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Covered Call Income: Volatile June

The markets for June got off to another hot start only to hit a brick wall after the peak on June 8th. The S&P 500 was up 6.2% through June 8th, followed by a swift -7.1% pullback through June 11th, a 4.3% rally into June 23rd, and another pullback of -3.9% towards the end of the month. A volatile way to end the month and the second quarter for the markets. In recent weeks, volatility in the stock market seems to be influenced by the rapidly rising number of COVID-19 cases, especially in hot spots like Texas, Florida, and Arizona. The overall trend in stocks seems more closely aligned with deaths than that of new cases. The stable, or in some cases decline in the death rate due to COVID-19 completely contrasts with the rising number of new cases. Data from the Center for Disease Control shows that new cases in May and June are skewing towards younger people in their 30's versus the older, more vulnerable population that had a high number of cases in March and April. Daily data surrounding COVID-19 garners most of the attention of investors and the media. Still, it could be the rise in the death rate that brings economies and the markets to paralysis or another round of lockdowns. As we discussed at the end of May, there was growing optimism that all 50 states would be in some sort of reopening phase as we hit the summer months, which proved correct. Unfortunately, several states may have pushed a reopening too quickly, resulting in a surge of new COVID cases, which has many states postpone or retract their reopening plans.

VIX YTD
as of June 30, 2020



Source: Bloomberg

June proved to be another good month for the Covered Call Income strategy regarding income generated between option premiums and dividends. 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 getting paid for short-term options.

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 June 30, 2020

Month	Date	Number of Options
July	07/17/20	11
August	08/21/20	15
September	09/18/20	6

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

As we bring the second quarter to a close and head to the heat of the summer, there are several events worth mentioning that will affect the markets one way or another. Earnings season kicks off in earnest towards the end of the week, and we will continue to have the daily COVID-19 data in the US to monitor. 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. At some point, trade talks with China will resume, as that issue was pushed back due to the 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. The volatility we have seen is unlikely to change anytime soon, with both historical up and down days continuing.

Our Firm

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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.

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SMA-CCI-GIC 07/20

Expiration Summary

Called Away and Repurchased

- Cisco Systems, Inc. (CSCO)
- Delta Airlines, Inc. (DAL)
- DuPont de Nemours, Inc. (DD)
- Microchip Technology, Inc. (MCHP)
- Nike, Inc. (NKE)
- Qualcomm, Inc. (QCOM)
- US Bancorp (USB)

Rolled and Collected

- Citigroup, Inc. (C)
- Charles Schwab Corp. (SCHW)
- JP Morgan Chase & Co. (JPM)
- Pfizer, Inc. (PFE)
- Starbucks Corp. (SBUX)
- Micron Technology, Inc. (MU)
- Verizon Comm. (VZ)
- Waste Management, Inc. (WM)

Called Away and Replaced

- Lowe's, Inc. (LOW) with Walmart Stores, Inc. (WMT)
- PayPal Holdings, Inc. (PYPL) with Fiserv Inc. (FISV)

New Buy

- Raytheon Technologies Corp. (RTX)

Expired Worthless

- AT&T Corp. (T)

Top 10 Model Holdings ¹

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

% of Total Portfolio: 38%

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 06/30/2020.

Not FDIC Insured - No Bank Guarantee - May Lose Value