

**VAN HULZEN COVERED CALL STRATEGY**

**STRATEGY OBJECTIVE**

The Strategy's investment objective is to seek total return with less volatility than equity markets in general.

**REASONS TO INVEST**



Large Cap Blend/Value



Targets Low Volatility



Option and Dividend Income

**INVESTMENT STRATEGY**

- Investing primarily in dividend-paying common stocks.
- Fundamental process for selecting stocks driven by a return-on-capital framework that provides for quality comparisons of companies across industries, sectors and geography.
- Generate a portfolio income of 6-8% through dividends and option income.
- Risk management: Tolerable-risk models, values-at risk models and stop loss procedures to manage portfolio risk.

**HOW TO INVEST**

Van Hulzen Asset Management LLC  
4370 Town Center Blvd, Suite 220  
El Dorado Hills, CA 95762  
(916) 608-4284

**PORTFOLIO MANAGERS**

Craig Van Hulzen  
John Pearce  
Stefan ten Brink (stefan@vaminvest.com)

Van Hulzen also serves as a subadvisor to a Covered Call Mutual Fund offered through Rational Funds, more information can be obtained at RationalMF.com.

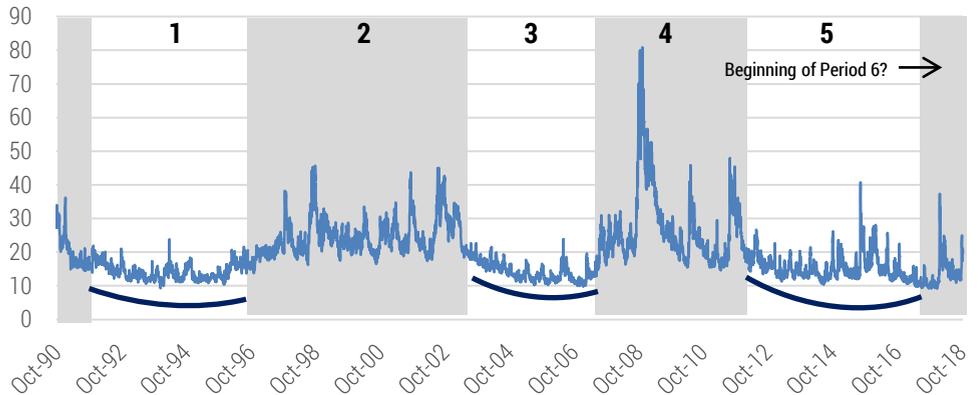
**3 Reasons Why Covered Call Investors Welcome Back Volatility**

Covered call strategies have historically out-paced the market during volatile periods. After six years of record low volatility, we believe covered call strategies are once again poised for out-performance. Here are the reasons why.

- Higher yields:** During periods of heightened volatility, option premiums have a tendency to increase in price, as more investors are willing to pay for a hedge in their portfolios. Because covered call strategies are designed to sell options for income purposes, these higher premiums typically result in a higher yield to the investor. For example, our strategy has averaged 6-8% annual yields over its 16+ year track record, but we are currently clipping annualized yields in the range of 10-12% due to higher overall market volatility.
- Downside protection:** Because covered call portfolios are designed to provide a higher income stream than most long-only equity strategies, they tend to do a particularly good job of protecting portfolios when the market declines. Call premiums can provide an income buffer that helps mitigate downside exposure, and this buffer potentially expands as volatility rises.
- Rotation Towards Quality:** We have seen unprecedented market dispersion over the past 4-5 years, with growth stocks (largely driven by Big Tech) far out-performing the rest of the market. Our covered call strategy is focused on quality and tends to lean more towards value than growth. Less speculative stocks (and particularly the defensive sectors) typically do better during periods of heightened volatility. To reference our favorite baseball analogy, players who don't strike out get on base more and score more runs. We are a singles and doubles strategy. It's less exciting than hitting home runs but much more consistent.

**The 5 distinct Volatility Cycles of the past 30 years:**

(The appendix on page 3 has a bigger graph for you to use in presentations)



**2**  
**Apr 1997 – Jun 2003**  
(avg VIX = 25.1)  
S&P 500 41.9%  
BXN 66.2%

**4**  
**Oct 2007 – Jan 2012**  
(avg VIX = 27.2)  
S&P 500 -4.4%  
BXN +3.2%

**1**  
**May 1991 – Mar 1997**  
(avg VIX = 14.8)  
S&P 500 142.3%  
BXN 127.9%

**3**  
**Jul 2003 – Sep 2007**  
(avg VIX = 14.3)  
S&P 500 65.0%  
BXN 48.2%

**5**  
**Feb 2012 – Sep 2018**  
(avg VIX = 14.9)  
S&P 500 152.4%  
BXN 67.8%

## The Empirical Evidence: Covered Calls Out-Perform During Volatile Periods

The CBOE volatility index (ticker VIX) has averaged ~20 over the long term, meaning the market typically expects future volatility to be around 20%.

The VIX is often referred to as the market's "fear gauge" since it spikes during periods of uncertainty. We have studied the full history of the VIX, back to 1990. In the chart above, grey periods represent stretches when VIX traded above its long term average of 20, while the white periods represent below average stretches.

Our conclusion is there have basically been five distinct volatility cycles over the past 30 years, and there is a clear distinction between investment returns during these periods. See the graphic above:

- Periods 1, 3 & 5: Low volatility (avg VIX of 14.7) – Long-only stocks significantly out-performed hedged strategies (including covered calls)
- Periods 2 & 4: High volatility (avg VIX of 26.1) – Covered calls significantly out-performed long-only stocks

Conclusion: It's clear that investors who utilized covered calls have significantly outperformed during periods of heightened volatility.

### Key Takeaways

We'd like to make two other points about these findings:

- The dispersion in period 5 has been truly unprecedented, with long-only stocks gaining 152% versus 67% for covered calls. The past six years has been a really, really tough environment for hedged strategies. We expect to see some mean reversion
- Period 2 shows what a period of consistently high volatility looks like. The market went up an average of 6-7% per year during that period, but covered calls did significantly better relative to long-only stocks
- A prolonged period of consistently high volatility could be really, really good for covered call investors

At Van Hulzen Asset Management, we believe the market has entered a new (potentially lengthy) period of above average volatility. Covered call strategies have historically been well suited for this environment.

If you believe the market will shake off this recent uncertainty and the longest bull market in history will continue higher, then covered calls are not for you. But if you think we may be beginning "Period 6" then now may be an ideal time to reallocate some capital from long-only equities into covered calls.

Risk

### RISK CONSIDERATIONS:

Past performance is not a guarantee of future results.

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Van Hulzen Asset Management (VAM) is a SEC registered investment advisor located in El Dorado Hills, CA. VAM and its representatives are in compliance with the current registration requirements imposed upon registered investment advisors by those states in which VAM maintains clients. VAM may only transact business in those states in which it is registered or qualifies for an exemption or exclusion from registration requirements. Past performance is not a guarantee of future results. The results achieved by individual clients will vary and will depend on a number of factors including the particular underlying stock and its dividend yield, option market liquidity, interest rate levels, implied volatilities, and the client's expressed return and risk parameters at the time the service is initiated and during the term. Investing in options involves risk that must be considered and reviewed with a professional prior to investing. This presentation is not intended for the giving of investment advice to any single investor or group of investors and no investor should rely upon or make any investment decisions based solely upon its contents. The CBOE S&P 500 BuyWrite Index (BXM) is a benchmark index designed to track the performance of a hypothetical buy-write strategy on the S&P 500 Index. The BXM is a passive total return index based on (1) buying an S&P 500 stock index portfolio, and (2) "writing" (or selling) the near-term S&P 500 Index (SPXSM) "covered" call option, generally on the third Friday of each month. Performance shown in above graphs is gross of fees. The overall Morningstar Rating is based on risk-adjusted gross returns, derived from a weighted average of the three-, five-, and 10-year (if applicable) Morningstar metrics. Relative performance represents the difference between a \$100 hypothetical investment in Van Hulzen's covered call strategy versus a \$100 hypothetical investment in each respective benchmark.

*The Strategy involves risk including the possible loss of principal. There is no assurance that the Strategy will achieve its investment objectives. The use of leverage embedded in written options will limit the Strategy's gains because the Strategy may lose more than the option premium received. Selling covered call options will limit the Strategy's gain, if any, on its underlying securities and the Strategy continues to bear the risk of a decline in the value of its underlying stocks. The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. It is widely used as a benchmark of U.S. equity performance. It is not possible to invest directly in an index*

Van Hulzen Asset Management, LLC | 4370 Town Center Blvd, Suite 220 | El Dorado Hills, CA 95762

Website: [vaminstitutional.com](http://vaminstitutional.com)

Head Quarters: (916) 608-4284

# Appendix

Source: Van Hulzen Asset Management (vaminstitutional.com)

## The 5 distinct Volatility Cycles of the past 30 years:

