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## Covered Call Income: November Turning Point?

Looking back on all that has been thrown at markets in 2020, the month of November might very well be viewed as the turning point. The announcement of three potential vaccines shown to be highly effective in trials against COVID-19 spiked markets higher, adding additional momentum to the post-election rally. All major equity benchmarks jumped by double-digit percentages. Attention now turns to how quickly and safely these vaccines can be approved, manufactured, and administered on a scale never seen before.

### Fast Start - Late Stumble

With the markets in rally mode last month, volatility for the most part was non-existent, with the VIX index trading in a tight range between 22 and 26. The Covered Call Income team was able to reset a few option strikes at the beginning of the month, but otherwise it was slow trading on the option overlay side. The strategy will remain short in duration, with staggered option positions written between December and January expirations. There is still too much market uncertainty to push the option overlay out past two to three months. However, with implied volatility still high, we are continuing to obtain attractive prices selling short-term call options.

From a sector-level standpoint, this year's underperformers rebounded sharply. For the month, the energy and financial sectors were up 28% and 17%, respectively. Financials registered the best month since April 2009.

### Will History Repeat Itself?

For decades, the month of December has usually been strong for equities. However, history does not always repeat itself. The markets still have plenty to worry about as we close out a history-making year and move into the first quarter of 2021. Worries include how quickly the three vaccines can be manufactured, transported and distributed, the size and timing of any fiscal stimulus, and future monetary policy actions. And perhaps most eagerly awaited, the Georgia runoffs slated for January 5 will decide control of the Senate and become a key determinant of future policy initiatives. If the Republicans manage to win at least one of these elections, they will control the Senate and Congress will be divided. The markets will most certainly be paying attention to this outcome the first week of the new year.

The Crossmark trading team will continue to monitor volatility with the intent to strategically place option spread trades to maximize income as well as reduce as much market risk as possible.

## 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 November 30, 2020

Month	Date	Number of Options
December	12/18/20	12
January	01/15/21	11
February	02/19/21	2

## 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 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. Founded in 1987, we are headquartered in Houston, Texas.

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**All Investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results.** The Covered Call Income strategy may not achieve its objective if the managers' expectations regarding particular securities or markets are not met. Equity investments generally involve two principal risks—market risk and selection risk. The value of equity securities will rise and fall in response to general market and/or economic conditions (equity market risk). The value of any individual equity security will rise and fall in response to the market's perception of the issuer's revenues, earnings, balance sheet, credit worthiness, business plan, and overall perception of the viability of the issuer's business (selection risk).

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

- Applied Materials, Inc. (AMAT)
- Abbott Labs (ABT)
- Capital One Financial Corp. (COF)
- Chevron Corp. (CVX)
- CVS Caremark Corp. (CVS)
- DuPont de Nemours, Inc. (DD)
- Fiserv, Inc. (FISV)
- Medtronic PLC (MDT)
- Microchip Technology, Inc. (MCHP)
- Morgan Stanley (MS)

### Rolled and Collected

- Activision Blizzard (ATVI)
- Intel Corp. (INTC)
- Gilead Sciences, Inc. (GILD)
- Verizon Comm. (VZ)

### Expired Worthless – New Option

- Apple, Inc. (AAPL)
- AT&T, Inc. (T)

### New Buys

- D R Horton, Inc. (DHI)
- Nextera Energy, Inc. (NEE)

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

Microchip Technology, Inc.  
Medtronic PLC  
Applied Materials, Inc.  
Abbott Labs  
Emerson Electric Co.  
Starbucks Corp.  
Nike, Inc.  
Cisco Systems, Inc.  
Coca Cola Co.  
Capital One Financial Corp.

% 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 11/30/2020.

Not FDIC Insured - No Bank Guarantee - May Lose Value