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Covered Call Income: Mega Cap stocks lead the way in July

Stocks continued to move higher in July with a fourth consecutive monthly gain. Even though COVID concerns continued, trade tensions rose with China, and potential signs of a stalling economy emerged, the S&P 500 Index returned to positive territory for the year. Thanks to a handful of mega-cap internet stocks with better-than-expected earnings results. Returns were also strong across the broad S&P 500 Index sectors. Consumer discretionary and utilities sectors outperformed, while cyclical energy and financial sectors underperformed for July. From a technical perspective, all three major indices finished above their respective 200-day moving averages for the first time since January 2020. Economic expectations vary, pointing to a slow recovery following the strong data seen in May and June.

VIX vs S&P 500 YTD
as of July 31, 2020



Source: Bloomberg

July proved to be another good month for the Covered Call Income strategy, with the income generated between option premiums and dividends hitting the second-highest number of the year, behind March. This was due to the trading team resetting the option overlay after another heavy expiration. We will continue to stay short for the time being. Implied volatility is high, and we are continuing to get paid for short-term options.

A rebound in economic output plus corporate earnings, and ongoing monetary policy stimulus, should provide support for the markets in the near future. However, volatility will be prevalent over the next several months, sparked by new virus concerns, setbacks in reopening the economy, and potential political issues in Washington. Trade talks with China have come back to the surface after being pushed to the backburner with the COVID pandemic. The Crossmark trading team will continue to monitor volatility with the intent to strategically place option spread trades to maximize income and reduce as much market risk as possible.

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 July 31, 2020

Month	Date	Number of Options
August	08/21/20	12
September	09/18/20	16
October	10/16/20	8

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

Our Firm

Crossmark Global Investments is 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. Founded in 1987, we are headquartered in Houston, Texas.

Contact a member of our Advisor Solutions Team

advisorsolutions@crossmarkglobal.com | 888-845-6910

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All Investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results. The Covered Call Income strategy may not achieve its objective if the managers' expectations regarding particular securities or markets are not met. Equity investments generally involve two principal risks—market risk and selection risk. The value of equity securities will rise and fall in response to general market and/or economic conditions (equity market risk). The value of any individual equity security will rise and fall in response to the market's perception of the issuer's revenues, earnings, balance sheet, credit worthiness, business plan, and overall perception of the viability of the issuer's business (selection risk).

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

SMA-CCI-GIC 08/20

Expiration Summary

Called Away and Repurchased

- Comcast Corp. (CMCSA)
- Exelon Corp. (EXC)
- Morgan Stanley (MS)

Rolled and Collected

- Capital One Financial (COF)
- Chevron Corp. (CVX)
- Valero Energy Corp. (VLO)
- Target Corp. (TGT)
- Emerson Elec Co. (EMR)
- Coca-Cola Company (KO)
- Micron Technology, Inc. (MU)
- Mondelez Intl. (MDLZ)
- Intel Corp. (INTC) **AUG strike
- Citigroup, Inc. (C) **SEP strike
- Charles Schwab Corp. (SCHW)**SEP strike
- JP Morgan Chase & Co. (JPM)**AUG strike
- Nike, Inc. (NKE)**AUG strike
- US Bancorp (USB)**AUG strike
- Gilead Sciences, Inc. (GILD)**AUG strike

New Buy

- Cisco Systems, Inc. (CSCO) **added to current position

Top 10 Model Holdings ¹

Qualcomm, Inc.
Microchip Technology, Inc.
Abbott Labs
Micron Technology, Inc.
Fiserv, Inc.
Nike, Inc.
Medtronic PLC
Cisco Systems, Inc.
DuPont de Nemours, Inc.
Walmart, Inc.

% 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 07/31/2020.

Not FDIC Insured - No Bank Guarantee - May Lose Value