Covered Call Commentary

February | 2024

Stepping Off the Rollercoaster

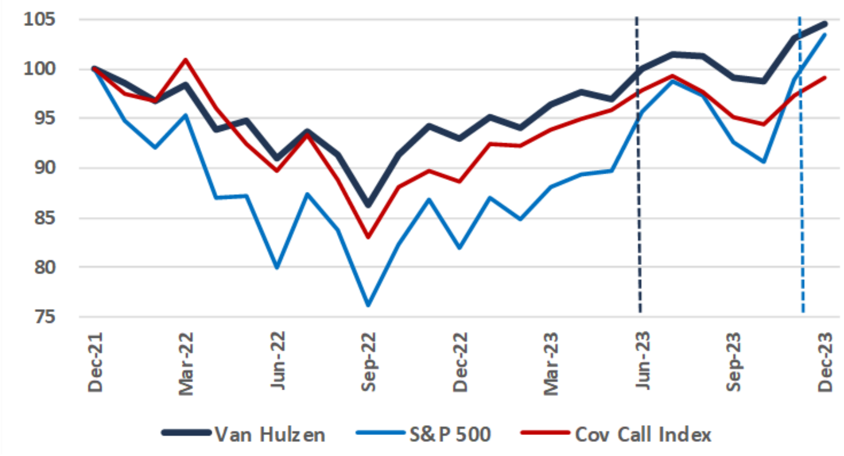
Stocks have just been on a volatile round trip that is reminiscent of the ups and downs of a Six Flags roller coaster. Adrenaline junkies love the thrill of the peaks and valleys, but *most* people can think of nothing but surviving these rides.

Markets are no different. Some people like the excitement of the NASDAQ. They enjoy the thrill of the ride up in markets, despite the possibility of huge losses during market weakness. But more conservative investors can think of nothing other than getting back to break even during these downdrafts.

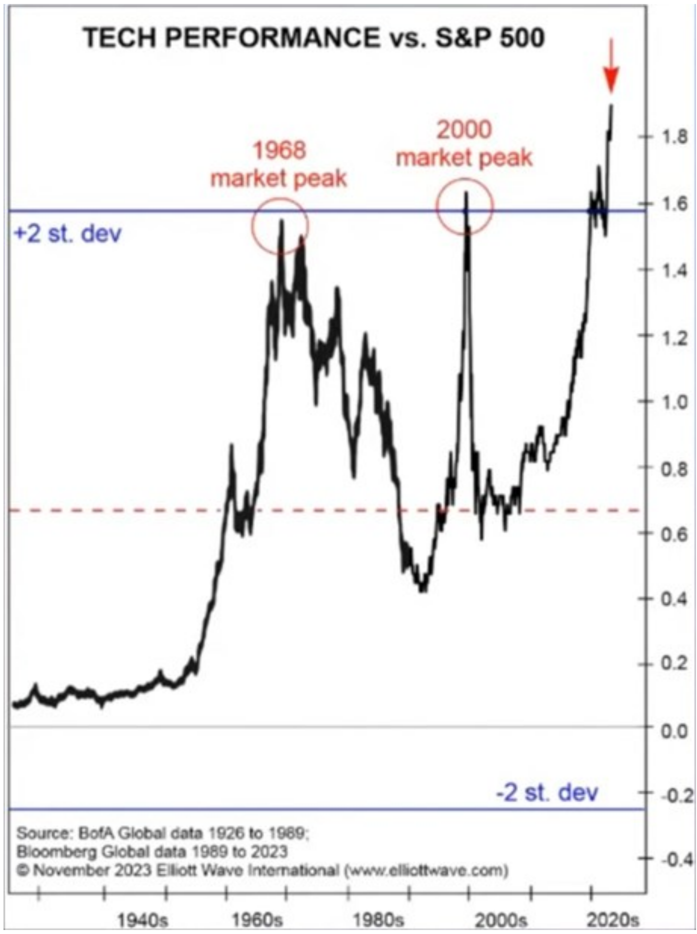
Of course, there is a place for both of these styles in a diversified portfolio. But as covered call investors, we prefer certainty over uncertainty. This is why we load our portfolios up with income and downside protection. And we pride ourselves on getting back to new highs well ahead of the overall market. In fact, in the six largest pullbacks over the past two decades, our strategy broke even (achieved new highs) faster than the S&P 500 in all but one period, with the Fed-induced 2020 whip saw being the only exception.

Two Year Look-Back

Now (after a full round trip in the S&P) is the perfect time to look back and appreciate the results. Over the past two years, the S&P 500 dropped nearly 24% in the first nine months of 2022 and needed a 36% rally to get back to break-even, which it achieved in December of 2023 (15 months later). Our strategy, in contrast, pulled back just 13.8% and was able to achieve a new all-time high in just 9 months. Looking back exactly two years later (Dec 2021-Dec 2023), we were +4.5% vs +3.4% for the S&P. What we believe our clients appreciate most, however, is the path we took to get there. Our standard deviation over the 24 month period was 10.0%, roughly half of the 19.7% for the S&P. It's also worth noting that the CBOE covered call index (ticker BXM) still had not broken even as of December 2023. See below.



Speaking of Roller Coasters...



Speaking of rollercoasters, we are currently witnessing what you might refer to as a "once in a generation" technology boom. And it's important to put it in the context of history.

IBM and the rest of the Nifty Fifty nearly reached the two standard deviation mark (relative performance of tech stocks versus the S&P 500) back in 1968, after which time technology stocks underperformed for nearly two decades.

Microsoft, Cisco and Intel pushed tech stocks over this critical (two standard deviation) threshold again in early 2000, before the infamous market crash.

But as you can see in the accompanying chart, neither peak compares to the levels achieved during the current AI rally.

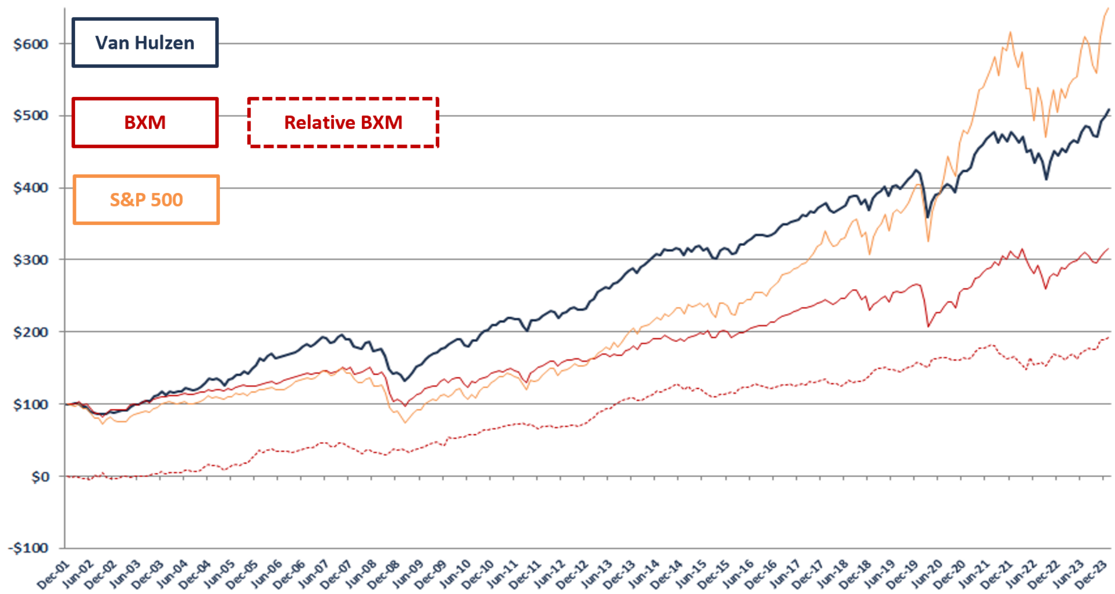
This is not to say the value created in these periods is artificial. Enormous value was created! The technologies developed by IBM and Microsoft have provided some of the foundations for today's advances. But investors can get a little too enthusiastic at times, bidding these stocks to the moon. And these periods are often followed by an overreaction on the downside as well. This results in enormous volatility, on the upside and downside. This is tolerable for the thrill seekers of the world, but unsettling for the more conservative investors among us.

If you have benefited from the current tech rally, congratulations. We invite you to step off the roller coaster, bank some profits, and join us on firmer ground. Our clients view our strategy as a critical ballast in their investment portfolios, and we believe you will too.

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 01/31/2024)



Returns (annualized)*	Jan 2024	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	1.8%	7.7%	4.7%	1.8%	11.7%	6.3%	5.7%	5.7%	6.1%	7.6%
Van Hulzen (Net)	1.7%	7.6%	4.5%	1.7%	11.1%	5.8%	5.1%	5.2%	5.5%	6.8%
BXM	1.8%	6.8%	1.6%	1.8%	9.2%	6.7%	5.7%	5.3%	6.0%	5.3%
Difference (Gross-BXM)	0.0%	1.0%	3.2%	0.0%	2.5%	-0.4%	-0.1%	0.4%	0.1%	2.3%
S&P 500	1.7%	16.0%	6.4%	1.7%	20.8%	11.0%	14.3%	13.4%	12.6%	8.8%

*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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