GYROSCOPE CAPITAL

MANAGEMENT GROUP

Why Sell Covered Calls?

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A Covered Call Write is the purchase of stock and the simultaneous sale of a call option on that same stock. Or, it is the selling of a call option on stock you already own.

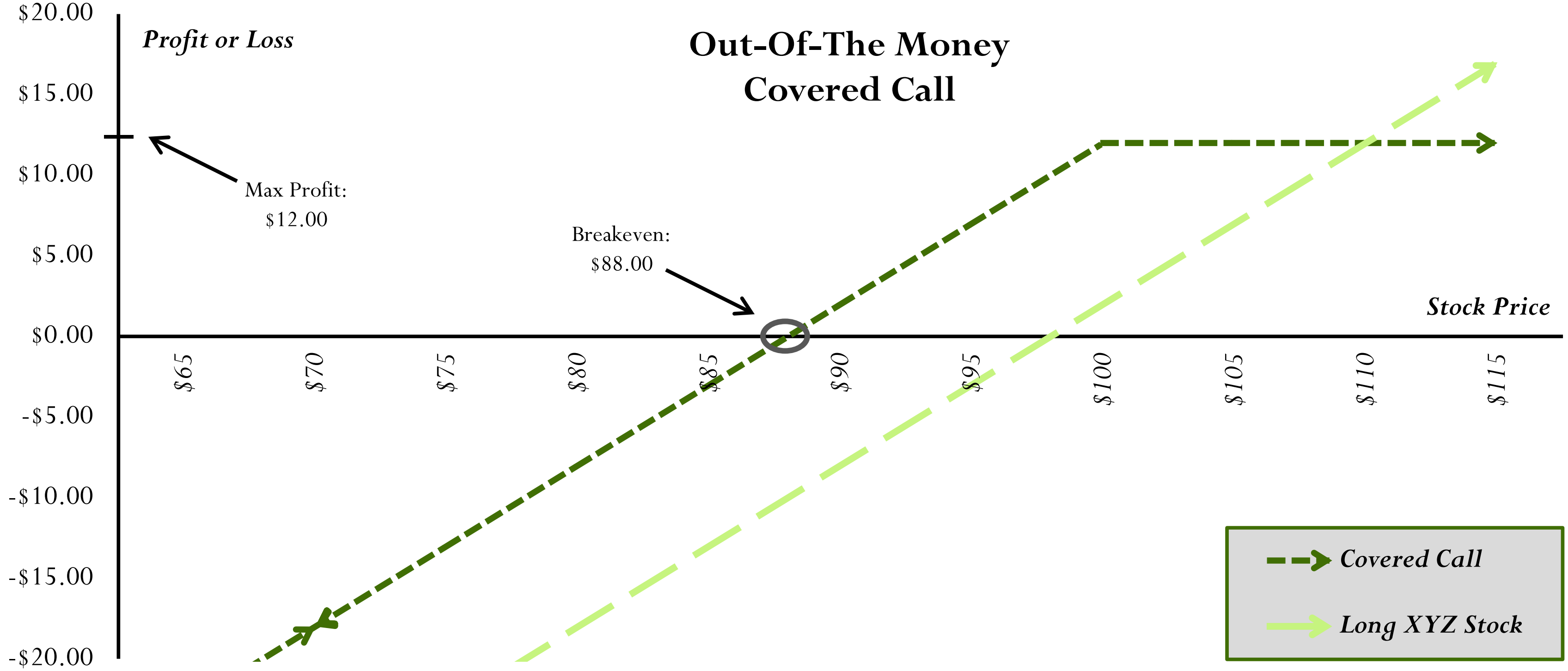
Because the stock is already owned, the call option is considered "covered". The customer has chosen to accept income from the premium of the sale in lieu of any price appreciation above the strike price.

- Example:
  - Purchase (or it may already be owned) 1,000 shares of XYZ @ $90.00
  - Sell 10[1] XYZ Nov. 100 Calls @ $2.00
  - Days until expiration: 47
  - Dividend per share until expiration: $1.20

In the example above, the customer is agreeing to sell their XYZ stock at $100. In return for this agreement, they receive 2.00 points or $200 per contract (for a total revenue of $2,000), less any commissions.

(1) Normally, one option contract covers 100 shares of stock.

What Are Covered Calls?



Buying Stock: XYZ at $90.00 and simultaneously selling a call option for $2.00, effectively lowers your cost basis and establishes a breakeven point at $88.00 on your XYZ stock.

If the XYZ stock position rises through the Covered Call cap and is called away, your total profit would be $12.00 per share ($2.00 Call Premium + $10.00 in XYZ Stock Appreciation). Conversely, if the stock position stays below the Covered Call cap, you retain the call option premium of $2.00 and your XYZ stock.

Benefits and Risks of a Covered Call Strategy

Potential Benefits:

- Current Income – Investors searching for income replacement strategies may be attracted to a Covered Call Strategy. In addition to earning the stock dividend, investors are able to collect call option premiums and enhance the cash flow component of the underlying security. This may be particularly attractive when the underlying stocks are more stable, larger capitalization equities with appealing dividend yields.

- Interest Rate Protection - By using a Covered Call Strategy, income oriented investors can help diversify the interest rate risk associated with traditional fixed income investing. While fixed income investments are usually inversely related to interest rates (losing value when rates rise), a covered call writer can benefit in rising rate environments as the value of call premiums tend to increase with rising interest rate levels.

- Limited Downside Protection – Protection is afforded to the writer of covered calls equal to the amount of premium generated from the sale of the call options. When navigating bear markets, the call option premium provides as a smoothing effect on the distribution of returns. During periods of increasing or prolonged systematic volatility, this benefit is enhanced by allowing the covered call writer more opportunities to capture richer premiums.

- Diminishing Portfolio Volatility – Call option premiums provide limited downside protection. The downside protection and cap on upward appreciation creates reduced volatility in the value of the underlying portfolio. The reduced volatility should lead to a lower portfolio standard deviation and higher risk adjusted returns.

Potential Risks:

- Limited Upside Participation – The biggest drawback of a Covered Call Strategy is limited upside participation. Selling Covered Calls automatically caps or limits the underlying stock's profit potential in the event the stock sharply rises in value. The covered call writer forgoes any additional profits above the call's strike price.

Why Sell Covered Calls?

- According to Option Clearing Corp. (OCC) statistics for year 2016 (for activity in customer and firm accounts), only 6.9% of all options were exercised (includes early exercise)

The complete breakdown is as follows:

1. Exercised Options – 6.9%
2. Option Which Expire Without Exercise – 21.4%
3. Options Closed Prior to Expiration – 71.7%

- 28.3% of all options went to expiration in 2016. Of these options, only 24.4% were exercised. The remaining 76.4% expired without being exercised.

- There are no statistics on whether closed out options were in the money at the time of expiration or not, OR would have finished in the money at expiration or not.

- There is also no breakout between call and put options.

http://www.optionseducation.org/tools/faq/options_exercise.html

Disclaimer

Options trading is not suitable for all investors. Contact Gyroscope Capital Management Group, LLC ("GCMG") at 999 Vanderbilt Beach Road Suite 102, Naples, FL 34108 or visit http://www.cboe.com/Resources/Intro.aspx for a current options disclosure documents, "Characteristics and Risks of Standardized Options." This document discusses potential risks with options issued by the Options Clearing Corporation ("OCC"), which are typically listed on an exchange.

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Illustrations used in this document are hypothetical. The results achieved by individual clients will vary and will depend on a number of factors including the particular underlying investments and their dividend yield, option market liquidity, interest rate levels, implied volatilities, and the client's expressed return and risk parameters at the time the service is initiated and during the term. Investors should carefully consider executing any trade using options and be aware of all the risks, including, but not limited to, receiving back less value than they invested. Past performance is not a guarantee of future returns.

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Taxes, fees and commissions do have a direct and material impact on the options strategies, may reduce the effectiveness of some strategies, and may result in the investor not achieving his or her investment objectives. The examples presented above do not take into account the tax consequences or the impact on holding period. Investors should always seek professional tax advice before engaging in any of these strategies. Under new tax laws, certain in-the-money covered call writes are deemed "unqualified" and carry certain tax consequences. You should consult your financial or tax advisor for more information. GCMG does not provide tax advice.

This illustration of potential cash flow from a covered call option writing program is not based on an actual portfolio. Covered call option cash flow for any portfolio will vary depending on actual portfolio positions, option premium received, individual stock price volatility, and general stock market volatility. Positions covered by call options may be called away, creating realized capital gains or losses. There can be no guarantee that the owner of the call option will not exercise prior to GCMG's attempt to repurchase a sold option.
Cash flow is not guaranteed over any period. More information may be found on GCMG's Form ADV.

If the price of the stock declines by an amount greater than the premium received the position will have point-for-point loss. Therefore, this strategy should not be employed if you believe the price will decline considerably in value.

If the price of the stock increases by an amount greater than the strike price, the investor will forgo any price appreciation above the strike price. Therefore, this strategy should not be employed if you believe the price will increase considerably in value.