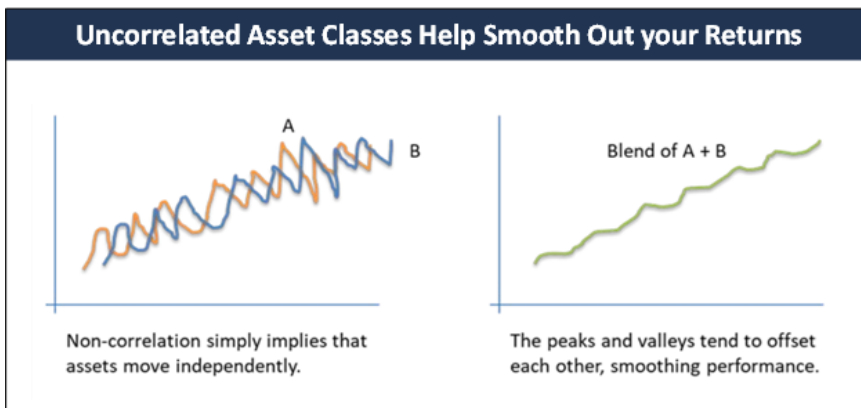


Death of the 60/40 Portfolio? The Case for Using Covered Calls To Meet Your Objectives

Diversification has always been one of the key risk management tools available to investors. And for decades, a simple “balanced account” of 60% stocks and 40% bonds was just what the doctor ordered. Over the past 40 years (1982-2021), this strategy helped smooth out your returns and delivered an impressive 10%+ return.



Last 40 Years (Since 1982)	
Stocks	12.0%
Bonds	7.4%
60/40	10.2%

But what if both of these asset classes are predicted to struggle? Consider the forecasts as of January 2022.

Forecasted Returns By Asset Class			
	Date	U.S. Equities	U.S. Bonds
BlackRock	September 21	6.7 ¹	1.6
J.P. Morgan ²	September 21	4.1	2.8 ³
Morningstar Investment Management	December 21	1.6	1.6
Research Affiliates	December 21	1.6 ⁴	2.1
Vanguard	September 21	3.3	1.9

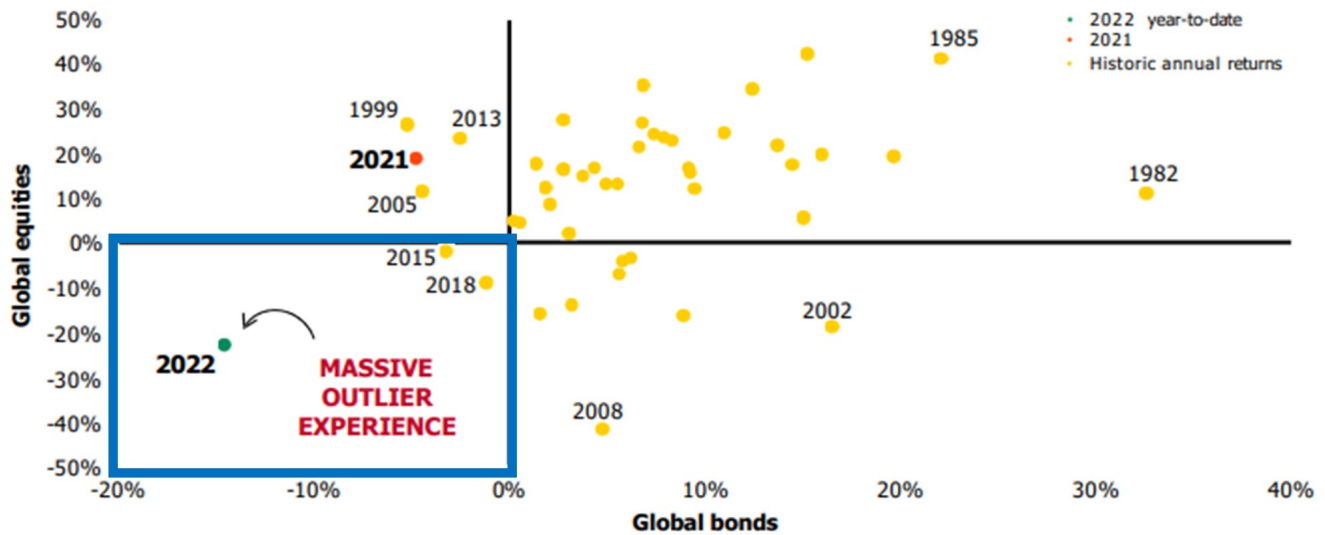
Source: Morningstar, Jan 2022

7-10 Year Forecast:	
Stocks	3.5%
Bonds	2.0%
60/40	2.6%



Since the sell-off, these forecasts have no doubt come up a bit, but they are still nowhere near their historical levels. With inflation now in the mix, we are officially in a new environment, which looks particularly difficult for bonds. Investors may need to search elsewhere for reliable yield.

You might think that stocks and bonds losing ground at the same time is incredibly rare. And it has been, historically, occurring only three times in the last 45 years (only 6.6% of the time). But those three instances have ALL occurred in the past seven years.



A tumultuous six months has hurt investors across the risk spectrum

Sources: BlackRock Investment Institute with data from Refinitiv Datastream and Bloomberg, 6/16/2022. Notes: The chart shows annual returns for global equities and bonds in U.S. dollar terms from 1977 -2021. Index proxies are the MSCI All-Country World index for equities (MSCI World before 1988) and Bloomberg Global Aggregate index for bonds (U.S. Aggregate before 1991). *The 60/40 portfolio is comprised of U.S. bonds represented by the IA SBBI US Gov IT Index from 1/1/26 to 1/3/89 and the Bloomberg U.S. Agg Bond TR Index from 1/3/89 to 5/31/22. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 5/31/22 and the IA SBBI U.S. Lrg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Have things fundamentally changed? Have these uncorrelated asset classes really become more correlated? Alliance Bernstein says yes. In June, they published [a thoughtful white paper](#) about historical stock/bond correlations and whether these two asset classes can sustain their diversification benefits in a regime of higher inflation. And within it they make a couple of key points.

1. “The first realistic prospect of higher equilibrium inflation in decades — and higher inflation volatility — fundamentally changes bonds’ ability to diversify equity risk.”
2. “Diversifying portfolio risk will likely require a significant reallocation for portfolios that had been relying on the stock-bond dynamic as the key engine for diversification.” This second conclusion is an alley-oop for a covered call strategy.

Using Covered Calls to Meet your 60/40 Objectives

Can covered calls be used to meet your 60/40 objectives? Based on the last 20 years, our answer is a resounding yes.

Over our 20+ year track record, and including this year’s selloff, we have used them to outperform a 60/40 split between the S&P 500 and the High Yield Bond index by 40 basis points per year. And this was done during the most exaggerated half of an epic 40-year bull market (1982-2021), with a strong growth bias and relatively low volatility, and with 22% less risk (lower standard deviation) than this custom benchmark.

Risk/Return	Return	Std Dev
Van Hulzen	7.4%	9.2%
S&P 500	8.1%	14.9%
High Yield Bonds	5.0%	9.3%
60-40 Portfolio	7.0%	11.8%

Inception date: 12/31/2001—06/30/2022

We've also done this without the interest rate risk associated with bonds and the credit risk associated with high yield bonds. Our holdings are extremely high quality and carry much less leverage than our benchmarks, and little-to-no default risk (as defined by the Merton Model).

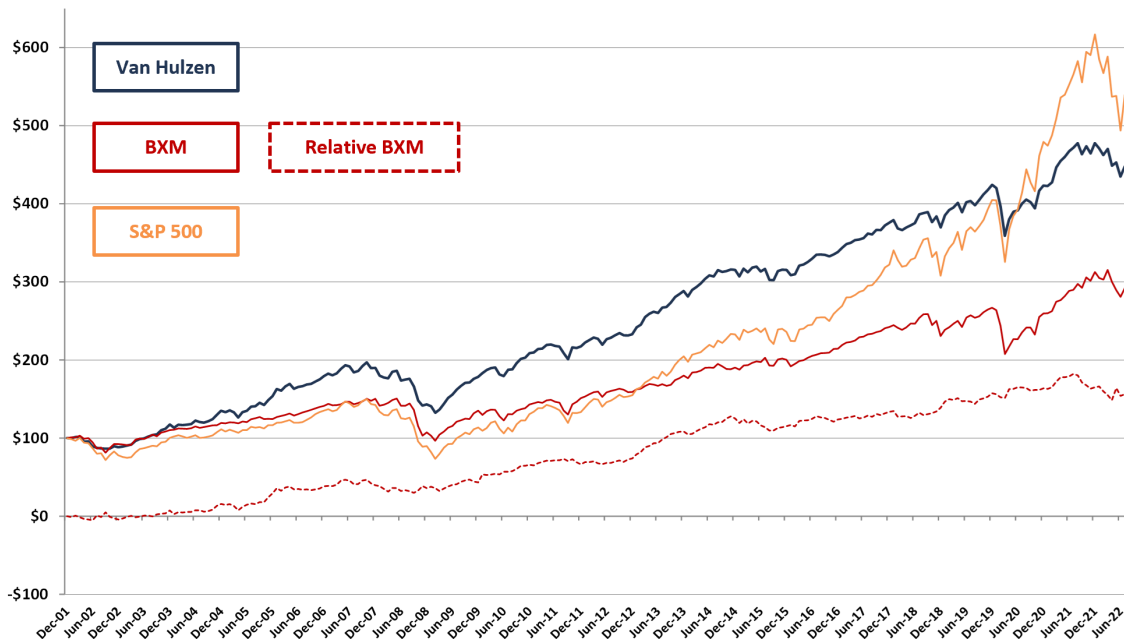
In Summary

We are confident that our covered calls strategy can continue to be used safely and effectively to meet your 60/40 portfolio objectives. Over the past 20+ years we have used them to outperform the custom 60/40 benchmark. If economists are correct that the next decade will see more volatility and lower returns, with value stocks gaining ground on growth, then we should do even better going forward.

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 07/31/2022)



Returns (annualized)*	Jul 2022	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	3.0%	-0.2%	-4.9%	-6.2%	-5.1%	3.5%	4.4%	5.1%	7.0%	7.6%
Van Hulzen (Net)	2.9%	-0.3%	-5.2%	-6.6%	-5.6%	3.0%	3.8%	4.5%	6.3%	6.7%
BXM	3.9%	-2.9%	-4.3%	-6.7%	0.7%	4.3%	4.6%	5.3%	6.2%	5.3%
Difference (Gross-BXM)	-0.9%	2.7%	-0.6%	0.5%	-5.8%	-0.8%	-0.2%	-0.3%	0.8%	2.2%

*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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