VAN HULZEN ASSET MANAGEMENT

COVERED CALL COMMENTARY: Q2 2015

July | 2015

OVERVIEW

It's been an interesting year so far, with market indices experiencing a bumpy ride but generally gaining very little ground. The S&P added 1.2% while the Dow was basically unchanged. Several macro themes have emerged this year, with a spike in the US dollar and a modest increase in interest rates. Financials performed terribly in January but since have gained +7.0% as rates began their rise. Meanwhile, stocks with significant commodity exposure and foreign sales significantly underperformed as the dollar strengthened. Growth out-performed value by a staggering 3.2% in the first half.

It's a frustrating environment for "Buffet-style" strategies, that's for sure. Berkshire Hathaway (which usually tracks the S&P over the long term) was DOWN 9.4% in the first half. The types of names Buffett owns (and we own) have not done well as interest rates and the dollar have risen. Blue chips stocks like Coke, GM, Wal-Mart, Chevron, JNJ, ConEd, PPL, & Philip Morris have really struggled this year. Our portfolio has a value-tilt and is loaded with high quality blue chip companies with above average dividends and multi-national sales, so it was a challenging first half. But our call options provided incremental income and protection, offsetting the weakness in large-cap staples.

SUMMER SALE!!!!! GOING ON NOW!!!! HURRY BEFORE THE INVENTORY IS GONE!!!

If the local car dealer was having a summer clearance sale and offering 15% off top-selling car models, it would make headlines and gather large crowds of potential buyers.

Our preference for high quality blue chip, dividend paying companies, only gets stronger when they go "ON SALE". Consumer giants Wal-Mart and Costco, premier global energy companies Chevron and Exxon, and most major electric utilities in the country are having a 15% off summer sale. That's a great core group of companies for any investor.

OUTLOOK

Like many market prognosticators, we do expect market volatility to continue. The big question is obviously whether the macro trends of the first half will continue. We don't believe there is enough economic growth to justify rates going much higher in the near term. As we've always said, we are trying to hit singles and doubles. By definition, a covered call portfolio cannot hit a home run, so we do everything we can to avoid strikeouts. We expect value holdings to bounce back as they have in the past. We will not compromise quality in order to keep up with the market in the short run.

Investment Committee

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