

EXECUTIVE SUMMARY

- In 1Q, security selection was materially unfavorable relative to the S&P 500 as the value style and cyclical shares came under heavy pressure amid unprecedented volatility. Option sales proved beneficial although the full extent of their value has yet to be reflected in client accounts as higher volatility has increased the price of options generally. In the end, the Dividend Income Strategy experienced material underperformance of its benchmark, the CBOE Buywrite (BXM) Index yet remains near the Russell 1000 Value Total Return Index.
- Capital markets, health care systems, and national governments continue to deal with the impact of a novel coronavirus, which causes the disease dubbed Covid-19. In the U.S., the S&P 500 Index experienced the fastest drop in U.S. history – falling over 33% in 23 trading sessions as investors attempted to price the uncertainty associated with this pandemic.
- Currently, President Donald Trump is considering his “biggest decision” regarding when and how to begin lifting the social-distancing measures currently in place. The decision entails a tradeoff between public health and economic health and the effects of any actions or inactions are certain to have a profound impact on life in the U.S. and capital markets around the world.

ATTRIBUTION ANALYSIS

Security selection proved unfavorable with KR, GIS, and INTC outperforming and VIAC, SPG, and MPC underperforming. KR and GIS were in favor with investors for the defensiveness of grocers and staple packaged foods. INTC benefitted from higher chip demand due to the work-from-home rush. VIAC faces extreme structural challenges with already-in-place sports cancellations and production delays amid recessionary concerns. Traffic at SPG has come to a halt as nonessential retailers shutter doors. If there is a silver lining regarding SPG performance in response to this pandemic it is that retailer sales figures suggest that online shopping is nowhere near making brick-and-mortar obsolete. MPC faces several challenges with the de-facto dissolution of OPEC creating uncertainty, tepid gasoline demand and near-record inventories, and losses in the high-margin market of California, which has unique gasoline requirements.

TOP 3	BOTTOM 3
KR	VIAC
GIS	SPG
INTC	MPC

PORFOLIO ACTIVITY

BOUGHT	SOLD
T	VIAC
GWW	LB

In 1Q 2020, we decided to attempt to reduce risk by replacing VIAC with T. While we recognized that VIAC shares were likely undervalued, we also realize that further market downside could result in further weakness and that a prolonged social-distancing policy and/or long recession could have a severe adverse impact on VIAC’s advertising revenues. We like T’s broadband exposure, which should get a near-term boost from social distancing and the shift toward telecommuting. We also sold LB in favor of GWW. LB suspended its dividend to preserve cash in the face of store closures and we thus had to exit the position. In its place we selected GWW, which we view as having a stable business (relative to the industrial sector), and the liquidity/operating flexibility to navigate the uncertain economic environment that lies ahead.

OUTLOOK AND POSITIONING

Investors have been in awe of how quickly events surrounding the outbreak of a novel coronavirus have unfolded and the ensuing repricing in stocks. Unlike most economic shocks, there is no precedent to this crisis and thus no reference point for guidance on how to discount the risks. While we don't know what the future holds in respect to the impact from public health policies, we do know that once the dust settles investor focus will once again turn to corporate earnings. With that in mind we have become more aggressive with the sale of covered calls in an effort to generate more premium. However, we are staggering both percentage distances to strike prices and expirations when re-writing covered calls to diversify our risk of missing out on a recovery while attempting to balance the risk to the downside. Similarly, we have begun systematically positioning the portfolio away from more cyclical positions and towards businesses less leveraged to the business cycle (those better able to weather a recession). The purchases of GWW and T are products of that effort. Finally, we believe the speed and magnitude of the discounting that has occurred in many stocks has created a unique opportunity to purchase highly depreciated stocks that trade at extreme discounts to even conservative estimates of intrinsic value and we intend to purchase the most attractive of these stocks as the options and equity markets provide opportune occasions to do so.

COMPOSITE RETURNS

As of 3/31/2020	Since Inception 10/1/07*	QTD	YTD	1 Year	3 Year*	5 Year*	10 Year*
Dividend Income (Gross)	3.25%	-29.81%	-29.81%	-21.05%	-2.73%	0.90%	5.54%
Dividend Income (Net) ^	2.68%	-29.90%	-29.90%	-21.47%	-3.25%	0.37%	4.91%
CBOE Buy Write (BXM)	2.81%	-22.22%	-22.22%	-15.73%	-2.36%	1.42%	4.28%

*Annualized Returns.

Performance is presented gross and net of advisory fees. ^Net return is calculated using the weighted average quarterly fee for the underlying accounts for each period. Past performance is not indicative of future returns. The U.S. Dollar is the currency used to express performance.

Gyroscope Capital Management Group, LLC ("GCMG", "Gyroscope", "Gyroscope Capital", "Gyroscope Capital Management Group") is an investment advisory firm located in Naples, FL and founded in 2006.

Gyroscope Capital Management Group, LLC ("GCMG") claims compliance with the Global Investment Performance Standards (GIPS®).

The Large Cap Dividend Income Composite includes all portfolios that are at least 70% invested in our 20 stock large cap dividend paying equities strategy with covered call sales to generate additional income and for comparison purposes is measured against the S&P 500 CBOE BuyWrite Index (BXM). The S&P 500 CBOE BuyWrite Index is a hypothetical index in consideration of a portfolio owning the S&P 500 and selling a 1 month covered call just above the prevailing index value (i.e. slightly out of the money). The call is held until expiration and cash settled at which time a new one-month, near-the-money call is written.

No leverage or short positions have been used in this composite. The use of derivatives in this composite is limited to the sale (and subsequent repurchase) of covered call options to generate additional premium income.

Prospective clients and other interested parties can obtain a copy of the Compliant Presentation and/ or a list of the firm's composite descriptions by contacting Robert Carr by phone at 239-219-0550 or by email at rcarr@gyroscopicapital.com.

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