



CROSSMARKGLOBAL.COM

June 2018

GOT IT COVERED COVERED CALL INCOME

Covered Call Income: May in Review

Volatility continued to plague the markets in May due in large part to heightened political risk. Global trade issues and the off again on again summit with North Korea still caused uncertainties within the global markets. Italy's new populist government added to more market concerns towards the end of the month. Despite the significant intra-month swings, the ongoing strength of global growth was evident in corporate earnings. The positive effects of tax cuts contributed to a strong Q1 earnings season in the U.S. and fears about a more aggressive pace of Fed tightening eased over the month May. The Fed is still expected to increase interest rates by a quarter of a percentage point at its June meeting, however the recent rhetoric has been more along the dovish side of expectations, a considerable change from prior communications.

The markets in May were paced again by the technology sector and followed by the industrial and energy sectors. Consumer Staples, Utilities and Financials lagged for the month.

As long as there are ongoing political issues surrounding the markets, volatility is not going anywhere. Volatility is healthy for the markets and advantageous to covered call strategies. The Covered Call Income team took advantage of the intra month swings in the markets in May by strategically placing option trades to enhance income as well as resetting the hedge ratio or delta of the portfolio. The last four months have proven to be very beneficial for selling covered calls.

VIX YTD 2018



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, and investing in equity securities involves market risk, including the possible loss of principal.

Expiration Calendar as of May 31, 2018

Month	Date	Number of Options
June	6/15/18	11
July	7/20/18	12
August	8/17/18	6
September	9/21/18	6

About Crossmark's 30 Year History

Crossmark Global Investments is an innovative investment management firm. The firm provides 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 responsible investment strategies for clients. Founded in 1987, the firm is headquartered in Houston, Texas.

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Covered Call Income: Looking Ahead

Several news worthy events are on the horizon as we look ahead to June. The off again on again North Korea-U.S. summit is now slated for June 12th in Singapore. It is anyone’s guess as to what comes out of this historic meeting. Another Fed meeting is scheduled for June, and many consider another interest rate hike to be a foregone conclusion. Coming off another strong earnings season, surveys of investors still suggest plenty of optimism surrounding the markets as we head into the summer months. Continue to look for the Covered Call Income team to look for trading opportunities as they present themselves over the next month.

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 5/31/2018.

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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

- Intel Corp. (INTC)
- Medtronic PLC (MDT)
- Schwab Charles Corp. (SCHW)
- Valero Energy Corp. (VLO)

Expired – Stock Retained

- Activision Blizzard (ATVI)
- General Motors Co. (GM)
- Starbucks Corp. (SBUX)
- Wal-Mart Stores Inc. (WMT)

Rolled and Collected

- Abbott Labs (ABT)
- American Intl Group (AIG)
- Comcast Corp. (CMCSA)
- Gilead Sciences Inc. (GILD)
- PayPal Holdings Inc. (PYPL)
- Exxon Mobil Corp. (XOM)

Top 10 Model Holdings ¹ Weight

1. Microsoft Corp.	4.23%
2. Visa, Inc.	3.73%
3. PayPal Holdings, Inc.	3.51%
4. Abbott Labs	3.51%
5. Valero Energy Corp.	3.46%
6. Intel Corp.	3.15%
7. Delta Air Lines, Inc.	3.08%
8. Pfizer, Inc.	3.08%
9. Nike, Inc.	3.07%
10. General Motors Co.	3.05%
Total of Portfolio	33.87%

Not FDIC Insured - No Bank Guarantee - May Lose Value