

CROSSMARKGLOBAL.COM

Covered Call Income: Unprecedented Markets in March

The markets around the globe felt the impact of the unprecedented pandemic caused by COVID-19. Unlike 2008 when the financial markets were in complete turmoil and the economy was cratering, this is a health crisis unlike anything we have ever seen before. With uncertainty comes panic and extreme volatility as the VIX index shot up over 80 in the middle of March. The Crossmark Covered Call Income strategy was not immune from the rapid and swift declines in the market. As the markets fell over 35% in just a three week span the CCI strategy felt the brunt of the demise as well. The option overlay the CCI strategy incorporates needs time to work and helps to mitigate losses over an extended period of time not the quick collapse we have seen since February expiration. Since February 21 through the end of the quarter when the markets were in a complete meltdown the CCI strategy slightly outperformed the S&P 500 index. As we have reset the option overlay several times in the past weeks the option positions will now start to help performance as the markets continue to see increased volatility. The income generated for just the month of March hit 3.50% between option premiums and dividends. That is a high number even for an entire quarter let alone just one month. This was due to the trading team resetting the option overlay almost daily as the markets were in a freefall. At this rate I could definitely see another 3% income month in April. The option overlay is very short by design as a hedge against a quick “V” shaped correction that may or may not take place. We have seen several days that look like a quick recovery only to see it given back just as fast. We will continue to stay short for the time being. Implied volatility is really high and we are getting paid for short options, we just have to work the orders longer to tighten the spreads up. This is due to the fact that there are not any traders on the floor, everyone is scattered.

It is anybody's guess as to how things play out as we head into the second quarter. The Crossmark trading team continues to monitor volatility with the intent to strategically place option spread trades as needed to maximize income, as well as reduce market risk as much as possible. We will also continue with our sector-neutral approach towards the underlying basket of stocks versus the S&P 500 sector weightings and keep the option overlay at a short two-month duration.

**VIX 6 Month Period
as of March 31, 2020**



Source: Bloomberg

About Covered Call Income

Covered Call Income strategy is designed for investors who want equity market participation with enhanced income potential. This approach is appropriate for investors who are willing to give up some market growth potential in exchange for higher yields and reduced risk.

Expiration Calendar as of March 31, 2020

Month	Date	Number of Options
April	04/17/20	19
May	05/15/20	15
June	06/19/20	1

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.

Covered Call Income Got it Covered

The volatility we have seen is unlikely to change anytime soon, with both historic up and down days. Crossmark continues to use the rise of volatility to the strategies advantage by methodically placing option spread trades to reduce risk and harvest additional income.

Our Firm

We are a boutique investment management firm that provides a full suite of investment strategies to institutional investors, financial advisors, and the clients they serve. For over 30 years we have delivered uniquely-constructed products based on our proprietary, disciplined, and repeatable process. We are especially known for helping our clients align their investments with their values by creating socially-conscious, responsible investment strategies.

Contact a member of our Advisor Solutions Team

advisorsolutions@crossmarkglobal.com | 888-845-6910

Crossmark Global Investments, Inc. (Crossmark) is an investment adviser registered with the Securities and Exchange Commission that provides discretionary investment management services to mutual funds, institutions, and individual clients. Investment advice can be provided only after the delivery of Crossmark's firm Brochure and Brochure Supplement (Form ADV Parts 2A and 2B) and once a properly executed investment advisory agreement has been entered into by the client.

Information and recommendations contained in market commentaries and writings are of a general nature and are not intended to be construed as investment, tax or legal advice. These materials reflect the opinion of Crossmark on the date of production and are subject to change at any time without notice. Where data is presented that was prepared by third parties, the source of the data will be cited, and we have determined these sources to be generally reliable. However, Crossmark does not warrant the accuracy of the information presented.

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.

Crossmark Global Investments, Inc.

15375 Memorial Drive, Suite 200, Houston, TX 77079
888.845.6910 advisorsolutions@crossmarkglobal.com
crossmarkglobal.com

Expiration Summary

Called Away and Repurchased

- Nothing called away in March

Expired Worthless

- Mondelez Intl. (MDLZ)

Rolled and Collected

- AT&T Corp. (T)
- Cisco Systems (CSCO)
- Citigroup, Inc. (C) 2X
- Delta Airlines (DAL) 2X
- Exelon Corp. (EXC)
- Intel Corp. (INTC)
- Lowe's, Inc. (LOW)
- Medtronic PLC (MDT)
- Microchip Technologies (MCHP)
- Micron Technology (MU) 2X
- Morgan Stanley (MS) 2X
- Nike, Inc. (NKE)
- Oracle Corp. (ORCL)
- PayPal Holdings, Inc. (PYPL)
- Pfizer, Inc. (PFE)
- Qualcomm, Inc. (QCOM)
- Starbucks Corp. (SBUX)
- US Bancorp (USB) 2X
- Valero Energy Corp. (VLO)
- Verizon Comm. (VZ)
- Waste Management (WM)

Sold and Replaced

- Sold General Motors (GM)
- Bought Target (TGT)

New Buy

- JP Morgan (JPM)

2X indicates stock rolled twice during the month

Top 10 Model Holdings ¹

Intel Corp.
Qualcomm, Inc.
Medtronic PLC
Lowe's, Inc.
Micron Technology, Inc.
Activision Blizzard, Inc.
Abbott Labs
Walmart, Inc.
Gilead Sciences, Inc.
Coca Cola Co.

% of Total Portfolio: 39%

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 03/31/2020.

Not FDIC Insured - No Bank Guarantee - May Lose Value