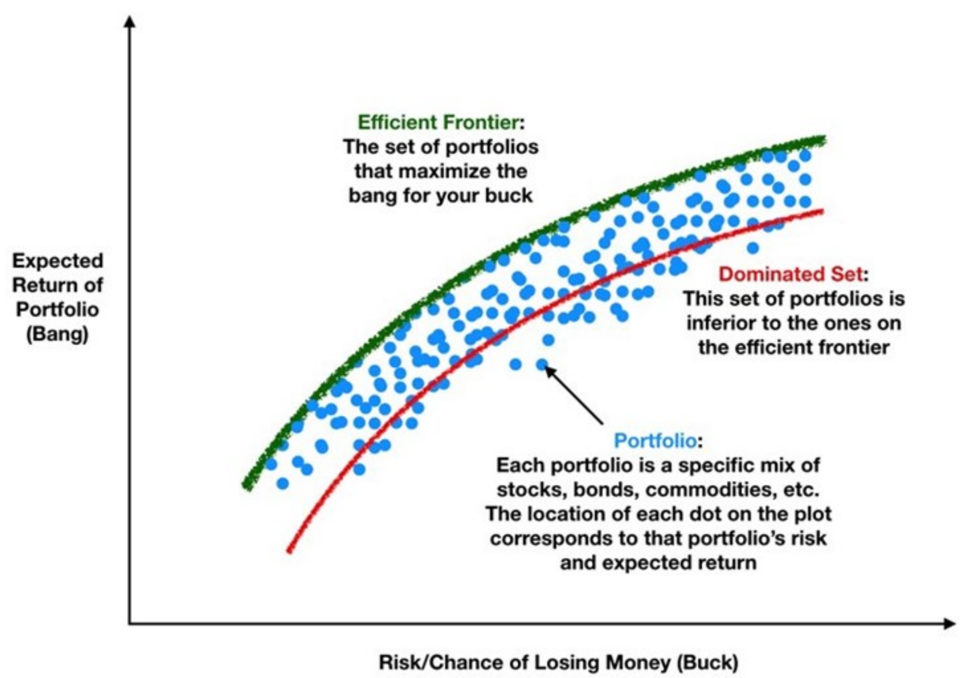
Covered Call Commentary

August | 2022

Van Hulzen's Covered Call Strategy: Reaching The Efficient Frontier

Brief Trip Back To Finance 101

Efficient frontier theory, introduced by Nobel Laureate Harry Markowitz in 1952, is a way of looking at investments on a risk-adjusted basis. Simply put, the efficient frontier can be described as the maximum "bang" a portfolio can get for its "buck" at different risk levels. More specifically, it is the set of optimal portfolios that offer the highest expected return for a defined level of risk or the lowest risk for a given level of expected return. Portfolios that lie below the efficient frontier are sub-optimal because they do not provide enough return for the level of risk.



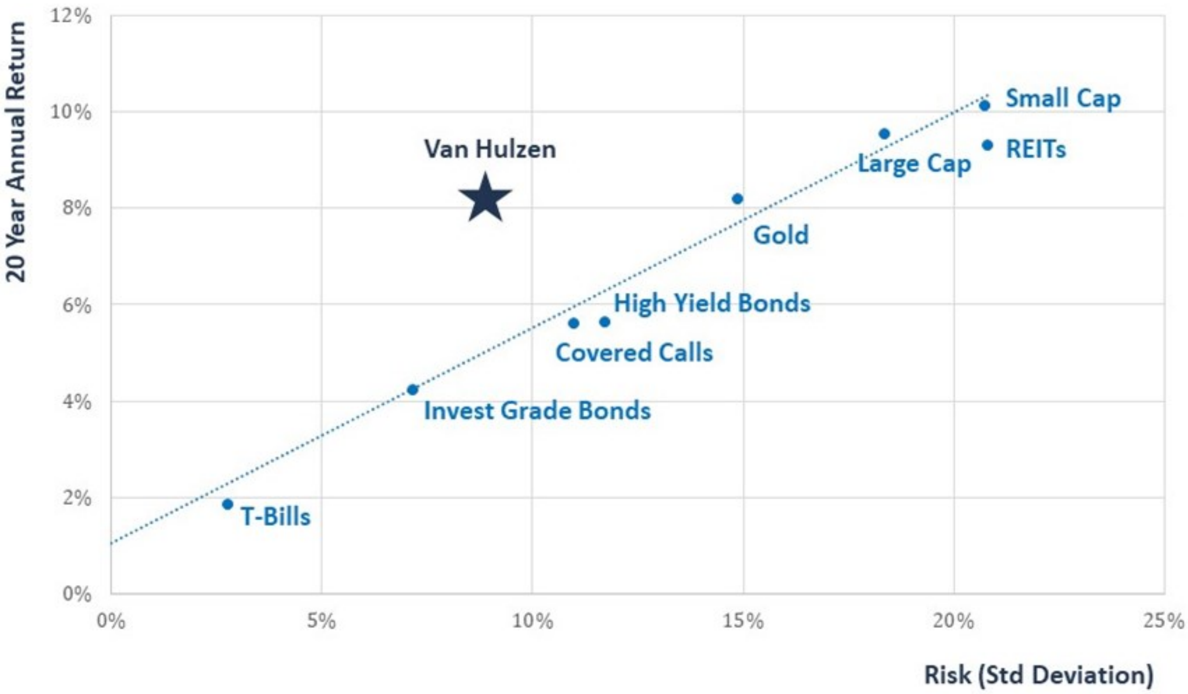
Source: www.towardsdatascience.com

In reality, very few portfolios sit on the efficient frontier because human emotions are involved in investing, and people often take either too much risk or not enough risk to optimize their performance. And, of course, many active managers under-perform their benchmarks.

Reaching The Efficient Frontier

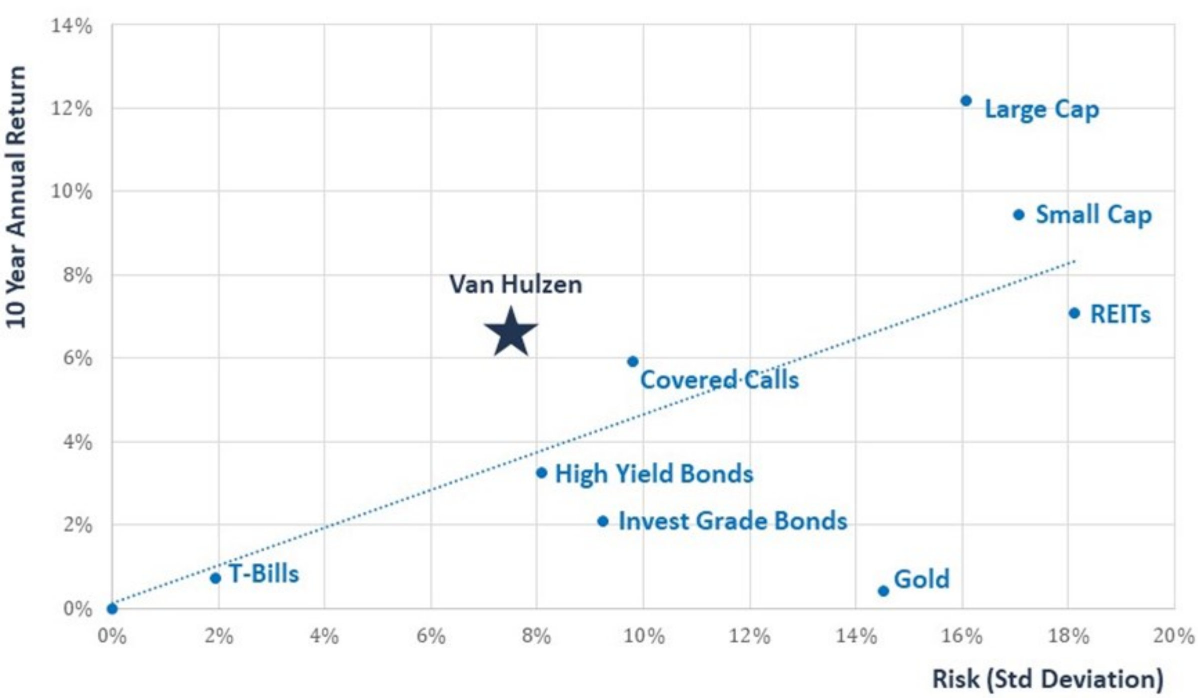
As you know by now, our approach to investing incorporates rigorous risk management, and our strategy is designed to beat the "market line" and push up towards the efficient frontier. Consider two periods of time: the last 20 years and last 10 years, charted below. We launched our strategy in January 2002, so all performance is actual. Data is through July 31, 2022.

20 Years



Data source: Portfoliovisualizer.com (T-Bills: Vanguard Short Term Treasury Fund (VFISX); Invest Grade Bonds: iShares Investment Grade Corporate Bond ETF (LQD); High Yield Bonds: Vanguard High Yield Corporate Fund (VWEHX); Gold: SPDR Gold Shares (GLD); Large cap: Vanguard 500 Index Fund (VFINX); Small Cap: Vanguard Small Cap Index Fund (NAESX); Vanguard REIT Index Fund (VGSIX

10 Years



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<u>Some Key Observations</u>:

- The 20year chart appears very orderly and intuitive, as it includes several bull markets and several bear markets. Generally speaking, the more risk investors took, the more they could expect to earn. Small caps did the best.

- The 10year chart is more complicated and speaks to the “risk-on” environment that was encouraged by recent Fed policy. Large caps out-performed small caps over the past 10 years, as (long duration) big tech dominated all other asset classes. Also, high yield bonds had a lower standard deviation than investment grade bonds (!!), and the risk-averse precious metals basically returned zero. The past 10years were unlike an decade we’ve ever seen.

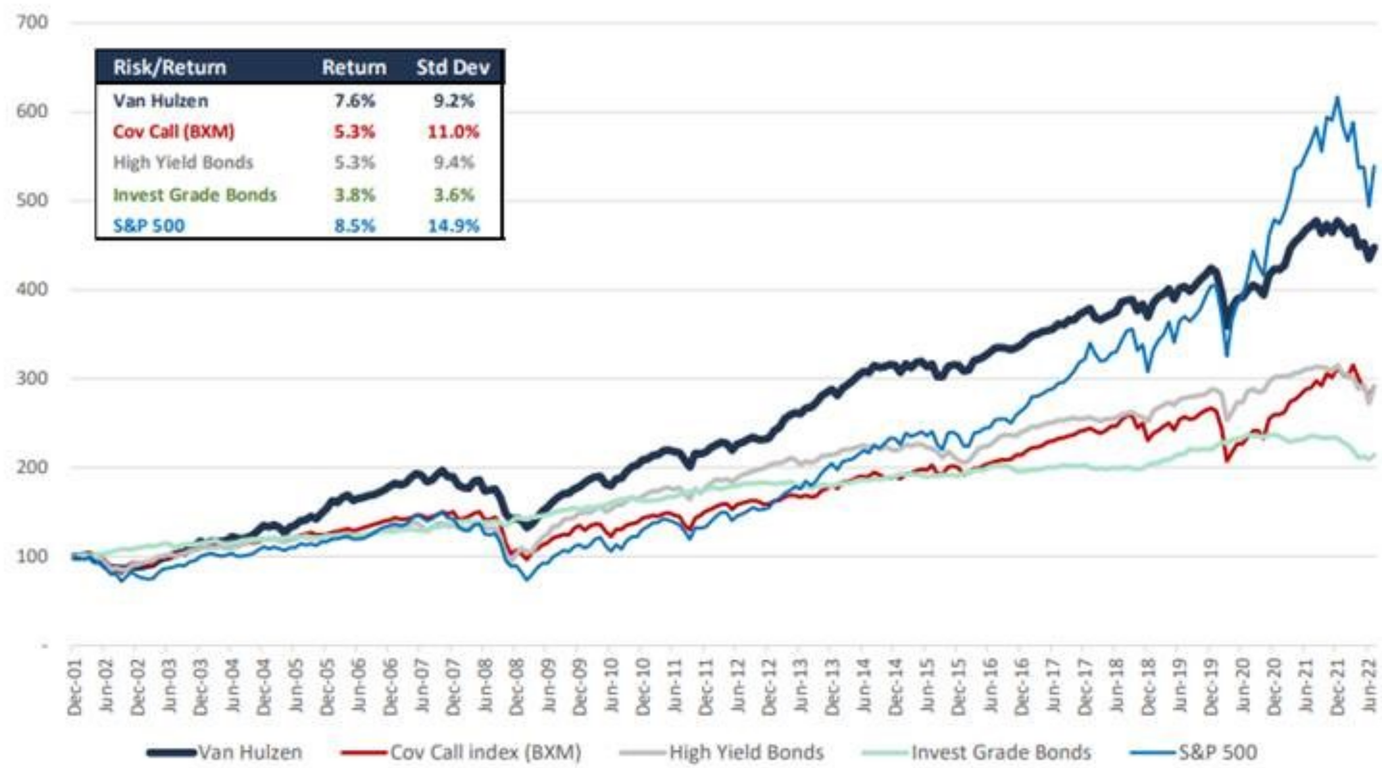
- Our strategy delivered a very strong risk-adjusted return in both periods, plotting well above the market regression line.

- Our 20year standard deviation comes in lower than all categories except T-bills and investment grade bonds. And our 10year standard deviation is lower than all categories except T-bills.

- Our strategy also offers the highest yield of any category presented. We target 6-8% yield but are getting yields closer to double digits with today’s elevated market volatility.

We believe quality, income and protection are more important now than ever. And we are seeing more and more interest in our strategy as a fixed income alternative. We believe this makes a lot of sense, as our risk profile is actually lower than high yield bonds, and we do not tolerate credit risk (our average credit rating is Single A versus B+/BB- for the high yield bond index).

Whether you see us as a hedged equity solution or a fixed income alternative, we welcome your inquiry.

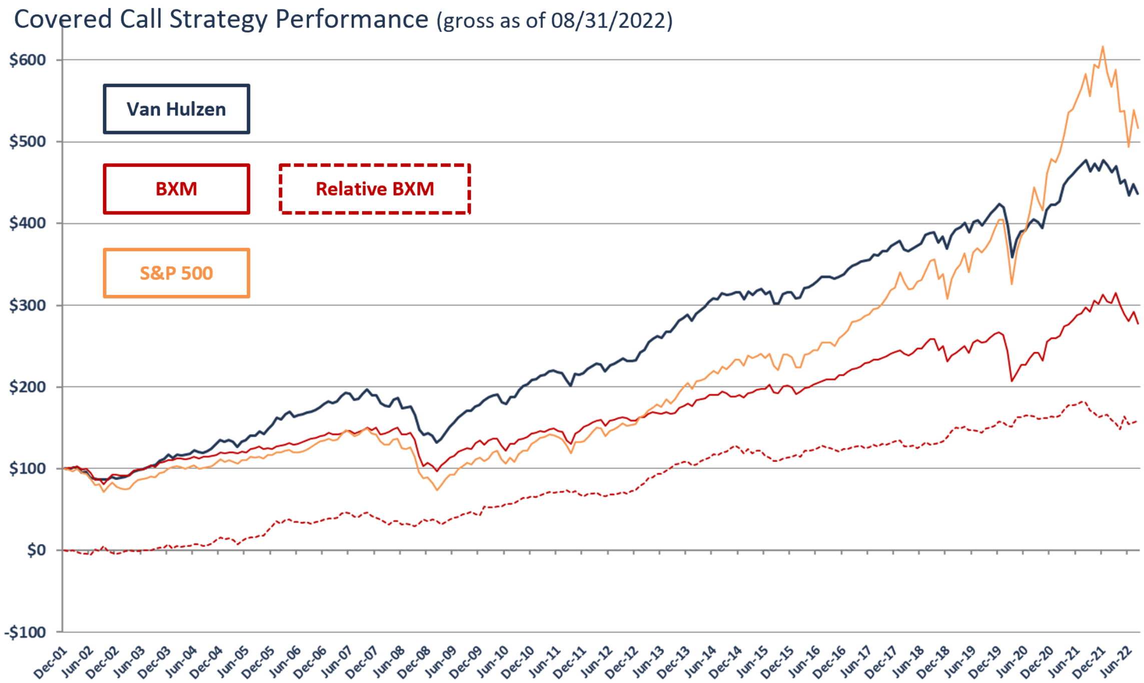


Our Strategy Has The Same Long Term Risk Profile As High Yield Bonds, But With 2.3% Higher Annual Returns And None Of The Credit/Default Risk

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.

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)*	Aug 2022	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	-2.6%	-3.7%	-5.7%	-8.7%	-8.7%	3.1%	3.9%	5.4%	6.5%	7.4%
Van Hulzen (Net)	-2.6%	-3.9%	-6.0%	-9.0%	-9.2%	2.5%	3.3%	4.8%	5.8%	6.5%
BXM	-4.8%	-3.9%	-8.3%	-11.2%	-6.6%	3.0%	3.5%	5.3%	5.6%	5.1%
Difference (Gross-BXM)	2.2%	0.2%	2.6%	2.5%	-2.1%	0.1%	0.3%	0.0%	1.0%	2.3%

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