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## Covered Call Income: October Screams

October followed up September with increased volatility as a resurgence in COVID-19 cases, anxiety surrounding the upcoming election and a disheartening lack of stimulus sent the markets lower towards the end of the month. The S&P 500 Index fell another 265 basis points (bp), adding to the 380 bp loss in September, while the CBOE S&P 500 BuyWrite Index (the primary benchmark for the Covered Call Income strategy) fell 364 bps in October. The Covered Call Income (CCI) team was able to take advantage of the spike in volatility by resetting quite a few option positions the last week of the month. The strategy also recorded another solid performance in October, with income generated between option premiums and dividends. The option overlay for the CCI strategy will continue to stay short in duration, with the option positions written being staggered between November and December expirations. There is too much uncertainty surrounding the markets to push the option overlay out past two to three months at this time. With implied volatility still high, we are continuing to get paid to sell short-term call options.

**VIX vs S&P 500 YTD  
as of October 31, 2020**



Source: Bloomberg

### Fast Start - Late Stumble

The month of October got off to a nice start before stumbling the week of Halloween. This year has been unpredictable from the beginning, and heading into November and December, we don't expect anything to change. With the ongoing uncertainty combined with high valuations, the market is most likely to remain extremely volatile through the end of the year and quite possibly into the first quarter of 2021. The winner of the election will almost certainly influence the direction of the markets. In addition to the Presidential election, control of the United States Senate is on the line, with most pundits saying the outcome of the latter is much more important from a market standpoint.

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 market risk as much 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 October 31, 2020

Month	Date	Number of Options
November	11/20/20	17
December	12/18/20	13
January	01/15/21	7

## 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.

### Crossmark Global Investments, Inc.

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SMA-CCI-GIC 11/20

## Expiration Summary

### Called Away and Repurchased

- Exelon Corp. ( EXC )
- Nike, Inc. ( NKE )
- Oracle Systems Corp. ( ORCL )
- Starbucks Corp. ( SBUX )
- Waste Management, Inc. ( WM )

### Rolled and Collected

- Morgan Stanley ( MS )
- CVS Caremark Corp. ( CVS )
- US Bancorp ( USB )
- Cisco Systems, Inc. ( CSCO )
- Chevron Corp. ( CVX )
- Valero Energy Corp. ( VLO )
- General Motors Co. ( GM )
- Comcast Corp. ( CMCSA )

### Expired Worthless – New Option

- Delta Airlines, Inc. ( DAL )
- Micron Technology, Inc. ( MU )

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

Abbott Labs  
Microchip Technology, Inc.  
Micron Technology, Inc.  
Medtronic PLC  
Fiserv, Inc.  
DuPont de Nemours, Inc.  
Starbucks Corp.  
Emerson Electric Co.  
Qualcomm, Inc.  
Coca Cola Co.

% 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 10/31/2020.

Not FDIC Insured - No Bank Guarantee - May Lose Value