## Covered Call Commentary

March | 2024

### Did You Own Nvidia in Q1?

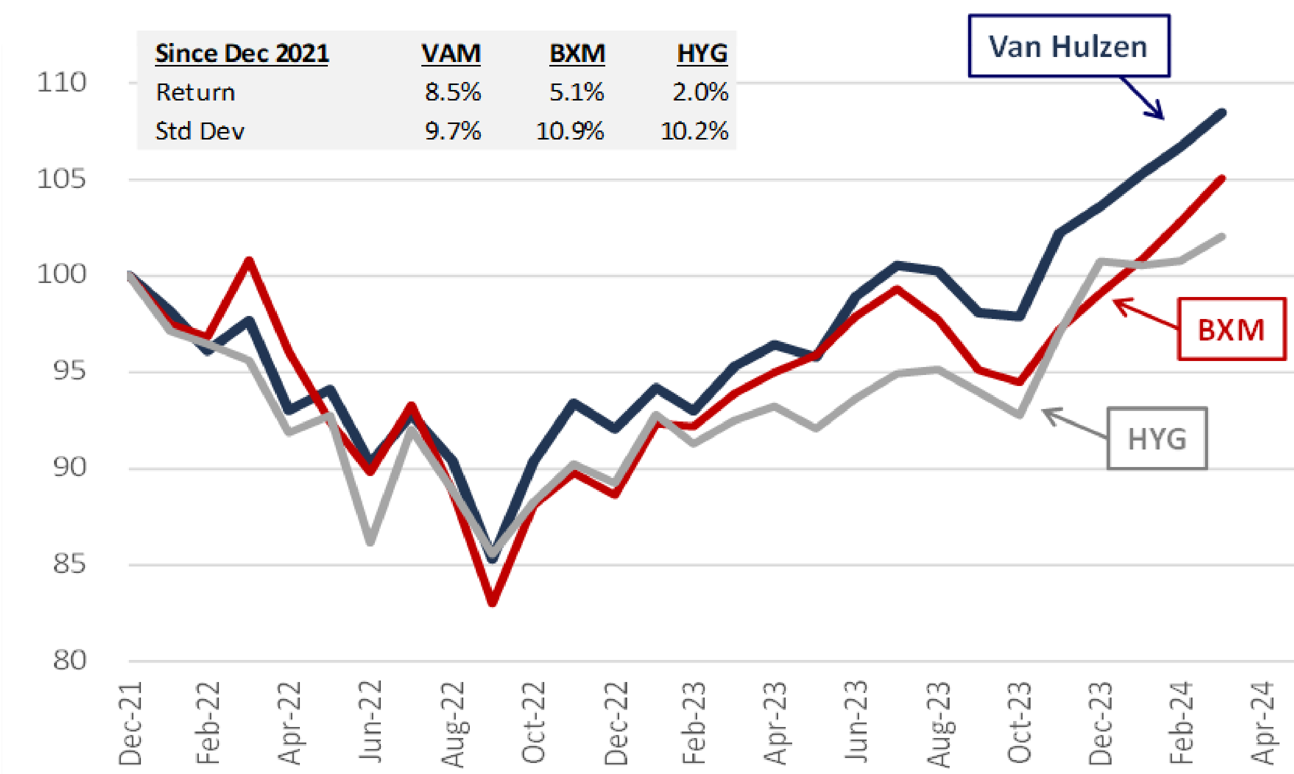
The market rally of 2023 continued into the new year, with the S&P 500 delivering a whopping 10.6% return in the first quarter. But for most investors, the above question ("Did you own NVDA?") will determine whether they kept up with the market in 2024. Nvidia (NVDA) returned 83% in Q1, contributing 4.1% to the return of the S&P 500. The other 499 stocks contributed the other 6.5%.

Our hedged covered call strategy delivered a solid **5.0% return in Q1**. Our primary benchmark, which owns the entire S&P (and therefore NVDA) came in slightly higher, at 6.0%. Despite the skewed index performance, it was a strong and well-balanced quarter, which could potentially bode well for the health of a market that has lacked in the area of breadth for several years now. We saw 15 (!!) of our holdings deliver double digit stock returns in Q1. Among the leaders were Disney, Eaton, Progressive, Oracle and Merck. This is a refreshing change from the tech dominance of recent quarters.

### Performance Since The 2021 Market Top

We are pleased to report that we have outpaced both of our primary benchmarks since the previous market peak of December 2021. We have a long history of clawing back to new highs after large pullbacks, and this recent period is no exception. (below returns are net)

| Since Dec 2021 | VAM | BXM | HYG |
|---|---|---|---|
| Return | 8.5% | 5.1% | 2.0% |
| Std Dev | 9.7% | 10.9% | 10.2% |



**Portfolio Highlights**

Each quarter, we review the portfolio in the context of different market environments. We have included four of our actual portfolio holdings in each of the four categories, and compared our covered call performance to the “long only” performance of the underlying stocks.

- **Sideways & Declining Markets**. Covered calls tend to outperform in sideways moving, as well as declining, markets. Our covered call positions in these categories all outperformed relative to just owning the underlying stocks. See top two sections below.

- **Rising Markets**. When market gains are gradual and moderate, covered calls can typically keep up with long -only stocks. This also held true this quarter, as our hedged positions showed no drag relative to the underlying stocks. See bottom, left.

- **Exploding Markets**. Covered calls tend to underperform when stocks rocket higher in a short period of time. This was true again this quarter. The key difference this quarter is the magnitude of the gains (26% average return over 3 months)! And the diversity of the stocks in this category. See bottom, right.

**Sideways Moving**

| Name | Stock | Options | Net |
|---|---|---|---|
| JNJ | 1.7% | 1.4% | 3.1% |
| CSCO | -0.4% | 1.9% | 1.4% |
| CMCSA | -0.5% | 1.0% | 0.5% |
| MDLZ | -2.8% | 2.1% | -0.6% |
| **Median** | **-0.5%** | **1.6%** | **1.2%** |

Covered Call Better

**Declining**

| Name | Stock | Options | Net |
|---|---|---|---|
| LULU | -15.7% | 2.7% | -13.0% |
| AAPL | -10.8% | 3.3% | -7.5% |
| UNH | -5.7% | 2.1% | -3.6% |
| LNG | -5.3% | 2.4% | -2.9% |
| **Median** | **-8.2%** | **2.5%** | **-5.7%** |

Covered Call Better

**Rising**

| Name | Stock | Options | Net |
|---|---|---|---|
| DHR | 8.0% | 2.2% | 10.2% |
| ADP | 7.8% | -1.7% | 6.1% |
| EXC | 5.7% | 0.7% | 6.4% |
| ROP | 3.0% | 0.5% | 3.6% |
| **Median** | **6.8%** | **0.6%** | **7.4%** |

Covered Call Better

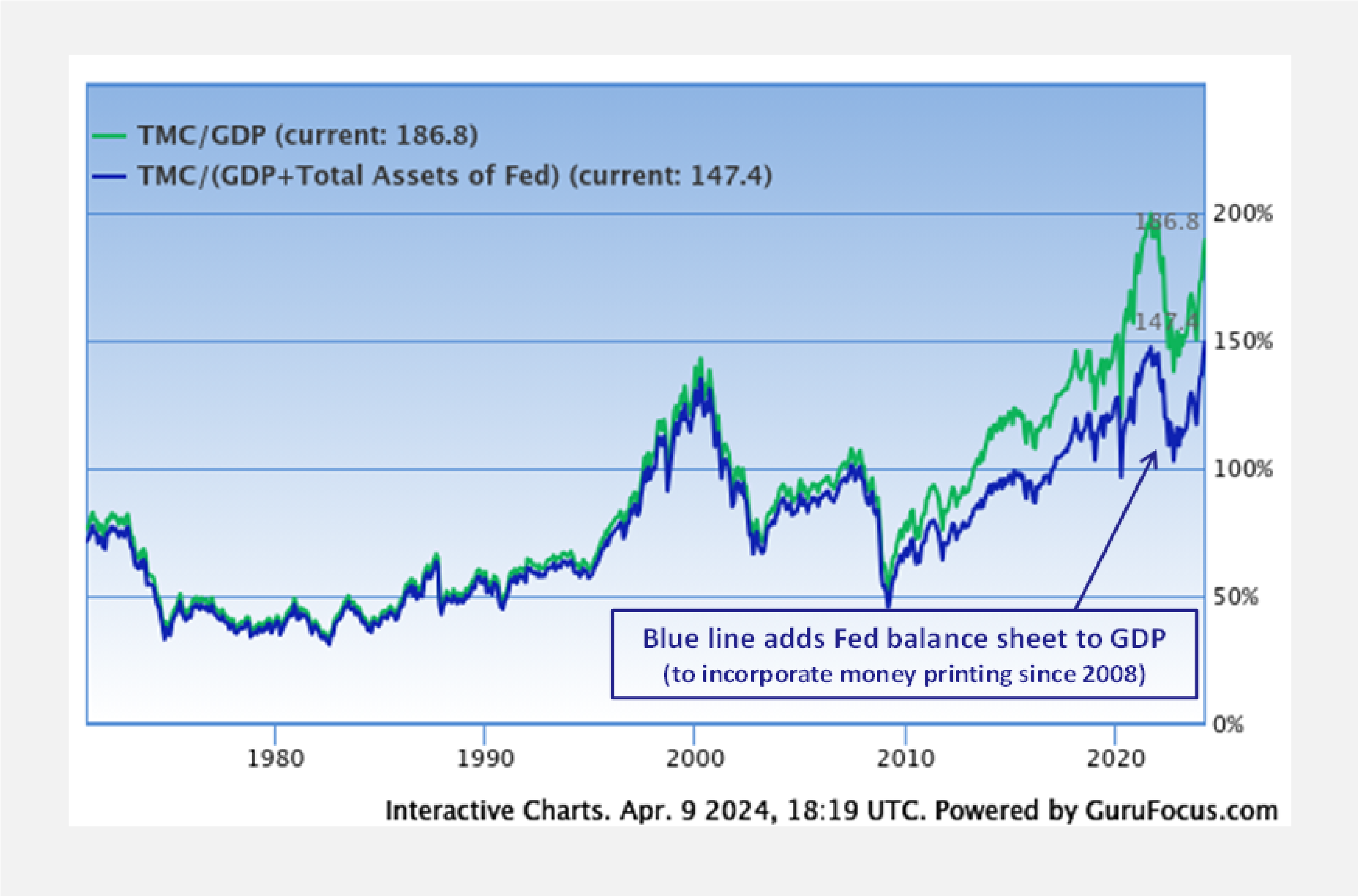
**Exploding**

| Name | Stock | Options | Net |
|---|---|---|---|
| DIS | 35.9% | -15.3% | 20.5% |
| ETN | 31.1% | -19.7% | 11.4% |
| MRK | 21.3% | -10.8% | 10.5% |
| ORCL | 19.5% | -7.8% | 11.7% |
| **Median** | **26.2%** | **-13.1%** | **13.1%** |

Long-Only Better

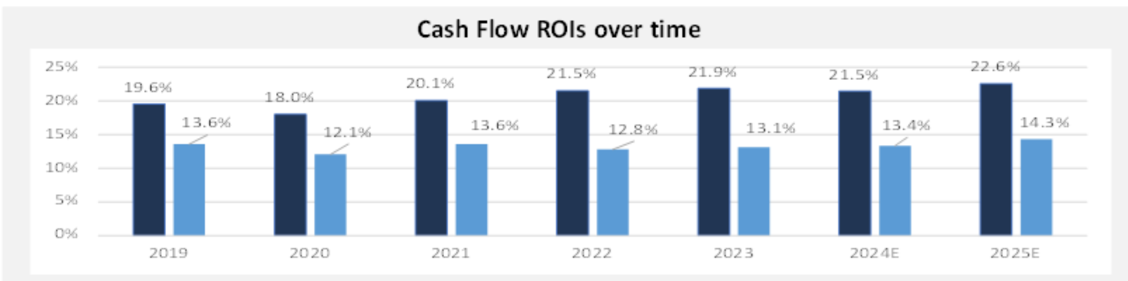
**The Buffett Indicator**

We thought we'd provide an update on the "Buffett Indicator" this quarter, which compares the total market cap of US equities to the underlying GDP of the economy. But this quarter we've added some modifications to incorporate the massive monetary easing (money printing) since the great recession of 2008-09. The blue line below adds the Federal Reserve balance sheet to the denominator. As you can see, this adjustment brings the ratio down considerably. But we are still sitting at 50 year highs on this metric. This market is not cheap.




**Quality Continues To Lead: No Longer An "Option"**

With bankruptcies on the rise and over-levered stocks still in the penalty box, it's clear that quality is no longer an "option." Investors want real cash flows and are willing to pay up to get them. Below we have compared the fundamentals of our stock portfolio to the S&P 500 averages across a variety of quality parameters. Our portfolio has much higher ROIs, lower debt and a significantly higher yield. This has been a winning combination for us over our 22+ year track record.

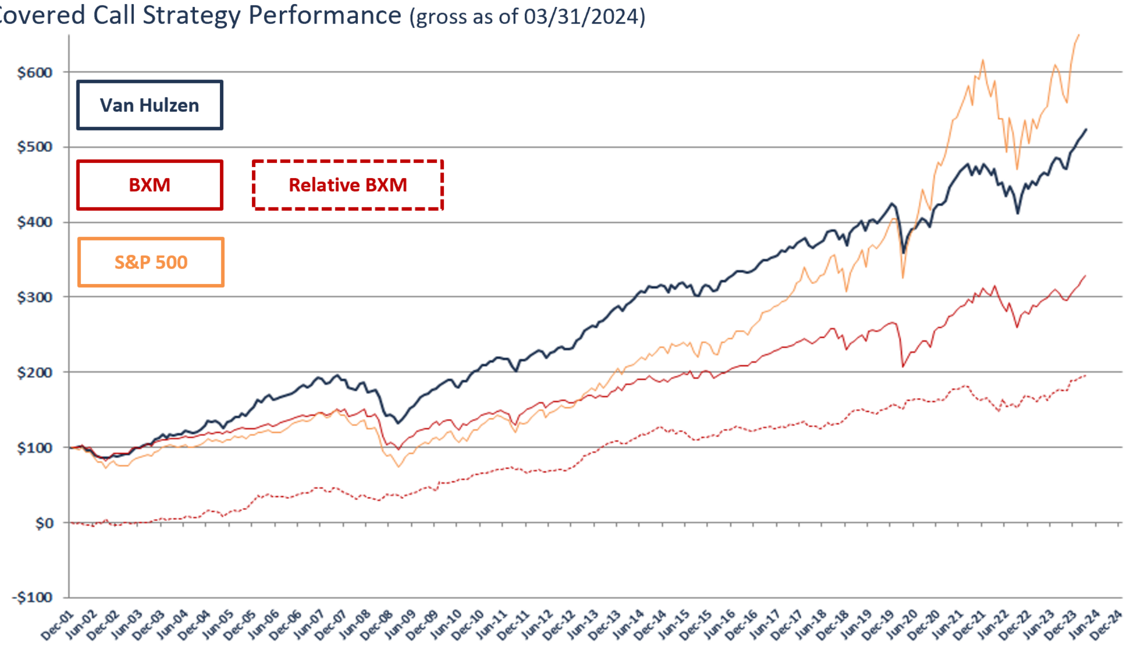

## Key Takeaways

- We continue to see strong performance in our covered call strategy, outpacing both of our primary benchmarks over the long run and since the previous market peak.
- This is a great market for covered calls. Most economists are projecting mid-single digits for equity returns over the next 7-10 years.
- Our continued focus on quality and disciplined approach to management put us in a great position to succeed in today's uncertain environment.
- Bankruptcies are trending up and expected to continue to rise as companies are forced to refinance their debts into higher rate debt. Many businesses will struggle in the coming years, but our insistence on quality and aversion to credit risk positions us well.
- We will continue to stick to our knitting. All of our positions are high quality and designed to deliver equal parts income and appreciation. This approach has created strong alpha for us in the past.
- We are ready for whatever the market throws at us.

## 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 03/31/2024)




| Returns (annualized)* | Mar 2024 | 3M | 6M | YTD | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years | Inception |
|---|---|---|---|---|---|---|---|---|---|---|
| Van Hulzen (Gross) | 1.7% | 5.0% | 10.7% | 5.0% | 13.7% | 5.5% | 5.8% | 5.9% | 6.0% | 7.7% |
| Van Hulzen (Net) | 1.7% | 4.8% | 10.4% | 4.8% | 13.1% | 4.9% | 5.2% | 5.3% | 5.4% | 6.9% |
| BXM | 2.2% | 6.0% | 10.5% | 6.0% | 11.9% | 6.2% | 5.9% | 5.7% | 5.9% | 5.5% |
| Difference (Gross-BXM) | -0.5% | -1.0% | 0.3% | -1.0% | 1.8% | -0.7% | -0.1% | 0.2% | 0.0% | 2.2% |
| S&P 500 | 3.2% | 10.6% | 23.5% | 10.6% | 29.9% | 11.5% | 15.0% | 14.1% | 13.0% | 9.2% |

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

The foregoing content reflects the opinions of Van Hulzen Asset Management and is subject to change at any time without notice. Content provided herein is for informational purposes only and should not be used or construed as investment advice or a recommendation regarding the purchase or sale of any security. There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct. Past performance is not a guarantee of future results. Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses which would reduce returns. All investing involves risk including the potential for loss of principal. There is no guarantee that any strategy will be successful. The CBOE S&P 500 BuyWrite Index (BXM) is a benchmark index designed to track the performance of a hypothetical buy-write strategy on the S&P 500 Index. The BXM is a passive total return index based on (1) buying an S&P 500 stock index portfolio, and (2) "writing" (or selling) the near-term S&P 500 Index (SPXSM) "covered" call option, generally on the third Friday of each month. The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. It is widely used as a benchmark of U.S. equity performance. It is not possible to invest directly in an index: FPAC-0228-24