

GOT IT COVERED COVERED CALL INCOME

Covered Call Income: March in Review

U.S. stocks continued trending upward in March after a short-lived bump associated with the inversion of the yield curve. The markets have now recovered much of their fourth quarter losses in 2018. Many investors see the change in tone with the Fed as a reason to remain bullish on stocks. In more ways than one, the weakness in the fourth quarter of 2018 set the stage for the recovery we have seen so far in the first quarter of 2019. The Federal Reserve reacted to the market weakness by turning more dovish and putting rate hikes on hold for the year. The next move expected by the Fed now looks to be a rate cut, as the 10 year Treasury yield continued to fall.

Along with the Fed, US/China trade talks as well as the weakening global economy could potentially have negative ramifications for the markets as we head into the second quarter. The weakening global economy has been highlighted by the inversion of the U.S. yield curve. Past history shows the U.S. yield curve does a much better job of measuring global economic conditions which can affect broad international markets. If the trade talks with China don't result in a solid agreement or worst case fall apart altogether, downside risk in the markets will be prevalent. Trade frictions have also played a part in the overall slowdown of global growth.

S&P 500 vs VIX



Source: Bloomberg

Covered Call Income strategy is designed for investors who want equity market participation with enhanced income potential. This approach is appropriate for investors looking for higher yields, capital appreciation and reduced risk levels.

Writing calls on securities held in the portfolio maximizes the gains that can be realized if the price of a stock increases. Investing in equity securities involves market risk, including the possible loss of principal.

Expiration Calendar as of March 29, 2019		
Month	Date	Number of Options
April	4/18/19	9
May	5/17/19	10
June	6/21/19	11
July	7/19/19	5

About Crossmark's 30 Year History

Crossmark Global Investments is an innovative investment management firm. We provide a full suite of investment management solutions to institutional investors, financial advisors and the clients they serve. We have a multi-decade legacy of specializing in values based investment strategies for clients.

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The month of March was another positive month for the start of 2019 as markets continued to move higher. With all of the issues we discussed surrounding the markets, being prepared for volatility to make another comeback is a key aspect in regards to the Crossmark Covered Call Income strategy. The Crossmark trading team will continue to monitor volatility with the intent of strategically placing option trades in order to maximize income as well as capturing as much upside in the markets as possible.

Covered Call Income: Off to the second quarter

Investor confidence so far in the first quarter of 2019 has not been shaken by trade uncertainty, weakening global growth or an inverted yield curve. In fact, consumer confidence continues to trek even higher among these issues surrounding the markets. However, volatility will make an appearance at some point, probably sooner rather than later. Staying disciplined as we head into the second quarter is a key message for all investors. Nothing like March Madness within the global markets!

Tools of the Trade – Option Rolls

An option roll consists of closing out a current option and opening a new option position. The roll may generate additional premium, cost money, or have no net cash flow. The following table illustrates the new option position with respect to the previous option:

Action:	Strike Price	Expiration Date
Roll Up	Higher	Unchanged
Roll Down	Lower	Unchanged
Roll In	Unchanged	Shorter
Roll Out	Unchanged	Longer

These option rolls can be combined. For example, an option may be rolled down and in or up and out by changing both the expiration date and strike price.

¹ Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 3/31/2019.

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All investments are subject to risk, including the possible loss of principal. Past performance does not guarantee future results.

Options are not suitable for every investor. Writing call options to generate income and to potentially hedge against market declines by generating option premiums involves risk. These risks include, but are not limited to, potential losses if equity markets or an individual equity security do not move as expected, and the potential for greater losses than if these techniques had not been used. If the market price of a security increases, a call option written against that security limits the gain that can be realized. And, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives.

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Expiration Summary

Called Away and Repurchased

- Cerner Corp. (CERN)
- Charles Schwab Corp. (SCHW)
- Cisco Systems Inc. (CSCO)
- Mondelez Intl Inc. (MDLZ)
- United Technologies (UTX)

Expired – Stock Retained

- Coca-Cola Company (KO)
- General Motors Co. (GM)
- Morgan Stanley (MS)
- Pfizer Inc. (PFE)
- Verizon Comm. (VZ)

Top 10 Model Holdings ¹

- Exxon Mobil Corp.
- Visa, Inc.
- Intel Corp.
- United Technologies Corp.
- Nike, Inc.
- Exelon Corp.
- Abbott Labs
- Microsoft Corp.
- Coca Cola Co.
- Starbucks Corp.

% of Total Portfolio: 36%

Not FDIC Insured - No Bank Guarantee - May Lose Value