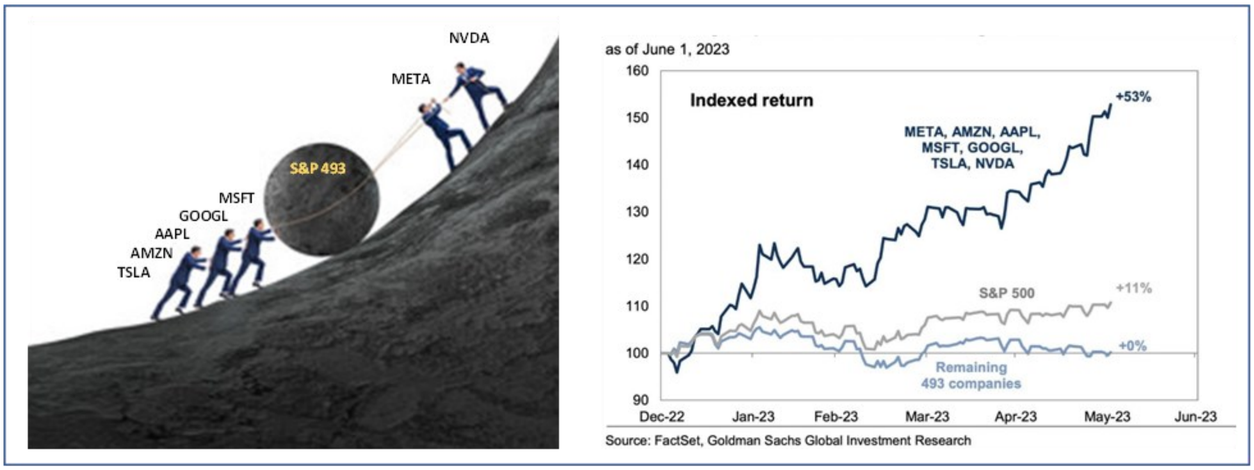
Covered Call Commentary

August| 2023

Dispersion Continues...But Market Breadth is Improving

Lookback to June

In our Q2 commentary, we highlighted the dispersion between the so-called Magnificent 7 stocks (the seven largest stocks, which have all benefited from the hot "AI" trend) and the rest of the S&P 500 (the other 493 stocks). As of that date, the Mag 7 was up 53% while the other 493 had a 0% return, including dividends. See below.



Update Through August

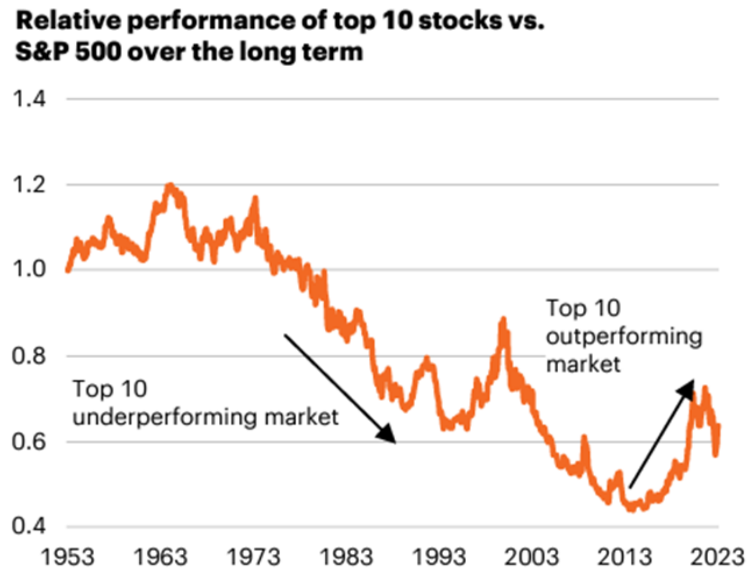
This trend continued through most of the summer. We did see a small pullback in August, although most of the Mag 7 have since rebounded and are once again near all-time highs (Apple being the weakest name of the group, based on growth concerns related to China). As a result, market dispersion has widened even further. Through the first week of September, the median 2023 return of the Mag 7 (which represent 28% of the S&P 500 weighting) has increased to a whopping 70%! The median for the other 493 S&P stocks is now 4.6%.

S&P 500 ATTRIBUTION

	Market Cap ($bn)	Index Weight	2023 YTD Return
Apple	$ 2,807	7.4%	38.8%
Microsoft	$ 2,512	6.5%	42.0%
Alphabet	$ 1,729	4.0%	55.2%
Amazon	$ 1,476	3.3%	70.4%
Nvidia	$ 1,115	3.2%	209.3%
Tesla	$ 866	1.8%	122.1%
Meta	$ 791	1.7%	155.6%
Magnificent 7	**$ 1,476**	**28.0%**	**70.4%**
Other 493	**$ 31**	**72.0%**	**4.6%**

Trends Like These Can Last A Long Time But Not Forever

Although we have become accustomed to market concentration in recent years, historical data suggests these trends do not last. Perhaps surprisingly, the Top 10 stocks have actually ***under-performed*** the S&P 500 over the long term (see graphic below). The concentration of the 50s & 60s (the days of the infamous "Nifty 50") completely unwound during the 70s & 80s. And the concentration of the late 90s unwound even faster. Most of today's investment professionals do not remember the former period, and unless you are over 50 years old, you were most likely not active during the latter period, either. It's important to acknowledge recently bias.



Source: FS Investments, Bloomberg Finance, L.P., as of April 30, 2023.

Some Promising Signals

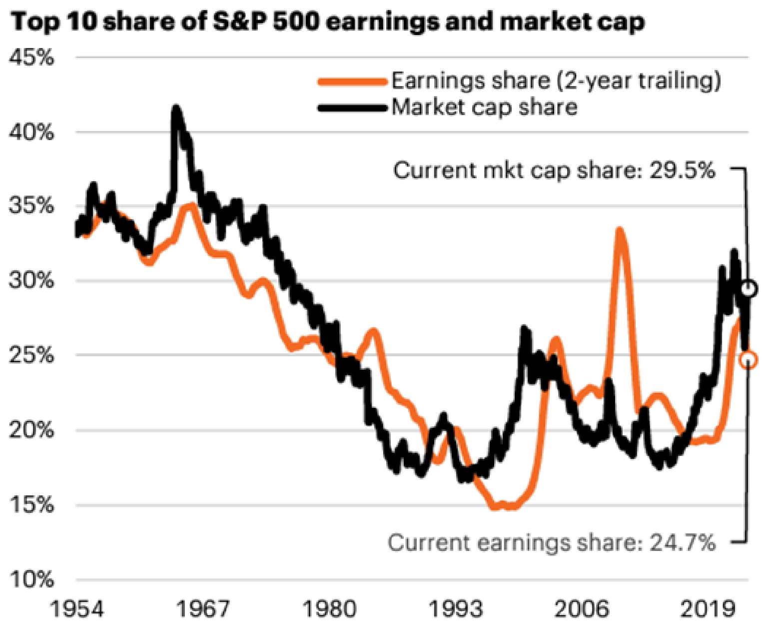
There are, however, some promising signals in the recent data.

1. **Market Breadth**. Market breadth is finally improving. Whereas the median company outside of the Mag 7 had a 0% return back in June, this has now risen to 4.6%. And while this seems paltry compared to the 70% median return of the Mag 7, it's no longer zero and has improved over just a few months. There are some big winners outside of Mag 7, and they are not all in tech. The Top 10 "non-Mag 7" list includes two cruise lines, a home builder, and two healthcare companies. And these returns are not insignificant. This is a positive development.

Top 10 "Non-Mag 7"

	Index Weight	2023 Return	Sector
Royal Caribbean	0.1%	98%	Cruise lines
Carnival Corp	0.0%	92%	Cruise lines
Palo Alto Networks	0.2%	81%	Cyber security
Pulte Group	0.0%	81%	Home builder
Salesforce	0.6%	70%	Software
West Pharma	0.1%	69%	Life sciences
Adobe	0.7%	68%	Software
Eli Lilly	1.2%	64%	Pharma
Advanced Micro	0.5%	63%	Semiconductors
LAM Research	0.3%	60%	Semiconductors

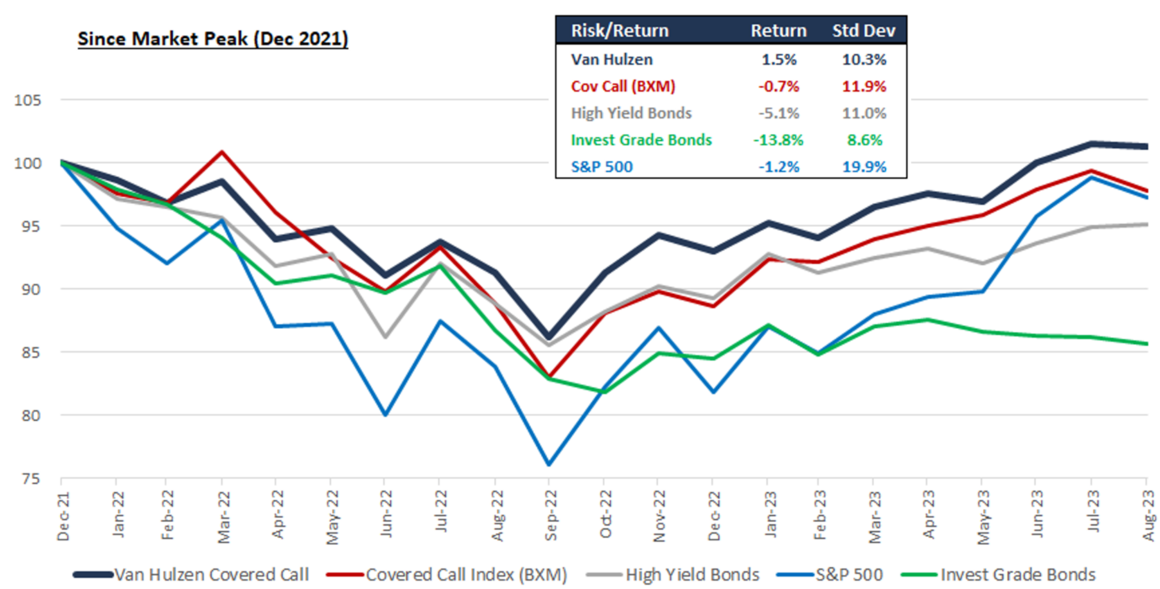
2. **Real Cash Flows**. Secondly, there are real earnings and cashflows underpinning today's lofty valuations. The largest companies are also the most profitable companies. The average Cash Flow ROI of the Mag 7 is nearly 18% versus just 12% for the entire S&P 500. And the top 10 stocks (representing 29.5% of the US market cap) are contributing nearly 25% of the earnings. This was not true in the late 1990s, when the earnings contribution of the Top 10 lagged its market cap weight by approximately 12%. See below. Conclusion: Today's market is not cheap, but it's nowhere near as expensive as the tech bubble of the late 1990s.



Source: FS Investments, Bloomberg Finance, L.P., as of April 30, 2023.

Some Key Takeaways

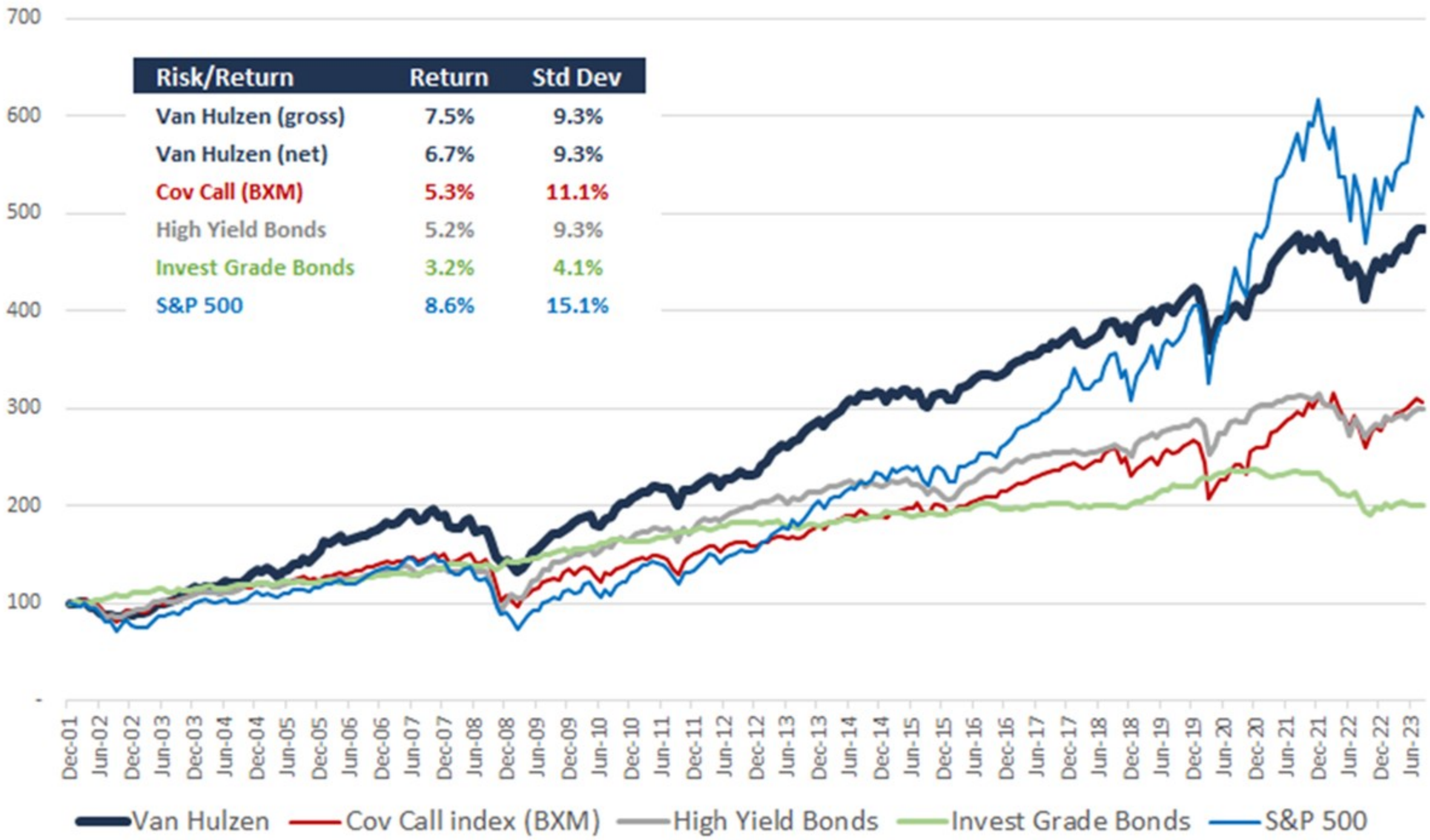
- Empirical data suggests that trends such as Mag 7 can last a long time but not forever.
- While fund managers may continue to pile into these names in an attempt to "catch-up," a disciplined long-term approach does not allow for trend chasing.
- We own the three Magnificent 7 names that pass our investment criteria, and we use call options to add critical downside protection to these names.
- Our approach is working. Our strategy achieved new all-time highs last month, while all of our benchmarks are still under water. See below (20 months ending August 31). Returns are Net



Risk/Return	Return	Std Dev
Van Hulzen	1.5%	10.3%
Cov Call (BXM)	-0.7%	11.9%
High Yield Bonds	-5.1%	11.0%
Invest Grade Bonds	-13.8%	8.6%
S&P 500	-1.2%	19.9%

Long Term Track Record

21+ Years, Dec 2001 – August 2023

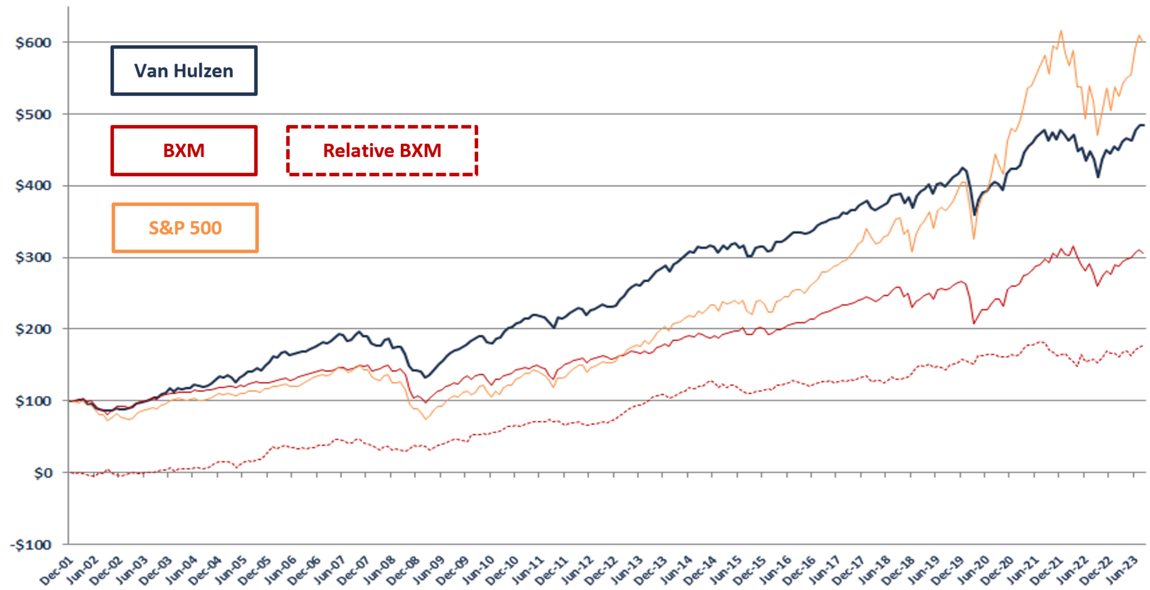


Note: There is no assurance that the Strategy will achieve its investment objectives. The use of covered call strategies does not ensure profits or guarantee against losses. VAM returns are presented gross of fees.

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.

Covered Call Strategy Performance (gross as of 08/31/2023)



Returns (annualized)*	Aug 2023	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	-0.3%	4.4%	7.7%	8.9%	10.9%	6.1%	4.5%	5.4%	6.1%	7.5%
Van Hulzen (Net)	-0.3%	4.3%	7.4%	8.5%	10.3%	5.5%	3.9%	4.8%	5.5%	6.7%
BXM	-1.6%	1.9%	6.0%	10.3%	10.0%	8.2%	3.4%	5.6%	6.2%	5.3%
Difference (Gross-BXM)	1.3%	2.5%	1.7%	-1.4%	0.8%	-2.1%	1.1%	-0.2%	-0.2%	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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