMPLETION OF THE OFFERING, OWN A SMALLER PROPORTIONAL INTEREST IN THE FUND THAN IF THEY EXERCISED THEIR RIGHTS. AS A RESULT OF THE OFFERING YOU MAY EXPERIENCE DILUTION OR ACCRETION OF THE AGGREGATE NET ASSET VALUE OF YOUR COMMON SHARES DEPENDING UPON WHETHER THE FUND'S NET ASSET VALUE PER COMMON SHARE IS ABOVE OR BELOW THE SUBSCRIPTION PRICE ON THE EXPIRATION DATE.**

The common shares and preferred shares are expected to be ready for delivery in book-entry form through the Depository Trust Company on or about [ ], 2013. If the offer is extended, the common shares and preferred shares are expected to be ready for delivery in book-entry form through the Depository Trust Company on or about [ ], 2013.

The date of this Prospectus Supplement is [ ], 2013

You should rely only on the information contained or incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The Fund has not authorized anyone to provide you with different information. The Fund is not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this Prospectus Supplement and the accompanying Prospectus is accurate as of any date other than the date of this Prospectus Supplement and the accompanying Prospectus, respectively. Our business, financial condition, results of operations and prospects may have changed since those dates. In this Prospectus Supplement and in the accompanying Prospectus, unless otherwise indicated, Fund, us, our and we refer to The Gabelli Equity Trust Inc. This Prospectus Supplement also includes trademarks owned by other persons.

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**CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

This Prospectus Supplement, the accompanying Prospectus and the Statement of Additional Information contain forward-looking statements. Forward-looking statements can be identified by the words may, will, intend, expect, estimate, continue, plan, anticipate, and similar, the negative of such terms. Such forward-looking statements may be contained in this Prospectus Supplement as well as in the accompanying Prospectus. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect our actual results are the performance of the portfolio of securities we hold, the price at which our shares will trade in the public markets and other factors discussed in our periodic filings with the SEC.

Although we believe that the expectations expressed in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in the Risk Factors and Special Considerations section of the accompanying Prospectus and Special Risks of the Offering and the Preferred Shares in this Prospectus Supplement. All forward-looking statements contained or incorporated by reference in this Prospectus Supplement or the accompanying Prospectus are made as of the date of this Prospectus Supplement or the accompanying Prospectus, as the case may be. Except for our ongoing obligations under the federal securities laws, we do not intend, and we undertake no obligation, to update any forward-looking statement. The forward-looking statements contained in this Prospectus Supplement, the accompanying Prospectus and the Statement of Additional Information are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended (the Securities Act ).

Currently known risk factors that could cause actual results to differ materially from our expectations include, but are not limited to, the factors described in the Risk Factors and Special Considerations section of the accompanying Prospectus as well as in the Special Risks of the Offering and the Preferred Shares section of this Prospectus Supplement. We urge you to review carefully those sections for a more detailed discussion of the risks of an investment in the preferred shares.

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**SUMMARY OF THE TERMS OF THE RIGHTS OFFERING**

<b>Terms of the Offer</b>	<p>One transferable subscription right (a Right ) will be issued for each common share of the Fund held on the record date (the Offer ). The Rights are expected to trade on the [NYSE]. The Rights will allow holders of common shares to purchase additional common shares and newly issued preferred shares. [ ] Rights will be required to purchase one common share and one preferred share. The Rights may only be exercised to purchase an equal number of common shares and preferred shares and may not be exercised to purchase only common shares or preferred shares or an unequal number of common shares and preferred shares.</p> <p>As of [ ], 2013, [ ] common shares are outstanding, [ ] Series C Preferred Shares are outstanding, [ ] Series D Preferred Shares are outstanding, [ ] Series E Preferred Shares are outstanding, [ ] Series G Preferred Shares are outstanding and [ ] Series H Preferred Shares are outstanding. [An over-subscription privilege will be offered.] [ ] common shares and [ ] preferred shares of the Fund will be issued if all Rights are exercised. <i>See Description of the Rights Offering Terms of the Rights Offering.</i></p>
<b>Title</b>	Subscription Rights to Acquire Common Shares and Preferred Shares
<b>Subscription Price</b>	Rights may be exercised at a price of \$[ ] (the Subscription Price ), which represents \$[ ] per common share and \$[ ] per preferred share. The purchase price will be payable in cash. <i>See Description of the Rights Offering Terms of the Rights Offering.</i>
<b>Record Date</b>	Rights will be issued to holders of record of the Fund s common shares on [ ], 2013 (the Record Date ). <i>See Terms of the Rights Offering.</i>
<b>Number of Rights Issued</b>	One Right will be issued in respect of each common share of the Fund held on the Record Date. <i>See Description of the Rights Offering Terms of the Rights Offering.</i>
<b>Number of Rights Required to Purchase One Common Share and One Preferred Share</b>	A holder of Rights may purchase one common share and one preferred share for every [ ] Rights exercised. [The number of Rights issued to a shareholder will be rounded up to the nearest number of Rights evenly divisible by [ ].] A holder of Rights may only purchase an equal number of common shares and preferred shares and may not exercise any Rights so as to purchase only common shares or preferred or an unequal number of common shares and preferred shares. <i>See Description of the Rights Offering Terms of the Rights Offering.</i>
<b>Over-Subscription Privilege</b>	[Rights holders who are holders of common shares on the Record Date ( Record Date Shareholders ) who fully exercise all Rights initially issued to them are entitled to subscribe for additional common shares and preferred shares at the same Subscription Price, subject to certain limitations and subject to allotment. Over-subscription requests will be honored only to the extent fewer than all of the Rights are exercised. Unsubscribed common shares and preferred shares will be allocated pro-rata among those shareholders who over-subscribe based on the number of common shares owned on the Record Date. Rights acquired in the secondary market may not participate in the over-subscription privilege. <i>See Description of the Rights Offering Over-Subscription Privilege. ]</i>
<b>Transfer of Rights</b>	The Rights will be transferable. <i>See Description of the Rights Offering Terms of the Rights Offering, Sales by Rights Agent, and Method of Transferring Rights.</i>
<b>Subscription Period</b>	The Rights may be exercised at any time after issuance and prior to expiration of the Rights, which will be [5:00 PM] Eastern Time on [ ], 2013 (the Expiration Date ) (the Subscription Period ). <i>See Description of the Rights Offering Terms of the Offer and Method of Exercise of Rights.</i>

<b>Offer Expenses</b>	The expenses of the Offer are expected to be approximately \$[ ] and will be borne by holders of the Fund's common shares. See <i>Use of Proceeds</i> .
<b>Solicitation Fee</b>	\$[ ] per common share issued to broker-dealers that have executed and delivered a soliciting dealer agreement and have solicited the exercise of Rights. See <i>Underwriting</i> .
<b>Sale of Rights</b>	<p>The Rights are expected to be transferable until the completion of the Subscription Period and will be admitted for trading on the [NYSE]. Although no assurance can be given that a market for the Rights will develop, trading in the Rights on the [NYSE] will begin three Business Days prior to the Record Date and may be conducted until the close of trading on the last [NYSE] trading day prior to the completion of the Subscription Period. For purposes of this Prospectus Supplement, a Business Day will mean any day on which trading is conducted on the [NYSE].</p> <p>The value of the Rights, if any, may be reflected by the market price. Rights may be sold by individual holders or may be submitted to the Rights Agent (defined below) for sale. Any Rights submitted to the Rights Agent for sale must be received by the Rights Agent on or before [ ], 2013, three Business Days prior to the completion of the Subscription Period, due to normal settlement procedures.</p> <p><b>Rights that are sold will not confer any right to acquire any common shares and preferred shares in the over-subscription, and any holder of common shares on the Record Date who sells any of its Rights in respect of such shares will not be eligible to participate in the over-subscription.</b></p> <p>Trading of the Rights on the [NYSE] will be conducted on a when-issued basis until and including the date on which the Subscription Certificates are mailed to Record Date Shareholders and thereafter will be conducted on a regular-way basis until and including the last [NYSE] trading day prior to the completion of the Subscription Period. The common shares will begin trading ex-Rights two Business Days prior to the Record Date.</p> <p>If the Rights Agent receives Rights for sale in a timely manner, it will use its best efforts to sell the Rights on the [NYSE]. The Rights Agent will also attempt to sell any Rights attributable to shareholders whose record addresses are outside the United States, or who have an Army Post Office ( APO ) or Fleet Post Office ( FPO ) address and who are not eligible to participate in the offering. See <i>Description of the Rights Offering Foreign Restrictions</i>.</p> <p>Any commissions on any such sales will be paid by the selling Rights holders. Neither the Fund nor the Rights Agent will be responsible if Rights cannot be sold and neither has guaranteed any minimum sales price for any Rights. If any Rights can be sold, sales of these Rights will be deemed to have been effected at the weighted average price received by the Rights Agent on the day such Rights are sold, less any applicable brokerage commissions, taxes and other expenses. Shareholders are urged to obtain a recent trading price for the Rights on the [NYSE] from their broker, bank, financial advisor or the financial press.</p> <p><b>Banks, broker-dealers and trust companies that hold shares for the accounts of others are advised to notify those persons that purchase Rights in the secondary market that such Rights will not be eligible to participate in the over-subscription privilege.</b> See <i>Description of the Rights Offering Terms of the Rights Offering and Sales by Rights Agent</i>.</p>
<b>Use of Proceeds</b>	The Fund estimates the net proceeds of the Offer to be approximately \$[ ]. This figure is based on the Subscription Price of \$[ ], which represents \$[ ] per common share and \$[ ] per preferred share and assumes all new common shares and preferred shares offered are sold and that the expenses related to the Offer estimated at approximately \$[ ] are paid.

The Investment Adviser anticipates that investment of the proceeds will be made in accordance with the Fund's investment objectives and policies as appropriate investment opportunities are identified, which is expected to be substantially completed in approximately three months; however, the identification of appropriate investment opportunities pursuant to the Fund's investment objectives and policies or changes in market conditions may cause the investment period to extend as long as six months. Pending such investment, the proceeds will be held in high quality short-term debt securities and instruments. *See Use of Proceeds* .

**Taxation/ERISA**

*See Taxation and Employee Benefit Plan and IRA Considerations.*

**Rights Agent**

[ ]

**Terms of Preferred Shares:**

Issue	Up to [ ] shares of Series [ ] Cumulative Preferred Stock
Dividend Rate	The annual dividend rate for the first twelve months beginning on the date of issuance will be [ ]%, and thereafter the annual dividend rate will be \$[ ] for all future dividend periods.
Dividend Payment Dates	Distributions will be made when, as, and if declared on March 26, June 26, September 26, and December 26 of each year, commencing [ ], 2013.
Liquidation Preference	[\$[ ]] per share.
[Holder Put Option]	[To be determined]
Non-Call Period	[Prior to [ ], 20[ ] the shares of Series [ ] Preferred are not subject to optional redemption by the Fund unless the redemption is necessary, in the judgment of the Board of Directors, to maintain the Fund's status as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended. ]
Stock Exchange Listing	[An application will be made to list the Series [ ] Cumulative Preferred Stock on the [NYSE]. Prior to the offering, there has been no public market for Series A Cumulative Preferred Shares. It is anticipated that trading on the [NYSE] will begin within thirty days from the date of this Prospectus Supplement.]
Rating	[To be determined]

**TERMS OF THE PREFERRED SHARES****Dividends and Distributions**

For the twelve month period commencing on the date shares of the Series [ ] Cumulative Preferred Shares (the Series [ ] Preferred or the preferred shares ) are first issued (the Initial Dividend Period ), holders of Series [ ] Preferred will be entitled to receive, when, as and if declared by, or under authority granted by, the Board of Directors, out of funds legally made available therefor, cumulative cash dividends and distributions at the rate of [ ]% per annum (computed on the basis of a 360-day year consisting of twelve 30-day months) of the \$[ ] liquidation preference on the Series [ ] Preferred. After the Initial Dividend Period, holders of Series [ ] Preferred will be entitled to receive, when, as and if declared by, or under authority granted by, the Board of Directors, out of funds legally made available therefor, cumulative cash dividends and distributions at the rate of [ ]% per annum (computed on the basis of a 360-day year consisting of twelve 30-day months) of the \$[ ] liquidation preference on the Series [ ] Preferred for all future dividend periods, when, as and if such dividends are declared.

Dividends in both the Initial Dividend Period and thereafter will in each case be payable quarterly on March 26, June 26, September 26 and December 26 in each year (each a Dividend Payment Date ) commencing on [ ] 26, [2013] (or, if any such day is not a business day, then on the next succeeding business day) to holders of record of Series [ ] Preferred as they appear on the share register of the Fund at the close of business on the fifth preceding Business Day. Dividends and distributions on Series [ ] Preferred will accumulate from the date on which the shares are originally issued. Each period beginning on and including a Dividend Payment Date (or the date of original issue, in the case of the first dividend period after issuance of the Series [ ] Preferred) and ending on but excluding the next succeeding Dividend Payment Date is referred to herein as a Dividend Period. Dividends and distributions on account of arrears for any past Dividend Period or in connection with the redemption of Series [ ] Preferred may be declared and paid at any time, without reference to any Dividend Payment Date, to holders of record on such date as is fixed by the Board of Directors.

No full dividends or distributions will be declared or paid on Series [ ] Preferred for any Dividend Period or part thereof unless full cumulative dividends and distributions due through the most recent Dividend Payment Dates therefor for all series of preferred shares of the Fund ranking on a parity with the Series [ ] Preferred as to the payment of dividends and distributions have been or contemporaneously are declared and paid through the most recent Dividend Payment Dates therefor. If full cumulative dividends and distributions due have not been paid on all outstanding preferred shares of the Fund s, any dividends and distributions being paid on such preferred shares (including the Series [ ] Preferred) will be paid as nearly pro rata as possible in proportion to the respective amounts of dividends and distributions accumulated but unpaid on each such series of preferred shares on the relevant Dividend Payment Date.

### **Voting Rights**

Except as otherwise provided in the Fund s governing documents or a resolution of the Board of Directors or its delegatee, each holder of shares of Series [ ] Preferred and any other preferred stock of the Fund shall be entitled to one vote for each share held on each matter submitted to a vote of stockholders of the Fund, and the holders of outstanding shares of preferred stock of the Fund, including Series [ ] Preferred, and of shares of common stock shall vote together as a single class; provided, however, that at any meeting of the stockholders of the Fund held for the election of directors, the holders of outstanding shares of preferred stock, including Series [ ] Preferred, shall be entitled, as a class, to the exclusion of the holders of all other securities and classes of capital stock of the Fund, to elect a number of the Fund s Directors, such that following the election of Directors at the meeting of the stockholders, the Fund s Board of Directors shall contain two Directors elected by the holders of the outstanding shares of preferred stock, including the Series [ ] Preferred. Subject to the Fund s governing documents, the holders of outstanding shares of capital stock of the Fund, including the holders of outstanding shares of preferred stock, including the Series [ ] Preferred, voting as a single class, shall elect the balance of the Directors.

During any period in which any one or more of the conditions described below shall exist (such period being referred to herein as a Voting Period ), the number of Directors constituting the Board of Directors shall be automatically increased by the smallest number that, when added to the two directors elected exclusively by the holders of shares of preferred stock pursuant to the Fund s governing documents, would constitute a majority of the Board of Directors as so increased by such smallest number; and the holders of shares of preferred stock of the Fund shall be entitled, voting separately as one class (to the exclusion of the holders of all other securities and classes of capital stock of the Fund), to elect such smallest number of additional directors, together with the two Directors that such holders are in any event entitled to elect. The Fund and the Board of Directors shall take all necessary action, including amending the Fund s by-laws, to effect an increase in the number of Directors as described in the preceding sentence. A Voting Period shall commence:

- (i) if at any time accumulated dividends and distributions (whether or not earned or declared, and whether or not funds are then legally available in an amount sufficient therefor) on the outstanding shares of Series [ ] Preferred equal to at least two full years dividends and distributions shall be due and unpaid and sufficient cash or specified securities shall not have been deposited with the Dividend-Disbursing Agent for the payment of such accumulated dividends and distributions; or
- (ii) if at any time holders of any other shares of preferred stock of the Fund are entitled to elect a majority of the Directors of the Fund under the 1940 Act or the Fund s governing documents creating such shares.

### **[Holder Put Option]**

[To be described if such rights will be provided.]

### **Calling of Series [ ] Preferred**

Prior to [ ], 20[ ] the shares of Series [ ] Preferred are not subject to optional redemption by the Fund unless the redemption is necessary, in the judgment of the Board of Directors, to maintain the Fund s status as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended. Commencing on [ ], 20[ ] and thereafter, to the extent permitted by the 1940 Act and Maryland law, the Fund may at any time upon notice redeem the Series [ ] Preferred in whole or in part at a price equal to the liquidation preference per share plus accumulated but unpaid dividends through the date of redemption.

### **Stock Exchange Listing**

An application will be made to list the Series [ ] Preferred on the [NYSE]. The Series [ ] Preferred is expected to commence trading on the [NYSE] within thirty days of the date of issuance.



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**DESCRIPTION OF THE RIGHTS OFFERING****Terms of the Rights Offering**

The Fund is issuing to common shareholders of record as of the close of business on [ ], 2013 ( the Record Date, and such shareholders, the Record Date Shareholders ) Rights to subscribe for common shares and preferred shares. Each Record Date Shareholder is being issued [one] transferable Right for each common share owned on the Record Date. The Rights entitle the holders to acquire for \$[ ] in cash (the Subscription Price ) one common share and one preferred share for every [ ] Rights. Fractional shares will not be issued upon the exercise of the Rights and Rights may be exercised only for an equal number of common shares and preferred shares and not for only common shares or preferred shares or an unequal number of common shares and preferred shares. Rights may be exercised at any time during the period which commences on [ ], 2013, and ends at 5:00 PM Eastern Time on [ ], 2013 (the Subscription Period ). The right to acquire one common share and one preferred share for every [ ] Rights held during the Subscription Period (or any extension thereof) at the Subscription Price will be referred to in the remainder of this prospectus supplement as the Subscription.

Rights may be evidenced by subscription certificates or may be uncertificated and evidenced by other appropriate documentation ( Subscription Certificates ). The number of Rights issued to each holder will be stated on the Subscription Certificate delivered to the holder. The method by which Rights may be exercised and shares paid for is set forth below in Method of Exercise of Rights and Payment for Shares. A Rights holder will have no right to rescind a purchase after [ ] (the Rights Agent ) has received payment. See Payment for Shares below. It is anticipated that the preferred shares issued pursuant to an exercise of Rights will be listed on the NYSE.

Rights holders who are Record Date Shareholders are entitled to subscribe for additional common shares and preferred shares at the same Subscription Price pursuant to the over-subscription privilege, subject to certain limitations and subject to allotment. See Over-Subscription Privilege below.

For purposes of determining the maximum number of shares a Record Date Shareholder may acquire pursuant to the offer, broker-dealers, trust companies, banks or others whose shares are held of record by Cede & Co. ( Cede ), as nominee for the Depository Trust Company or by any other depository or nominee will be deemed to be the holders of the Rights that are held by Cede or such other depository or nominee on their behalf.

The Rights are transferable until [5:00 PM] Eastern Time [ ], 2013 (the Expiration Date ) and are expected to be admitted for trading on the [NYSE]. Assuming a market exists for the Rights, the Rights may be purchased and sold through usual brokerage channels and sold through the Rights Agent. Although no assurance can be given that a market for the Rights will develop, trading in the Rights on the [NYSE] is expected to begin three business days before the Record Date and may be conducted until the close of trading on the last [NYSE] trading day prior to the Expiration Date. Trading of the Rights on the [NYSE] is expected to be conducted on a when-issued basis until and including the date on which the Subscription Certificates are mailed to Record Date Shareholders and thereafter is expected to be conducted on a regular way basis until and including the last [NYSE] trading day prior to the Expiration Date. The method by which Rights may be transferred is set forth below under Method of Transferring Rights. The common shares are expected to begin trading ex-Rights two business days prior to the Record Date as determined and announced by the [NYSE].

Nominees who hold the Fund's common shares for the account of others, such as banks, broker-dealers, trustees or depositories for securities, should notify the respective beneficial owners of such shares as soon as possible to ascertain such beneficial owners' intentions and to obtain instructions with respect to the Rights. If the beneficial owner so instructs, the nominee should complete the Subscription Certificate and submit it to the Rights Agent with proper payment. In addition, beneficial owners of the common shares or Rights held through such a nominee should contact the nominee and request the nominee to effect transactions in accordance with such beneficial owner's instructions.

**Purpose of the Offer**

The Fund's Board of Directors has determined that it would be in the best interests of the Fund and the shareholders to increase the assets of the Fund available for investment, thereby permitting the Fund to be in a better position to more fully take advantage of investment opportunities that may arise without having to reduce existing Fund holdings.

The Offer seeks to reward existing shareholders by giving them the right to purchase additional common shares at a price that may be below market and/or net asset value and newly issued preferred shares at a price that may be below the market value without incurring any commission charge. The distribution to shareholders of transferable Rights, which themselves may have intrinsic value, may also afford non-subscribing shareholders the potential of receiving a cash payment upon sale of such Rights, receipt of which may be viewed as partial compensation for the possible dilution of their interests in the Fund.



**Important Dates to Remember**

Please note that the dates in the table below may change if the rights offering is extended.

<b>EVENT</b>	<b>DATE</b>
Record Date	[            ], 2013
Subscription Period	[            ], 2013 through [            ], 2013**
Expiration Date*	[            ], 2013**
Payment for Guarantees of Delivery Due*	[            ], 2013**
Confirmation Date	[            ], 2013**

\* A shareholder exercising Rights must deliver by [5:00 PM] Eastern Time on [            ], 2013 either (a) a Subscription Certificate and payment for shares or (b) a notice of guaranteed delivery.

\*\* Unless the offer is extended to a date no later than [            ], 2013.

**Over-Subscription Privilege**

Rights holders who are Record Date Shareholders and who fully exercise their Rights are entitled to subscribe for additional common shares and preferred shares at the same Subscription Price pursuant to the over-subscription privilege, subject to certain limitations and subject to allotment.

Record Date Shareholders who are fully exercising their Rights during the subscription period should indicate, on the Subscription Certificate which they submit with respect to the exercise of the Rights issued to them, how many common shares and preferred shares they are willing to acquire pursuant to the over-subscription privilege. A holder of Rights may only submit an over-subscription request for an equal number of common shares and preferred shares and may not request to purchase only common shares or preferred shares or an unequal number of common shares and preferred shares. Rights acquired in the secondary market may not participate in the over-subscription privilege.

Over-subscription requests will be honored only to the extent fewer than all of the Rights are exercised.

Unsubscribed common shares and preferred shares will be allocated pro-rata among those eligible Record Date Shareholders who over-subscribe based on the number of the Fund's common shares owned on the Record Date. The allocation process may involve a series of allocations in order to assure that the total number of common shares and preferred shares available for over-subscriptions or, if less, the total number of common shares and preferred shares sufficient to fill all over-subscriptions, is allocated.

Banks, broker-dealers, trustees and other nominee holders of rights will be required to certify to the Rights Agent, before any over-subscription privilege may be exercised with respect to any particular beneficial owner, as to the aggregate number of Rights exercised during the Subscription Period and the number of common shares and preferred shares subscribed for pursuant to the over-subscription privilege by such beneficial owner and that such beneficial owner's Subscription was exercised in full. Nominee holder over-subscription forms and beneficial owner certification forms will be distributed to banks, broker-dealers, trustees and other nominee holders of rights with the Subscription Certificates. Nominees should also notify holders purchasing Rights in the secondary market that such Rights may not participate in the over-subscription privilege.

The Fund will not offer or sell any common shares and preferred shares that are not subscribed for during the Subscription Period or pursuant to the over-subscription privilege.

**Sales by Rights Agent**

Holders of Rights who are unable or do not wish to exercise any or all of their Rights may instruct the Rights Agent to sell any unexercised Rights. The Subscription Certificates representing the Rights to be sold by the Rights Agent must be received on or before [            ], 2013. Upon the timely receipt of the appropriate instructions to sell Rights, the Rights Agent will use its best efforts to complete the sale and will remit the proceeds of sale, net of any commissions, to the holders. The Rights Agent will also attempt to sell any Rights attributable to shareholders whose record addresses are outside the United States, or who have an APO or FPO address. If the Rights can be sold, sales of the Rights will be deemed to have been effected at the weighted average price received by the Rights Agent on the day such Rights are sold, less any applicable brokerage commissions, taxes and other expenses. The selling Rights holder will pay all brokerage commissions incurred by the Rights Agent. These sales may be effected by the Rights Agent, [            ] (the Dealer Manager), a registered broker-dealer may also act on behalf of its clients to purchase or sell Rights in the open market and be compensated for its services at a commission of up to \$[            ] per Right, provided that, if the Rights trade at a value of \$[            ] or

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less at the time of such sale, then no commission will be charged. The Rights Agent will automatically attempt to sell any unexercised Rights that remain unclaimed as a result of Subscription Certificates being returned by the postal authorities as undeliverable as of the fourth business day prior to the Expiration Date. These sales will be made net of commissions, taxes and any other expenses paid on behalf of the nonclaiming holders of Rights. Proceeds from those sales will be held by [ ], in its capacity as the Fund's transfer agent, for the account of the nonclaiming holder of rights until the proceeds are either claimed or escheated. There can be no assurance that the Rights Agent will be able to complete the sale of any of these Rights and neither the Fund nor the Rights Agent has guaranteed any minimum sales price for the Rights. All of these Rights will be sold at the market price, if any, through an exchange or market trading the Rights. If the Rights can be sold, sales of these Rights will be deemed to have been effected at the weighted average price received by the Rights Agent on the day such Rights are sold, less any applicable brokerage commissions, taxes and other expenses.

Shareholders are urged to obtain a recent trading price for the Rights on the [NYSE] from their broker, bank, financial advisor or the financial press.

### **Method of Transferring Rights**

The Rights evidenced by a single Subscription Certificate may be transferred in whole by endorsing the Subscription Certificate for transfer in accordance with the accompanying instructions. A portion of the Rights evidenced by a single Subscription Certificate (but not fractional Rights) may be transferred by delivering to the Rights Agent a Subscription Certificate properly endorsed for transfer, with instructions to register the portion of the Rights evidenced thereby in the name of the transferee (and to issue a new Subscription Certificate to the transferee evidencing the transferred Rights). In this event, a new Subscription Certificate evidencing the balance of the Rights will be issued to the Rights holder or, if the Rights holder so instructs, to an additional transferee.

Holders wishing to transfer all or a portion of their Rights (but not fractional Rights) should promptly transfer such Rights to ensure that: (i) the transfer instructions will be received and processed by the Rights Agent, (ii) a new Subscription Certificate will be issued and transmitted to the transferee or transferees with respect to transferred Rights, and to the transferor with respect to retained Rights, if any, and (iii) the Rights evidenced by the new Subscription Certificates will be exercised or sold by the recipients thereof prior to the Expiration Date. Neither the Fund nor the Rights Agent will have any liability to a transferee or transferor of Rights if Subscription Certificates are not received in time for exercise or sale prior to the Expiration Date.

Except for the fees charged by the Rights Agent (which will be paid by the Fund as described below), all commissions, fees and other expenses (including brokerage commissions and transfer taxes) incurred in connection with the purchase, sale or exercise of Rights will be for the account of the transferor of the Rights, and none of these commissions, fees or expenses will be borne by the Fund or the Rights Agent.

The Fund anticipates that the Rights will be eligible for transfer through, and that the exercise of the Subscription may be effected through, the facilities of DTC (Rights exercised through DTC are referred to as DTC Exercised Rights).

### **Rights Agent**

The Rights Agent is [ ]. The Rights Agent will receive from the Fund an amount estimated to be \$[ ], comprised of the fee for its services and the reimbursement for certain expenses related to the rights offering.

INQUIRIES BY ALL HOLDERS OF RIGHTS SHOULD BE DIRECTED TO: [THE INFORMATION AGENT, [ ]]; HOLDERS MAY ALSO CONSULT THEIR BROKERS OR NOMINEES.]

### **Method of Exercise of Rights**

Rights may be exercised by completing and signing the reverse side of the Subscription Certificate and mailing it in the envelope provided, or otherwise delivering the completed and signed Subscription Certificate to the Rights Agent, together with payment of the Subscription Price as described below under Payment for Shares. Rights may also be exercised through a Rights holder's broker, who may charge the Rights holder a servicing fee in connection with such exercise.

Completed Subscription Certificates must be received by the Rights Agent prior to [5:00 PM] Eastern Time, on the Expiration Date (unless payment is effected by means of a notice of guaranteed delivery as described below under Payment for Shares). The Subscription Certificate and payment should be delivered to the Rights Agent at the following address:

If By Mail:

The Gabelli Equity Trust Inc.

[      ]

If By Overnight Courier:

The Gabelli Equity Trust Inc.

[      ]

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## Payment for Shares

Holders of Rights who acquire common shares and preferred shares in the Subscription may choose between the following methods of payment:

- (1) A subscription will be accepted by the Rights Agent if, prior to [5:00 PM] Eastern Time, on the Expiration Date, the Rights Agent has received a written notice of guaranteed delivery from a bank, a trust company, or a NYSE member, guaranteeing delivery of (i) payment of the full Subscription Price for the common shares and preferred shares subscribed for in the Subscription and, if eligible, for any additional common shares and preferred shares subscribed for pursuant to the over-subscription privilege, and (ii) a properly completed and executed Subscription Certificate. The Rights Agent will not honor a notice of guaranteed delivery if a properly completed and executed Subscription Certificate and full payment is not received by the Rights Agent by the close of business on the third business day after the Expiration Date. The notice of guaranteed delivery may be delivered to the Rights Agent in the same manner as Subscription Certificates at the addresses set forth above, or may be transmitted to the Rights Agent by facsimile transmission (fax number [            ]); telephone number to confirm receipt [            ].
- (2) Alternatively, a holder of Rights can send the Subscription Certificate, together with payment in the form of a check to the Rights Agent, based on the Subscription Price of \$[            ], which represents \$[            ] per common share and \$[            ] per preferred share. To be accepted, the payment, together with the executed Subscription Certificate, must be received by the Rights Agent at the addresses noted above prior to 5:00 PM Eastern Time on the Expiration Date. The Rights Agent will deposit all share purchase checks received by it prior to the final due date into a segregated account, in each case pending proration and distribution of common shares and preferred shares. The Rights Agent will not accept cash as a means of payment for common shares and preferred shares.

EXCEPT AS OTHERWISE SET FORTH BELOW, A PAYMENT PURSUANT TO THIS METHOD MUST BE IN UNITED STATES DOLLARS BY MONEY ORDER OR CHECK DRAWN ON A BANK LOCATED IN THE CONTINENTAL UNITED STATES (OR FOR CANADIAN RESIDENTS, A BANK LOCATED IN CANADA), MUST BE PAYABLE TO THE GABELLI EQUITY TRUST INC. AND MUST ACCOMPANY AN EXECUTED SUBSCRIPTION CERTIFICATE TO BE ACCEPTED.

If a holder of Rights who acquires common shares and preferred shares pursuant to the Subscription makes payment of an insufficient amount, the Fund reserves the right to take any or all of the following actions: (i) find other purchasers for such subscribed-for and unpaid-for common shares and preferred shares; (ii) apply any payment actually received by it toward the purchase of the greatest whole number of common shares and preferred shares which could be acquired by such holder upon exercise of the Subscription or over-subscription privilege; (iii) sell in the open market all or a portion of the common shares and preferred shares purchased by the holder and apply the proceeds to the amounts owed; and (iv) exercise any and all other rights or remedies to which it may be entitled, including, without limitation, the right to set off against payments actually received by it with respect to such subscribed common shares and preferred shares and to enforce the relevant guarantee of payment.

Any payment required from a holder of Rights must be received by the Rights Agent prior to [5:00 PM] Eastern Time on the Expiration Date, or if the Rights holder has elected to make payment by means of a notice of guaranteed delivery, by the close of business on the third business day after the Expiration Date. Whichever of the two methods of payment described above is used, issuance and delivery of certificates for the common shares and preferred shares purchased are subject to collection of checks, as well as actual payment pursuant to any notice of guaranteed delivery.

Within three business days following the Expiration Date (the Confirmation Date), a confirmation will be sent by the Rights Agent to each holder of Rights (or, if the common shares are held by Cede or any other depository or nominee, to Cede or such other depository or nominee), showing (i) the number of common shares and preferred shares acquired pursuant to the Subscription, (ii) the number of common shares and preferred shares, if any, acquired pursuant to the over-subscription privilege, and (iii) the per common share and preferred share and total purchase price for the common shares and preferred shares. Any payment required from a holder of Rights must be received by the Rights Agent on the Expiration Date, or if the Rights holder has elected to make payment by means of a notice of guaranteed delivery, on the third business day after the Expiration Date. Any excess payment to be refunded by the Fund to a holder of Rights, or to be paid to a holder of Rights as a result of sales of Rights on his behalf by the Rights Agent, will be mailed by the Rights Agent to the holder within fifteen business days after the Expiration Date. If any Rights holder exercises its right to acquire common shares and preferred shares pursuant to the over-subscription privilege, any excess payment which would otherwise be refunded to the Rights holder will be applied by the Fund toward payment for common shares and preferred shares acquired pursuant to exercise of the over-subscription privilege.

A Rights holder will have no right to rescind a purchase after the Rights Agent has received payment either by means of a notice of guaranteed delivery or a check.

Holders, such as broker-dealers, trustees or depositories for securities, who hold common shares for the account of others, should notify the respective beneficial owners of the common shares as soon as possible to ascertain such beneficial owners' intentions and to obtain instructions with respect to the Rights. If the beneficial owner so instructs, the record holder of the Rights should complete Subscription Certificates and submit them to the Rights Agent with the proper payment. In addition, beneficial owners of common shares or Rights held through such a holder should contact the holder and request the holder to effect transactions in accordance with the beneficial owner's instructions. Banks, broker-dealers, trustees and other nominee holders that hold common shares of the Fund for the accounts of others are advised to notify those persons that purchase Rights in the secondary market that such Rights may not participate in the over-subscription privilege.

The instructions accompanying the Subscription Certificates should be read carefully and followed in detail. **DO NOT SEND SUBSCRIPTION CERTIFICATES TO THE FUND.**

The method of delivery of Subscription Certificates and payment of the subscription price to the Rights Agent will be at the election and risk of the Rights holders, but if sent by mail it is recommended that the certificates and payments be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the Rights Agent and clearance of payment prior to [5:00 PM] Eastern Time, on the Expiration Date. Because uncertified personal checks may take at least five business days to clear, you are strongly urged to pay, or arrange for payment, by means of a certified or cashier's check or money order.

All questions concerning the timeliness, validity, form and eligibility of any exercise of Rights will be determined by the Fund, whose determinations will be final and binding. The Fund in its sole discretion may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as it may determine, or reject the purported exercise of any Right. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as the Fund determines in its sole discretion. Neither the Fund nor the Rights Agent will be under any duty to give notification of any defect or irregularity in connection with the submission of Subscription Certificates or incur any liability for failure to give such notification.

#### **Foreign Restrictions**

Subscription Certificates will only be mailed to Record Date Shareholders whose addresses are within the United States, [and [provinces in Canada]] (other than an APO or FPO address). Because the offering of Rights will not be registered in any jurisdiction other than the United States [and [provinces in Canada]], the Rights Agent will attempt to sell all of the Rights issued to shareholders outside of these jurisdictions and remit the net proceeds, if any, to such shareholders. If the Rights can be sold, sales of these Rights will be deemed to have been effected at the weighted average price received by the Rights Agent on the day the Rights are sold, less any applicable brokerage commissions, taxes and other expenses.

#### **Employee Benefit Plan and IRA Considerations**

Rights holders that are employee benefit plans subject to limitations imposed by the Internal Revenue Code of 1986, as amended (the Code), such as employee plans subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA), Keogh Plans and Individual Retirement Accounts (IRA) (each a Benefit Plan and collectively, Benefit Plans), should be aware that the use of additional contributions of cash outside of the Benefit Plan to exercise Rights may be treated as additional contributions to the Benefit Plan. When taken together with contributions previously made, such deemed additional contributions may be in excess of tax limitations and subject the Rights holder to excise taxes for excess or nondeductible contributions. In the case of Benefit Plans qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended (the Code), additional contributions could cause the maximum contribution limitations of Section 415 of the Code or other qualification rules to be violated. Benefit Plans contemplating making additional contributions to exercise Rights should consult with their legal and tax counsel prior to making such contributions.

Benefit Plans and other tax exempt entities, including governmental plans, should also be aware that if they borrow to finance their exercise of Rights, they may become subject to the tax on unrelated business taxable income (UBTI) under Section 511 of the Code. If any portion of an IRA is used as security for a loan, the portion so used may also be treated as distributed to the IRA depositor.

A Benefit Plan may also be subject to laws, such as ERISA, that impose certain requirements on the Benefit Plan and on those persons who are fiduciaries with respect to the Benefit Plans. Such requirements may include prudence and diversification requirements and require that investments be made in accordance with the documents governing the Benefit Plan. The exercise of Rights by a fiduciary for a Benefit Plan should be considered in light of such fiduciary requirements.



In addition, ERISA and the Code prohibit certain transactions involving the assets of a Benefit Plan and certain persons (referred to as parties in interest for purposes of ERISA and disqualified persons for purposes of the Code) having certain relationships to such Benefit Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a nonexempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code (or with respect to certain Benefits Plans, such as IRAs, a prohibited transaction may cause the Benefit Plan to lose its tax-exempt status). In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions ( PTCEs ) that may apply to the exercise of the Rights and holding of the common shares and preferred shares. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers, PTCE 84-24 governing purchases of shares in investment companies) and PTCE 75-1 respecting sales of securities. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code each provides a limited exemption, commonly referred to as the service provider exemption, from the prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions between an Benefit Plan and a person that is a party in interest and/or a disqualified person (other than a fiduciary or an affiliate that, directly or indirectly, has or exercises any discretionary authority or control or renders any investment advice with respect to the assets of any Benefit Plan involved in the transaction) solely by reason of providing services to the Benefit Plan or by relationship to a service provider, provided that the Benefit Plan receives no less, nor pays no more, than adequate consideration. There can be no assurance that all of the conditions of any such exemptions or any other exemption will be satisfied at the time that the Rights are exercised, or thereafter while the common shares and preferred shares are held, if the facts relied upon for utilizing a prohibited transaction exemption change.

Due to the complexity of these rules and the penalties for noncompliance, fiduciaries of Benefit Plans should consult with their legal and tax counsel regarding the consequences of their exercise of Rights under ERISA, the Code and other similar laws.

#### USE OF PROCEEDS

The Fund estimates the net proceeds of the Offer to be \$[ ], based on the Subscription Price of \$[ ], which represents \$[ ] per common share and \$[ ] per preferred share, and after deduction of the underwriting discounts and commissions, estimated offering expenses payable by the Fund, and assuming all common shares and preferred shares offered are sold.

The Investment Adviser anticipates that investment of the proceeds will be made in accordance with the Fund's investment objective and policies as appropriate investment opportunities are identified, which is expected to be substantially completed in approximately three months; however, the identification of appropriate investment opportunities pursuant to the Fund's investment objectives and policies or changes in market conditions may cause the investment period to extend as long as six months. Pending such investment, the proceeds will be held in high quality short-term debt securities and instruments. The Investment Adviser may also use the proceeds to call existing series of preferred stock.

#### CAPITALIZATION

The following table sets forth the unaudited capitalization of the Fund as of December 31, 2012 and its adjusted capitalization assuming all of the common shares and preferred shares offered in this Prospectus Supplement had been issued.

	As of December 31, 2012	
	Actual	As adjusted
Preferred shares, \$0.001 par value per share. (The Actual column reflects the absence of any outstanding preferred shares as of December 31, 2012; the As adjusted column assumes the issuance of [ ] preferred shares, \$[ ] liquidation preference per share)	\$ [ ]	\$ [ ]
Common shares, \$0.001 par value per share. (The Actual column reflects the [ ] shares outstanding as of December 31, 2012; the As adjusted column assumes the issuance of [ ] shares)	[ ]	[ ]

Shareholders' equity applicable to common shares:		
Paid-in surplus*	[ ]	[ ]
Accumulated distributions in excess of net investment income	([ ])	([ ])
Accumulated net realized loss on investments, futures contracts, swap contracts, and foreign currency transactions	([ ])	([ ])
Net unrealized appreciation on investments, futures contracts, and foreign currency transactions	[ ]	[ ]
Net assets applicable to common shares	[ ]	[ ]
Liquidation preference of preferred shares	[ ]	[ ]
Net assets, plus the liquidation preference of preferred shares	[ ]	[ ]

\* As adjusted paid-in surplus reflects a deduction for the estimated solicitation fees to broker dealers of \$[ ] and estimated offering expenses of the common shares and preferred shares of \$[ ].

#### ASSET COVERAGE RATIO

Pursuant to the 1940 Act, the Fund generally will not be permitted to declare any dividend, or declare any other distribution, upon any common shares, or purchase any such common shares, unless, in every such case, all preferred shares issued by the Fund have at the time of declaration of any such dividend or distribution or at the time of any such purchase an asset coverage of at least 200% ( 1940 Act Asset Coverage Requirement ) after deducting the amount of such dividend, distribution, or purchase price, as the case may be. The Fund's preferred shares are expected to have an initial asset coverage on the date of issuance of approximately [ ]%.

#### SPECIAL RISKS OF THE OFFERING AND THE PREFERRED SHARES

Risk is inherent in all investing. Therefore, before investing in the common shares and preferred shares you should consider the risks carefully. See Risk Factors and Special Considerations in the Prospectus and the special risks and considerations set out below.

##### Principal Risks Associated with an Investment in the Preferred Shares

**Market Price Risk.** The market price for the preferred shares will be influenced by changes in interest rates, the perceived credit quality of the preferred shares and other factors, and may be higher or lower than the liquidation preference of the preferred shares.

**Liquidity Risk.** Prior to this offering, there has been no public market for the preferred shares. As noted above, an application will be made to list the preferred shares on the [NYSE]. However, during an initial period which is not expected to exceed thirty days after the date of its issuance, the preferred shares will not be listed on any securities exchange. No assurances can be provided that listing on any securities exchange or market making by the dealer-manager will result in the market for preferred shares being liquid at any time.

**Redemption and Reinvestment Risk.** The Fund may at any time redeem preferred shares to the extent necessary to meet regulatory asset coverage requirements. For example, if the value of the Fund's investment portfolio declines, thereby reducing the asset coverage for the preferred shares, the Fund may be obligated under the terms of the preferred shares or any indebtedness incurred by the Fund to redeem some or all of the preferred shares. In addition, after [ ], the Fund is able to call the preferred shares at the option of the Fund. Investors may not be able to reinvest the proceeds of any redemption in an investment providing the same or a better rate than that of the preferred shares.

**Distribution Risk.** The Fund may not earn sufficient income from its investments to make distributions on the preferred shares.

**Subordination Risk.** The preferred shares are junior in respect of distributions and liquidation preference to any indebtedness incurred by the Fund. Although unlikely, precipitous declines in the value of the Fund's assets could result in the Fund having insufficient assets to redeem all of the preferred shares for the full redemption price.

##### Principal Risks Associated with Investing in Common Shares in the Offer

**Market Discount.** As with any stock, the price of the Fund's common shares fluctuates with market conditions and other factors. The common shares are currently trading at a [premium/discount ] to their net asset value. Since the inception of the Fund, the common shares have traded at discounts of as much as [ ]%. Shares of closed-end investment companies frequently trade at a

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discount from their net asset values. This characteristic is a risk separate and distinct from the risk that the Fund's net asset value could decrease as a result of its investment activities and may be greater for shareholders expecting to sell their common shares in a relatively short period of time following completion of this Offer.

**Dilution.** The net asset value of the common shares will be reduced immediately following this Offer as a result of the payment of certain offering costs.

If you do not exercise all of your Rights, you may own a smaller proportional interest in the Fund when the Offer is over. In addition, you will experience an immediate dilution of the aggregate net asset value per share of your common shares if you do not participate in the Offer and will experience a reduction in the net asset value per share whether or not you exercise your Rights, if the Subscription Price is below the Fund's net asset value per Share on the Expiration Date, because:

the offered common shares are being sold at less than their current net asset value;

you will indirectly bear the expenses of the Offer; and

the number of common shares outstanding after the Offer will have increased proportionately more than the increase in the amount of the Fund's net assets.

On the other hand, if the portion of the Subscription Price attributable to the additional common shares is above the Fund's net asset value per share on the Expiration Date, you may experience an immediate accretion of the aggregate net asset value per share of your common shares even if you do not exercise your Rights and an immediate increase in the net asset value per share of your common shares whether or not you participate in the Offer, because:

the offered common shares are being sold at more than their current net asset value after deducting the expenses of the Offer; and

the number of common shares outstanding after the Offer will have increased proportionately less than the increase in the amount of the Fund's net assets.

Furthermore, if you do not fully participate in the Offer, your percentage ownership may also be diluted. The Fund cannot state precisely the amount of any dilution because it is not known at this time what the net asset value per share will be on the Expiration Date or what proportion of the Rights will be exercised. The impact of the Offer on net asset value per share is shown by the following examples, assuming a Subscription Price of \$[ ], which represents \$[ ] per common share and \$[ ] per preferred share:

Scenario 1: (assumes net asset value per share is above subscription price per common share)(1)

NAV	\$ [ ]
Subscription Price per common share	\$ [ ]
Reduction in NAV\$(2)	\$ [ ]
Reduction in NAV(%)	[ ]%

Scenario 2: (assumes net asset value per share is below subscription price per common share)(1)

NAV	\$ [ ]
Subscription Price per common share	\$ [ ]
Increase in NAV\$(2)	\$ [ ]
Increase in NAV(%)	[ ]%

- (1) Both examples assume the Offer is fully subscribed. Actual amounts may vary due to rounding.
- (2) Assumes \$[ ] in estimated offering expenses.

If you do not wish to exercise your Rights, you should consider selling them as set forth in this Prospectus Supplement. Any cash you receive from selling your Rights may serve as partial compensation for any possible dilution of your interest in the Fund. The Fund cannot give assurance, however, that a market for the Rights will develop or that the Rights will have any marketable value.

Depending on whether all Rights are exercised and, if not, whether any over-subscription privileges are exercised, certain Record Date Shareholders could increase their percentage ownership in the Fund through the exercise of the primary Subscription and/or the over-subscription privilege.

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**Leverage Risk.** The Fund will obtain financial leverage for investment purposes by issuing preferred shares in the Offer. The Fund's leveraged capital structure will create special risks not associated with unleveraged funds having similar investment objectives and policies. These include the possibility of greater loss and the likelihood of higher volatility of the net asset value of the Fund and the asset coverage. Such volatility may increase the likelihood of the Fund's having to sell investments in order to meet dividend payments on the preferred shares, or to redeem preferred shares, when it may be disadvantageous to do so. Also, if the Fund is utilizing leverage, a decline in net asset value could affect the ability of the Fund to make common shares distribution payments, and such a failure to pay dividends or make distributions could result in the Fund's ceasing to qualify as a regulated investment company under the Code.

Because the advisory fee paid to the Investment Adviser is calculated on the basis of the Fund's total assets, rather than only on the basis of net assets attributable to the common shares, the fee will be higher when leverage is utilized, giving the Investment Adviser an incentive to utilize leverage.

#### **Principal Risks Associated with a Rights Offering of Common Shares and Preferred Shares**

**Record Date Shareholders Who Do not Wish to Purchase Preferred Shares will Suffer Dilution to Their Interests in the Fund's Common Shares if They Do not Purchase both Preferred Shares and Common Shares.** The Rights may only be exercised to purchase an equal number of common shares and preferred shares in the Offer and may not be exercised to purchase only common shares or more common shares than preferred shares. As a consequence a Record Date Shareholder who does not wish to purchase or own preferred shares and who accordingly does not exercise its Rights will suffer dilution in its interest in the common shares and, if the portion of the exercise price attributable to the common shares is less than net asset value per common share, to the net asset value per share of its common shares as well. This risk may be greater because the portion of the exercise price attributable to a preferred share is considerably greater than the portion attributable to a common share.

**Holders of Rights Who Wish to Purchase Preferred Shares in the Offer May Not Do So Without Purchasing Common Shares in the Offer.** The Rights may only be exercised to purchase an equal number of common shares and preferred shares in the Offer and may not be exercised to purchase only preferred shares or more preferred shares than common shares. As a consequence a holder of Rights who wishes to purchase only preferred shares and who accordingly does not exercise its Rights may forego an opportunity to purchase preferred shares at what may be an attractive price.

**Exercise of Rights Requires a Greater Investment than Purchasing Either Common Shares or Preferred Shares.** In order to exercise its Rights a holder of Rights must purchase both common shares and preferred shares at a combined price of \$[ ], representing \$[ ] per preferred share and \$[ ] per common share. This is a higher amount than the price per share for either security by itself and may represent a greater investment than a holder may wish to make.

**The Market Value of a Preferred Share or Common Share May Differ from the Price per Share Described in this Offer.** The trading price per common share or preferred share may be higher or lower than the price to purchase such share in this Offer.

#### **TAXATION**

The following summary of certain U.S. federal income tax considerations supplements the discussion set forth in the accompanying Prospectus and Statement of Additional Information under the heading "Taxation" and is subject to the qualifications and assumptions set forth therein. Please refer to such discussion for a description of the consequences of investing in the common shares and preferred shares. Certain special tax considerations relating to this offering of Rights are summarized below:

The value of a Right will not be includible in the income of a shareholder at the time the Right is issued.

The basis of a Right issued to a shareholder will be zero, and the basis of the share with respect to which the Right was issued (the old share) will remain unchanged, unless either (a) the fair market value of the Right on the date of distribution is at least 15% of the fair market value of the old share, or (b) such shareholder affirmatively elects (in the manner set out in Treasury regulations under the Code) to allocate to the Right a portion of the basis of the old share. If either (a) or (b) applies, such shareholder must allocate basis between the old share and the Right in proportion to their fair market values on the date of distribution.

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The basis of a Right purchased in the market will generally be its purchase price.

The holding period of a Right issued to a shareholder will include the holding period of the old share.

No loss will be recognized by a shareholder if a Right distributed to such shareholder expires unexercised, because the basis of the old share may be allocated to a Right only if the Right is exercised or sold. If a Right that has been purchased in the market expires unexercised, there will be a recognized loss equal to the basis of the Right.

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Any gain or loss on the sale of a Right will be a capital gain or loss if the Right is held as a capital asset (which in the case of a Right issued to shareholders will depend on whether the old share is held as a capital asset), and will be a long-term capital gain or loss if the holding period is deemed to exceed one year.

No gain or loss will be recognized by a shareholder upon the exercise of a Right.

In general, the basis of a share acquired pursuant to the exercise of a subscription right is equal to the sum of (i) the basis, if any, of the right and (ii) subscription price paid for the share. In the case of the Rights, such sum must be allocated between the common share and preferred share received upon exercise of a Right. For this purpose, (i) the basis, if any, of a Right should be allocated between the common share and the preferred share in proportion to the amount of the total fair market value of the Right that is attributable to each of the common share and the preferred share at the time the Right is issued, and (ii) the total subscription price paid for the common share and the preferred share should be allocated between the common share and the preferred share based on their relative fair market values at the time such shares are acquired pursuant to the exercise of the Right. Investors are urged to consult their own tax advisers regarding the calculation of basis of any common shares and preferred shares acquired upon the exercise of Rights.

The holding period for common shares and preferred shares acquired upon the exercise of a Right will begin on the date such shares are acquired pursuant to the exercise of the Right.

The discussion set forth herein does not constitute tax advice. Investors are urged to consult their own tax advisers regarding the U.S. federal, state, local, and foreign tax consequences relating to the Rights.

#### UNDERWRITING

[ ], which is a broker-dealer and member of the Financial Industry Regulatory Authority will act as dealer manager for the rights offering (henceforth, the Dealer Manager ). Under the terms and subject to the conditions contained in the Dealer Manager Agreement among the Fund, the Investment Adviser, and the Dealer Manager (the Dealer Manager Agreement ), the Dealer Manager will provide financial structuring services and marketing services in connection with the offering and will solicit the exercise of Rights and participation in the over-subscription privilege. The Fund has agreed to pay the Dealer Manager a fee for its financial structuring, marketing and soliciting services equal to \$[ ] per common share issued pursuant to the rights offering. The Dealer Manager fee will be borne by the Fund and indirectly by all of the Fund's common shareholders.

The Dealer Manager will reallocate to other broker-dealers that have executed and delivered a soliciting dealer agreement and have solicited the exercise of Rights solicitation fees equal to \$[ ] per common share issued pursuant to exercise of Rights as a result of their soliciting efforts. Fees will be paid to the broker-dealer designated on the applicable portion of the Subscription Certificates.

The Fund and the Investment Adviser have each agreed to indemnify the Dealer Manager or contribute to losses arising out of certain liabilities, including liabilities under the Securities Act. The Dealer Manager Agreement also provides that the Dealer Manager will not be subject to any liability to the Fund in rendering the services contemplated by the Dealer Manager Agreement except for any act of bad faith, willful misconduct or gross negligence of the Dealer Manager or reckless disregard by the Dealer Manager of its obligations and duties under the Dealer Manager Agreement.

Prior to the expiration of the rights offering, the Dealer Manager may independently offer for sale Rights to be acquired by it through purchasing and exercising Rights, at prices it sets. The Dealer Manager's fee for its financial structuring, marketing and soliciting services is independent of any gains or losses that may be realized by the Dealer Manager through the purchase and exercise of Rights.

In the ordinary course of their businesses, the Dealer Manager and/or its affiliates may engage in investment banking or financial transactions with the Fund, the Investment Adviser and their affiliates.

The principal business address of [ ].

#### LEGAL MATTERS

Certain legal matters will be passed on by Willkie Farr & Gallagher LLP, counsel to the Fund, in connection with this rights offering of common shares and preferred shares contemplated by the Offer. Willkie Farr & Gallagher LLP may rely as to certain matters of Maryland law on the

opinion of Venable LLP.

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THE GABELLI EQUITY TRUST INC.

[        ] **Rights**

**Subscription Rights to Acquire Common Shares and Preferred Shares**

**Issuable Upon Exercise of Rights to Subscribe to Such Common Shares and Preferred Shares**

**PROSPECTUS SUPPLEMENT**

[        ], 2013

**Subject to Completion, Dated May 20, 2013**

**THE GABELLI EQUITY TRUST INC.**

**STATEMENT OF ADDITIONAL INFORMATION**

THE INFORMATION IN THIS STATEMENT OF ADDITIONAL INFORMATION IS NOT COMPLETE AND MAY BE CHANGED. THE FUND MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS STATEMENT OF ADDITIONAL INFORMATION IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

This Statement of Additional Information (the "SAI") does not constitute a prospectus, but should be read in conjunction with the Fund's Prospectus relating thereto dated May 20, 2013 and as it may be supplemented. This SAI does not include all information that a prospective investor should consider before investing in the Fund's shares, and investors should obtain and read the Fund's Prospectus prior to purchasing such shares. A copy of the Fund's Registration Statement, including the Prospectus and any Prospectus Supplement, may be obtained from the Securities and Exchange Commission (the "SEC") upon payment of the fee prescribed, or inspected at the SEC's office or via its website ([www.sec.gov](http://www.sec.gov)) at no charge.

The Gabelli Equity Trust Inc. (the "Fund") is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund's primary investment objective is to achieve long-term growth of capital by investing primarily in a portfolio of equity securities consisting of common stock, preferred stock, convertible or exchangeable securities, and warrants and rights to purchase such securities. Income is a secondary investment objective. The Fund commenced investment operations on August 21, 1986. Gabelli Funds, LLC (the "Investment Adviser") serves as investment adviser to the Fund.

Under normal market conditions, the Fund will invest at least 80% of the value of its total assets in equity securities (the "80% Policy"). The 80% Policy may be changed without shareholder approval. The Fund will provide shareholders with notice at least 60 days prior to the implementation of any change in the 80% Policy.

The Investment Adviser selects investments on the basis of fundamental value and, accordingly, the Fund typically invests in the securities of companies that are believed by the Investment Adviser to be priced lower than justified in relation to their underlying assets. Other important factors in the selection of investments include favorable price/earnings and debt/equity ratios and strong management.

The Fund seeks to achieve its secondary investment objective of income, in part, by investing up to 10% of its total assets in a portfolio consisting primarily of high-yielding, fixed income securities, such as corporate bonds, debentures, notes, convertible securities, preferred stocks and domestic and foreign government obligations. Fixed income securities purchased by the Fund may be rated as low as C by Moody's Investors Service, Inc. ("Moody's") or D by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. ("S&P") or may be unrated securities considered to be of equivalent quality. Securities that are rated C by Moody's are the lowest rated class and can be regarded as having extremely poor prospects of ever obtaining investment-grade standing. Debt rated D by S&P is in default or is expected to default upon maturity of payment date. These debt securities, which are often referred to in the financial press as "junk bonds," are predominantly speculative and involve major risk exposure to adverse conditions.

No assurance can be given that the Fund's investment objectives will be achieved.

The Prospectus and this SAI omit certain information contained in the registration statement filed with the SEC, Washington D.C. The registration statement may be obtained from the SEC upon payment of the fee prescribed, or inspected at the SEC's office at no charge.

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## THE FUND

The Fund was incorporated in Maryland on May 20, 1986 and is a non-diversified, closed-end management investment company registered under the 1940 Act. The common stock of the Fund is listed on the New York Stock Exchange (the NYSE) under the symbol GAB. The Fund's 5.875% Series D Cumulative Preferred Stock (the Series D Preferred) is listed and traded on the NYSE under the symbol GAB PrD. The Fund's Series G Cumulative Preferred Stock (the Series G Preferred) is listed and traded on the NYSE under the symbol GAB PrG. The Fund's 5.00% Series H Cumulative Preferred Stock (the Series H Preferred) is listed and traded on the NYSE under the symbol GAB PrH.

## INVESTMENT OBJECTIVES AND POLICIES

### Investment Objectives

The Fund's primary investment objective is to achieve long-term growth of capital by investing primarily in a portfolio of equity securities consisting of common stock, preferred stock, convertible or exchangeable securities, and warrants and rights to purchase such securities selected by the Investment Adviser. Income is a secondary investment objective. Under normal market conditions, the Fund will invest at least 80% of the value of its total assets in equity securities. See "Investment Objectives and Policies" in the Prospectus.

### Investment Practices

*Special Situations.* Although the Fund typically invests in the securities of companies on the basis of fundamental value, the Fund from time to time may, as a non-principal investment strategy, invest in companies that are determined by the Investment Adviser to possess special situation characteristics. In general, a special situation company is a company whose securities are expected to increase in value solely by reason of a development particularly or uniquely applicable to the company. Developments that may create special situations include, among others, a liquidation, reorganization, recapitalization or merger, material litigation, technological breakthrough or new management or management policies. The principal risk associated with investments in special situation companies is that the anticipated development thought to create the special situation may not occur and the investment therefore may not appreciate in value or may decline in value.

*Options.* The Fund may, subject to guidelines of the Board of Directors (the Board), purchase or sell (i.e., write) options on securities, securities indices and foreign currencies which are listed on a national securities exchange or in the United States over-the-counter (OTC) markets as a means of achieving additional return or of hedging the value of the Fund's portfolio.

The Fund may write covered call options on common stocks that it owns or has an immediate right to acquire through conversion or exchange of other securities in an amount not to exceed 25% of total assets or invest up to 10% of its total assets in the purchase of put options on common stocks that the Fund owns or may acquire through the conversion or exchange of other securities that it owns.

A call option is a contract that gives the holder of the option the right to buy from the writer (seller) of the call option, in return for a premium paid, the security or currency underlying the option at a specified exercise price at any time during the term of the option. The writer of the call option has the obligation, upon exercise of the option, to deliver the underlying security or currency upon payment of the exercise price during the option period.

A put option is the reverse of a call option, giving the holder the right, in return for a premium, to sell the underlying security or currency to the writer, at a specified price, and obligating the writer to purchase the underlying security or currency from the holder at that price. The writer of the put, who receives the premium, has the obligation to buy the underlying security or currency upon exercise, at the exercise price during the option period.

If the Fund has written an option, it may terminate its obligation by effecting a closing purchase transaction. This is accomplished by purchasing an option of the same series as the option previously written. There can be no assurance that a closing purchase transaction can be effected when the Fund so desires.

An exchange-traded option may be closed out only on an exchange that provides a secondary market for an option of the same series. Although the Fund will generally purchase or write only those options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange will exist for any particular option.

A call option is covered if the Fund owns the underlying instrument covered by the call or has an absolute and immediate right to acquire that instrument without additional cash consideration upon conversion or exchange of another instrument held in its portfolio (or for additional cash consideration held in a segregated account by its custodian). A call



option is also covered if the Fund holds a call on the same instrument as the call written where the exercise price of the call held is (i) equal to or less than the exercise price of the call written or (ii) greater than the exercise price of the call written if the difference is maintained by the Fund in cash, U.S. Government Obligations (as defined under Investment Restrictions ) or other high-grade short-term obligations in a segregated account with its custodian. A put option is covered if the Fund maintains cash or other high grade short-term obligations with a value equal to the exercise price in a segregated account with its custodian, or else holds a put on the same instrument as the put written where the exercise price of the put held is equal to or greater than the exercise price of the put written. If the Fund has written an option, it may terminate its obligation by effecting a closing purchase transaction. This is accomplished by purchasing an option of the same series as the option previously written. However, once the Fund has been assigned an exercise notice, the Fund will be unable to effect a closing purchase transaction. Similarly, if the Fund is the holder of an option it may liquidate its position by effecting a closing sale transaction. This is accomplished by selling an option of the same series as the option previously purchased. There can be no assurance that either a closing purchase or sale transaction can be effected when the Fund so desires.

The Fund will realize a profit from a closing transaction if the price of the transaction is less than the premium received from writing the option or is more than the premium paid to purchase the option; the Fund will realize a loss from a closing transaction if the price of the transaction is more than the premium received from writing the option or is less than the premium paid to purchase the option. Since call option prices generally reflect increases in the price of the underlying security, any loss resulting from the repurchase of a call option may also be wholly or partially offset by unrealized appreciation of the underlying security. Other principal factors affecting the market value of a put or call option include supply and demand, interest rates, the current market price and price volatility of the underlying security and the time remaining until the expiration date. Gains and losses on investments in options depend, in part, on the ability of the Investment Adviser to predict correctly the effect of these factors. The use of options cannot serve as a complete hedge since the price movement of securities underlying the options will not necessarily follow the price movements of the portfolio securities subject to the hedge.

An option position may be closed out only on an exchange that provides a secondary market for an option of the same series or in a private transaction. Although the Fund will generally purchase or write only those options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange will exist for any particular option. In such event, it might not be possible to effect closing transactions in particular options, so the Fund would have to exercise its options in order to realize any profit and would incur brokerage commissions upon the exercise of call options and upon the subsequent disposition of underlying securities for the exercise of put options. If the Fund, as a covered call option writer, is unable to effect a closing purchase transaction in a secondary market, it will not be able to sell the underlying security until the option expires or until the Fund delivers the underlying security upon exercise or otherwise covers the position.

In addition to options on securities, the Fund may also purchase and sell call and put options on securities indices. A stock index reflects in a single number the market value of many different stocks.

Relative values are assigned to the stocks included in an index and the index fluctuates with changes in the market values of the stocks. The options give the holder the right to receive a cash settlement during the term of the option based on the difference between the exercise price and the value of the index. By writing a put or call option on a securities index, the Fund is obligated, in return for the premium received, to make delivery of this amount. The Fund may offset its position in the stock index options prior to expiration by entering into a closing transaction on an exchange, or it may let the option expire unexercised.

The Fund may also buy or sell put and call options on foreign currencies. A put option on a foreign currency gives the purchaser of the option the right to sell a foreign currency at the exercise price until the option expires. A call option on a foreign currency gives the purchaser of the option the right to purchase the currency at the exercise price until the option expires. Currency options traded on U.S. or other exchanges may be subject to position limits which may limit the ability of the Fund to reduce foreign currency risk using such options. Over-the-counter options differ from exchange-traded options in that they are two-party contracts with price and other terms negotiated between buyer and seller and generally do not have as much market liquidity as exchange-traded options. Over-the-counter options are considered illiquid securities.

Use of options on securities indices entails the risk that trading in the options may be interrupted if trading in certain securities included in the index is interrupted. The Fund will not purchase these options unless the Investment Adviser is satisfied with the development, depth and liquidity of the market and the Investment Adviser believes the options can be closed out.

Price movements in the portfolio of the Fund may not correlate precisely with the movements in the level of an index and, therefore, the use of options on indices cannot serve as a complete hedge and will depend, in part, on the ability of the Investment Adviser to predict correctly movements in the direction of the stock market generally or of a particular industry. Because options on securities indices require settlement in cash, the Fund may be forced to liquidate portfolio securities to meet settlement obligations.

Although the Investment Adviser will attempt to take appropriate measures to minimize the risks relating to the Fund's writing of put and call options, there can be no assurance that the Fund will succeed in any option writing program it undertakes.

*Futures Contracts and Options on Futures.* A sale of a futures contract (or a short futures position) means the assumption of a contractual obligation to deliver the assets underlying the contract at a specified price at a specified future time. A purchase of a futures contract (or a long futures position) means the assumption of a contractual obligation to acquire the assets underlying the contract at a specified price at a specified future time. Certain futures contracts, including stock and bond index futures, are settled on a net cash payment basis rather than by the sale and delivery of the assets underlying the futures contracts. No consideration will be paid or received by the Fund upon the purchase or sale of a futures contract. Initially, the Fund will be required to deposit with the broker an amount of cash or cash equivalents equal to approximately 1% to 10% of the contract amount (this amount is subject to change by the exchange or board of trade on which the contract is traded and brokers or members of such board of trade may charge a higher amount). This amount is known as initial margin and is in the nature of a performance bond or good faith deposit on the contract. Subsequent payments, known as variation margin, to and from the broker will be made daily as the price of the index or security underlying the futures contracts fluctuates. At any time prior to the expiration of a futures contract, the Fund may close the position by taking an opposite position, which will operate to terminate its existing position in the contract.

An option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract at a specified exercise price at any time prior to the expiration of the option. Upon exercise of an option, the delivery of the futures positions by the writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance in the writer's futures margin account attributable to that contract, which represents the amount by which the market price of the futures contract exceeds, in the case of a call, or is less than, in the case of a put, the exercise price of the option on the futures contract. The potential loss related to the purchase of an option on futures contracts is limited to the premium paid for the option (plus transaction costs). Because the value of the option purchased is fixed at the point of sale, there are no daily cash payments by the purchaser to reflect changes in the value of the underlying contract; however, the value of the option does change daily and that change would be reflected in the net assets of the Fund.

Futures and options on futures entail certain risks, including but not limited to the following: no assurance that futures contracts or options on futures can be offset at favorable prices, possible reduction of the yield of the Fund due to the use of hedging, possible reduction in value of both the securities hedged and the hedging instrument, possible lack of liquidity due to daily limits on price fluctuations, imperfect correlation between the contracts and the securities being hedged, losses from investing in futures transactions that are potentially unlimited and the segregation requirements described below.

In the event the Fund sells a put option or enters into long futures contracts, under current interpretations of the 1940 Act, an amount of cash, obligations of the U.S. government and its agencies and instrumentalities or other liquid securities equal to the market value of the contract must be deposited and maintained in a segregated account with the custodian of the Fund to collateralize the positions, thereby ensuring that the use of the contract is unleveraged. For short positions in futures contracts and sales of call options, the Fund may establish a segregated account (not with a futures commission merchant or broker) with cash or liquid securities that, when added to amounts deposited with a futures commission merchant or a broker as margin, equal the market value of the instruments or currency underlying the futures contract or call option or the market price at which the short positions were established.

*Interest Rate Futures Contracts and Options Thereon.* The Fund may purchase or sell interest rate futures contracts to take advantage of, or to protect the Fund against fluctuations in interest rates affecting the value of debt securities which the Fund holds or intends to acquire. For example, if interest rates are expected to increase, the Fund might sell futures contracts on debt securities the values of which historically have a high degree of positive correlation to the values of the Fund's portfolio securities. Such a sale would have an effect similar to selling an equivalent value of the Fund's portfolio securities. If interest rates increase, the value of the Fund's portfolio securities will decline, but the value of the futures contracts to the Fund will increase at approximately an equivalent rate, thereby keeping the net asset value of the Fund from declining as much as it otherwise would have. The Fund could accomplish similar results by selling debt securities with longer maturities and investing in debt securities with shorter maturities when interest rates are expected to increase. However, since the futures

market may be more liquid than the cash market, the use of futures contracts as a risk management technique allows the Fund to maintain a defensive position without having to sell its portfolio securities.

Similarly, the Fund may purchase interest rate futures contracts when it is expected that interest rates may decline. The purchase of futures contracts for this purpose constitutes a hedge against increases in the price of debt securities (caused by declining interest rates) which the Fund intends to acquire. Since fluctuations in the value of appropriately selected futures contracts should approximate that of the debt securities that will be purchased, the Fund can take advantage of the anticipated rise in the cost of the debt securities without actually buying them. Subsequently, the Fund can make its intended purchase of the debt securities in the cash market and concurrently liquidate its futures position. To the extent the Fund enters into futures contracts for this purpose, it will maintain, in a segregated asset account with the Fund's custodian, assets sufficient to cover the Fund's obligations with respect to such futures contracts, which will consist of cash or other liquid securities from its portfolio in an amount equal to the difference between the fluctuating market value of such futures contracts and the aggregate value of the initial margin deposited by the Fund with its custodian with respect to such futures contracts.

The purchase of a call option on a futures contract is similar in some respects to the purchase of a call option on an individual security. Depending on the pricing of the option compared to either the price of the futures contract upon which it is based or the price of the underlying debt securities, it may or may not be less risky than ownership of the futures contract or underlying debt securities. As with the purchase of futures contracts, when the Fund is not fully invested it may purchase a call option on a futures contract to hedge against a market advance due to declining interest rates.

The purchase of a put option on a futures contract is similar to the purchase of protective put options on portfolio securities. The Fund will purchase a put option on a futures contract to hedge its portfolio against the risk of rising interest rates and consequent reduction in the value of portfolio securities.

The writing of a call option on a futures contract constitutes a partial hedge against declining prices of the securities that are deliverable upon exercise of the futures contract. If the futures price at expiration of the option is below the exercise price, the Fund will retain the full amount of the option premium, which provides a partial hedge against any decline that may have occurred in its portfolio holdings. The writing of a put option on a futures contract constitutes a partial hedge against increasing prices of the securities that are deliverable upon exercise of the futures contract. If the futures price at expiration of the option is higher than the exercise price, the Fund will retain the full amount of the option premium, which provides a partial hedge against any increase in the price of debt securities that it intends to purchase. If a put or call option the Fund has written is exercised, the Fund will incur a loss which will be reduced by the amount of the premium it received. Depending on the degree of correlation between changes in the value of its portfolio securities and changes in the value of its futures positions, the Fund's losses from options on futures it has written may to some extent be reduced or increased by changes in the value of its portfolio securities.

*Currency Futures and Options Thereon.* Generally, foreign currency futures contracts and options thereon are similar to the interest rate futures contracts and options thereon discussed previously. By entering into currency futures and options thereon, the Fund will seek to establish the rate at which it will be entitled to exchange U.S. dollars for another currency at a future time. By selling currency futures, the Fund will seek to establish the number of dollars it will receive at delivery for a certain amount of a foreign currency. In this way, whenever the Fund anticipates a decline in the value of a foreign currency against the U.S. dollar, the Fund can attempt to "lock in" the U.S. dollar value of some or all of the securities held in its portfolio that are denominated in that currency. By purchasing currency futures, the Fund can establish the number of dollars it will be required to pay for a specified amount of a foreign currency in a future month. Thus, if the Fund intends to buy securities in the future and expects the U.S. dollar to decline against the relevant foreign currency during the period before the purchase is effected, the Fund can attempt to lock in the price in U.S. dollars of the securities it intends to acquire.

The purchase of options on currency futures will allow the Fund, for the price of the premium and related transaction costs it must pay for the option, to decide whether or not to buy (in the case of a call option) or to sell (in the case of a put option) a futures contract at a specified price at any time during the period before the option expires. If the Investment Adviser, in purchasing an option, has been correct in its judgment concerning the direction in which the price of a foreign currency would move as against the U.S. dollar, the Fund may exercise the option and thereby take a futures position to hedge against the risk it had correctly anticipated or close out the option position at a gain that will offset, to some extent, currency exchange losses otherwise suffered by the Fund. If exchange rates move in a way the Fund did not anticipate, however, the Fund will have incurred the expense of the option without obtaining the expected benefit; any such movement in exchange rates may also thereby reduce, rather than enhance, the Fund's profits on its underlying securities transactions.

*Securities Index Futures Contracts and Options Thereon.* Purchases or sales of securities index futures contracts are used for hedging purposes to attempt to protect the Fund's current or intended investments from broad fluctuations in stock or

bond prices. For example, the Fund may sell securities index futures contracts in anticipation of or during a market decline to attempt to offset the decrease in market value of its securities portfolio that might otherwise result. If such decline occurs, the loss in value of portfolio securities may be offset, in whole or part, by gains on the futures position. When the Fund is not fully invested in the securities market and anticipates a significant market advance, it may purchase securities index futures contracts in order to gain rapid market exposure that may, in part or entirely, offset increases in the cost of securities that it intends to purchase. As such purchases are made, the corresponding positions in securities index futures contracts will be closed out. The Fund may write put and call options on securities index futures contracts for hedging purposes.

*Limitations on the Purchase and Sale of Futures Contracts and Options on Futures Contracts.* The Investment Adviser has claimed an exclusion from the definition of the term "commodity pool operator" under the Commodity Exchange Act and therefore is not subject to registration under the Commodity Exchange Act. Accordingly, the Fund's investments in derivative instruments described in the Prospectus and this SAI are not limited by or subject to regulation under the Commodity Exchange Act or otherwise regulated by the Commodity Futures Trading Commission. Nevertheless, the Fund's investment restrictions place certain limitations and prohibitions on the Fund's ability to purchase or sell commodities or commodity contracts. See "Investment Restrictions." Under these restrictions, the Fund may not enter into futures contracts or options on futures contracts unless (i) the aggregate initial margins and premiums do not exceed 5% of the fair market value of the Fund's total assets and (ii) the aggregate market value of the Fund's outstanding futures contracts and the market value of the currencies and futures contracts subject to outstanding options written by the Fund, as the case may be, do not exceed 50% of the market value of the Fund's total assets. In addition, investment in futures contracts and related options generally will be limited by the rating agency guidelines applicable to any of the Fund's preferred stock.

*Swap Agreements.* The Fund may enter into total rate of return, credit default, interest rate or other types of swaps and related derivatives for various purposes, including to gain economic exposure to an asset or group of assets that may be difficult or impractical to acquire or for hedging and risk management. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors, including securities, futures, interest rates, currencies, indices and other instruments. Depending on their structure, swap agreements may increase or decrease the Fund's exposure to long- or short-term interest rates (in the United States or abroad), foreign currency values, mortgage securities, corporate borrowing rates, or other factors such as security prices or inflation rates. Swap agreements can take many different forms and are known by a variety of names.

Swap agreements are two-party contracts entered into primarily by institutional investors for periods ranging from a few weeks to more than one year. In a standard "swap" transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments. The gross returns to be exchanged or "swapped" between the parties are calculated with respect to a "notional amount," i.e., the return on or increase in value of a particular dollar amount invested at a particular interest rate, in a particular foreign currency, or in a "basket" of securities representing a particular index. The "notional amount" of the swap agreement is only a fictive basis on which to calculate the obligations that the parties to a swap agreement have agreed to exchange.

The Fund may enter into swap agreements that would calculate the obligations of the parties to the agreements on a "net" basis. Consequently, the Fund's obligations (or rights) under a swap agreement will generally be equal only to the net amount to be paid or received under the agreement based on the relative values of the positions held by each party to the agreement (the "net amount"). The Fund's obligations under a swap agreement will be accrued daily (offset against any amounts owing to the Fund) and any accrued but unpaid net amounts owed to a swap counterparty will be covered by the maintenance of liquid assets in accordance with SEC staff positions on the subject.

Forms of swap agreements also include cap, floor and collar agreements. In a typical cap or floor agreement, one party agrees to make payments only under specified circumstances, usually in return for payment of a fee by the other party. For example, the buyer of an interest rate cap obtains the right to receive payments to the extent that a specified interest rate exceeds an agreed-upon level, while the seller of an interest rate floor is obligated to make payments to the extent that a specified interest rate falls below an agreed-upon level. An interest rate collar combines elements of buying a cap and selling a floor.

Swap agreements will tend to shift the Fund's investment exposure from one type of investment to another. For example, if the Fund agreed to pay fixed rates in exchange for floating rates while holding fixed-rate bonds, the swap would tend to decrease the Fund's exposure to long-term interest rates. Caps and floors have an effect similar to buying or writing options. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Fund's investments and its share price and yield. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, or other factors that determine the amounts of payments due to and from the Fund. If a swap agreement calls for payments by the Fund, the Fund must be prepared to make such payments when due.

The Fund's use of swap agreements may not be successful in furthering its investment objective, as the Investment Adviser may not accurately predict whether certain types of investments are likely to produce greater returns than other investments. Moreover, the Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty. The Fund may be able to eliminate its exposure under a swap agreement either by assignment or other disposition, or by entering into an offsetting swap agreement with the same party or a similarly creditworthy party.

*Forward Currency Exchange Contracts.* The Fund may engage in currency transactions other than on futures exchanges to protect against future changes in the level of future currency exchange rates. The Fund will conduct such currency exchange transactions either on a spot (i.e., cash) basis at the rate then prevailing in the currency exchange market or on a forward basis, by entering into forward contracts to purchase or sell currency. A forward contract on foreign currency involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days agreed upon by the parties from the date of the contract, at a price set on the date of the contract. Dealing in forward currency exchange will be limited to hedging involving either specific transactions or portfolio positions. Transaction hedging is the purchase or sale of forward currency with respect to specific receivables or payables of the Fund generally arising in connection with the purchase or sale of its portfolio securities and accruals of interest receivable and Fund expenses. Position hedging is the forward sale of currency with respect to portfolio security positions denominated or quoted in that currency or in a currency bearing a high degree of positive correlation to the value of that currency.

The Fund may not position hedge with respect to a particular currency for an amount greater than the aggregate market value (determined at the time of making any sale of forward currency) of the securities held in its portfolio denominated or quoted in, or currently convertible into, such currency. If the Fund enters into a position hedging transaction, the Fund's custodian or subcustodian will place cash or other liquid securities in a segregated account of the Fund in an amount equal to the value of the Fund's total assets committed to the consummation of the given forward contract. If the value of the securities placed in the segregated account declines, additional cash or securities will be placed in the account so that the value of the account will, at all times, equal the amount of the Fund's commitment with respect to the forward contract.

At or before the maturity of a forward sale contract, the Fund may either sell a portfolio security and make delivery of the currency, or retain the security and offset its contractual obligations to deliver the currency by purchasing a second contract pursuant to which the Fund will obtain, on the same maturity date, the same amount of the currency which it is obligated to deliver. If the Fund retains the portfolio security and engages in an offsetting transaction, the Fund, at the time of execution of the offsetting transaction, will incur a gain or a loss to the extent that movement has occurred in forward contract prices. Should forward prices decline during the period between the Fund's entering into a forward contract for the sale of a currency and the date it enters into an offsetting contract for the purchase of the currency, the Fund will realize a gain to the extent the price of the currency it has agreed to purchase is less than the price of the currency it has agreed to sell. Should forward prices increase, the Fund will suffer a loss to the extent the price of the currency it has agreed to purchase exceeds the price of the currency it has agreed to sell. Closing out forward purchase contracts involves similar offsetting transactions.

The cost to the Fund of engaging in currency transactions varies with factors such as the currency involved, the length of the contract period and the market conditions then prevailing. Because forward transactions in currency exchange are usually conducted on a principal basis, no fees or commissions are involved. The use of foreign currency contracts does not eliminate fluctuations in the underlying prices of the securities, but it does establish a rate of exchange that can be achieved in the future. In addition, although forward currency contracts limit the risk of loss due to a decline in the value of the hedged currency, they also limit any potential gain that might result if the value of the currency increases.

If a decline in any currency is generally anticipated by the Investment Adviser, the Fund may not be able to contract to sell the currency at a price above the level to which the currency is anticipated to decline.

*Special Risk Considerations Relating to Futures and Options Thereon.* The ability to establish and close out positions in futures contracts and options thereon will be subject to the development and maintenance of liquid markets. Although the Fund generally will purchase or sell only those futures contracts and options thereon for which there appears to be a liquid market, there is no assurance that a liquid market on an exchange will exist for any particular futures contract or option thereon at any particular time.

In the event no liquid market exists for a particular futures contract or option thereon in which the Fund maintains a position, it will not be possible to effect a closing transaction in that contract or to do so at a satisfactory price and the Fund would have to either make or take delivery under the futures contract or, in the case of a written option, wait to sell the underlying securities until the option expires or is exercised or, in the case of a purchased option, exercise the option. In the case of a futures contract or an option thereon which the Fund has written and which the Fund is unable to close, the Fund

would be required to maintain margin deposits on the futures contract or option thereon and to make variation margin payments until the contract is closed.

Successful use of futures contracts and options thereon and forward contracts by the Fund is subject to the ability of the Investment Adviser to predict correctly movements in the direction of interest and foreign currency rates. If the Investment Adviser's expectations are not met, the Fund will be in a worse position than if a hedging strategy had not been pursued. For example, if the Fund has hedged against the possibility of an increase in interest rates that would adversely affect the price of securities in its portfolio and the price of such securities increases instead, the Fund will lose part or all of the benefit of the increased value of its securities because it will have offsetting losses in its futures positions. In addition, in such situations, if the Fund has insufficient cash to meet daily variation margin requirements, it may have to sell securities to meet the requirements. These sales may be, but will not necessarily be, at increased prices which reflect the rising market. The Fund may have to sell securities at a time when it is disadvantageous to do so.

*Additional Risks of Foreign Options, Futures Contracts, Options on Futures Contracts and Forward Contracts.* Options, futures contracts and options thereon and forward contracts on securities and currencies may be traded on foreign exchanges. Such transactions may not be regulated as effectively as similar transactions in the U.S., may not involve a clearing mechanism and related guarantees, and are subject to the risk of governmental actions affecting trading in, or the prices of, foreign securities. The value of such positions also could be adversely affected by (i) other complex foreign political, legal and economic factors, (ii) lesser availability than in the U.S. of data on which to make trading decisions, (iii) delays in the Fund's ability to act upon economic events occurring in the foreign markets during non-business hours in the U.S., (iv) the imposition of different exercise and settlement terms and procedures and margin requirements than in the U.S. and (v) lesser trading volume.

Exchanges on which options, futures and options on futures are traded may impose limits on the positions that the Fund may take in certain circumstances.

*Risks of Currency Transactions.* Currency transactions are also subject to risks different from those of other portfolio transactions. Because currency control is of great importance to the issuing governments and influences economic planning and policy, purchases and sales of currency and related instruments can be adversely affected by government exchange controls, limitations or restrictions on repatriation of currency, and manipulation, or exchange restrictions imposed by governments. These forms of governmental action can result in losses to the Fund if it is unable to deliver or receive currency or monies in settlement of obligations and could also cause hedges it has entered into to be rendered useless, resulting in full currency exposure as well as incurring transaction costs.

*When Issued, Delayed Delivery Securities and Forward Commitments.* The Fund may enter into forward commitments for the purchase or sale of securities, including on a when issued or delayed delivery basis, in excess of customary settlement periods for the type of security involved. In some cases, a forward commitment may be conditioned upon the occurrence of a subsequent event, such as approval and consummation of a merger, corporate reorganization or debt restructuring, i.e., a when, as and if issued security. When such transactions are negotiated, the price is fixed at the time of the commitment, with payment and delivery taking place in the future, generally a month or more after the date of the commitment. While it will only enter into a forward commitment with the intention of actually acquiring the security, the Fund may sell the security before the settlement date if it is deemed advisable.

Securities purchased under a forward commitment are subject to market fluctuation, and no interest (or dividends) accrues to the Fund prior to the settlement date. The Fund will segregate with its custodian cash or liquid securities in an aggregate amount at least equal to the amount of its outstanding forward commitments.

*Foreign Securities.* There is no limitation on the amount of foreign securities in which the Fund may invest. Investments in the securities of foreign issuers involve certain considerations and risks not ordinarily associated with investments in securities of domestic issuers. Foreign companies are not generally subject to uniform accounting, auditing and financial standards and requirements comparable to those applicable to U.S. companies. Foreign securities exchanges, brokers and listed companies may be subject to less government supervision and regulation than exists in the United States. Dividend and interest income may be subject to withholding and other foreign taxes, which may adversely affect the net return on such investments. There may be difficulty in obtaining or enforcing a court judgment abroad. In addition, it may be difficult to effect repatriation of capital invested in certain countries. In addition, with respect to certain countries, there are risks of expropriation, confiscatory taxation, political or social instability, or diplomatic developments that could affect assets of the Fund held in foreign countries. Dividend income that the Fund receives from foreign securities may not be eligible for the special tax treatment applicable to qualified dividend income.

There may be less publicly available information about a foreign company than a U.S. company. Foreign securities markets may have substantially less volume than U.S. securities markets and some foreign company securities are less liquid than securities of otherwise comparable U.S. companies. A portfolio of foreign securities may also be adversely affected by fluctuations in the rates of exchange between the currencies of different nations and by exchange control regulations. Foreign markets also have different clearance and settlement procedures that could cause the Fund to encounter difficulties in purchasing and selling securities on such markets and may result in the Fund missing attractive investment opportunities or experiencing loss. In addition, a portfolio that includes foreign securities can expect to have a higher expense ratio

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because of the increased transaction costs on non-U.S. securities markets and the increased costs of maintaining the custody of foreign securities.

The Fund also may purchase sponsored American Depositary Receipts ( ADRs ) or U.S. dollar denominated securities of foreign issuers. ADRs are receipts issued by U.S. banks or trust companies in respect of securities of foreign issuers held on deposit for use in the U.S. securities markets. While ADRs may not necessarily be denominated in the same currency as the securities into which they may be converted, many of the risks associated with foreign securities may also apply to ADRs. In addition, the underlying issuers of certain depositary receipts, particularly unsponsored or unregistered depositary receipts, are under no obligation to distribute shareholder communications to the holders of such receipts, or to pass through to them any voting rights with respect to the deposited securities.

*Emerging Markets Risk.* The Fund may invest in securities of issuers whose primary operations or principal trading market is in an emerging market. An emerging market country is any country that is considered to be an emerging or developing country by the International Bank for Reconstruction and Development (the World Bank ). Investing in securities of companies in emerging markets may entail special risks relating to potential political and economic instability and the risks of expropriation, nationalization, confiscation or the imposition of restrictions on foreign investment, the lack of hedging instruments and restrictions on repatriation of capital invested. Emerging securities markets are substantially smaller, less developed, less liquid and more volatile than the major securities markets. The limited size of