

# Downside Capture Analysis

For Financial Professional Use Only

## VAN HULZEN COVERED CALL STRATEGY

### STRATEGY OBJECTIVE

The Strategy's investment objective is to seek total return with less volatility than equity markets in general.

### REASONS TO INVEST



**Large Cap Blend/Value**



**Targets Low Volatility**



**Option and Dividend Income**

### INVESTMENT STRATEGY

- Investing primarily in dividend-paying common stocks.
- Fundamental process for selecting stocks driven by a return-on-capital framework that provides for quality comparisons of companies across industries, sectors and geography.
- Generate a portfolio income of 6-8% through dividends and option income.
- Risk management: Tolerable-risk models, values-at risk models and stop loss procedures to manage portfolio risk.

### HOW TO INVEST

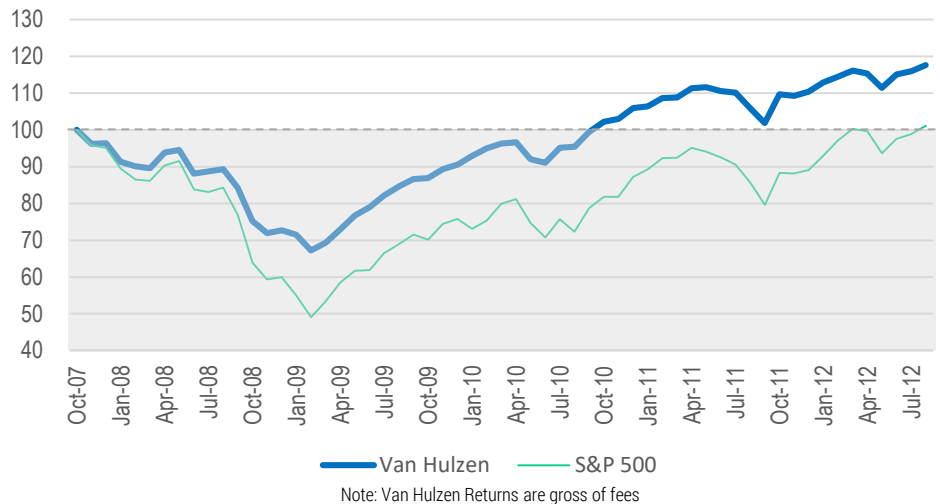
Van Hulzen Asset Management LLC  
 4370 Town Center Blvd, Suite 220  
 El Dorado Hills, CA 95762  
 (916) 608-4284

### PORTFOLIO MANAGERS

Craig Van Hulzen  
 John Pearce  
 Stefan ten Brink (stefan@vaminvest.com)

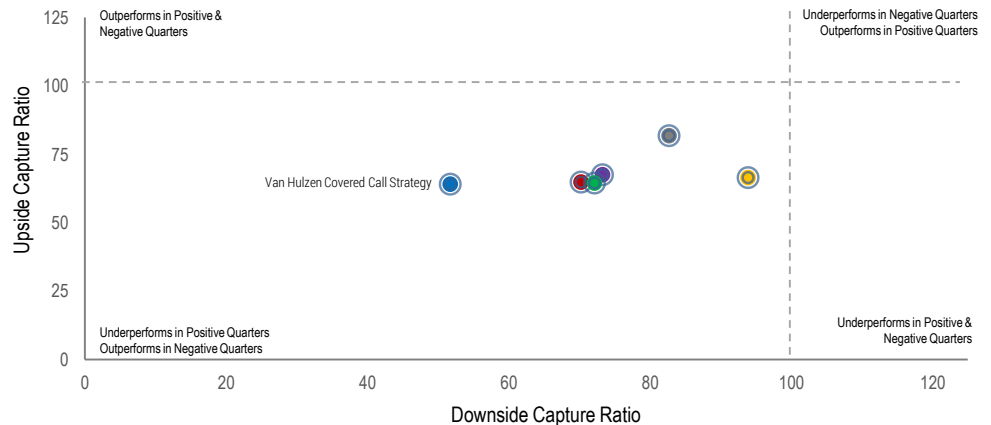
## How Did the Strategy Perform in 2008-2009?

It took **37 months** for the S&P 500 index to make up its losses from the 2008-09 stock market crash. The Van Hulzen Covered Call Strategy reached **break-even after 19 months**.



## Downside Capture Analysis

Most covered call managers have an upside capture ratio of 65-70%. However, downside capture ratios vary more widely. The Van Hulzen Covered Call Strategy has a strong downside capture ratio compared to other SMA managers.



	Upside Capture Ratio	Downside Capture Ratio
● Van Hulzen Covered Call Strategy	64.04	51.76
● Cullinan Associates DW	67.55	73.30
● Connors Investor Covered Call	81.72	82.71
● Griffin Asset GAM Covered Call Strategy	64.88	70.23
● Willingdon W. M. Covered Call	66.50	93.87
● Ziegler Capital FAMCO Covered Call	64.51	72.15

Risk benchmark used for this analysis: Russell 1000  
 Source: PSN Market Capture Analysis (7 years ending 6/30/2016)

# The Essentials of Covered Calls

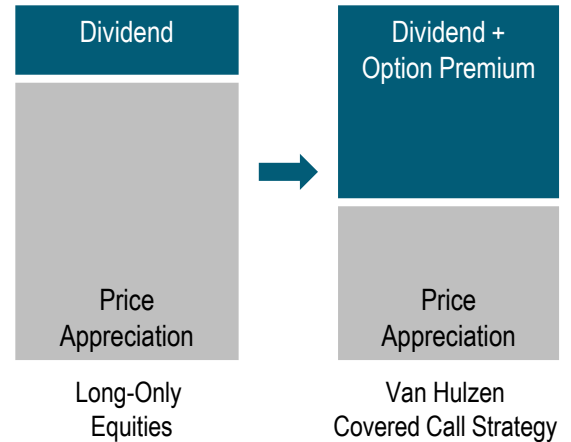
## A Brief Overview of Covered Calls

- A Covered Call Strategy invests in a long portfolio of stocks and covers its positions by selling call options. The net long position of a covered call strategy will by definition be smaller than that of the stock portfolio itself.
- By using a Covered Call Strategy, the goal is to exchange the uncertain upside potential of a stock price (beyond a certain pre-determined target price) for a certain amount of current period income.
- The Covered Call Strategy's goal in using covered calls is to outperform the market over the course of a business cycle. These strategies generally perform best in sideways or downward moving markets but may underperform when markets move dramatically higher.

## But Aren't Options Risky?

- Options have the potential to be risky. The option contracts that can get in the most trouble in a downturn (and therefore get the most press) are "naked puts." These are uncovered contracts that may require the seller to buy stocks at higher than market prices after a significant market drop. These positions can also run into liquidity issues, as option prices widen out during times of extreme volatility and can become more illiquid.
- Covered call strategies do not trade put contracts and therefore do not carry liquidity risk. In fact, call options are directionally short and will profit from a market decline, so there is no action necessary unless the manager decides to sell the stock and to close the calls out as well.

## Re-Shaping Total Return



## RISK CONSIDERATIONS:

Review Code: FPAC-0134-17

Past performance is not a guarantee of future results.

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*The Strategy involves risk including the possible loss of principal. There is no assurance that the Strategy will achieve its investment objectives. The use of leverage embedded in written options will limit the Strategy's gains because the Strategy may lose more than the option premium received. Selling covered call options will limit the Strategy's gain, if any, on its underlying securities and the Strategy continues to bear the risk of a decline in the value of its underlying stocks. The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. It is widely used as a benchmark of U.S. equity performance. It is not possible to invest directly in an index*

Van Hulzen Asset Management, LLC | 4370 Town Center Blvd, Suite 220 | El Dorado Hills, CA 95762

Website: [vaminstitutional.com](http://vaminstitutional.com)

Head Quarters: (916) 608-4284