



CROSSMARKGLOBAL.COM

March 2019

GOT IT COVERED COVERED CALL INCOME

Covered Call Income: February in Review

Markets climbed higher for the second consecutive month in February. Investors saw the combination of positive US and China trade talks, considerably more dovish rhetoric from the Fed and the implementation of Chinese stimulus measures. US-China trade negotiations dominated the headlines for the majority of February. The areas of the deal at the forefront include tariffs, intellectual property rights and Chinese-led subsidies for the technology sector. Enough progress was made in the trade talks which culminated with an extension of the deadline of March 1st for an agreement to be put in place before the US raised tariffs on Chinese imported products.

The partial government shutdown ended at the end of January with President Trump signing a bill that would fund the government through the end of September. However, funding for the border wall with Mexico was not included in this bill thus President Trump declared a state of emergency in order to receive funds for the wall that the President based his campaign on.

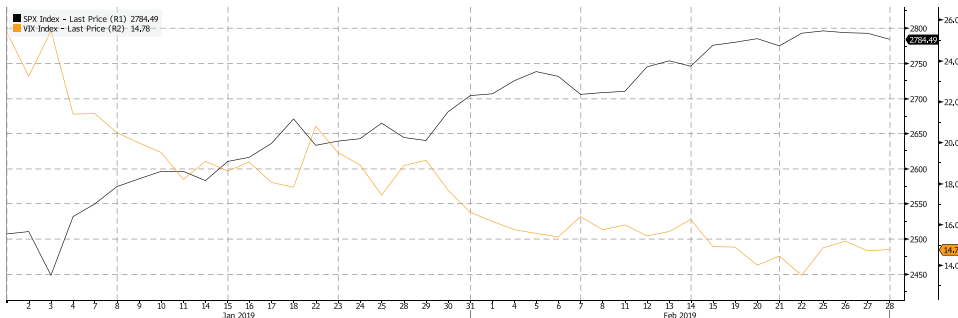
The minutes of the Federal Open Market Committee meeting in January confirmed the dovish shift in sentiment at the Fed with patience remaining the compelling word. The minutes also expanded on the Fed’s decision to maintain a larger balance sheet and to put an end to quantitative tightening by the end of the year.

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 February 28, 2019		
Month	Date	Number of Options
March	3/15/19	10
April	4/18/19	9
May	5/17/19	5
June	6/21/19	7

S&P 500 vs VIX



Source: Bloomberg

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.

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Covered Call Income: Looking ahead

The markets have come almost all of the way back from the lows experienced in late December. There is little doubt that the gains seen over the past month can be attributed to the positive news coming out of the trade negotiations between the US and China as well as the dovish tone from the Fed. Considering how far the markets have come in such a short amount of time, there are still issues that deserve to be watched closely as we move into the last month of the first quarter. Economic data has deteriorated and the threat of a recession still looms. Slowing economic and sales growth are worth watching as well. Rising wages globally could definitely put pressure on earnings growth and profits. The Covered Call Income team will continue to monitor volatility with the intent to strategically place option trades in order to maximize income. Stay tuned!

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 2/28/2019.

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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 and Repurchased

- Abbott Labs (ABT)
- Emerson Elec Co. (EMR)
- International Paper Co. (IP)
- Microchip Technologies (MCHP)
- Oracle Corp. (ORCL)
- Valero Energy Corp. (VLO)

Expired – Stock Retained

- Activision Blizzard (ATVI)
- American Intl Group (AIG)
- Comcast Corp. (CMCSA)
- Delta Airlines Inc. (DAL)
- Gilead Sciences Inc. (GILD)
- Medtronic PLC (MDT)
- Wal-Mart Stores (WMT)

Rolled and Collected

- Starbucks Corp. (SBUX)

Top 10 Model Holdings ¹

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

% of Total Portfolio: 36%

Not FDIC Insured - No Bank Guarantee - May Lose Value