Covered Call Commentary

February | 2025

Option Income: The New Frontier!

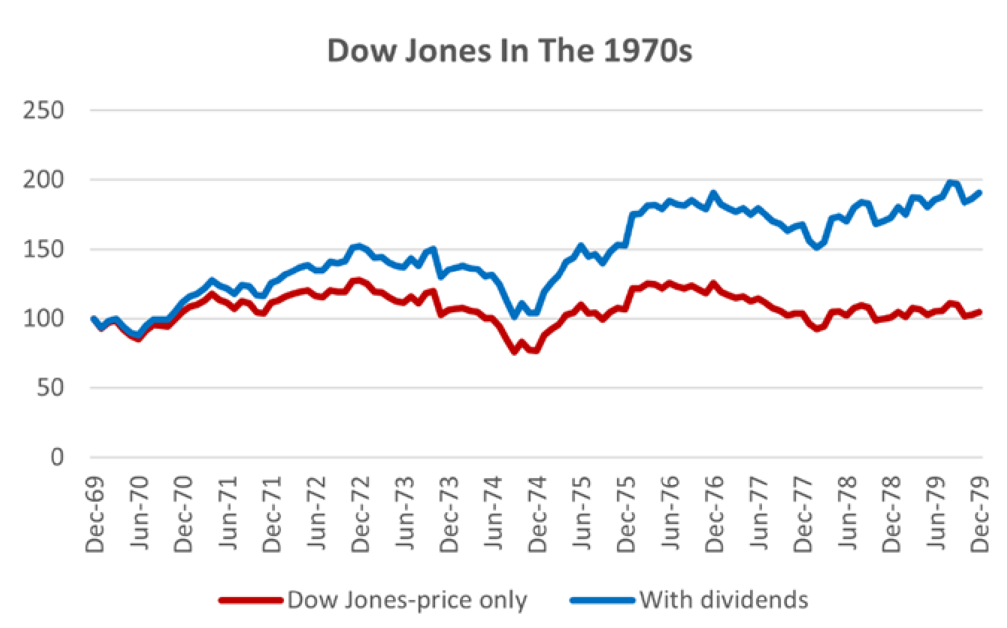
Inflation is back. Bonds are struggling to make back their 2022 losses and are no longer the stable source of income that investors need. But dividend yields remain at record lows. Where are you to turn for income in this environment? For many investors, it is finally time to turn to the options market. It's no coincidence that the covered call strategy was born in the 1970s, the last time we saw persistently high inflation.

Lessons From The 1970s

The economy is slowing, even as Inflation rises. And tariffs likely won't help. The last time we saw meaningful stagflation was the 1970s. Two key economic themes from the 1970s are repeating today:

1. **Uncontrolled Fed Spending** – The Federal Reserve's balance sheet has expanded **5x since 2010**, mirroring the money supply surge of the 1960s-70s used to finance the Vietnam War—our first "credit card" war. This ultimately led to the U.S. abandoning the gold standard in 1971 and embracing fiat currency.

2. **Inflation & Stagnation** – The Dow Jones remained nearly flat for the entire 1970s, gaining just **0.5% per year** in price terms. However, dividends averaged **6%**, keeping total stock returns positive.



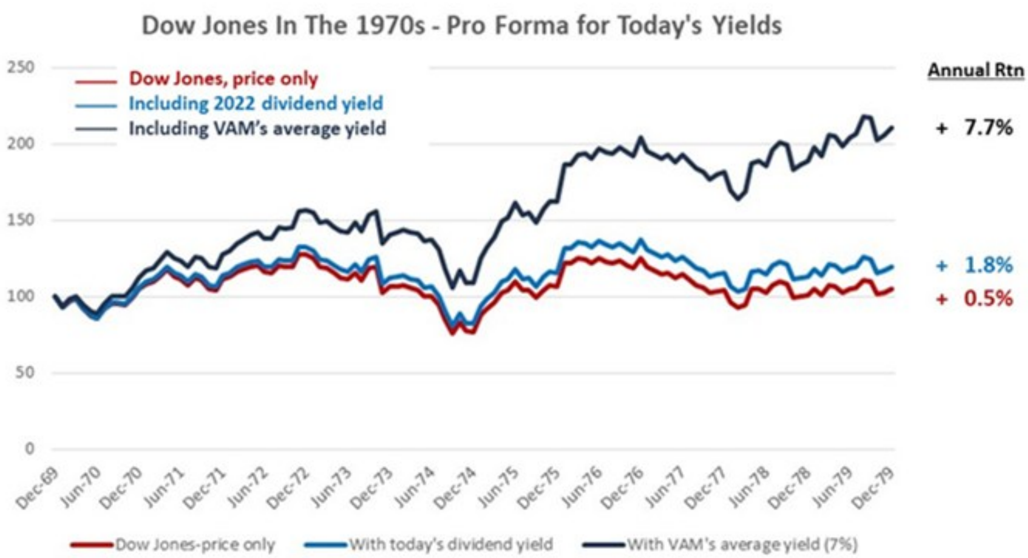
Why Today's Income Problem Is Worse

Today's dividend yields are **just 1.3%—far below the inflation rate.** Bonds offer little relief, barely keeping up with inflation. Traditional income strategies simply won't cut it in this environment.

Covered Calls: A Potential Solution

Covered call strategies can generate **6-8% yields (dividends + option income)** while reducing portfolio risk by approximately **40% compared to the overall market.**

To illustrate, we applied today's dividend yield to the 1970s Dow price chart and compared it to our targeted 7% option income strategy. Even in a "lost decade" scenario, our approach could **double an investor's money in 10 years**—a critical advantage in an era of stagnant returns.



<u>Key Takeaway from the 1970s: Income Matters!</u>

Are We Entering Another "Lost Decade"?

Over the past decade, the S&P 500 has delivered an annualized return of **~13%**—far above its historical **9-10%** average. With valuations stretched and inflation rising, some investors are beginning to ask: **Are we heading into another lost decade?**

There have been **two "lost decades" in the past 50 years**—the **1970s** and the **2000s**—where stocks delivered minimal or negative inflation-adjusted returns.

The last time stocks were this expensive was the late 1990s. The following decade saw the **dot-com crash (2001-02)** and the **financial crisis (2008-09)**. Over the entire **2000-2010 period, the S&P 500 returned just 1.6% per year**—with virtually all of it coming from dividends, while inflation-adjusted returns were negative.

The question is: **How should investors prepare?**

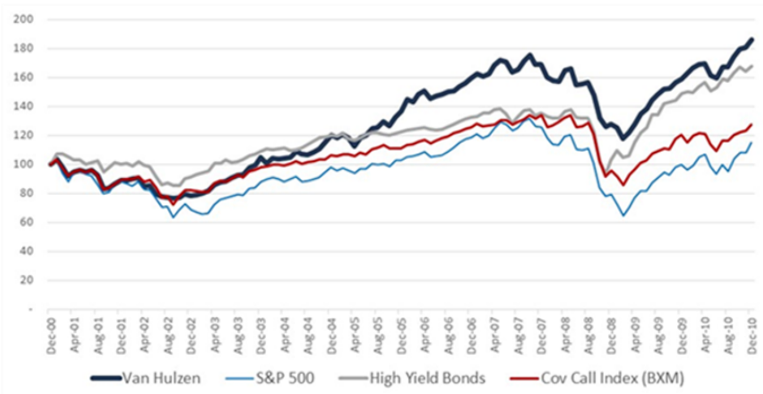
Lessons from 2001-2010

The 2000s were a decade of reckoning:

- The dot-com bubble burst in 2001, deflating overvalued tech stocks.
- The financial crisis (2008-09) exposed excessive leverage, triggering a systemic collapse.

How Did Income Strategies Perform During The 2001-2010 "Lost Decade":

- The S&P 500 returned just 1.6% annually
- High-yield bonds delivered 5.9% annually
- Our covered call strategy averaged **<u>7.1%</u>** annually, at one-third less risk than the S&P 500



Risk/Return Statistics	Cumative Return	Annual Return	Standard Deviation
Van Hulzen	86.0%	7.1%	11.4%
S&P 500	15.1%	1.6%	16.4%
High Yield Bonds	67.8%	5.9%	11.5%
Cov Call (BXM)	27.4%	2.7%	12.5%

Our outperformance during this period was driven by:

- A focus on quality – avoiding speculation and high-risk bets.
- A preference for income over growth – generating returns from dividends and option premiums, rather than relying solely on stock price appreciation.

We're not predicting another lost decade, but history suggests that long stretches of outsize returns are often followed by stagnant periods.

Key Takeaway: The Growth Bet Could Be Over—Focus on Income

The record-breaking growth cycle of the past decade may be coming to an end. With inflation rising and the Fed printing money at an unprecedented pace, investors should prioritize:

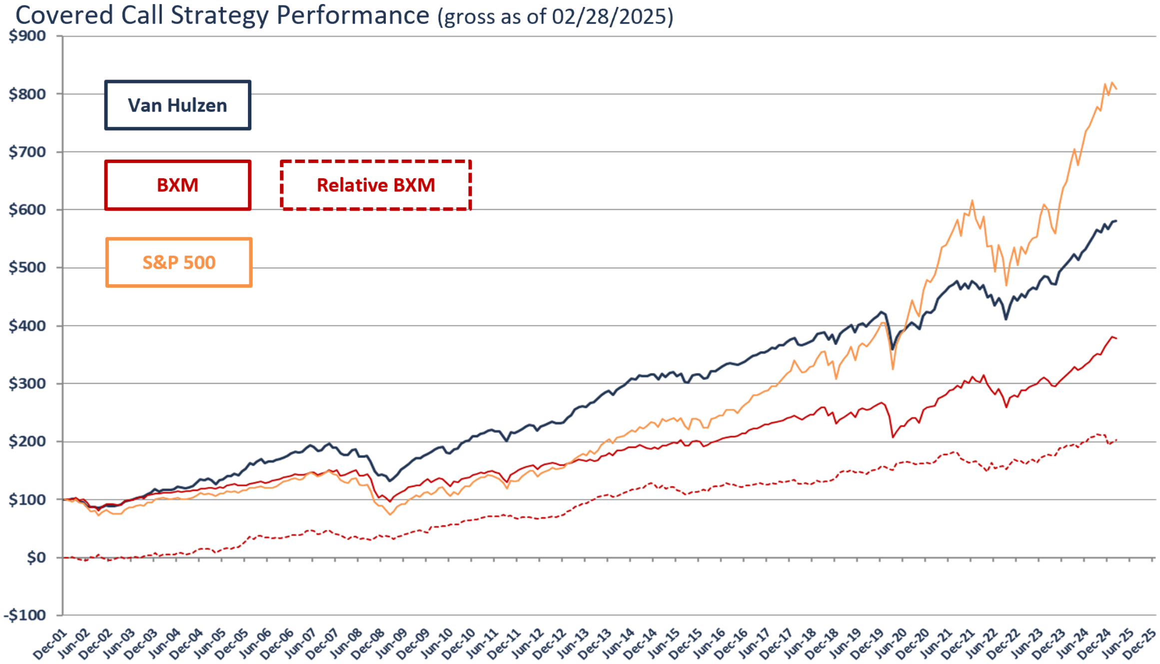
✓ **Quality**
✓ **Income**
✓ **Downside Protection**

We firmly believe that Option Income is the New Frontier.

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 02/28/2025)



Returns (annualized)*	Feb 2025	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	0.3%	1.0%	4.7%	2.5%	12.9%	7.9%	8.0%	6.7%	6.2%	7.9%
Van Hulzen (Net)	0.2%	0.8%	4.3%	2.3%	12.1%	7.3%	7.4%	6.1%	5.7%	7.0%
BXM	-0.6%	3.9%	9.0%	1.6%	17.7%	7.7%	9.2%	6.6%	7.0%	5.9%
Difference (Gross-BXM)	0.9%	-2.9%	-4.3%	0.9%	-4.8%	0.2%	-1.2%	0.1%	-0.7%	2.0%
S&P 500	-1.3%	-1.0%	6.1%	1.4%	18.4%	12.6%	16.9%	13.8%	13.0%	9.4%

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