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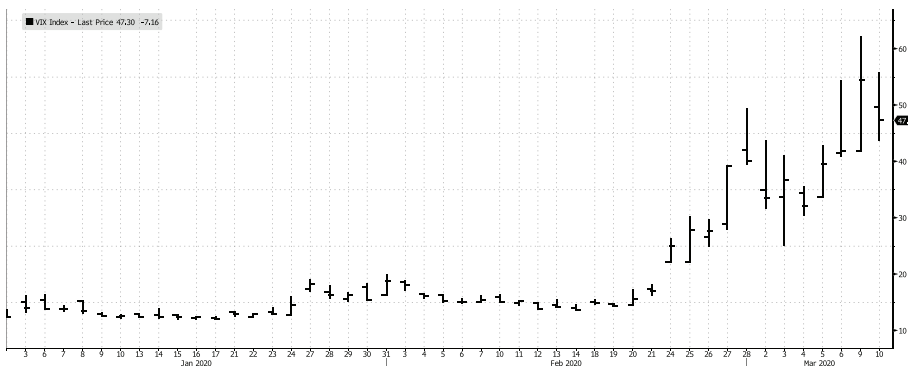
## Covered Call Income: Extreme Volatility

There has been an unprecedented and historical move in the markets over the past few weeks that has brought volatility screaming back. An extreme “risk-off” move in the financial markets has developed due to the fears surrounding the COVID-19 virus and most recently the Saudi oil decisions. The S&P 500 has seen the fastest 10% correction from record levels in the history of the markets. Below are some brief highlights regarding the Saudi/Russia oil negotiations that developed over the past weekend:

- On Friday, after less than 5 hours of negotiation between Saudi and Russian officials in Vienna, Russia decided not to join the OPEC+ production cuts designed to prop up the price of oil. Reason being that Russia wants US shale producers to share in the pain. This was a tactical move by Russia, realizing that they would be killing their relationship with Saudi Arabia. WTI crude prices dropped by ~10% on Friday to 41.28/bbl.
- On Saturday, ARAMCO (Saudi’s state oil company) announced cuts to its monthly crude-pricing after the OPEC+ meeting ends in failure. ARAMCO cut April crude pricing delivered to the US and Asia by \$7/bb and \$4-6/bbl, respectively. Discounts were also on deliveries to Europe. These discounts represent the greatest discounts from Saudi in over 30 years and represent pricing well below Russian break-even production costs.
- Saudi hit back again against Russia, announcing plans to boost oil output next month to well above 10mmbbls/day. According to some insiders, Saudi is willing to push production to a record high above 12mmbbl/day.

With demand and demand outlook already tanking from the hit from COVID-19, the world has entered a price war instigated by Russia toward the US and with retaliation from Saudi against the Russians. Global S/D outlook now in an era of material oversupply until material cuts are made somewhere. The US shale industry will definitely be sharing in the pain.

### VIX YTD 2020



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 who are willing to give up some market growth potential in exchange for higher yields and reduced risk.

### Expiration Calendar as of February 28, 2020

Month	Date	Number of Options
March	03/20/20	9
April	04/17/20	15
May	05/15/20	10
June	06/19/20	1

## 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

The severe rout in equities triggered a circuit breaker that halted trading right after the market opened on Monday. A fifteen minute halt trading was implemented after the S&P500 fell 7%. Volatility has run rampant in the markets as the VIX has closed above 30 for eight straight days. Fed Funds futures are nearly pricing in just under 3x 25 bps cuts at the March meeting, and just under 4x 25bps cuts by the July FOMC meeting.

As the global virus continues to spread and send markets lower, it will also bring monetary and fiscal stimulus to potentially slow the downturn. The volatility we have seen is unlikely to change anytime soon, with both historic up and down days. Crossmark continues to use the rise of volatility to the strategies advantage by methodically placing option spread trades to reduce risk and harvest additional income.

## Our Firm

We are a boutique investment management firm that provides a full suite of investment strategies to institutional investors, financial advisors, and the clients they serve. For over 30 years we have delivered uniquely-constructed products based on our proprietary, disciplined, and repeatable process. We are especially known for helping our clients align their investments with their values by creating socially-conscious, responsible investment strategies.

## Contact a member of our Advisor Solutions Team

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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

- Activision Blizzard, Inc. ( ATVI )
- Coca-Cola Co. ( KO )
- Intel Corp. ( INTC )

### Expired Worthless

- Gilead Sciences, Inc. ( GILD )
- Qualcomm, Inc. ( QCOM )
- Charles Schwab Corp. ( SCHW )

### Rolled and Collected

- Abbott Labs ( ABT )
- Medtronic PLC ( MDT )
- Starbucks Corp. ( SBUX )

### Sold and Replaced

- Bought to Close XOM MAR 72.50 calls
- Sold XOM
- Replaced with CVX

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

Lowe's, Inc.  
Qualcomm, Inc.  
Medtronic PLC  
Intel Corp.  
Coca Cola Co.  
Exelon Corp.  
Activision Blizzard, Inc.  
Abbott Labs  
Waste Management, Inc.  
PayPal Holdings, Inc.

% of Total Portfolio: 36%

<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 02/29/2020.

Not FDIC Insured - No Bank Guarantee - May Lose Value