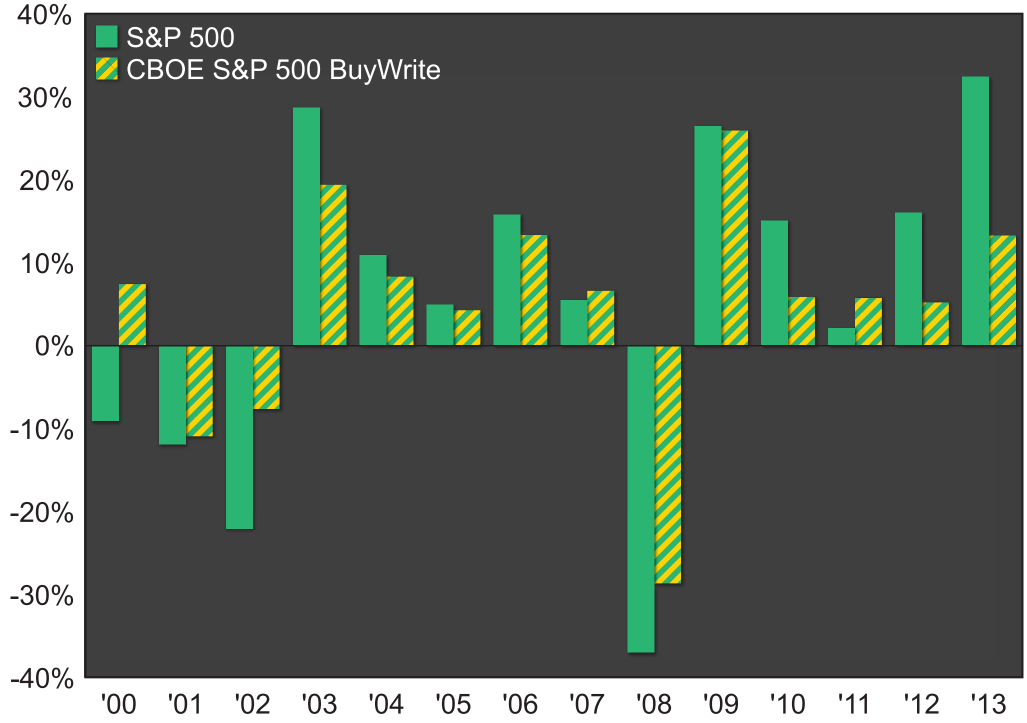
Covered Calls May Be Conducive For This Market Climate

S&P 500 vs. CBOE S&P 500 BuyWrite Index
(Annual Total Returns)



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

View from the Observation Deck

1. From 2000-2013, the CBOE S&P 500 BuyWrite Index (an index designed to measure a covered call strategy) outperformed the S&P 500 in six of the 14 calendar years.
2. While covered call options can generate an attractive level of current income, they also can cap the potential for capital appreciation.
3. The use of covered calls tends to be most beneficial to investors when the stock market posts down years (2000, 2001, 2002 & 2008) and when returns range from 0% to 12% (2004, 2005, 2007 & 2011).
4. From 1926-2013, the S&P 500 posted an average annual total return of 10.08%, according to Ibbotson & Associates/Morningstar. That average sits near the upper end of the 0% to 12% range.
5. Covered call writing tends to be less beneficial when stock market returns are well above their normal range, such as in 2013, when the S&P 500 posted a total return of 32.39% (see chart).
6. Today, the S&P 500 stands about 5.0% below its all-time high of 1848.38 set on 1/15/14. At current levels, we believe that corporate earnings growth will have the greatest influence on the direction of stock prices.
7. The 2014 estimated earnings per share growth for the S&P 500 was 9.61% on 2/4/14, according to Bloomberg. That target fits nicely into the 0% to 12% range.

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