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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.



Large Cap
Blend/Value



Targets Low
Volatility



Option and
Dividend Income

INVESTMENT STRATEGY

- The portfolio consists primarily of high quality ultra large cap dividend-paying US 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.
- Seeks to generate 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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The World Has Changed

A Commentary on Inflation

The World Has Changed

As Crash Davis famously said to his coach mid-game during a team meeting on the mound, "We're dealing with a lot of sh*t."

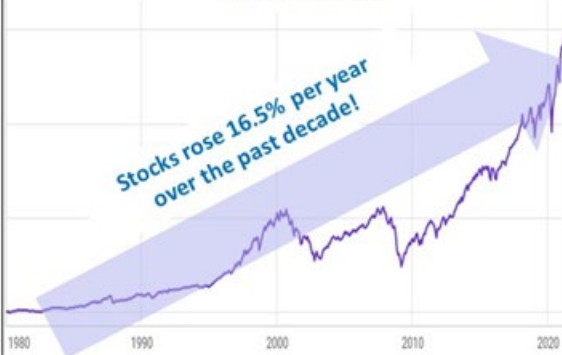


Inflation is on everyone's mind, and it ripped through the financial markets in Q1. As of this writing, nearly every market is down. On the stock side, the S&P 500 is -6.9%, the Nasdaq is -13.6%, and the Russell 2000 small cap index is -11.7%). Bonds are actually down more than the S&P (-8.6% for the aggregate bond index), no longer the stable source of income that investors need.

We believe we are at a pivotal moment in economic history, and inflation is not the only headwind we are facing. The graphic below illustrates how the strength of the markets over the last 40 years was driven by a number of factors. Throughout this time period, inflation, taxes and interest rates were all decreasing, debt exploded as credit loosened, and demographics were very favorable (as the baby boomers were in their most productive years). Fed policies were also incredibly accommodative over this time period. It's no wonder that growth stocks vastly out-performed value stocks during this period. This was particularly true over the last five years, as the Fed's accommodative policies became the single largest tailwind to the markets.

The World Has Changed

1981-2021



The long-term bull market of the last 40 years was among the greatest in history

Inflation, taxes & interest rates were decreasing, credit was loosening, and boomers were thriving

Fed Policies Generally Accommodative

Growth oriented strategies out-performed.

2022-2032



Future Return Projections By Asset Class

(7-10 Years)	Stocks	Bonds
BlackRock	6.7%	1.6%
JP Morgan	4.1%	2.8%
Morningstar	1.6%	1.6%
Research Affiliates	1.6%	2.1%
Vanguard	3.3%	1.9%
Average	3.5%	2.0%

We believe equity markets are likely to be volatile and growth subdued for some time

Inflation, taxes & interest rates appear poised to increase, credit has tightened, and boomers are retiring

Fed Has Begun Tightening

Investors should focus on income and protection.

Source of return projections: Morningstar, Jan 2022

But the tailwinds that drove the bull market in stocks (and bonds) over the past 40 years have gradually been shifting to headwinds. We want to explore these themes more closely, and we will address each of the categories mentioned above:

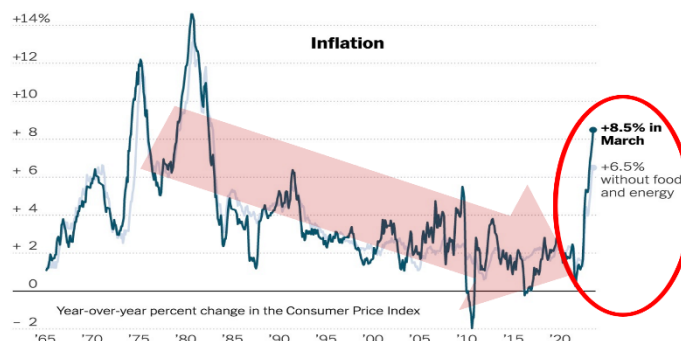
1. Inflation
2. Interest rates
3. Taxes
4. Credit (Debt)
5. Demographics
6. Fed policy

And then we will discuss why covered calls are uniquely positioned to not only survive but thrive in the coming environment of economic headwinds.

1. Inflation

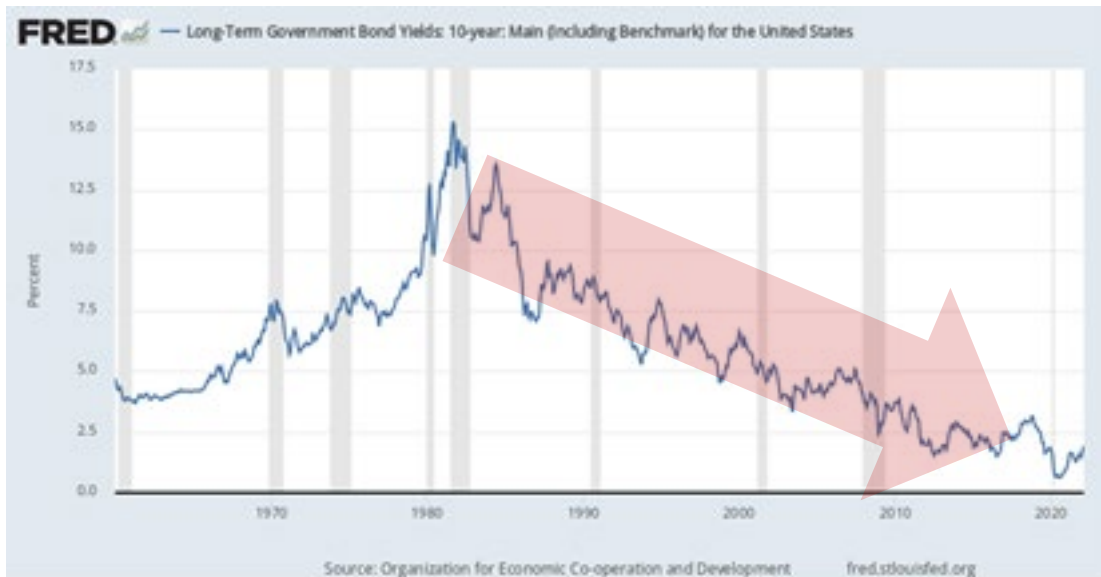
We have not seen meaningful inflation since the early 1980s. Disinflationary environments are typically seen as "risk-on" periods, as long duration assets (like high growth tech stocks) are seen as more valuable. This trend has clearly changed in 2022.

Prices were 8.5% higher in March than a year earlier. 💰



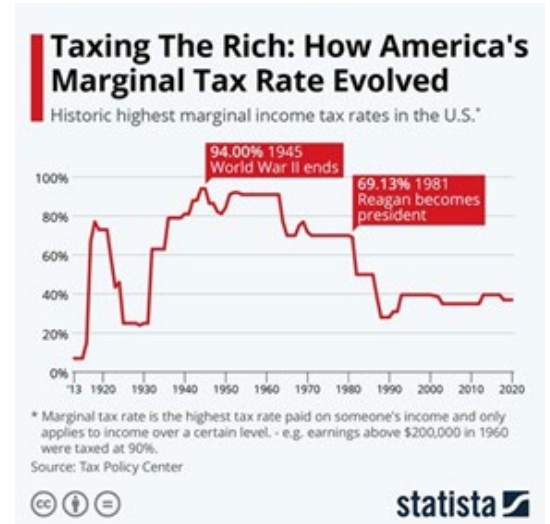
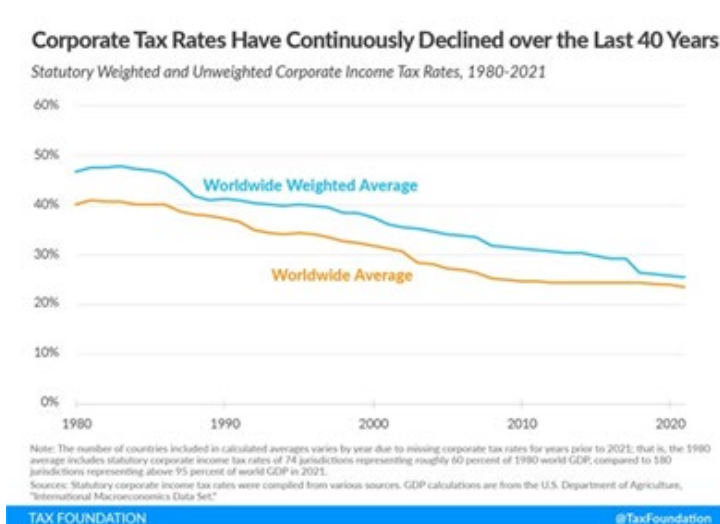
2. Interest rates

Rates typically trend with inflation, as rate hikes are one of the primary tools used to fight inflation. Rates have been at historic lows for much of the past 10 years, as the Fed was too busy fighting deflation to worry about inflation. But the 10year Treasury has doubled in the past 6 months, and the Fed seems committed to hiking rates into the foreseeable future. This will be challenging for stocks and terrible for bonds.



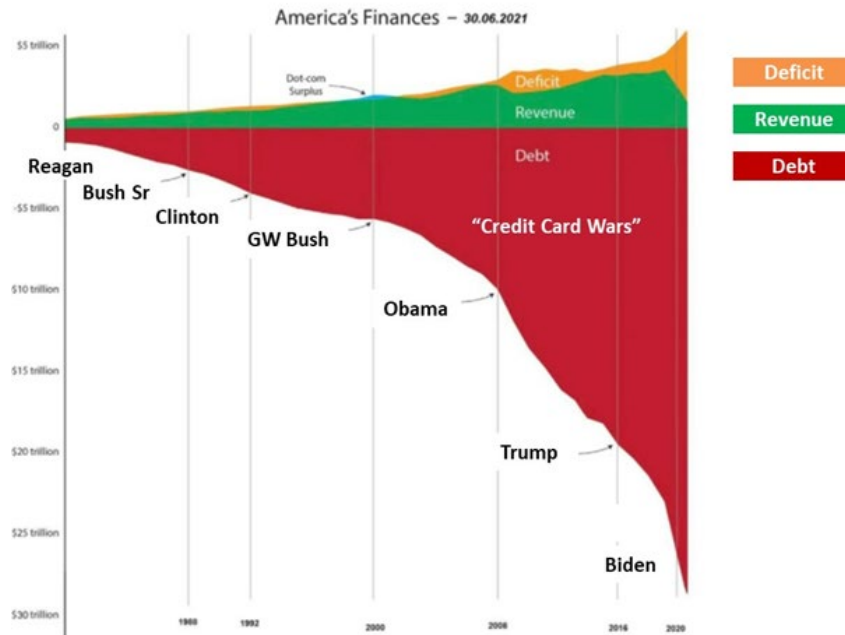
3. Taxes

Taxes are a contentious political topic. But the reality is tax rates have declined steadily over the past 40 years. The US corporate tax rate has declined by about 40% since 1980. It's hard to imagine this will remain the case as federal deficits soar and Congress looks for a way out.



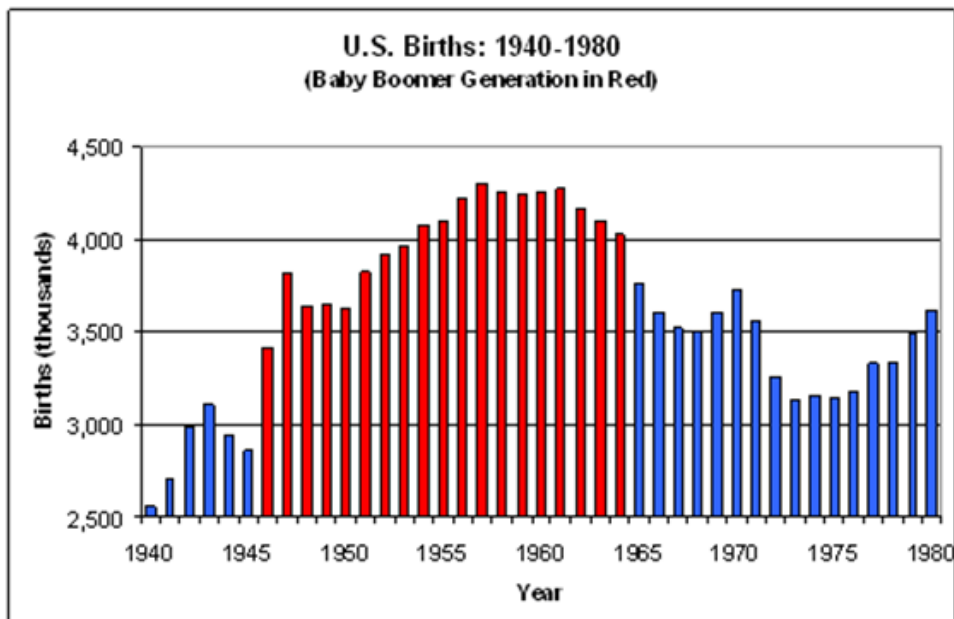
4. Credit (Debt)

This one will surprise nobody. The federal debt as a % of GDP is projected to rise next year to the largest amount ever recorded, including the WWII period. What does surprise some is that this is a bipartisan issue. The only time we had a (tiny and brief) surplus was 23 years ago, at the peak of the tech bubble. All of the wars since Vietnam have effectively been “credit card” wars. Quantitative tightening and inflation are two of the only ways to chisel away at this debt load, and both are bad for economic growth.

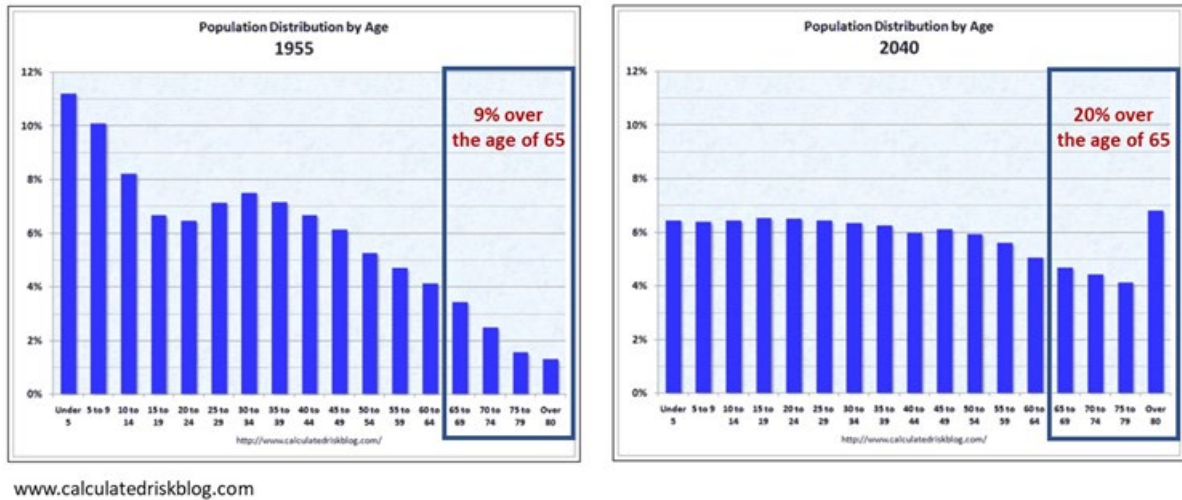


5. Demographics

The largest wave of births in US history occurred between 1946-1964, during the post-World War II “baby boom.” These people were at their most productive over the past 30-40 years but began retiring about 10 years ago, so you might say we’re about halfway through this trend. But the mass retirement of the boomer generation accelerated even faster over the past two years because of Covid. The net effect of this will be a slowdown in growth, as this generation spends less money on houses, cars and vacations and more on prescription meds, shifting from net contributors to social security & Medicare to net users of those services.

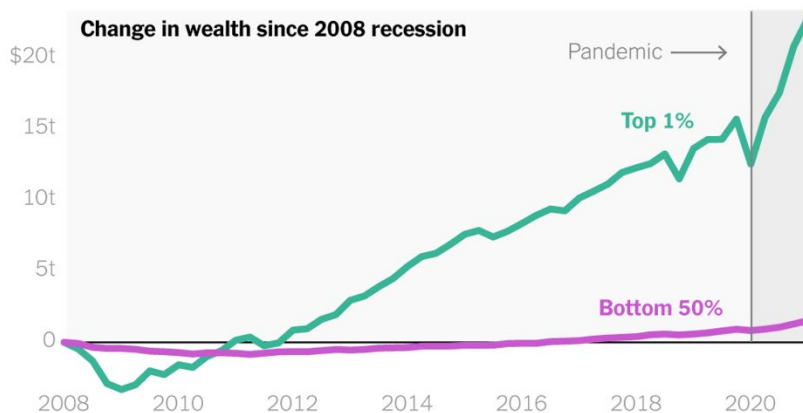
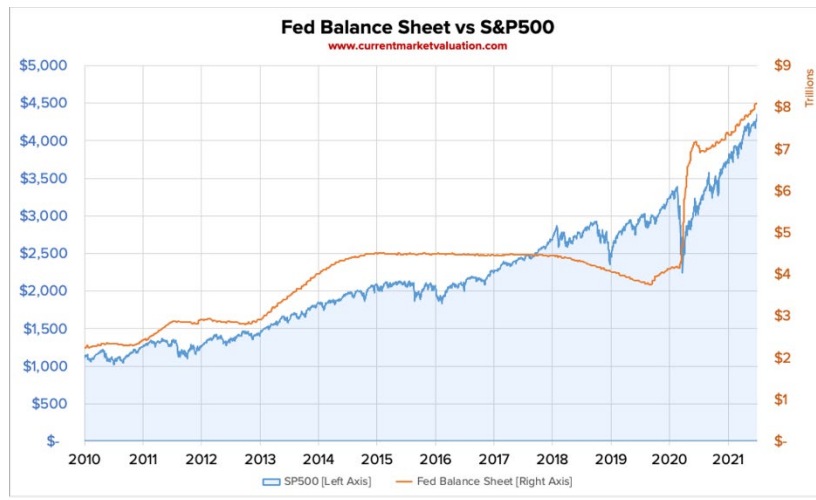


As you can see, the distribution of ages in the US population has changed dramatically as the boomers have matured. In 1955, the population over the age of 65 was only 9%. But based on current projections, this 65+ group will represent more than 20% between the years 2030–2040.



6. Fed Policy

If you're wondering if the Fed's policies have really propped up the markets, have a look at the correlation between the Fed's balance sheet and the stock market. Much of the money printed over the past decade has gone directly into the markets. This has fueled the widening divide between the top 1% of Americans and the bottom 50%.



Bringing it all together

All of the powerful forces we have outlined are turning into headwinds. Inflation has burst onto the scene over the past year. Interest rates are rising. Tax rates may be safe if the Republicans take control of Congress (as expected), but for how long? Boomers are retiring and becoming a net negative for economic growth. The debt is completely out of control, and the Fed appears to be tightening into an economic slowdown.

As Crash Davis famously said to his coach mid-game during a team meeting on the mound, “We’re dealing with a lot of sh*t.”



Why Covered Calls?

As appealing as it may be to just go to cash, you have to stay invested if you want to keep up with inflation. Stocks have averaged 10% over the past 100 years and 16.5% over the past 10 years (!!). But unfortunately, the boom years appear to be behind us. Wall Street economists are projecting just 3.5% for equities over the next 7-10 years, and just 2.0% for bonds.

Covered calls allow you to stay invested in equities (while avoiding bonds), but with an enhanced income profile (7-8% targeted yield) and significantly lower volatility than the overall stock market (targeted net long of ~60%). This type of approach should fare well during inflationary periods because we insist on quality, lean toward value over growth, and avoid credit risk like the plague. Covered calls also benefit from volatility, as higher vol generates higher option premiums, which translates to higher call option yields.

But not all covered calls are the same. The covered call index (BXM) owns the S&P 500 and systematically sells index options. Most managers do something similar. We do not. And over our 20year track record, we have delivered average annual alpha of 4.1% over the BXM.

Forecasted Returns By Asset Class

	Date	U.S. Equities	U.S. Bonds
BlackRock	September 21	6.7 ^d	1.6
J.P. Morgan ^b	September 21	4.1	2.8 ^c
Morningstar Investment Management	December 21	1.6	1.6
Research Affiliates	December 21	1.6 ^d	2.1
Vanguard	September 21	3.3	1.9

Source: Morningstar, Jan 2022

Alpha

$$\alpha = R_p - [R_f + (R_m - R_f) \beta]$$

R_p = Realized return of portfolio

R_m = Market return

R_f = risk-free rate

β = Beta

Alpha

Rel to BXM

8.2%

5.9%

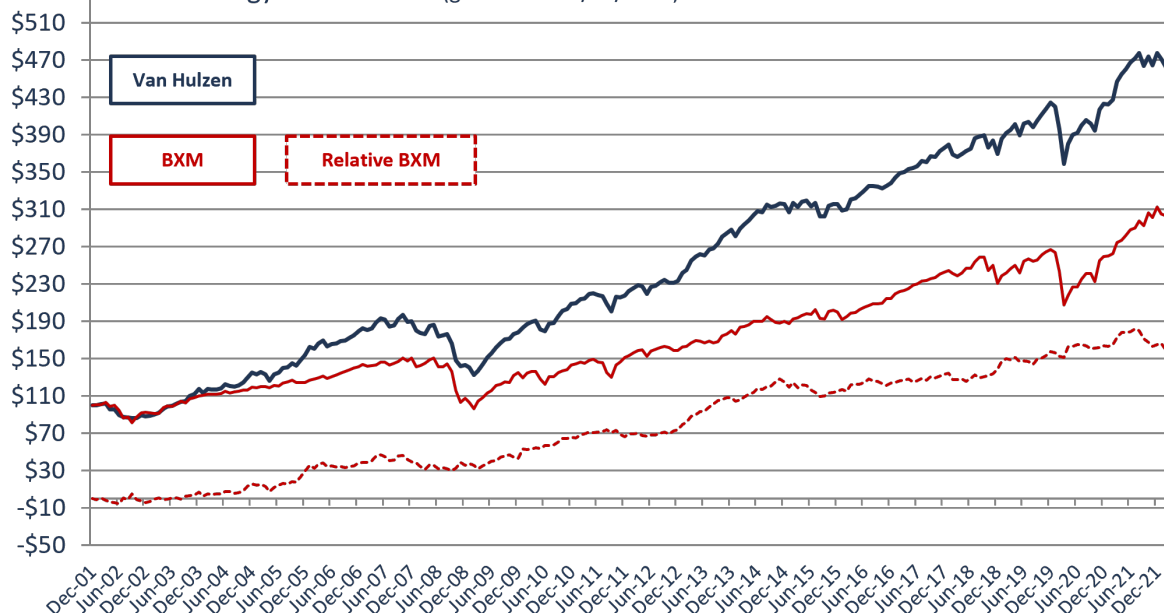
0.1%

0.7

4.1%

Data range: Jan 2002 – Dec 2021

Covered Call Strategy Performance (gross as of 03/31/2022)



Returns (annualized)*	Mar 2022	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	1.7%	-1.5%	1.5%	-1.5%	5.3%	6.0%	6.1%	6.0%	7.5%	7.9%
Van Hulzen (Net)	1.7%	-1.7%	1.2%	-1.7%	4.7%	5.4%	5.5%	5.4%	6.8%	7.1%
BXM	4.1%	0.8%	7.9%	0.8%	14.9%	8.6%	7.2%	7.2%	7.1%	5.8%
Difference (Gross-BXM)	-2.4%	-2.4%	-6.4%	-2.4%	-9.6%	-2.6%	-1.1%	-1.2%	0.4%	2.1%

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

For more information of this unique aspect of our strategy, please vaminstitutional.com

RISK CONSIDERATIONS:

Review Code: FPAC-0133-22

Past performance is not a guarantee of future results. Dividends are not guaranteed and must be declared by a company's board of directors

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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. It is not possible to invest directly in an index

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