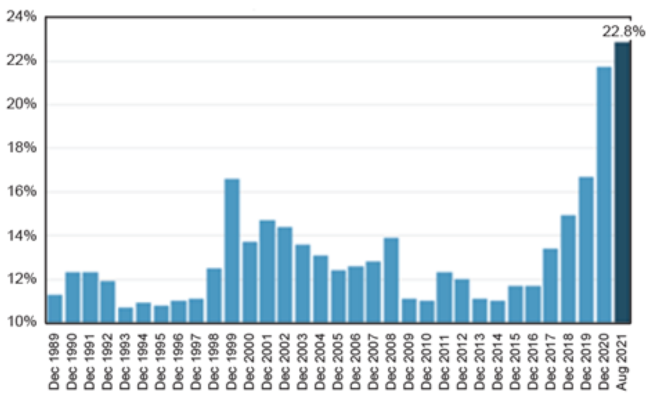
Covered Call Commentary

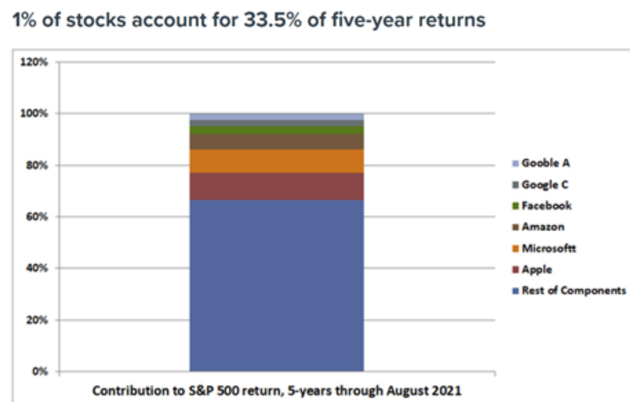
November| 2021

<u>So What If We All Own The Same 5 Stocks?</u>

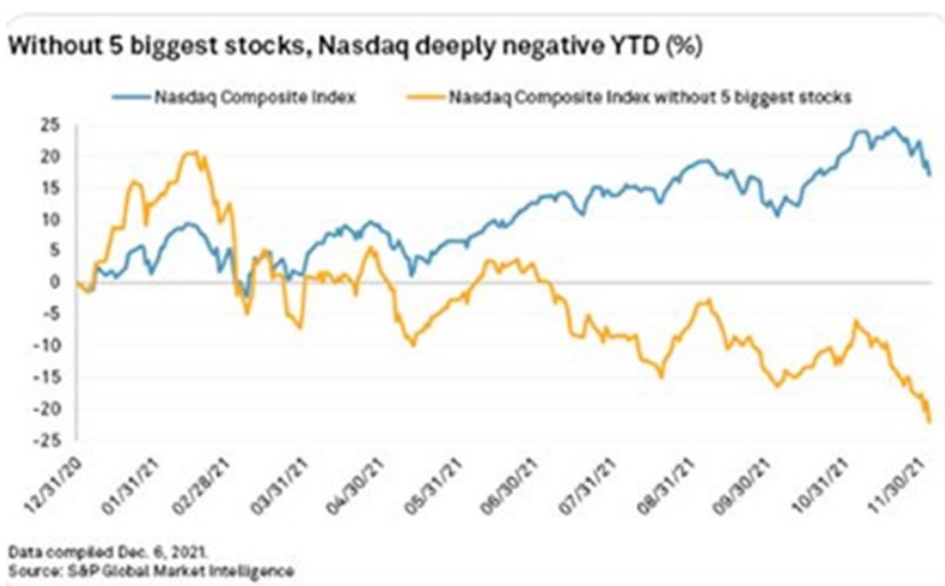
There is lots of discussion about how today's market is so concentrated in just a handful of stocks. And rightfully so. As of this writing, the top five stocks in the world (Apple, Microsoft, Amazon, Alphabet & Facebook) have delivered 33.5% of the 5-year return of the S&P 500. That's 6.7% per stock for the top 5, versus 0.1% for the other 495 stocks. This level of concentration has never been seen in modern history. The top 5 comprise ~23% of the total market cap of the S&P 500, which far exceeds that of the 1999 market bubble.

<u>Concentration of Top-5 Names in S&P 500</u>



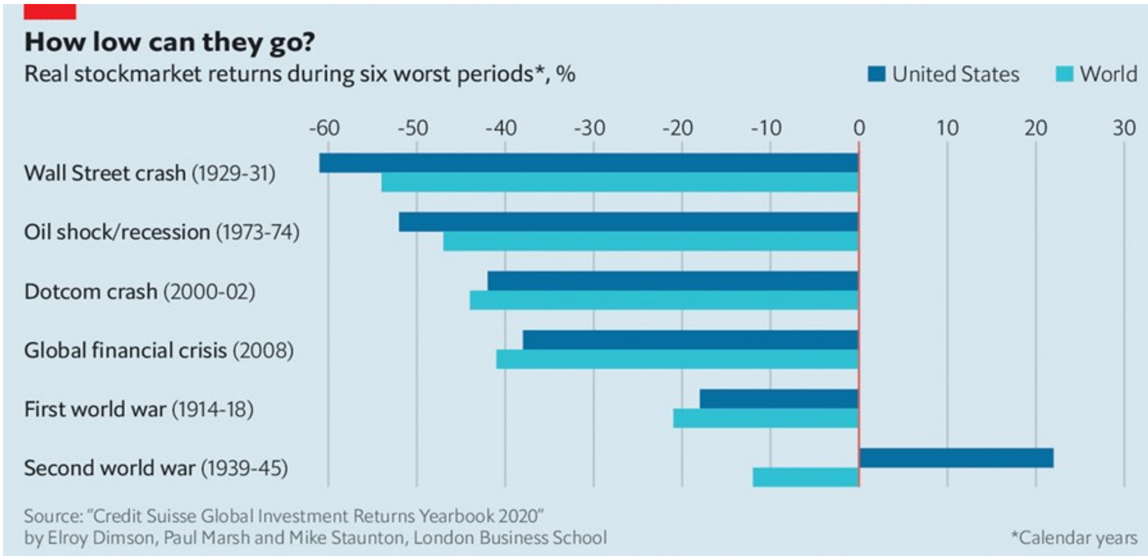


And it's not "tech in general" as it was during the 1999-2000 internet bubble. Back then, everything with a dot com in its name was soaring. We definitely saw some froth in the less profitable growth names in 2020 (think Roku, Zoom, DocuSign) but those names have since rolled over. In 2021, the **<u>entire</u>** Nasdaq return is driven by the top-5 names. Without them, the Nasdaq is actually negative >-20% year-to-date!



So What?

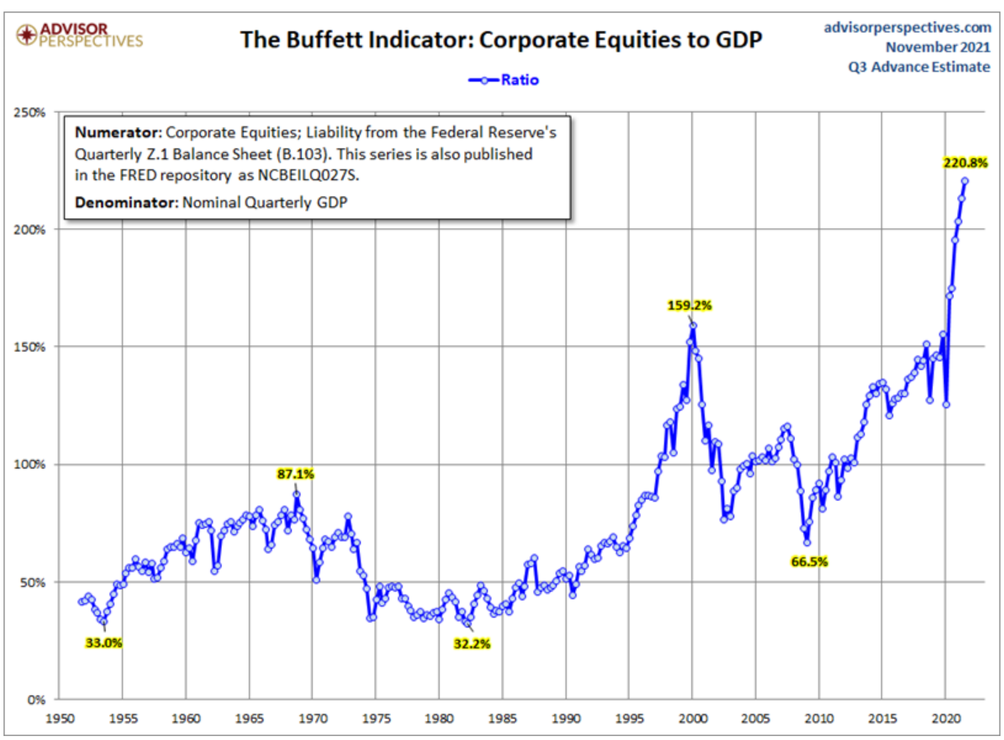
There will always be people who say it's different this time. And there's always a chance of that. But the historical data shows that periods of market concentration are not the healthiest sign of market strength. The last two periods of concentration (the early 1970s and then 1999) preceded the two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



The Economist

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.

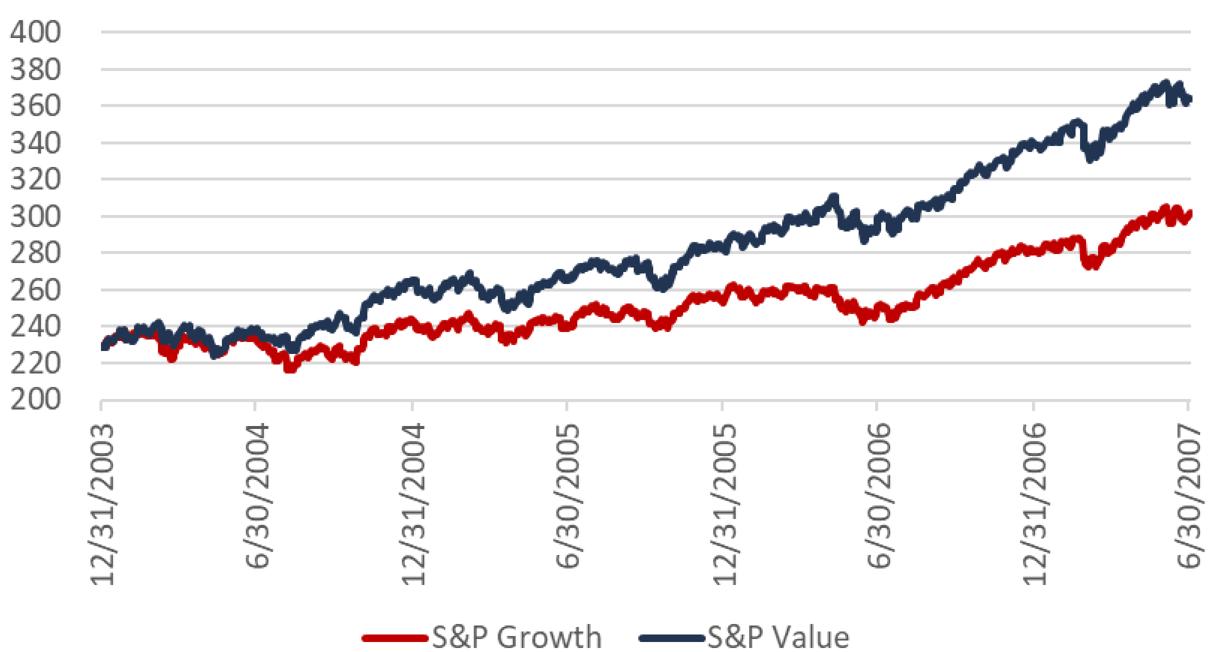


Return of the Dividend Stocks?

Over the past 25 years, growth stocks have **dominated** value stocks. The deflationary environment and accommodative Fed are without question two of the driving factors behind this. But what most recent investors don't realize is value stocks have actually out-performed over the very long term. And with inflation returning and the Fed beginning to "tighten," we believe it may now to time to shift back towards value stocks, which have a dividend yield of 4-5x that of growth stocks, on average.

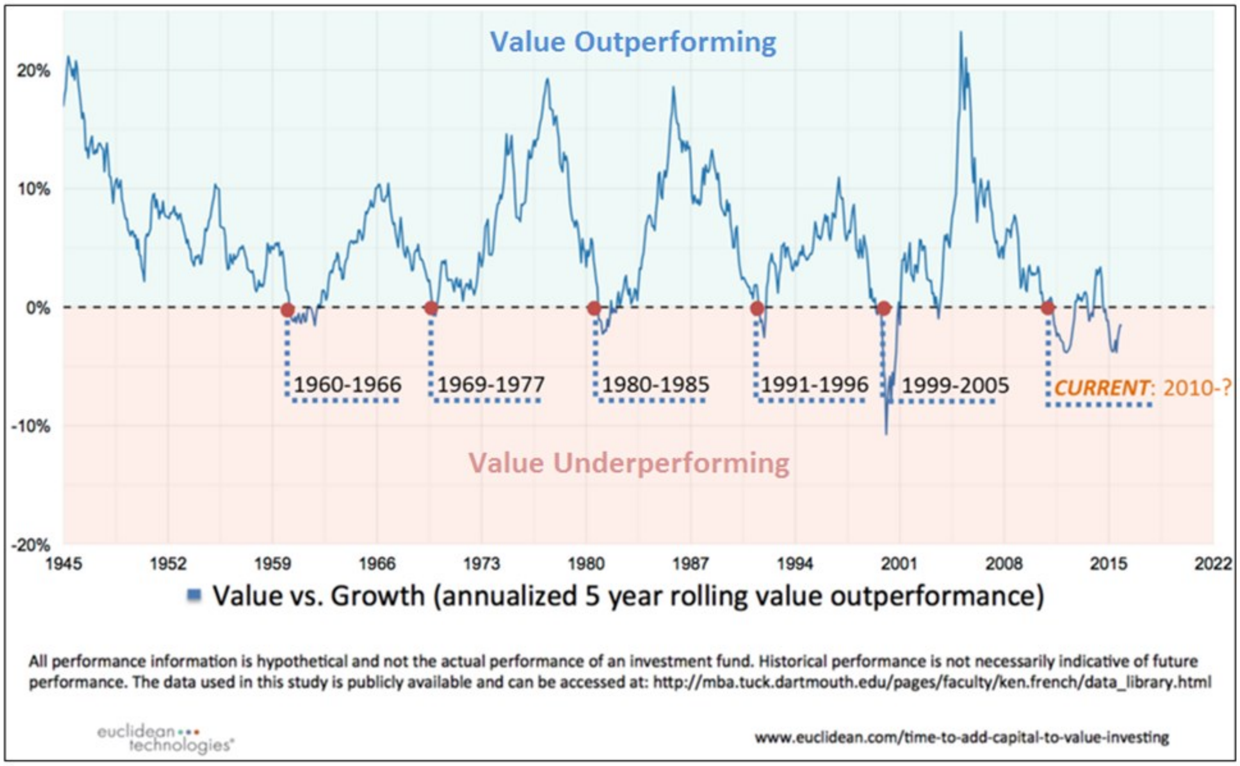
Growth has dominated Value over the last 5-6 years…

But Value out-performed Growth for nearly 4 years after the last major market peak (2000)



<u>And Value has substantially out-performed over the long term…</u>

VALUE HAS UNDERPERFORMED GROWTH ONLY SIX TIMES SINCE 1945…



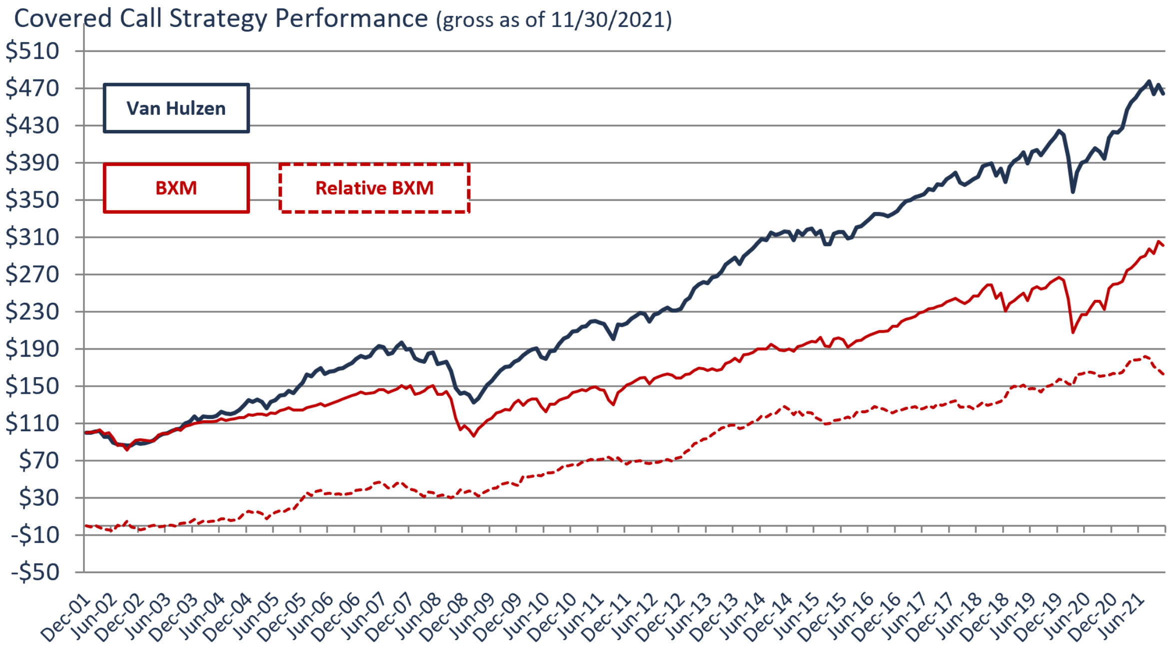
…EACH TIME VALUE HAS HAD A SIGNIFICANT AND LENGTHY PERIOD OF OUTPERFORMANCE

<u>....And long term investing has always been about generating Alpha i.e. risk adjusted returns.</u>

Alpha		
a = Rp – [Rf + (Rm – Rf) ß]		
	Rel to BXM	**Rel to SPX**
Rp = Realized return of portfolio	8.1%	8.1%
Rm = Market return	5.6%	9.1%
Rf = risk-free rate	0.1%	0.1%
ß = Beta	0.7	0.5
Alpha (relative to BXM)	**4.2%**	**3.2%**

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.



Returns (annualized)*	Nov 2021	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	-1.9%	-2.8%	1.0%	9.7%	11.5%	6.5%	6.7%	5.7%	8.0%	8.0%
Van Hulzen (Net)	-2.0%	-2.9%	0.7%	9.2%	10.9%	6.0%	6.1%	5.1%	7.3%	7.1%
BXM	-1.5%	1.3%	6.8%	16.1%	18.2%	6.4%	7.1%	7.0%	7.5%	5.7%
Difference (Gross-BXM)	-0.4%	-4.1%	-5.9%	-6.4%	-6.7%	0.1%	-0.3%	-1.3%	0.5%	2.3%

*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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