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## Covered Call Income: Another Volatile September

The month of September has historically been the worst performing month of the year for not only the S&P 500, but also the Dow and the tech-heavy Nasdaq. This year was no exception - investors had a front-row seat to the market sell-off and an accompanying increase in volatility that had not been seen in quite some time. In the first few weeks of last month, the Nasdaq’s amazing rally came to a screeching halt with the Index falling over 11%. In our opinion, markets need some volatility to keep them “honest” - to validate their direction. After the big run-up, the Nasdaq seemed due for some kind of a correction and many alert investors took advantage, sparking a rally (in the Nasdaq and other indexes) during the last week of the month.

### Volatility = Higher Option Income

The Covered Call Income team was able to take advantage of the spike in volatility by resetting quite a few option positions during September and around expiration. The income generated from option premiums and dividends was the highest since the historic pullback in March. Currently, our strategy for the rest of the year is to stay short in duration and write staggered positions with October, November and December expirations. This is because (1) we see too much uncertainty surrounding markets to push the option overlay out past three months, and (2) with implied volatility still high we are happy to keep selling short term call options.

### A Few of Our Favorite Trades

There were several individual trades placed during September that are worth mentioning. We bought a position in Apple (AAPL) after the 4 for 1 stock split at the end of August. Keeping with our sector-neutral approach, we added General Motors (GM) to the portfolio after Target (TGT) was called away. The Covered Call Income team also added Applied Materials (AMAT) to the portfolio. The option premiums on Apple and Applied Materials are very attractive and contributed to the increase in income generated during September.

**VIX vs S&P 500 YTD**  
as of September 30, 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 September 30, 2020

Month	Date	Number of Options
October	10/16/20	12
November	11/20/20	17
December	12/18/20	8

## 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

## Looking Ahead: The Fourth Quarter

While September has been undeniably bad for equities, October, November and December have historically been some of the best performing months of the year. Of course, investors are now facing several major factors that will most certainly cause additional market volatility. We have the ongoing pandemic and the potential for new spikes as we enter the traditional flu season, but there is tremendous uncertainty surrounding one of the most important elections of our lifetime. And right on cue, Republicans and Democrats seem to have restarted serious negotiations on a stimulus package with the hopes of getting a deal done this month. Oh, and earnings season kicks off in just a few weeks. Welcome to the fourth quarter!

The Crossmark trading team will continue to monitor volatility with the intent of strategically placing option spread trades to maximize income while reducing as much market risk as possible.

## Our Firm

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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 10/20

## Expiration Summary

### Called Away and Repurchased

- Capital One Financial Corp. ( COF )
- Coca-Cola Company ( KO )
- Emerson Electric Co. ( EMR )
- Mondelez Intl. ( MDLZ )
- Verizon Communications ( VZ )

### Rolled and Collected

- Chevron Corp. ( CVX )
- Valero Energy Corp. ( VLO )
- Gilead Sciences, Inc. ( GILD )\*\*OCT strike
- Intel Corp. ( INTC )
- Citigroup, Inc. ( C )
- JP Morgan Chase & Co. ( JPM )
- Charles Schwab Corp. ( SCHW )
- Pfizer, Inc. ( PFE )
- Microchip Technology, Inc. ( MCHP )\*\*OCT strike
- Raytheon Technologies ( RTX )\*\*OCT strike

### New Buy

- Apple, Inc. ( AAPL )
- General Motors ( GM )
- Applied Materials, Inc. ( AMAT )

### Called Away and Replaced

- Wal-Mart Stores ( WMT )

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

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

% of Total Portfolio: 38%

<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 09/30/2020.

Not FDIC Insured - No Bank Guarantee - May Lose Value