

Core Exchange Traded Fund (ETF) Equity Overwrite Portfolio Strategy

Stifel Solutions Program

BONNETTE WEALTH MANAGEMENT GROUP

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With the exchange traded funds (ETFs) representing the breadth of the market, this strategy aims to replicate the market from a securities selection standpoint and utilize at-the-money overwrites to provide a palatable upfront income stream that seeks to reduce reactions to normal market ups and downs.

This income may be amplified amidst market volatility, allowing the portfolio manager to buy back and rewrite covered calls without waiting until each option's expiration date.

INVESTMENT RATIONALE

In the financial planning landscape, the average investor will use stocks, bonds, and cash and rely on “a plan” that, while stressed and properly simulated, doesn't necessarily provide tangible current value. The Core Exchange Traded Fund (ETF) Equity Overwrite Portfolio Strategy aims to add a third major bucket in the form of “overwrite equities” to act as an intermediary between the normal modern portfolio theory buckets of stocks and bonds.

The strategy seeks to offer investors current income that may be used for:

- Downside protection measures
- Reinvestment back into the portfolio
- Gifting
- Fulfillment of cash flow or required minimum distribution (RMD) needs
- Building another sleeve of a portfolio

What Is a Covered Call?

In its most basic form, a covered call (“overwrite”) is an option strategy in which you accept limited upside on a stock in exchange for current income. Because of this limited upside, we also sometimes call these “capped positions.”

Our Usage of Covered Calls

When married to our active management of underlying positions and their corresponding at-the-money overwrites, this becomes a total return strategy that seeks to provide ample liquidity, repeatability, and mobility while adhering to a quality investment selection.

What Is the Process?

1. ETF is bought.
2. The option (which expires in 12-plus months) is sold.
3. A premium is received in exchange for the sale of this option.
4. Premium received is reinvested, distributed, or held.
5. At the beginning of the month, the portfolio technician uses the **Triage Process** to determine if changes should be made.

PORTFOLIO FRAMEWORK

Bonnette Wealth Management Group offers three overwrite portfolio strategies, with Core ETFs providing the diversified foundation designed to help mitigate the downside impact of one stock, sector, or theme. To seek to drive higher premium capture, we add sector ETFs and blue chip equities. With these securities, there is increased price variability due to their targeted, research-based sector and company risk.

- Core ETF Equity Overwrite Portfolio Strategy
- Core ETF and Sector ETF Overwrite Portfolio Strategy
- Core ETF and Blue Chip Equities Overwrite Portfolio Strategy

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BLUE CHIP EQUITIES SELECTION

Screened and filtered using the following process:

1. Stifel Equity Research
2. Cross-Referencing With CFRA/Morningstar/First Call Research
3. Sector Weightings Check
4. Buy-Write Position Construction

CFRA, Morningstar, and First Call are third-party research sources and are not affiliated with Stifel.

SECURITIES SELECTION

Core ETFs

- SPDR S&P 500 ETF (SPY) (seeks to track the S&P 500 Index)
- Invesco QQQ ETF (QQQ) (seeks to track the Nasdaq 100 Index)

This will be the diversified foundation of this portfolio designed to help mitigate the downside impact of one stock, sector, or theme.

Sector ETFs

- SPDR Financial Select Sector (XLF)
- SPDR Energy Select Sector (XLE)
- SPDR Health Care Select Sector (XLV)
- SPDR Communication Services Select Sector (XLC)
- SPDR Consumer Discretionary Select Sector (XLY)
- SPDR Industrial Select Sector (XLI)
- SPDR Technology Select Sector (XLK)

TRIAGE PROCESS

Active management isn't based upon knowing better than the market or timing. Instead, it's based upon seeking **income optimization**. We refer to this optimization strategy as our **Triage Process**.

On a monthly basis, we look for the following opportunities:

- **Capped Positions**
Time value remaining of less than 1%, or 99% of our maximum gain.
- **Option Buybacks**
Underwater positions/broad market sell-offs lead to the potential ability to buy back calls at an attractive price. Again, if time value is below 1%, we buy back the call, reassess the position, and rewrite if possible.
- **Forced Rebalances**
With market research shifting opinions, we aim to keep the portfolio's composition aligned.
- **Tax-Loss Harvesting (for taxable accounts)**
Capped positions provide tax-loss harvests against that year's gain if the underlying position remains confirmed. We aim to be as tax-neutral as possible.

STIFEL SOLUTIONS PROGRAM

In the Stifel Solutions Program, approved Financial Advisors manage their clients' assets on a discretionary basis through the consistent application of a pre-screened investment process. Since all investment decisions in a Solutions account are made by the Financial Advisor(s) on the client's behalf without having to receive prior approval, it enables the Financial Advisor(s) to quickly react to volatile market conditions in order to execute the investment strategy. It is also paramount that Solutions clients have detailed knowledge of their Financial Advisors' individual investment philosophy and decision-making process before entrusting him or her with their portfolio. There is no guarantee that the objectives of the portfolio strategy will be achieved.

The Stifel Solutions Program has an annual asset-based fee (a "wrap fee"), charged quarterly, that covers the portfolio's management services provided as well as certain other costs, including trade execution, custody, and performance reporting. There may be other costs associated with the Stifel Solutions Program, including but not limited to: underlying expenses of investment companies (such as ETFs) in which the strategy may invest, exchange fees, transfer fees, interest expense, and trade surcharges, which are not covered by the wrap fee but are borne directly by the client. Ask your Financial Advisor for a copy of Stifel's Form ADV Part 2A – Wrap Disclosure Brochure (the "Disclosure Brochure"), which further outline the fees, services, exclusions, and disclosures associated with this program. You should consider all terms and conditions before deciding whether the Solutions Program and this strategy are appropriate for your needs.

STRATEGY DISCLOSURES

As set forth above, this profile relates solely to the Core Exchange Traded Fund (ETF) Equity Overwrite Portfolio Strategy managed by the portfolio manager and team set forth on the first page (the “Strategy”). The Core ETF and Sector ETF Overwrite Portfolio Strategy requires a minimum investment of \$250,000. The Core ETF and Blue Chip Equities Portfolio Strategy requires a minimum investment of \$500,000. The Strategy minimums may be waived in the portfolio manager’s sole discretion.

Past performance does not guarantee future performance or investment results. Actual performance for a client may differ due to such factors as timing, economic and market conditions, cash flows, and client constraints. Diversification and asset allocation do not ensure a profit or protect against loss. Investing involves risk, including the possible loss of principal.

Exchange traded funds (ETFs) are offered by prospectus only, which includes information on a fund’s investment objective, risks, charges, expenses, and other important information. Prospectuses are available from your Financial Advisor or the issuer’s website. The investment return and principal value of an investment will fluctuate, so that an investor’s shares, when redeemed, may be worth more or less than their original cost. ETFs trade like a stock and may trade for less than their net asset value. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

In selling an out-of-the-money call, the writer (seller) has the obligation, if assigned, to deliver 100 shares of the underlying stock at the strike price until the expiration of the option. This is known as covered call writing. The term “covered” refers to the fact that the option writer’s obligation is “covered” by ownership of the underlying stock. For assuming this obligation, the writer is paid a premium when the call option is written.

A writer of a covered call forgoes upside stock appreciation above the strike price if assigned. Investors should consider fees when calculating the potential profit and loss in any option strategy.

This report should be read in conjunction with the basic option disclosure document titled Characteristics and Risks of Standardized Options. It can be accessed at www.theocc.com/about/publications/character-risks.jsp, from your Stifel Financial Advisor, or from Stifel, Nicolaus & Company, Incorporated, 501 North Broadway, St. Louis, Missouri 63102 and outlines the purposes and risks of option transactions. Options are not suitable for all investors. There are risks involved in any option strategy, including the option strategies discussed herein. Individuals should not enter into option transactions until they have read and understood the option disclosure document. Tax ramifications of buying or selling options should be discussed thoroughly with your tax advisor before engaging in option transactions. Supporting documentation for any claims, comparisons, recommendations, statistics, or other technical data will be supplied upon request. Transaction costs may be significant in multi-leg strategies, as they involve multiple commission charges.

This report is published solely for informative purposes and should not be construed as an offer to sell or the solicitation of an offer to buy any security. Your Financial Advisor will be pleased to discuss this information with you in light of your particular investment objectives.

INDEX DESCRIPTIONS

The Standard & Poor’s 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The NASDAQ 100 is a modified capitalization-weighted index that is comprised of the largest non-financial companies listed on the NASDAQ stock market. It includes both foreign and domestic companies, and does not include any financial or investment companies. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the broader Russell 3000 Index, which measures the performance of the 3,000 largest U.S. companies based on total market capitalization. The MSCI Emerging Markets Index captures large and mid cap representation across 26 emerging markets countries, covering approximately 85% of the free float-adjusted market capitalization in each country. Indices are unmanaged and are not available for direct investment.

Stifel or its affiliates may make investment decisions or take proprietary positions for proprietary accounts that are consistent with this Strategy before or at the same time that the portfolio manager purchases or sells portfolio holdings. Stifel or its affiliates may also make investment decisions or take proprietary positions that are inconsistent with this Strategy. Clients should review the Disclosure Brochure for information and disclosures relating to Stifel’s investment advisory services (available at www.stifel.com/disclosures/investment-advisory-services/programdisclosures) and to the portfolio manager’s Form ADV Part 2B for background information about the portfolio manager.

Stifel is an investment adviser that has been registered with the U.S. Securities and Exchange Commission (“SEC”) since May 7, 1975, and a broker-dealer that has been registered with the SEC since 1936. Stifel is owned by Stifel Financial Corp., a publicly held company whose common stock trades under the symbol “SF.” Stifel is a full-service wealth management, investment advisory, broker-dealer, and investment banking firm serving the investment and capital needs of its clients. Stifel is a member of the Financial Industry Regulatory Authority (“FINRA”), the Securities Investor Protection Corporation (“SIPC”), and various exchanges.