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Covered Call Income: Washington to the rescue

After completing a disastrous first quarter of 2020, the markets looked to rebound in April as the second quarter began. All eyes were on Washington while they approved a stimulus bill to help many Americans and small business owners. The stimulus bill aimed to help the economy and the falling markets as well. At the close of business on April 30, 2020, the S&P 500 Index closed up over 25% from a low hit on March 23, 2020, and was down only 14% for the year. That is one dynamic turnaround considering where we were in the middle of March. The number of people filing for unemployment would not seem realistic in a normal environment. At almost ten times the previous record to date, the markets continued to surge higher, and the volatility index traded back into the 30's from a high of 82 in March. Earnings season also kicked off in April, with most analysts forecasting a relatively mild hit. Under the circumstances that seems to be pretty optimistic. And, finally, after much back and forth, Russia and Saudi Arabia reached a temporary truce to reduce oil output causing a rally in oil prices, which came as tremendous news for oil companies decimated by falling prices of crude oil.

April proved to be another good month for the strategy in regards to income generated between option premiums and dividends. This was due to the trading team resetting the option overlay after a heavy April expiration. We will continue to stay short for the time being. Implied volatility is exceptionally high, and we are getting paid for short options; we have to work the orders longer to tighten the spreads up. This is because there are not any traders on the floor.

April's rally indicated that investors are hoping for a much quicker rebound, and a return to some kind of normalcy on the horizon. The Crossmark trading team will continue to monitor volatility with the intent to strategically place option spread

VIX vs S&P 500 YTD as of March 31, 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 April 30, 2020

Month	Date	Number of Options
May	05/15/20	17
June	06/19/20	15

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

trades to maximize income, as well as 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

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

- Exelon Corp. (EXC)
- Lowe's, Inc. (LOW)
- Nike, Inc. (NKE)
- PayPal Holdings, Inc. (PYPL)

Expired Worthless

- AT&T, Inc. (T)
- Delta Airlines (DAL)
- International Paper (IP)
- Microchip Technologies (MCHP)
- Pfizer, Inc. (PFE)

Rolled and Collected

- Citigroup, Inc. (C)
- Cisco Systems, Inc. (CSCO)
- Chevron Corp. (CVX)
- Capital One Financial (COF)
- Comcast Corp. (CMCSA)
- Emerson Electric (EMR)
- Micron Technology (MU)
- Qualcomm, Inc. (QCOM)
- Starbucks Corp. (SBUX)
- US Bancorp (USB)
- Verizon Comm. (VZ)

Sold and Replaced

- Sold International Paper (IP)
- Bought Dupont De Nemours, Inc. (DD)

New Buy

- JP Morgan (JPM)

Top 10 Model Holdings ¹

Qualcomm, Inc.
Lowe's, Inc.
Intel Corp.
Medtronic PLC
Micron Technology, Inc.
Abbott Labs
Nike, Inc.
Activision Blizzard, Inc.
Gilead Sciences, Inc.
PayPal Holdings, Inc.

% of Total Portfolio: 40%

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 04/30/2020.

Not FDIC Insured - No Bank Guarantee - May Lose Value