

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

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PORTFOLIO MANAGERS

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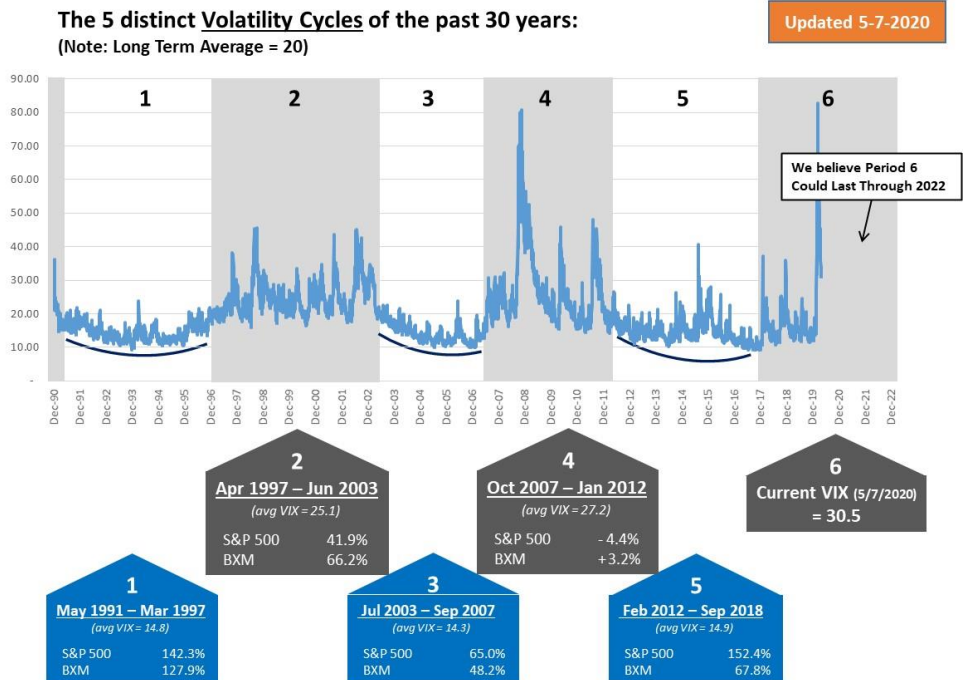
3 Reasons Why Covered Call Investors Welcome Back Volatility

Covered call strategies have historically out-paced the market during volatile periods. After six years of record low volatility, we believe covered call strategies are once again poised for out-performance. Here are the reasons why.

- Higher yields:** During periods of heightened volatility, option premiums have a tendency to increase in price, as more investors are willing to pay for a hedge in their portfolios. Because covered call strategies are designed to sell options for income purposes, these higher premiums typically result in a higher yield to the investor. For example, our strategy has averaged 6-8% annual yields over its 18+ year track record, but we are currently clipping annualized yields in the range of 10-12% due to higher overall market volatility.
- Downside protection:** Because covered call portfolios are designed to provide a higher income stream than most long-only equity strategies, they tend to do a particularly good job of protecting portfolios when the market declines. Call premiums can provide an income buffer that helps mitigate downside exposure, and this buffer potentially expands as volatility rises.
- Rotation Towards Quality:** We have seen unprecedented market dispersion over the past 4-5 years, with growth stocks (largely driven by Big Tech) far out-performing the rest of the market. Our covered call strategy is focused on quality and tends to lean more towards value than growth. Less speculative stocks (and particularly the defensive sectors) typically do better during periods of heightened volatility. To reference our favorite baseball analogy, players who don't strike out get on base more and score more runs. We are a singles and doubles strategy. It's less exciting than hitting home runs but much more consistent.

The 5 distinct Volatility Cycles of the past 30 years:

(The appendix on page 3 has a bigger graph for you to use in presentations)



The CBOE S&P 500 BuyWrite Index (BXM) is a benchmark index designed to track the performance of a hypothetical buy-write strategy on the S&P 500 Index

The Empirical Evidence: Covered Calls Out-Perform During Volatile Periods

The CBOE volatility index (ticker VIX) has averaged ~20 over the long term, meaning the market typically expects future volatility to be around 20%.

The VIX is often referred to as the market's "fear gauge" since it spikes during periods of uncertainty. We have studied the full history of the VIX, back to 1990. In the chart above, grey periods represent stretches when VIX traded above its long term average of 20, while the white periods represent below average stretches.

Our conclusion is there have basically been five distinct volatility cycles over the past 30 years, and there is a clear distinction between investment returns during these periods. See the graphic above:

- Periods 1, 3 & 5: Low volatility (avg VIX of 14.7) – Long-only stocks significantly out-performed hedged strategies (including covered calls)
- Periods 2 & 4: High volatility (avg VIX of 26.1) – Covered calls significantly out-performed long-only stocks

Conclusion: It's clear that investors who utilized covered calls have significantly outperformed during periods of heightened volatility.

Key Takeaways

We'd like to make two other points about these findings:

- The dispersion in period 5 has been truly unprecedented, with long-only stocks gaining 152% versus 67% for covered calls. The past six years has been a really, really tough environment for hedged strategies. We expect to see some mean reversion
- Period 2 shows what a period of consistently high volatility looks like. The market went up an average of 6-7% per year during that period, but covered calls did significantly better relative to long-only stocks
- A prolonged period of consistently high volatility could be really, really good for covered call investors

At Van Hulzen Asset Management, we believe the market has entered a new (potentially lengthy) period of above average volatility. Covered call strategies have historically been well suited for this environment.

If you believe the market will shake off this recent uncertainty and the longest bull market in history will continue higher, then covered calls are not for you. But if you think we may be beginning "Period 6" then now may be an ideal time to reallocate some capital from long-only equities into covered calls.

Risk

RISK CONSIDERATIONS:

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

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Appendix

Source: Van Hulzen Asset Management (vaminstitutional.com)

The 5 distinct Volatility Cycles of the past 30 years: (Note: Long Term Average = 20)

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