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

1. 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.
2. From 1926-2019 (94 years), the S&P 500 Index posted an average annual total return of 10.20%, according to Morningstar/Ibbotson Associates.
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 2019 (see table).
6. 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.
7. 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.
8. 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.
9. 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.

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