



Champion Advisors LLC

Wealth Management

COVERED CALL OPTIONS STRATEGY

Champion Advisors, LLC has developed a Covered Call Strategy that has been designed to soften portfolio volatility while creating the opportunity for incremental income. We achieve this by investing in US Large-Cap Value companies that have high shareholder yield (i.e., dividends and share repurchases) and selling covered call options on those positions. The goal of this philosophy is to establish a portfolio with equity exposure that seeks higher than average annual income. As with all investment strategies however, there is no guarantee the portfolio will achieve its objectives, generate profits, or avoid losses.

Covered Calls and Inflation

With record government spending and skyrocketing deficit, considerable inflation is upon us. We'd like to emphasize that inflation can produce a *net positive* outcome for covered call strategies (relative to hold-only strategies). There is no question we are seeing inflationary pressures in certain sectors as is evidenced in the higher prices of fuel and consumer staples, and there have been major increases in interest rates as imposed by the FED; but there are also offsetting forces at play, such as innovation, which are inherently *deflationary*.

Regardless of where you stand on how long the current inflationary situation will last, it's important to understand how it will affect your investments. We believe that existing economic conditions could create a tailwind for our covered call strategy primarily due to the following reasons:

- 1. Value typically outperforms growth during inflationary periods and over the long-term**, and we sometimes lose sight of this fact after a long period of progressive increase in growth stocks like we have just experienced. Regardless, value stocks have outperformed growth stocks in six of the last nine decades. Those periods where growth surpassed value were amongst the lowest periods of inflation. This makes intuitive sense, as growth stocks have higher multiples, which are indicators used to value a stock's growth, productivity, and efficiency, and, thus, more years of future cash flow baked into their valuations. When inflation expectations rise, the discount rate rises as well, bringing down warranted values.
- 2. Inflation typically creates market volatility resulting in higher premiums offered for options.** This is no secret. In fact, the Volatility Index (VIX) is derived from the options market, which has kept options prices depressed. When options premiums rise, it's clear that you want to be in the position of "seller" instead of "buyer". Champion's option strategy does just that – and right now

we are collecting quarterly premiums of 1 – 4% in most cases. Dividend payouts from companies that are included in our strategy typically pay out annually 1 – 4%.

Takeaways

No one knows what the future holds. The current momentum indicates that the inflation we're seeing may continue creating headwinds for many asset classes, particularly for fixed income and growth-equity categories. However, we can take solace in the fact that this environment could actually benefit our covered call strategy, considering:

- As of November 2023, our beta portfolios have had monthly realized returns of approximately 1.45% and carry approximately 40% less risk than the S&P 500. This includes the downward trend in the value of the market overall in the first and second quarters of this year as well as the improvement that began in the second half. Our strategy invests in US Large-Cap multinational firms that have a long-term history of providing dividend payouts.
- Headwinds that our value tilted portfolios have experienced in the last five years could now become tailwinds that can enhance our portfolios. The same can be said for our small-cap value asset classes in US, international, and emerging markets.

We are eager and excited to advise and assist you in implementing Champion's new covered call strategy for you in addition to your current portfolio holdings. We will be in touch in the days ahead to review your current portfolio and see how rebalancing your assets and implementing this innovative strategy could benefit your overall investment plan!

All the best,



Thomas E. Tucker
President & CEO

Champion Advisors, LLC