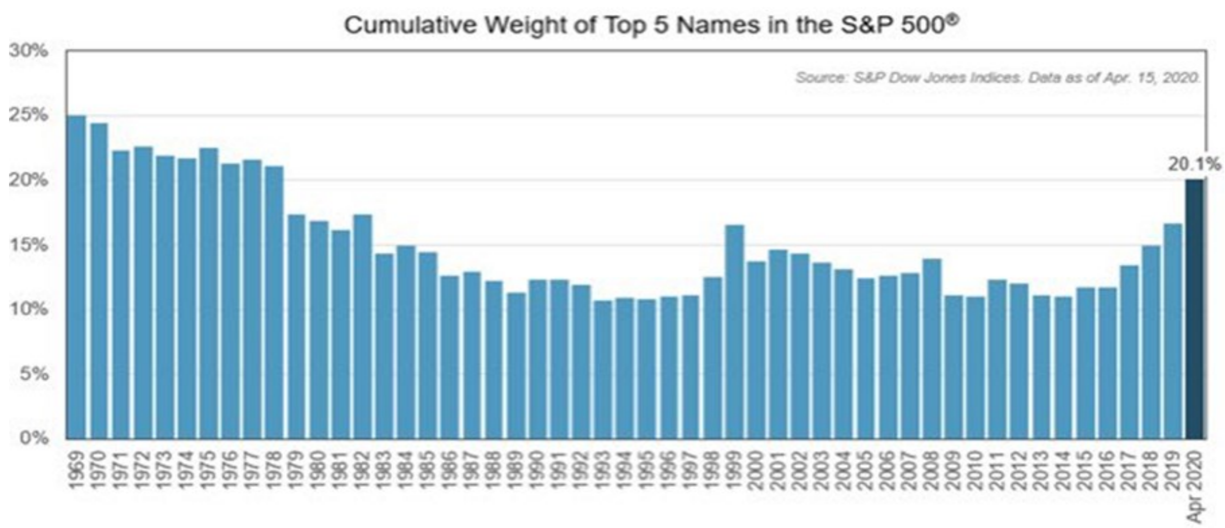
Q2 COVERED CALL COMMENTARY

June| 2020

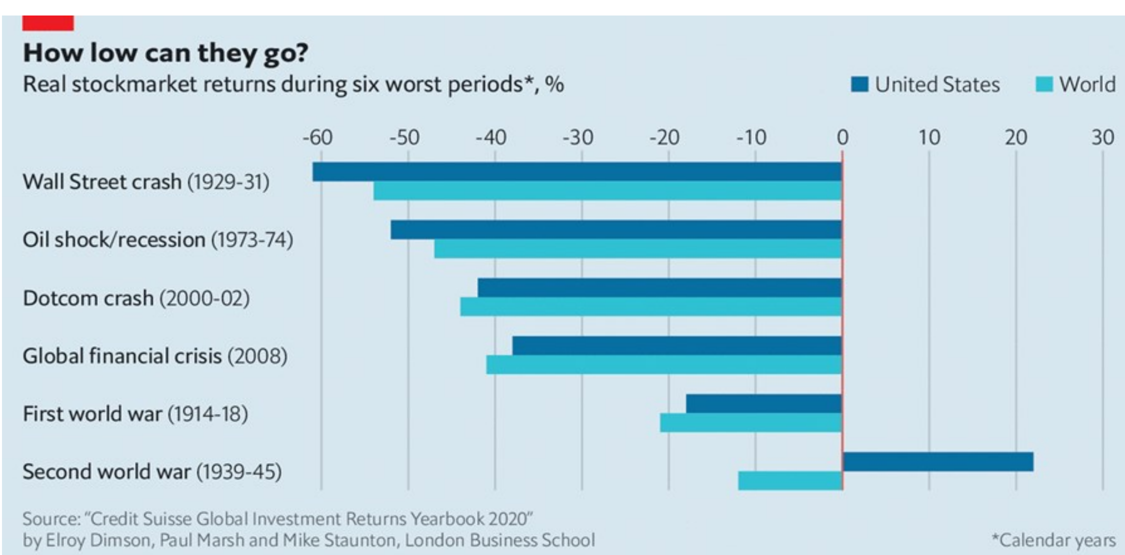
So What If We All Own The Same 5 Stocks?

There is lots of discussion about how today's market is so concentrated in just a handful of stocks. And rightfully so. As of this writing, the top five stocks in the world (Apple, Microsoft, Amazon, Alphabet & Facebook) have turned in a 33% return year-to-date, versus -9% for the rest of the S&P 500. The concentration of these top 5 (which currently comprise 23% of the total market cap of the S&P 500) far exceeds that of 1999 and is nearly as high as the Nifty Fifty days of the late 1960s/early 1970s.



So What?

There will always be people who say it's different this time. And there's always a chance of that. But the historical data shows that periods of market concentration are not the healthiest sign of market strength. The last two periods of concentration (the early 1970s and then 1999) preceded the two worst bear markets since the great depression (1973-74 & 2000-02). See below.



The Economist

Comparing 1999 To Today

We often hear that the difference between the tech bubble in 1999 and today's market is that there were no earnings supporting the lofty valuations of the day. And there's no doubt that a lot of tech startups had no earnings back then. We decided to do our own digging (using the Credit Suisse HOLT database) and found some interestingly data. In fact, the Cash Flow ROI figures from the top 10 biggest global companies (then and now) do **not** support the statement that companies were less profitable back then. In fact, the median Cash Flow ROI of the top 10 companies was actually **higher** in 1999 vs today (16.4% vs 15.5%).

Top 10 in 1999			
	Mkt Cap ($bn)		CFROI
Microsoft	$	583	22.5
GE	$	504	15.9
Cisco	$	353	16.8
Exxon	$	283	3.6
Walmart	$	283	15.4
Intel	$	271	19.8
NTT Data	$	262	19.6
Lucent	$	252	11.4
Nokia	$	197	28.2
BP	$	196	0.5
Median	**$**	**277**	**16.4**

Top 10 in 2020			
	Mkt Cap ($bn)		CFROI
Apple	$	1,617	19.4
Microsoft	$	1,599	19.9
Amazon	$	1,525	9.1
Alphabet	$	1,026	10.3
Facebook	$	685	15.5
Tencent	$	641	17.4
Alibaba	$	624	15.4
Berkshire Hathaway	$	445	4.3
Visa	$	422	45.3
Johnson & Johnson	$	376	14.2
Median	**$**	**663**	**15.5**

Many people measured the size of the "tech bubble" by the relative performance of the Nasdaq index (tech) over the S&P 500 (the diversified market). The two were in parity in 1998, but the ratio (NDX/SPX) reached an alarming 3.3x by the year 2000. See chart below. As you can see, last week we passed that previous 2000 peak, reaching 3.36x!

Relative Performance of the Nasdaq versus the S&P 500

Valuation Will Someday Matter Again

We have shown this chart many times and thought it would be helpful to show an update. Buffet's favorite valuation indicator (total market cap divided by GDP) has also topped its 2000 peak. There's no way around the conclusion that the market is expensive. There are two ways this can rectify itself: (1) another market correction, or (2) a sideways stock market while the economy catches up. We are hoping for the latter.

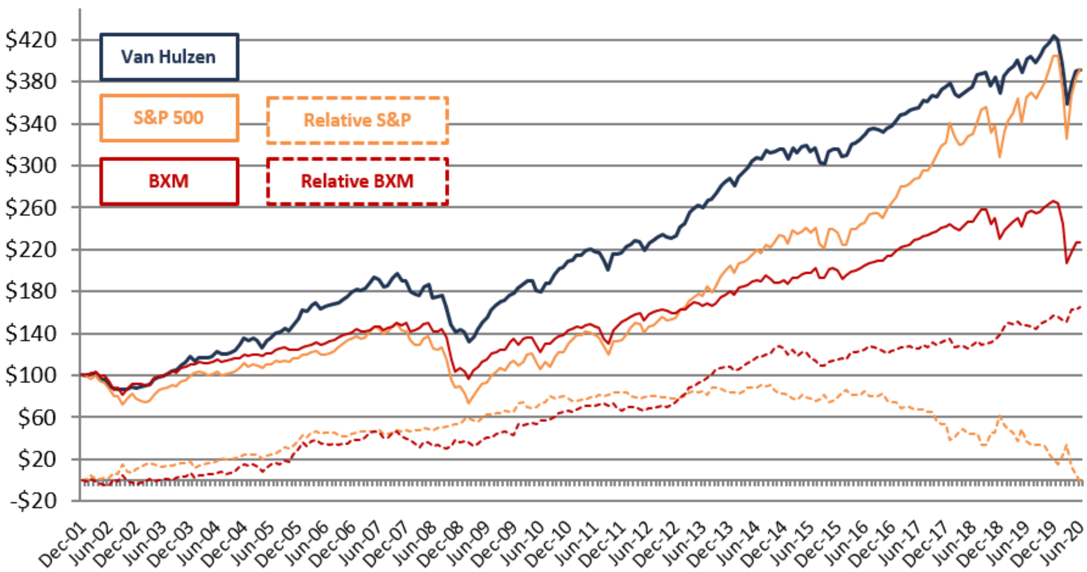
More on the Nifty Fifty

The "Nifty Fifty" was an informal designation for fifty popular large-cap stocks on the New York Stock Exchange in the 1960s and early 1970s that were widely regarded as solid buy and hold growth stocks, or "Blue-chip" stocks. These fifty stocks are credited by historians with propelling the bull market of the early 1970s, while their subsequent crash and underperformance through the early 1980s are an example of what may occur following a period during which many investors, influenced by a positive market sentiment, ignore fundamental stock valuation metrics

Van Hulzen Covered Call Strategy

The Van Hulzen Covered Call strategy invests in US companies that we consider to have high shareholder yield (dividends and share repurchases) and uses call options with the goal of reducing portfolio volatility and creating incremental income. The goal is a portfolio that has equity exposure while seeking higher than average annual income (target of 6-8% annual), although there is no guarantee that the strategy will achieve its objective, generate profits or avoid losses. Below you will find the graph of the Van Hulzen Covered Call Strategy and the Covered Call Index BXM.

Covered Call Strategy Performance (gross as of 06/30/2020)



Returns (annualized)*	Jun 2020	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	0.4%	9.0%	-7.8%	-7.8%	-2.6%	3.2%	4.5%	6.0%	8.1%	7.7%
Van Hulzen (Net)	0.4%	8.9%	-8.0%	-8.02%	-3.2%	2.6%	3.9%	5.3%	7.3%	6.7%
BXM	-0.1%	9.1%	-15.1%	-15.1%	-10.9%	-0.5%	2.8%	4.5%	6.3%	4.5%
Difference (Gross-BXM)	0.5%	-0.1%	7.4%	7.4%	8.3%	3.7%	1.7%	1.5%	1.8%	3.1%

*Inception date : 12/31/2001. Figures greater than one year are annualized. Van Hulzen returns represent actual returns from composite of accounts

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