

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

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

Year	S&P 500 Index	CBOE S&P 500 BuyWrite Index	Winner
2020 (6/9)	0.16%	-14.58%	?
2019	31.49%	15.68%	S&P 500
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

- From 2003-2019, the CBOE S&P 500 BuyWrite Index (an index designed to measure a covered call strategy) outperformed the S&P 500 Index in just four of the 17 calendar years. We chose 2003 because it was the first year of a new bull market.
- From 1926-2019 (94 years), the S&P 500 Index posted an average annual total return of 10.20%, according to Morningstar/Ibbotson Associates.
- While covered call options can generate an attractive level of current income, they can also cap the potential for capital appreciation.
- 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.
- 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 2019 (see table).
- As of 6/9/20, the S&P 500 Index stood 5.29% below its all-time high of 3,386.15 set on 2/19/20, according to Bloomberg.
- Year-to-date through 6/9/20, the CBOE S&P 500 BuyWrite Index lagged the return on the S&P 500 Index by 14.74 percentage points (see table). If you do this comparison using 12/31/19 through 2/19/20 (all-time high for the S&P 500 Index), the S&P 500 Index was only outperforming the CBOE S&P 500 BuyWrite Index by 2.83 percentage points. What changed? The coronavirus (COVID-19) pandemic.
- The pandemic hit hard and moved fast. It took a record low 16 trading days for the S&P 500 Index to plunge into bear market territory (2/19/20-3/12/20). A bear market is defined as a price decline of at least 20% from the most recent peak.
- As we now know, the rebound in the stock market has also been brisk. Perhaps too brisk for investors to consider a covered call strategy that would cap their potential upside. This may explain why the CBOE S&P 500 BuyWrite Index is lagging the S&P 500 Index by 14.74 percentage points year-to-date, 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 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 (BXW) 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.

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