VAN HULZEN ASSET MANAGEMENT

For Investment Professionals Only

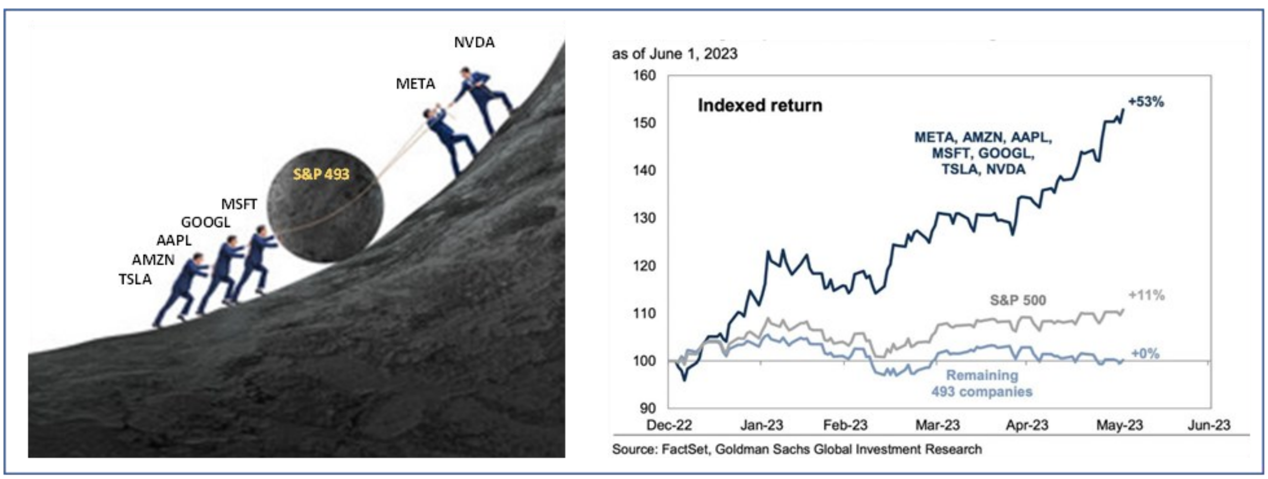
## Covered Call Commentary

May| 2023

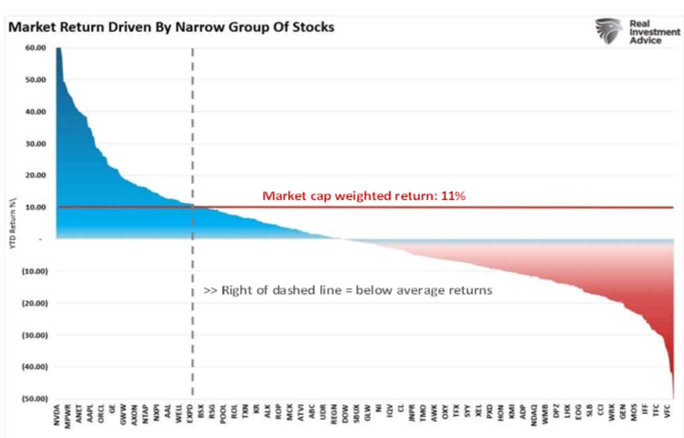
### The Tech/Cash Barbell


*Big Tech & Market breadth*

The market is up nearly 14%! If you are a big tech investor or even an S&P 500 indexer, it's time to celebrate! If not… well, you're likely way behind. As unbelievable as it sounds, the top seven tech stocks have accounted for the ***entire*** S&P 500 return year to date. The other 493 stocks? On average, nothing. A lot has been said about the AI trade, but the reality is these names had dominated long before the "AI craze" went viral. Can these top seven continue to pull the entire market up? History says these types of trends do not last. So there are trading opportunities on both the long side (riding the trend) and the short side (calling the top). But good luck timing these trades.




More on market breadth: More than 75% of the stocks in the S&P 500 have underperformed the index year to date. In a market with normal breadth, this percentage would be around 50%. Today's market breadth is not healthy. This kind of top-heavy dominance didn't bode well in the early 70s or the late 90s, and it doesn't bode well today.




*Source: realinvestmentadvice.com*

**5% Cash**

On the other end of the risk spectrum, cash now yields more than 5%! If you invest in money market funds, that is. Most banks still pay next to nothing on deposit balances. The Fed's interest rate hikes have seriously juiced the return you can get on idle cash. And more and more investors are moving into money market funds to take advantage of these higher rates.

**Barbell approach**

More and more, it seems investors are taking a barbell approach: Big tech on one end and short-term treasuries on the other. But to us, both sides of this barbell could be short lived. The AI trend will cool off eventually, and interest rates have proven they have a mind of their own. We prefer to stick to our knitting.

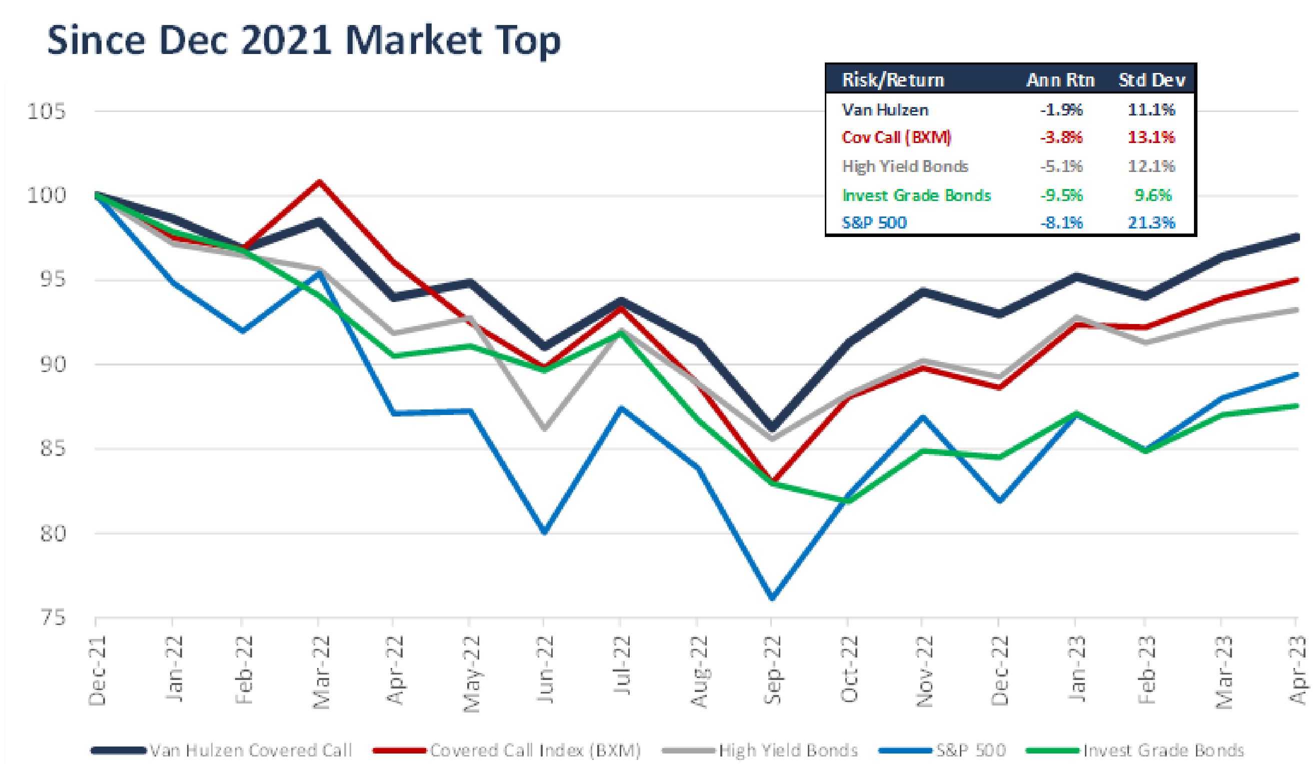
**What happened to the dividend trade?**

Dividend stocks dominated the market last year (i.e. they lost less than their growth counterparts). But this year, dividend stocks are actually negative. The S&P dividend ETF (ticker SDY) was -2.5% YTD as of June 12. These stocks are simply out of favor right now. They have no place on the barbell.

**Our approach?**

With respect to the barbell approach above, we don't chase trends and we don't like interest rate risk. We are doing what we've always done. We own stock in high quality companies with great management teams, strong ROIs and low debt. And we sell call options on the portfolio to add incremental yield and downside protection. Our high yielding covered call strategy is approximately **+7% year to date**, despite its dividend focus on strong value tilt. That's leaps and bounds ahead of the dividend index .

And since the market top in Dec 2021, we have outperformed all major asset classes, with the second lowest standard deviation (second only to investment grade bonds). We have nearly clawed our way back to break even, while the S&P remains 10.6% below its high-water mark. See below.



**Quality Growth**

We do own some growth names in our portfolio. Of the "Big 7," Apple, Microsoft & Google are core holdings, whereas names like TSLA and NVDA simply have too much potential downside to be attractive covered call candidates. But even with these growth names, we are happy to trade away what we deem "excess" price upside (based on our fundamental valuation work) in exchange for current period income. That's been our approach for over 21 years, and it has allowed us to capture 90% of the S&P 500's return (7.5% annualized vs 8.3%), while taking 39% less risk (based on standard deviation). There are periods we will fall behind the major indices, but for the long-term investor, we believe our Alpha speaks for itself:

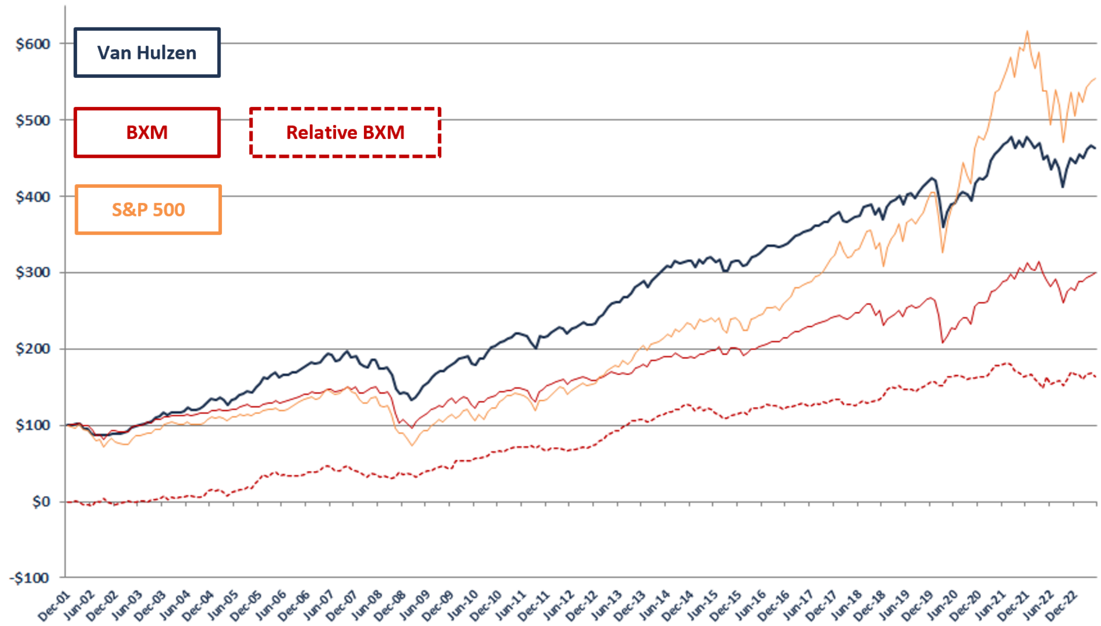
| **Alpha** | **Relative to...** | | | |
|---|---|---|---|---|
| a = Rp – [Rf + (Rm – Rf) ß] | | | | |
| | **CC Index** | **High Yield** | **Inv Grade** | **S&P 500** |
| Rp = Realized return of portfolio | 7.5% | 7.5% | 7.5% | 7.5% |
| Rm = Market return | 5.2% | 5.2% | 3.4% | 8.3% |
| Rf = risk-free rate | 5.0% | 5.0% | 5.0% | 5.0% |
| ß = Beta | 0.7 | 0.7 | 2.4 | 0.5 |
| **Alpha** | **2.3%** | **2.3%** | **6.3%** | **0.7%** |

*Performance period: Dec 2001-April 2023*

**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 05/31/2023)




| Returns (annualized)* | May 2023 | 3M | 6M | YTD | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years | Inception |
|---|---|---|---|---|---|---|---|---|---|---|
| Van Hulzen (Gross) | -0.7% | 3.1% | 2.8% | 4.3% | 2.2% | 5.9% | 4.5% | 5.2% | 5.9% | 7.4% |
| Van Hulzen (Net) | -0.7% | 3.0% | 2.5% | 4.1% | 1.7% | 5.3% | 3.9% | 4.6% | 5.2% | 6.6% |
| BXM | 1.0% | 4.0% | 6.8% | 8.2% | 3.7% | 9.7% | 4.0% | 5.7% | 5.9% | 5.3% |
| Difference (Gross-BXM) | -1.6% | -0.9% | -4.0% | -3.9% | -1.5% | -3.8% | 0.5% | -0.6% | -0.1% | 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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