

# OUR 'NORTH STAR' TRADE

## What is the team's North Star trade?

Transcript of a video recorded on May 1, 2018

### **We use our model trade as a compass.**

Our model, or "North Star trade" that we use as a reference point, as a compass, is essentially a long-leaning, SPX, option collar position. More specifically we're call writing over 80% of the portfolio while buying 40%-50% in put protection.

These options are 2% to 5% out of the money with a 60-day expiration. With this set up we're taking in or generating 100 to 200 basis points of option premium while having a portfolio beta or long delta in the 0.4 to 0.6 range.

That being said, we don't always look like our model trade. It is our job to actively manage this hedge and take advantage of the opportunities that the market is giving us at the time in order to participate in the upside of the market as well as having the most protection on as we can.



**JASON HILL**  
Senior Vice President,  
Co-Portfolio Manager

[WATCH VIDEO](#)

Video recorded 5/1/18.

*Before investing, carefully consider the fund's investment objectives, risks, charges and expenses. Please see the prospectus and summary prospectus containing this and other information which can be obtained by calling 1-800-582-6959. Read it carefully before investing.*

Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described may not be suitable for all investors. The material has been prepared for informational purposes only, and is not intended to provide, and should not be relied upon for, accounting, legal or tax advice. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. Any forecasts contained herein are for illustrative purposes only and care not to be relied upon as advice or interpreted as a recommendation.

**Important Information About Risk:** An investment in the Fund(s) is subject to risks, and you could lose money on your investment in the Fund(s). There can be no assurance that the Fund(s) will achieve its investment objective. Your investment in the Fund(s) is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. The risks associated with an investment in the Fund(s) can increase during times of significant market volatility. More detailed information regarding these risks can be found in the Fund's prospectus.

Alternative investments are not suitable for all investors.

**Alpha:** A historical measure of risk-adjusted performance. Alpha measures how much of a portfolio's performance is attributable to investment-specific factors versus broad market trends. A positive alpha suggests that the performance of a portfolio was higher than expected given the level of risk in the portfolio. A negative alpha suggests that the performance was less than expected given the risk.

**Options Risk:** The Fund's ability to close out its position as a purchaser or seller of an over-the-counter or exchange-listed put or call option is dependent, in part, upon the liquidity of the option market. There are significant differences between the securities and options markets that could result in an imperfect correlation among these markets, causing a given transaction not to achieve its objectives. The Fund's ability to utilize options successfully will depend on the ability of the Fund's investment adviser to predict pertinent market movements, which cannot be assured.

**Covered Call Writing** involves selling (or "writing") a call option against an equity the writer holds. When managers sell a call option, they earn a premium from the option sale. If the shares trade below the strike price, the option will expire worthless and they keep the premium from the option and retain the security. If the share price exceeds the strike price, the buyer will likely exercise the option and the seller must sell the shares at the strike price. To hedge additional risk, managers could also purchase put options to protect against significant equity market declines.

**In the money.** A call option's strike price is below the market price of the underlying asset or that the strike price of a put option is above the market price of the underlying asset. Being in the money does not mean you will profit, it just means the option is worth exercising. This is because the option costs money to buy.

**Call and Put Spreads.** Options strategies when a manager buys a call/put option, while simultaneously selling a less expensive call or put option. Because the call/put options share similar characteristics, this trade is typically less costly than an outright purchase, but still provides similar protection.

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INVESTMENTS

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