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Covered Call Income: May in Review

Trade tensions between the U.S. and China continued to take center stage and dominate the markets. Volatility rose as the trade rift heated up as well as tariffs now being threatened against Mexico. China is making it very clear that they have every intention of playing the waiting game and won't be forced into a deal. Until the markets see some clarity on trade, volatility will loom large. The Crossmark Trading team took advantage of the added volatility in May by strategically placing trades that generated the most option income for an individual month so far in 2019.

After becoming significantly more dovish since the January FOMC meeting, the Federal Reserve has remained in pause mode. The suggestion that a rate hike could take place still remains a possibility but economic data would have to deteriorate much more through the summer in order for that to come to fruition. The convergence between the markets and the Fed will most certainly contribute to increased volatility over the coming months.

Anxiety surrounding trade concerns is also pulling Treasury yields lower. The U.S. Treasury yield curve continues to flirt with inversion, as the yield on the 10 year slips below the yield on the 3 month bill. Historically, this has been an indicator of a looming recession. As volatility in the markets increases, demand for Treasuries grows, pushing prices higher and their yields lower.

With each passing week there is talk of a potential imminent trade deal but nothing has evolved just yet. Playing the waiting game can create quite a bit of uncertainty with so many different outcomes of a deal still possible. Whatever happens will most certainly result in added volatility. The Crossmark trading team will continue to monitor volatility with the intent of strategically placing option trades in order to maximize income as well as capturing as much upside in the markets as possible.

S&P 500 vs VIX



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 looking for higher yields, capital appreciation and reduced risk levels.

Expiration Calendar as of May 31, 2019

Month	Date	Number of Options
June	6/21/19	11
July	7/19/19	12
August	8/16/19	5
September	9/20/19	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 an innovative investment management firm. We provide 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 values based investment strategies for clients. Founded in 1987, the firm is headquartered in Houston, Texas.

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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 and Repurchased

- Mondelez Intl. Inc. (MDLZ)
- United Technologies Corp. (UTX)

Called Away and Replaced

- American International Group (AIG)
replaced with Capital One Financial (COF)

Rolled and Collected

- Abbott Labs. (ABT)
- Citigroup Inc. (C)
- Gilead Sciences Inc. (GILD)
- Oracle Corp. (ORCL)

Expired Worthless

- Activision Blizzard (ATVI)
- Pfizer Inc. (PFE)
- Valero Energy Corp. (VLO)

Top 10 Model Holdings ¹

United Technologies Corp.
Microsoft Corp.
Coca Cola Co.
Exelon Corp.
Nike, Inc.
Abbott Labs
Starbucks Corp.
Discover Financial Services
Intel Corp.
Paypal Holdings, Inc.

% of Total Portfolio: 33%

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 5/31/2019.

Not FDIC Insured - No Bank Guarantee - May Lose Value