

Volatility and the Markets

After starting the quarter with a quick down-tick, the S&P 500 had a phenomenal rally to end the year, returning a stout 9.06% in the fourth quarter alone. The market had its second-best year over the last two decades during 2019, returning more than any year other than 2013. It did so while battling through the continuing U.S.-China trade war, global unrest with protests and Brexit ongoing, and with the market sitting at record high levels to begin with.

From a sector perspective, the leaders in the fourth quarter were Information Technology (+14.40%), Health Care (+14.37%), and Financials (+10.44%). Real Estate was the worst performing sector of the quarter returning (-0.54%), followed by Utilities (+0.80%) and Consumer Staples (+3.51%). Real Estate was the only sector to end this bullish quarter with a negative return.

From a market valuation perspective, economic indicators continue to indicate we are nearing the end of this long and bullish road. The Fed has made clear their willingness to use policy tools to avoid a hard landing, but after reducing the fed funds rate three times during 2019 (once in the 4th quarter) they only have a few options left. While the data does not indicate we are likely due a recession, each day that passes without a correction in this record long bull market likely brings us closer to when markets will finally roll over.

Performance of Holdings

For full year 2019 the Equity Income Portfolio outperformed the CBOE BuyWrite Index (BXM) by 1.86%, returning 17.54% vs the index return of 15.68%. During the 4th quarter the Portfolio underperformed its benchmark by 0.28%, returning 4.05% vs the BXM Index return of 4.33% for the quarter. Our strongest performers during the quarter were JPMorgan Chase (JPM), HCA Inc (HCA), Fortune Brands Home & Sec Inc (FBHS), Target Corp (TGT), and Nordstrom Inc (JWN). We continue to hold Nordstrom, Target, and Fortune Brands but have been allowing shares of HCA and JPM to be sold as calls come to expiration.

Our underperformers were eBay Inc (EBAY), Church & Dwight Inc (CHD), Akamai Technologies Inc (AKAM), Molson Coors Brewing Co (TAP), and Oracle Corp (ORCL). With as strong a quarter as we had, these positions were underperformers with only slightly negative returns for the period. We continue to hold Church & Dwight and Akamai, but have started transitioning out of the others in favor of more attractively priced names in the sector.

What We See Going Forward

As we transition into the new decade there are many events to watch and plan for, and we are due for an exciting year. Earnings season will likely drive volatility higher as companies seek to justify their higher price levels, but the true drivers of volatility are likely to stick around beyond this first earnings season. With the trade war ongoing, escalating tensions with Iran, Brexit and the accompanying UK/EU trade deal negotiations, and impeachment proceedings heading into a presidential election, we expect to see notably higher levels of volatility in 2020 than we have in recent years.

IMPORTANT INFORMATION

Option trading is not suitable for all investors. Prior to buying or selling an option, a person must receive a copy of Characteristics and Risks of Standardized Options. Copies of this document may be obtained from your Investment Advisor, from any exchange on which options are traded or by contacting The Options Clearing Corporation, One North Wacker Dr., Suite 500, Chicago, IL 60606 (1-800-678-4667). All analysis and projections depicted herein are for illustration only, and are not to be representations of generalized Shelton Equity Income performance or expected results. Past performance is not a guarantee of future results. Supporting documentation for any claims, comparisons, recommendations, statistics or other technical data will be furnished upon request to Shelton Capital Management. Investing involves risk, including possible loss of principal. The information contained in this document is given on a general basis without obligation and on the understanding that any person acting upon or in reliance on it, does so entirely at his or her own risk. Any projections or other forward-looking statements regarding future events or performance of countries, markets or companies are not necessarily indicative of, and may differ from, actual events or results. This information is intended to highlight views of the authors at the time created and not to be comprehensive or to provide advice. These views are subject to change at any time based on market and other conditions. Data and other materials appearing that are provided by third-parties are believed by Shelton Capital Management to be obtained from reliable sources, but Shelton Capital Management cannot guarantee and is not responsible for their accuracy, timeliness, completeness or suitability for use. For a complete list of portfolio strategy investments and their respective contribution for the preceding 12 months, and the methodology for calculating contributions, please call 1-800-955-9988.

INVESTMENTS ARE NOT FDIC INSURED OR BANK GUARANTEED AND MAY LOSE VALUE

Strategy Management

Shelton Capital Management

Founded by Richard Shelton in 1985, Shelton Capital is a privately owned investment management firm with over \$2.1 billion AUM (09/06/2019). The firm offers its investment management through a series of 14 open-end mutual funds and separately managed accounts (SMAs).

Barry Martin, CFA

Portfolio Manager



Barry Martin, CFA, joined the firm in 2008, Barry has been the Portfolio Manager for Shelton Capital Management's Option Overwrite

Strategies. Prior to joining Shelton Capital, Barry was Senior Vice President of portfolio management for an investment management firm specializing in option strategies and has been managing options for over 20 years.

Nick Griebenow, CFA

Assistant Portfolio Manager



Nick Griebenow, CFA, joined the firm in 2018 and is the Assistant Portfolio Manager for Shelton Capital Management's Option

Overwrite Strategies. Prior to joining Shelton Capital, Nick was a Senior Derivatives Trader for a large national brokerage firm.

Jason Goldenberg

Investment Operations Analyst



Jason Goldenberg joined Shelton Capital Management in 2017 and is an Investment Operations Analyst that services all

strategies of the Separate Account program.