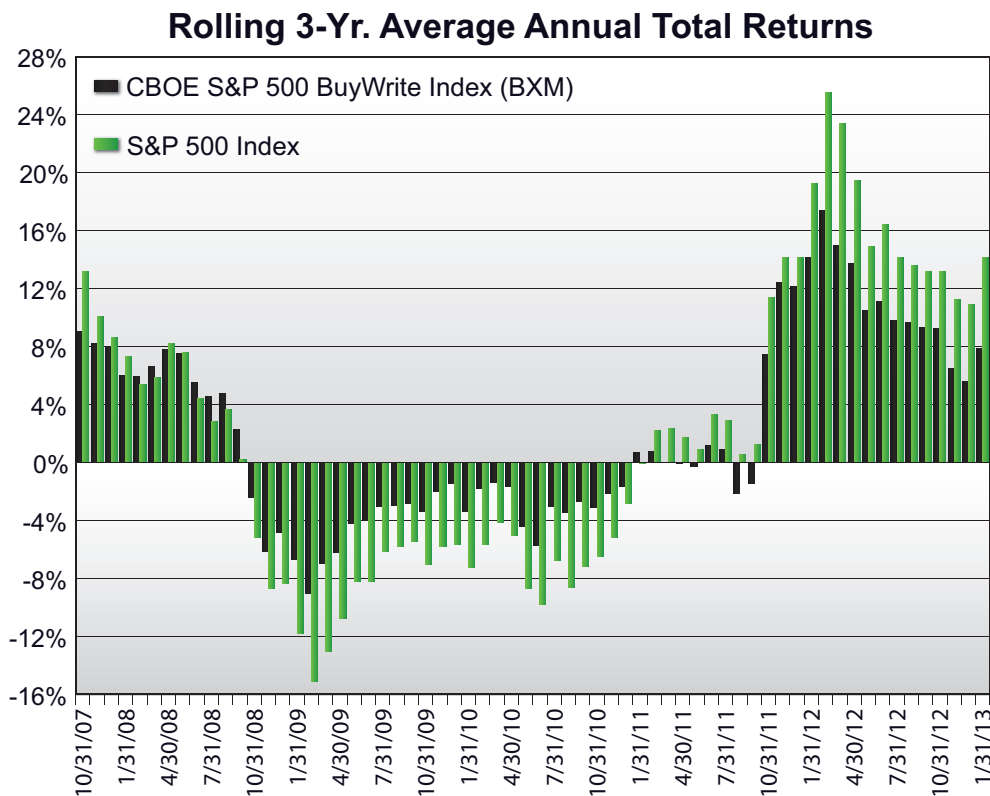


# Covered Call Strategies Usually Yield To Growth When Bull Markets Arise



Source: Bloomberg. Past performance is no guarantee of future results.

## View from the Observation Deck

1. From time to time we like to feature topics that show investors that the securities markets are functioning as intended.
2. Using 3-year rolling average annual total returns, the chart above accurately portrays the relationship between a buy-write (equity covered call option) strategy and the broader market (S&P 500).
3. In this instance, a covered call option entails the holder of a long position writing (selling) a call option on that underlying asset (stock) in an effort to generate income (premium).
4. In return for the premium income, the owner of said stock is assuming the risk that the value of that issue could appreciate to a specific agreed upon price (strike price).
5. If the strike price is reached or exceeded, the buyer of that call option has the right to, but does not have to, exercise the contract and purchase the stock at the agreed upon strike price.
6. While covered call options can generate an attractive level of current income, they also can cap the potential for appreciation via the strike price.
7. Ideally speaking, buy-write strategies involving a well-diversified portfolio of equities tend to benefit the investor most when stock returns are either modest (<10%) or negative (see chart dates 10/31/07-10/31/11).
8. The S&P 500 has clearly outperformed the buy-write strategy since the end of 2011 (see chart). As it should, in our opinion.

*This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance, while the CBOE S&P 500 BuyWrite Index (BXM) is designed to track a hypothetical buy-write strategy on the S&P 500.*