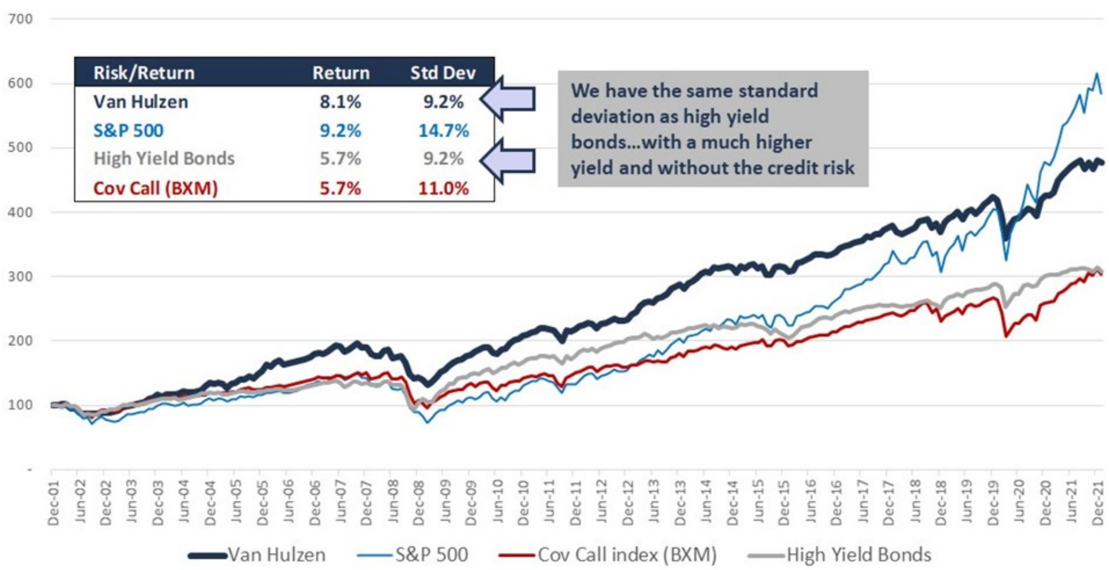
Covered Call Commentary

January | 2022

Celebrating 20 Years

We are proud to report that our track record passed the 20year mark last month. During this period, we have seen three bull markets (including the longest in history) and three bear markets. We are pausing this quarter to reflect a bit on the last 20 years.

Of course, everyone tracks the S&P 500. But our risk profile is approx. 40% lower than the S&P. The better benchmarks for analyzing our performance are the CBOE Buy-Write index (BXM) and the High Yield Bond index. All three benchmarks are presented below.



Risk/Return	Return	Std Dev
Van Hulzen	8.1%	9.2%
S&P 500	9.2%	14.7%
High Yield Bonds	5.7%	9.2%
Cov Call (BXM)	5.7%	11.0%

Key Point: Our strategy has only lagged the S&P by 1.1% per year over the long term track record, but has provided approx. 50% protection during major pullbacks

Note: There is no assurance that the Strategy will achieve its investment objectives. The use of covered call strategies does not ensure profits or guarantee against losses. VAM returns are presented gross of fees.

The most important takeaways are:

- We have only lagged the S&P by 1.1% over the 20 years, despite a significantly lower risk profile
- Our standard deviation is identical to that of the high yield bond index for the 20 year period. This should be of particular interest for investors looking for income strategies. Of course, a key difference between our strategy and high yield bonds is the credit risk associated with junk bonds. We believe quality will be very important in the coming decade, and we carry little-to-no default risk.

A Good Fit for Today's Inflationary Environment

We launched this strategy near the peak of the internet bubble in late 2001, and oddly enough we find ourselves in a similar environment today. There is one huge exception. While we were in a deflationary environment in the early 2000s, we are clearly in a more inflationary environment today.

There are four reasons covered calls do well during inflationary periods:

- **Yield.** Our strategy yields 7-8%, at significantly lower risk than the stock market. There is no better yield that we know of in the public markets.
- **Volatility.** Inflation leads to market volatility (like we're seeing today), and higher vol leads to higher option premiums and higher yields for our strategy.
- **Value.** Dividend paying stocks tend to outperform during inflationary periods. In fact, over the past 100 years, value beat growth during the 6 decades that had the highest recorded inflation. Our strategy is loaded with high quality dividend stocks, with an average yield of 2.8% (versus 1.3% for the S&P).
- **Downside protection.** Our strategy carries approx. 40-50% less risk than the S&P 500, despite only trailing by 1.3%, per year, over the long run (8.2% versus 9.5% for the S&P). In fact, our risk profile is almost identical to that of high yield bonds. We believe it is an ideal replacement for high yield bond strategies during inflationary times.

And not all covered call strategies are alike. As you can see below, we have outperformed both the covered call index (the BXM) and the high yield bond index by 2.4% per year (8.2% versus 5.9% each) over the past 20 years.

Biggest Pullbacks: Last 20 Years

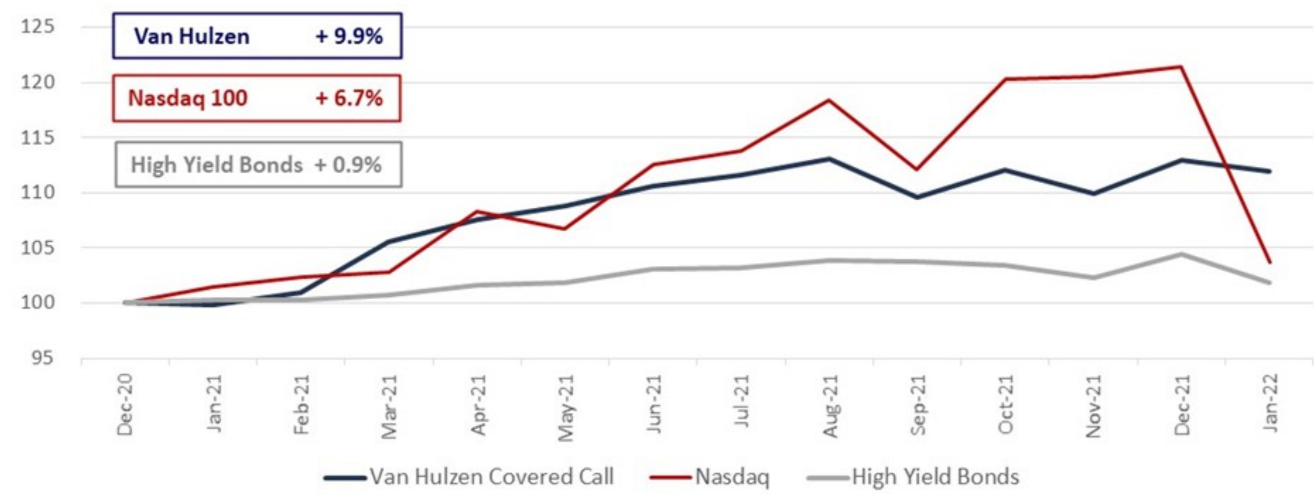
Two of the biggest reasons to invest in covered calls are income and protection. As you can see below, our strategy has provided extraordinary protection. The average "large" pullback for the S&P 500 in the last 20 years is -19.4%. The BXM (covered call index) has provided some protection during these periods (-14.6%), but we have provided significantly more (-10.8% average performance). Our average downside capture relative to the S&P over these periods is 44%, meaning we have provided more than 50% protection, on average.

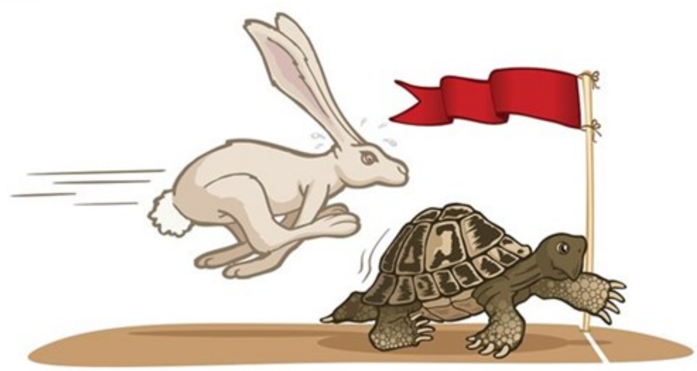
	ABSOLUTE RETURN			DOWNSIDE CAPTURE	
Time Period	S&P 500	BXM	VAM	BXM	VAM
A) October 2007 - February 2009	-50.9%	-35.8%	-33.7%	70%	66%
B) April 2010 - August 2010	-10.9%	-4.3%	-1.8%	39%	16%
C) April 2011 - September 2011	-16.3%	-12.2%	-8.7%	75%	54%
D) September 2018 - December 2018	-13.5%	-10.8%	-5.1%	80%	38%
E) February 2020 - March 2020	-19.6%	-21.3%	-14.6%	109%	74%
F) January 2022	-5.2%	-3.0%	-0.9%	58%	17%
AVERAGE	**-19.4%**	**-14.6%**	**-10.8%**	**71.9%**	**44.3%**

Slow & Steady: The Tortoise & The Hare

We published a white paper in 2017 that compared our performance to the Nasdaq composite. As that point, we delivered a long-term return roughly in line with the Nasdaq, but at approximately 50% the risk. Click here to see this white paper.

Given the unusual nature of the past 12 months (huge tech rally, followed by an epic collapse), we thought we'd run a similar analysis for the last year. And in fact, we found an even more pronounced result. Point to point, we have actually outperformed the Nasdaq over the past 12 months, including January's collapse. We have also included the high yield bond index in this analysis, as we believe one of the best uses on covered calls in this environment is as a fixed income surrogate. See below.





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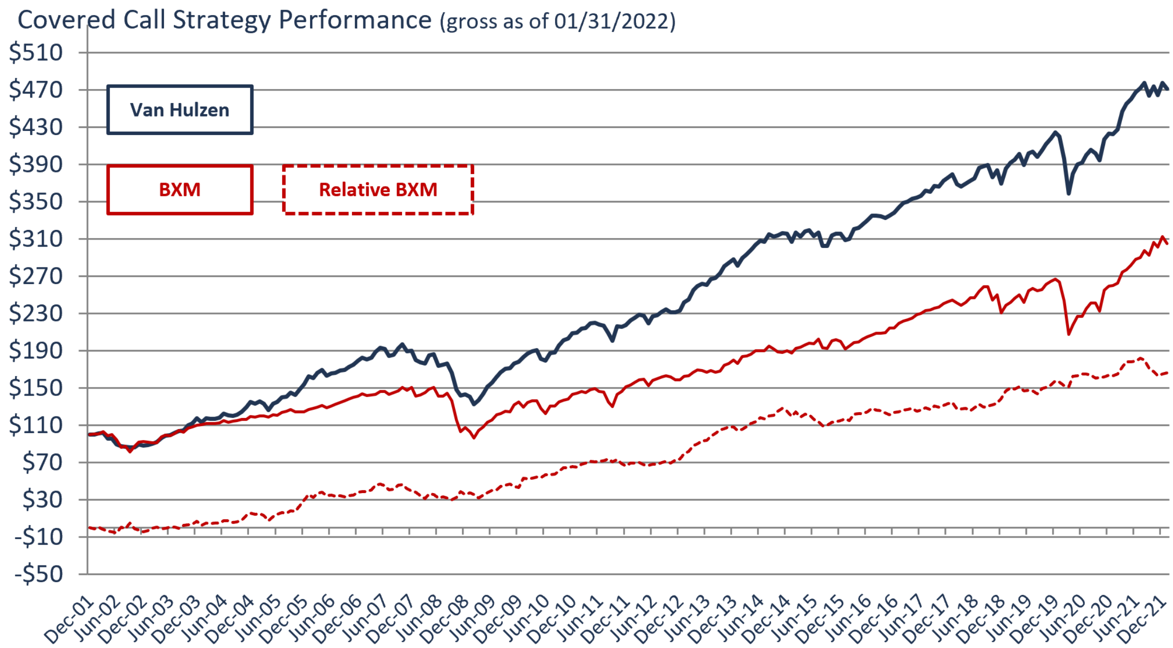
Data range: Dec 2020 – Feb 3, 2022

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)*	Jan 2022	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	-1.4%	-0.5%	-0.2%	-1.4%	11.5%	6.9%	6.5%	6.3%	7.8%	8.0%
Van Hulzen (Net)	-1.5%	-0.7%	-0.4%	-1.5%	10.9%	6.4%	5.9%	5.7%	7.1%	7.1%
BXM	-2.5%	-0.3%	5.2%	-2.5%	17.3%	8.5%	6.8%	7.2%	7.1%	5.7%
Difference (Gross-BXM)	1.1%	-0.2%	-5.4%	1.1%	-5.9%	-1.6%	-0.3%	-0.9%	0.7%	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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