



CROSSMARKGLOBAL.COM

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# GOT IT COVERED COVERED CALL INCOME

## Covered Call Income: December in Review

The final month of 2018 was not a December to remember from a market standpoint. Investors had to contend with rising U.S. central bank rates, the ongoing trade conflict between the U.S. and China, weaker Chinese growth and continued rising geopolitical concerns. Also, the Treasury yield curve inverted, a further sign investors are worried the economy is slowing. The yield curve doesn't cause a recession, but it expresses concerns that the Fed has raised rates too high and too quickly and will have to cut in the near future. After a few near misses, the S&P 500 finally entered into a correction in the middle of the month, meaning the index closed more than 10% below its previous all-time high. The S&P 500 index played chicken with these levels earlier but had always rallied enough at the close to stay above the 10% threshold. Global markets continued to decline as the Fed raised rates and lowered expectations for future rate hikes but investors expressed dismay with the rhetoric coming from the Fed. The last week of the month saw wild swings in the global stock markets as shifts in sentiment pushed the markets sharply higher and lower without much rationale.

Consider these records for the market during the last week of trading:

- Investors experienced the worst Christmas Eve on record and the markets were only open half of the day.
- The day after Christmas saw the Dow set a record for the largest single-day point gain.
- On Thursday the 27th, the Dow moved from 600pts down to 250pts up making it the largest single-day rally in the Index's history.

### 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 December 31, 2018

Month	Date	Number of Options
January	1/18/19	15
February	2/15/19	13
March	3/15/19	4

### 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 we serve. We have a multi-decade legacy of specializing in values based investment strategies for clients. Founded in 1987, the firm is headquartered in Houston, Texas and manages approximately \$4.5 billion in AUM.

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Can you imagine what the markets would have done on Christmas Day had they been open?

## Covered Call Income: Looking ahead to 2019

We have no reason to expect markets to become less volatile over the near term. The fact the markets ended the year on a positive note might add some momentum heading into the New Year. The core issues of slowing growth, what actions the Fed will take in 2019, U.S. and China trade and Brexit have continued to produce a high level of uncertainty in the markets which will in turn provide for more volatility. Look for the Crossmark Covered Call Income team to strategically place trades in order to generate additional income while using volatility to the strategies advantage. Buckle your seatbelts as we head into 2019.

### 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.

<sup>1</sup> Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 12/31/2018.

**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.

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## Expiration Summary

### Called Away – Repurchased

- Nothing Called

### Expired – Stock Retained

- Cerner Corp. ( CERN )
- Delta Airlines Inc. ( DAL )
- Halliburton Company ( HAL )
- Intel Corp. ( INTC )
- International Paper Co. ( IP )
- Microchip Technology ( MCHP )
- Pfizer Inc. ( PFE )
- Textron Inc. ( TXT )
- Valero Energy Corp. ( VLO )

### Rolled and Collected

- Citigroup Inc. ( C )
- General Motors. Co. ( GM )
- Medtronic PLC ( MDT )
- Mondelez Intl Inc. ( MDLZ )
- Oracle Corp. ( ORCL )
- Schwab Charles Corp. ( SCHW )
- Wal-Mart Stores Inc. ( WMT )

### New Buy to Portfolio

- United Technologies ( UTX )

### Sold from Portfolio

- Halliburton Company ( HAL )
- Textron Inc. ( TXT )

## Top 10 Model Holdings <sup>1</sup>

- Abbott Labs
- Exxon Mobil Corp.
- Visa, Inc.
- Coca Cola Co.
- Intel Corp.
- Oracle Systems Corp.
- Exelon Corp.
- Nike, Inc.
- Cisco Systems, Inc.
- United Technologies Corp.

% of Total Portfolio: 36%

**Not FDIC Insured - No Bank Guarantee - May Lose Value**