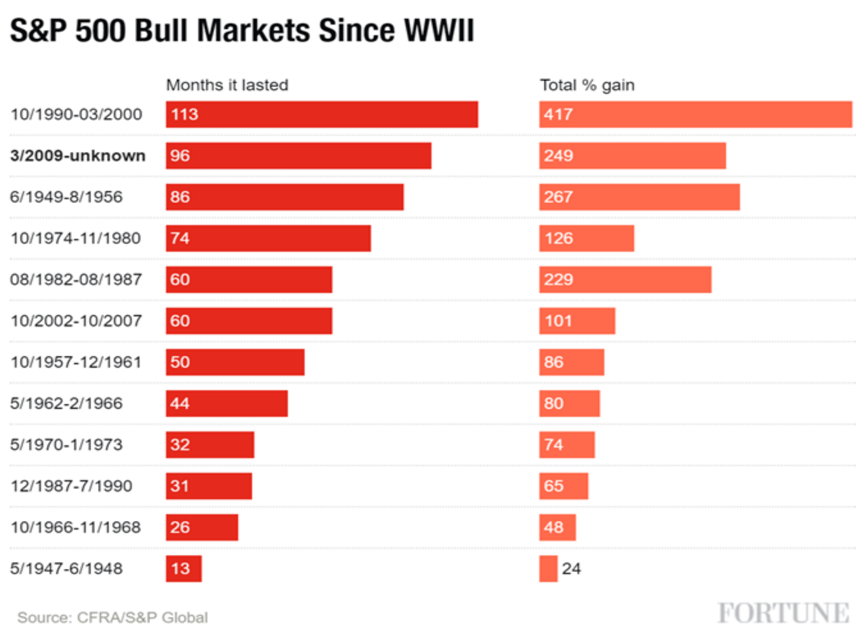
INVESTMENT COMMENTARY: Q1 2017

April | 2017

In The Market For A Raincoat?

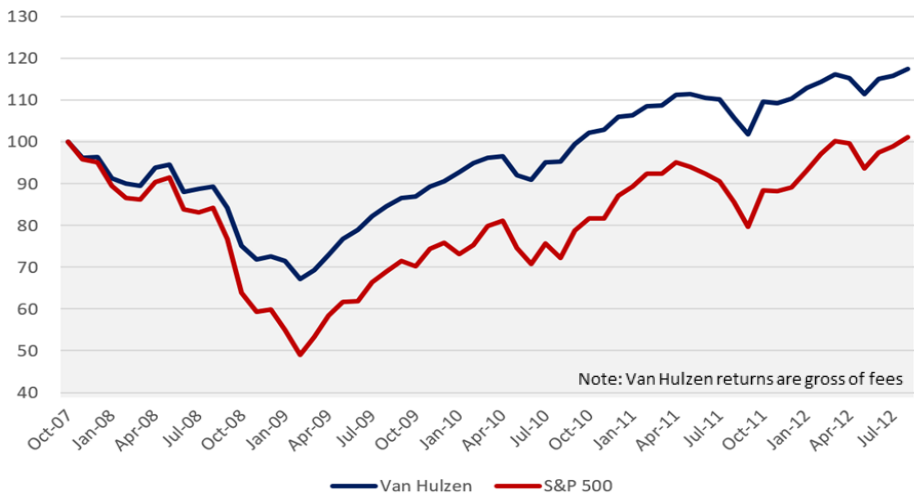
Last month, the bull market in U.S. stocks celebrated a rare milestone by turning eight years old. The current bull market, defined by prices that continue rising without being interrupted by the 20% decline that would signify a bear market, began for the S&P 500 just over eight years ago, in the depths of the recession in 2009. Since then, the benchmark index has gained 249% over 96 months. This represents the <u>second longest</u> bull market since WWII, second only to the dot com bubble of the 1990s. According to Fortune, the average age of a bull market is 57 months.

US stocks are currently sitting near all-time highs, and the S&P 500 Volatility Index's (VIX) average level last quarter was its lowest since the fourth quarter of 2006. These low levels in the market's "fear gauge" (30-40% below long term averages) have been known to breed feelings of complacency that can result in a market pullback. There is no question that some of the recent optimism has been fueled by Trump's pro-growth agenda. And while we feel many of Trump's policies would in fact benefit the stock market, our concern is that he will likely have a very difficult time pushing his agenda through Congress. The failure of the healthcare bill does not bode well for the prospects of serious tax reform in 2017, as such reform depended in part on savings from the healthcare bill.

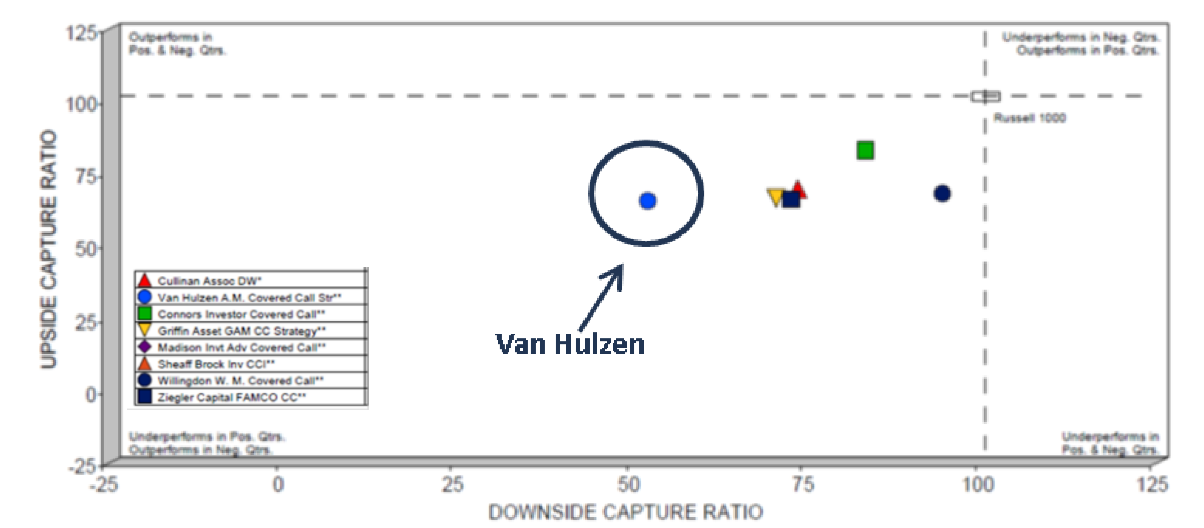


We are neither market timers nor market pessimists. Stocks are the best performing asset class available to investors, and we believe in market participation. However, we also believe it is prudent to manage your risks carefully. Covered calls allow us to participate in the equity markets while also hedging our exposure and shifting our focus away from (uncertain) price appreciation and towards (more certain) income. In short, covered calls are analogous to bringing a rain coat when you go outside. It may not rain, but if it does you will be very happy you came prepared.

Van Hulzen Asset Management has a proven track record of out-performing the market during down periods. And as a result, we don't have to work as hard during up markets. Take the 2008 market crash, for example. It took 37 months for the S&P 500 index to make up its losses from this crash. But Van Hulzen's covered call clients were break even after just 19 months:



We pride ourselves on managing downside risk. And as demonstrated by the following graphic from the PSN database, we are one of the best in the business in this regard. Most covered call managers have an upside capture ratio of 65-70%. However, downside capture ratios vary more widely. Van Hulzen is by far the leader in this area.



Van Hulzen Covered Call Strategy in Review and Outlook

Our strategy gained 3.5% (gross) in Q1, compared to 6.1% for the S&P 500. Our current dividend yield is 2.4% and we are currently getting approximately 8.5% in annualized option premiums. The beta of the strategy is 0.55 relative to the S&P.

The market's performance was largely driven by Consumer Discretionary (AMZN +18.2%) and IT (Apple and Facebook both up 24%). The Energy sector lagged by 8%.

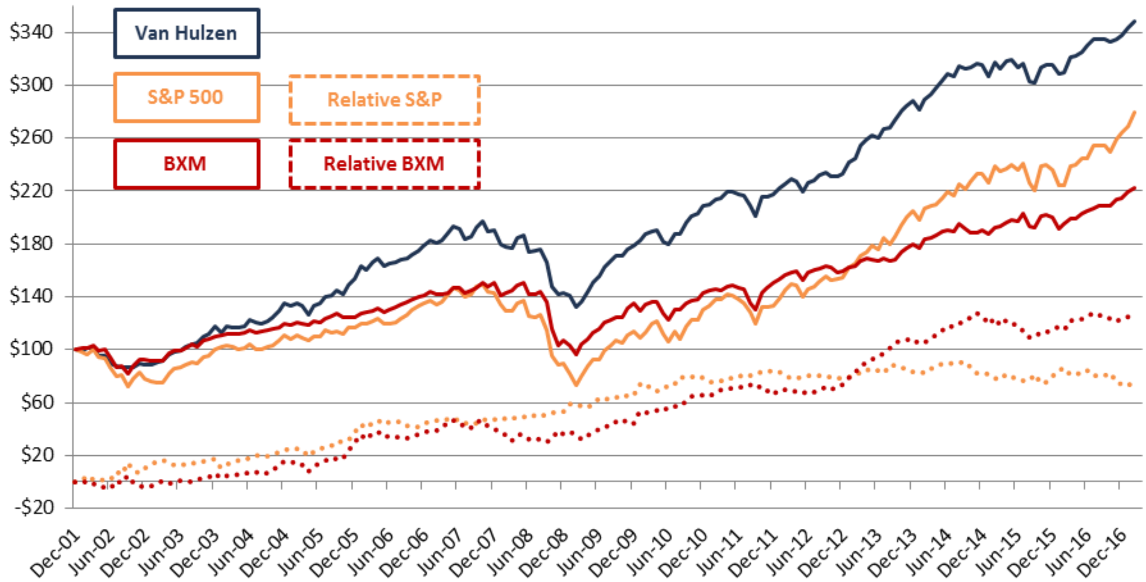
Our investment process is focused on finding undervalued high quality stocks and selling call options to potentially enhance the total return and risk profile on each position. We believe that equity markets are likely to experience heightened volatility in the coming years. As covered call investors, we welcome back this higher volatility as it makes the total return performance less dependent on price appreciation.

Van Hulzen Asset Management

Investment Committee

4370 Town Center Blvd Suite 220, El Dorado Hills, CA 95762
Tel: (916) 608-4284 | Fax: (916) 608-4296
www.vaminstitutional.com

Covered Call Strategy Performance (gross as of 03/31/2017)



Returns (annualized)*	Mar 2017	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	0.4%	3.5%	4.6%	3.5%	9.1%	6.0%	8.9%	9.1%	6.7%	8.6%
Van Hulzen (Net)	0.4%	3.4%	4.3%	3.4%	8.4%	5.5%	8.0%	8.2%	5.8%	7.6%
BXM	0.4%	4.0%	6.8%	4.0%	12.2%	6.5%	7.0%	7.3%	4.6%	5.4%
Difference (Gross-BXM)	0.1%	-0.5%	-2.1%	-0.5%	-3.1%	-0.5%	1.8%	1.9%	2.1%	3.2%

*Inception date : 12/31/2001. Figures greater than one year are annualized. Van Hulzen returns represent actual returns from composite of accounts

Note: There is no assurance that the Strategy will achieve its investment objectives. Writing call options can result in an option exercise and may cause shares to be "called away" and sold. The use of covered call strategies does not ensure profits or guarantee against losses. Past performance may not be indicative of future results.

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