

This Covered Call Index Tends To Outperform The S&P 500 When Stock Returns Are Modest Or Negative

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

Year	S&P 500 TR Index	CBOE S&P BuyWrite Index	Winner
2019 (10/31/19)	23.16%	13.17%	?
2018	-4.38%	-4.77%	S&P 500
2017	21.83%	13.00%	S&P 500
2016	11.96%	7.07%	S&P 500
2015	1.38%	5.24%	BuyWrite
2014	13.69%	5.64%	S&P 500
2013	32.39%	13.26%	S&P 500
2012	16.00%	5.20%	S&P 500
2011	2.11%	5.72%	BuyWrite
2010	15.06%	5.86%	S&P 500
2009	26.46%	25.91%	S&P 500
2008	-37.00%	-28.65%	BuyWrite
2007	5.49%	6.59%	BuyWrite
2006	15.79%	13.33%	S&P 500
2005	4.91%	4.25%	S&P 500
2004	10.88%	8.30%	S&P 500
2003	28.68%	19.37%	S&P 500

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

View from the Observation Deck

1. From 2003-2018, the CBOE S&P 500 BuyWrite Index (an index designed to measure a covered call strategy) outperformed the S&P 500 Index in four of the 16 calendar years.
2. Though it is performing well year-to-date, it has lagged the return on the S&P 500 Index by roughly 10 percentage points (see table).
3. While covered call options can generate an attractive level of current income, they can also cap the potential for capital appreciation.
4. The use of a covered call portfolio tends to be most beneficial to investors when the stock market posts down years (2008) and when returns range from 0% to 10% (2007, 2011 and 2015), though the BuyWrite Index did not outperform the S&P 500 Index in 2005 or in 2018.
5. Covered call writing tends to be less beneficial when stock market returns are above 10%, such as in 2010, 2012, 2013, 2014, 2016, 2017 and thus far in 2019 (see table).
6. As of 10/31/19, the S&P 500 Index stood 0.30% below its all-time high of 3,046.77 set on 10/30/19, according to Bloomberg.
7. We believe that corporate earnings growth determines the direction of stock prices over time.
8. Bloomberg's 2020 and 2021 consensus earnings growth rate estimates for the S&P 500 Index were 9.26% and 10.36% as of 11/1/19. Those earnings growth projections fit the range that has historically been a favorable climate for covered calls.
9. From 1926-2018 (93 years), the S&P 500 posted an average annual total return of 9.99%, according to Morningstar/Ibbotson Associates.

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 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. The CBOE S&P 500 BuyWrite Index (BXM) is designed to track a hypothetical buy-write strategy on the S&P 500. It 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.

The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial advisors are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.