Covered Call Commentary

June | 2022

Celebrating the Iron Horse in Today's "Singles & Doubles" Market

Last Quarter we referenced a Bull Durham quote and outlined how the world has changed, by dissecting the tailwinds from the last 40 years and demonstrating how many of them have turned into headwinds. On our website www.vaminstitutional.com you can find that white paper from March 2022.

It was a timely topic, as Q2 turned into one of the more abysmal quarters for markets in decades. This quarter we would like to stick with the baseball theme but lighten the mood by celebrating one of our favorite sports stars of all-time, in the context of today's market environment. The player is Lou Gehrig, **the Iron Horse.**

The Iron Horse

Between 1925-1939, Lou Gehrig played in 2,130 consecutive games, a record that stood for over 56 years. He played through injuries and slumps, as well as personal challenges. This kind of reliability is unheard of today, as even the greatest players take a handful of days off each year, for various reasons. Gehrig would become known as the Iron Horse because of this famous streak.

There are two other things we love about Gehrig:

- **He wasn't a show-boater.** Gehrig was a strong-silent type, a pillar of strength and reliability. In contrast to his teammate Babe Ruth, who seemingly enjoyed off-the-field antics as much as the game itself, Gehrig was a no-nonsense player and a family man who played in every game of his career. A famous quote from Gehrig: "Lets face it. I'm not a headline guy. I always knew that as long as I was following Babe to the plate I could have gone up there and stood on my head. No one would have noticed the difference. When the Babe was through swinging, whether he hit one or fanned, nobody paid any attention to the next hitter. They all were talking about what the Babe had done." Gehrig set his records quietly.

- **He didn't strike out**. Gehrig and Ruth had about the same batting average (Ruth was two points higher). Ruth hit more home runs, but Gehrig actually drove in more runs per season, on average. But there is one key difference in the statistics of these two players: one made his career "swinging for the fence" and one made his career putting the ball in play. In fact, **Ruth was 60% more likely to strike out** than Gehrig. Ruth struck out once every 6 at bats (about average for the top 50 home run hitters), compared to once every 10 at bats for Gehrig. Amongst the top 50 all-time home run leaders, only Stan Musial and Ted Williams struck out less than Lou Gehrig. By the way, we do not mean to pick on Ruth. He was without question one of the greatest ballplayers of all time. And even Mike Trout, who most consider today's greatest player, strikes out 60% more frequently than Ruth did (Trout strikes out about once every 4 at bats). Comparing Gehrig's strikeout statistics to today's great makes them even more impressive!

Lifetime Stats

	Gehrig	Ruth	Trout
Seasons	17	22	12
At Bats	8,001	8,399	4,936
Hits	2,721	2,873	1,495
Batting Average	.340	.342	.303
Home Runs	493	714	334
Runs Batted In	1,995	2,214	867
Strike Outs	790	1,330	1,310
At Bats per Strike Out	**10.1**	**6.3**	**3.8**

The Point

Investors have become accustomed to swinging for the fence during the bull market of the past decade. In many ways, stocks like Tesla and Amazon are the home run hitters of today's market. Both have delivered extraordinary returns to their investors. **But both are also down approximately 45%** from their all-time highs. As of June 30, our strategy was down only 8.9%, far less than even investment grade bonds. And we have gained ground since then.

We believe this is a singles and double market, not a home run market. Strikeouts should be avoided at all costs. Our covered call strategy is yielding low double digits, at 35-40% less risk than the S&P 500. And like Lou Gehrig, we play every game.

Impact of Avoiding Strikeouts

Avoiding the strikeout has allowed us to protect our clients from 40% of the market's losses over the last 20 years. Over that time period, the S&P 500 has dropped more than 10% on six different occasions. On average, that drop was -21.9% Our average loss during these sex periods was -12.1%. The BXM (our primary benchmark) averaged -15.7%, affording only 28% protection. Our downside capture is actually fairly similar to that of the hedge fund index, which participates much less than we do on the upside.

	ABSOLUTE RETURN				DOWNSIDE CAPTURE		
Time Period	S&P 500	BXM	HFI*	VAM	BXM	HFI*	VAM
A) October 2007 - February 2009	-50.9%	-35.8%	-24.1%	-33.7%	70%	47%	66%
B) April 2010 - August 2010	-10.9%	-4.3%	-2.8%	-1.8%	39%	26%	16%
C) April 2011 - September 2011	-16.3%	-12.2%	-9.6%	-8.7%	75%	59%	54%
D) September 2018 - December 2018	-13.5%	-10.8%	-6.3%	-5.1%	80%	47%	38%
E) February 2020 - March 2020	-19.6%	-21.3%	-11.7%	-14.6%	109%	60%	74%
F) January 2022 - June 2022	-20.0%	-10.1%	-12.3%	-8.9%	51%	62%	45%
AVERAGE	**-21.9%**	**-15.7%**	**-11.2%**	**-12.1%**	**70.7%**	**50.1%**	**48.8%**

Q2 Review

Our covered call strategy outperformed all benchmarks handily in Q2 (-7.1% versus -10.9% for the BXM, -16.1% for the S&P 500). It was a difficult quarter for all asset classes, with investment grade bonds faring almost as badly as some equity markets. Two factors that contributed most to our outperformance over the BXM were:

- Value stocks continued to lead, as multiples compressed further for the most speculative names. VAM's strategy leans towards value.

- The escalation of the drawdown hurt the BXM more than VAM's strategy, as BXM booked approximately 2% yield per month during the quarter (higher than normal due to elevated volatility) but the S&P dropped 16% during the quarter. VAM's longer duration (and more dollars of income on the books) provided better protection during this period.

The team continues to see elevated yield due to the volatility of the market. Dividend yields remain low, and bonds are clearly no longer the stable source of income that investors have become accustomed to. This presents a great opportunity for a strategy like ours, which provides an attractive yield and strong downside protection while also allowing for higher long term returns than you can find in most asset categories.

Portfolio Highlights

Below you will find a list of the best and worst performers in the strategy for Q2. Unlike last year, the best performers were mostly defensive holdings: MRK, KMB, HD, IBM and VZ. On average, this group gained 6.4% during the quarter, and the strategy realized approximately 75% of that gain. The opportunity cost (gain not realized because the strategy is hedged) averaged 2.6% for the Top 5 winners, which pales in comparison to the average incremental return (+7.3%) the call options strategy delivered for the Top 5 losers.

Q2 2022

TOP WINNERS	Stock only	Cov Call	Incremental		Time Value Remaining	Contract
Merck (MRK)	12.0%	4.9%	-7.1%		11.3%	Jan-23
Kimberly Clark (KMB)	10.8%	6.5%	-4.3%		3.8%	Jan-23
Home Depot (HD)	4.7%	2.9%	-1.9%	2.6% Opportunity	-	Closed
Int'l Bus Machines (IBM)	3.5%	3.8%	0.2%	cost from calls	2.7%	Aug-22
Verizon (VZ)	1.0%	1.1%	0.1%		3.3%	Jan-23
Average	**6.4%**	**3.8%**	**-2.6%**		**5.3%**	

TOP LOSERS	Stock only	Cov Call	Incremental		Time Value Remaining	Contract
General Electric (GE)	-28.0%	-20.5%	7.5%		-	Closed
Meta Platforms (META)	-27.5%	-22.0%	5.5%	Avg incremetnal	1.1%	Oct-22
Intercont. Exch (ICE)	-27.0%	-18.9%	8.1%	return of 7.3%	-	Closed
Cisco Systems (CSCO)	-22.9%	-15.5%	7.5%		4.1%	Jan-23
Apple (AAPL)	-21.6%	-13.6%	8.0%		5.3%	Jan-23
Average	**-25.4%**	**-18.1%**	**7.3%**		**3.5%**	

MIDDLE OF PACK	Stock only	Cov Call	Incremental		Time Value Remaining	Contract
Abbvie (ABBV)	-4.7%	-1.4%	3.2%		5.6%	Jan-23
Dominion (D)	-5.2%	-1.2%	4.0%		5.1%	Jan-23
Kinder Morgan (KMI)	-10.1%	-6.4%	3.7%	Avg incremetnal	4.6%	Dec-22
3M Company (MMM)	-12.1%	-8.2%	4.0%	return of 4.6%	1.5%	Oct-22
Microsoft (MSFT)	-16.5%	-11.4%	5.1%		4.6%	Jan-23
Walmart (WMT)	-17.7%	-11.6%	6.1%		1.8%	Sep-22
Average	**-12.3%**	**-7.7%**	**4.6%**		**3.5%**	

The last group listed above represents the "middle of the pack" (stocks that were neither the best nor worst performers in Q2). These names all have losses during the quarter, ranging from -4.7% to -17.7%. The covered call positions were additive to these stocks in every case, with an average incremental return of 4.6% for the quarter.

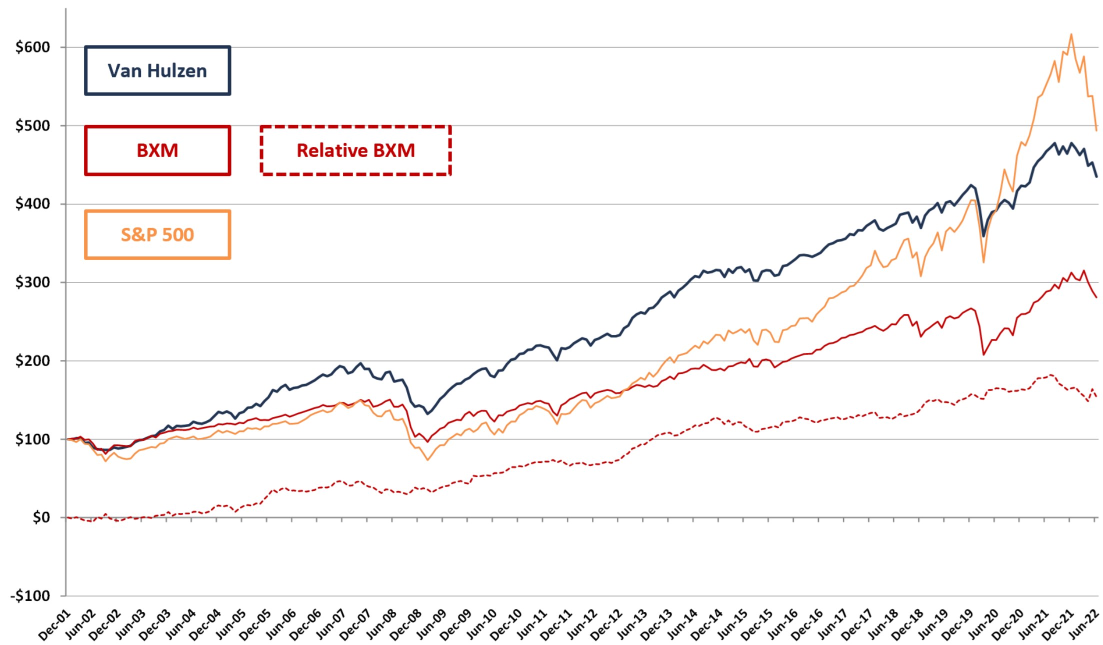
There is currently 3-5% of time value (duration yield) on the books for each individual position, which will be realized over the next 4-6 months. This is income that has been collected but not yet realized as profits. The total annualized yield is 10%+ and the current net long is 62%.

The team believes markets will continue to remain choppy, so the extra income will continue to benefit our clients.

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 06/30/2022)



Returns (annualized)*	Jun 2022	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	-4.0%	-7.5%	-8.9%	-8.9%	-7.0%	2.7%	4.1%	4.8%	6.7%	7.4%
Van Hulzen (Net)	-4.0%	-7.7%	-9.2%	-9.2%	-7.5%	2.1%	3.5%	4.2%	6.0%	6.6%
BXM	-2.9%	-10.9%	-10.2%	-10.2%	-2.6%	3.3%	4.1%	5.2%	5.9%	5.2%
Difference (Gross-BXM)	-1.1%	3.4%	1.2%	1.2%	-4.3%	-0.7%	0.0%	-0.4%	0.8%	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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