



CROSSMARKGLOBAL.COM

September 2018

GOT IT COVERED COVERED CALL INCOME

Covered Call Income: August in Review

Historically, the month of August has been one of the worst performing months of the year. Investors were faced with new U.S. sanctions against Iran, relationship strains between the U.S. and Turkey and the continued deterioration of trade talks surrounding the U.S and China. Most equity markets and risk assets sold off, with one exception being the S&P 500 which was up once again on strong investor sentiment and a lack of inflationary concerns. Consumers continue to benefit from the tailwinds provided by fiscal reform.

Even though U.S. stocks hit all-time highs in the month of August, the sectors leading the charge were more defensive in nature. Telecom, utilities and healthcare outperformed while materials, energy and industrials underperformed for the month.

Trade rhetoric was once again at the forefront in August with the U.S. and Mexico announcing an agreement with the hopes that Canada would soon come to the table. Trade talks with China appear to have stalled for the time being. Trade tensions continue to persist which will lead to increased volatility. Volatility is advantageous to covered call strategies and overall is healthy for the markets in general. The Covered Call Income team took advantage of volatility the first part of August by placing option trades to generate premium income.

VIX Trailing 12 months



Source: Bloomberg

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, and investing in equity securities involves market risk, including the possible loss of principal.

Expiration Calendar as of August 31, 2018

Month	Date	Number of Options
September	9/21/18	12
October	10/19/18	12
November	11/16/18	9
December	12/21/18	4

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. Founded in 1987, the firm is headquartered in Houston, Texas and manages approximately \$5.1 billion in AUM.

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Covered Call Income: Looking Ahead

Trade uncertainties are going to continue to loom over the U.S. markets and emerging market economies. That being said, there is optimism within the markets as the U.S. and Mexico reached a trade deal at the end of the month. The markets continue to rally on positive trade news but also pullback on the lack of developments. That uncertainty will surely bring more volatility to the markets. As we head towards the end of the third quarter, the Covered Call Income strategy is well positioned for the market fluctuations that lie ahead.

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 8/31/2018.

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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 – Repurchased

- Abbott Labs (ABT)
- Cisco Systems Inc. (CSCO)
- Oracle Corp. (ORCL)
- Pfizer Inc. (PFE)

Expired – Stock Retained

- Activision Blizzard (ATVI)
- American Intl Group (AIG)
- Exxon Mobil Corp. (XOM)

Rolled and Collected

- Comcast Corp. (CMCSA)
- International Paper Co. (IP)
- Mondelez Intl Inc. (MDLZ)
- Visa Inc. (V)

Top 10 Model Holdings ¹ Weight

1. Visa, Inc.	4.04%
2. Abbott Labs	3.67%
3. Nike, Inc.	3.39%
4. Oracle Systems Corp.	3.34%
5. Intel Corp.	3.33%
6. Cisco Systems, Inc.	3.28%
7. Valero Energy Corp.	3.24%
8. Delta Air Lines, Inc.	3.21%
9. Emerson Elec Co.	3.16%
10. Gilead Sciences, Inc.	3.12%
Total of Portfolio	33.79%

Not FDIC Insured - No Bank Guarantee - May Lose Value