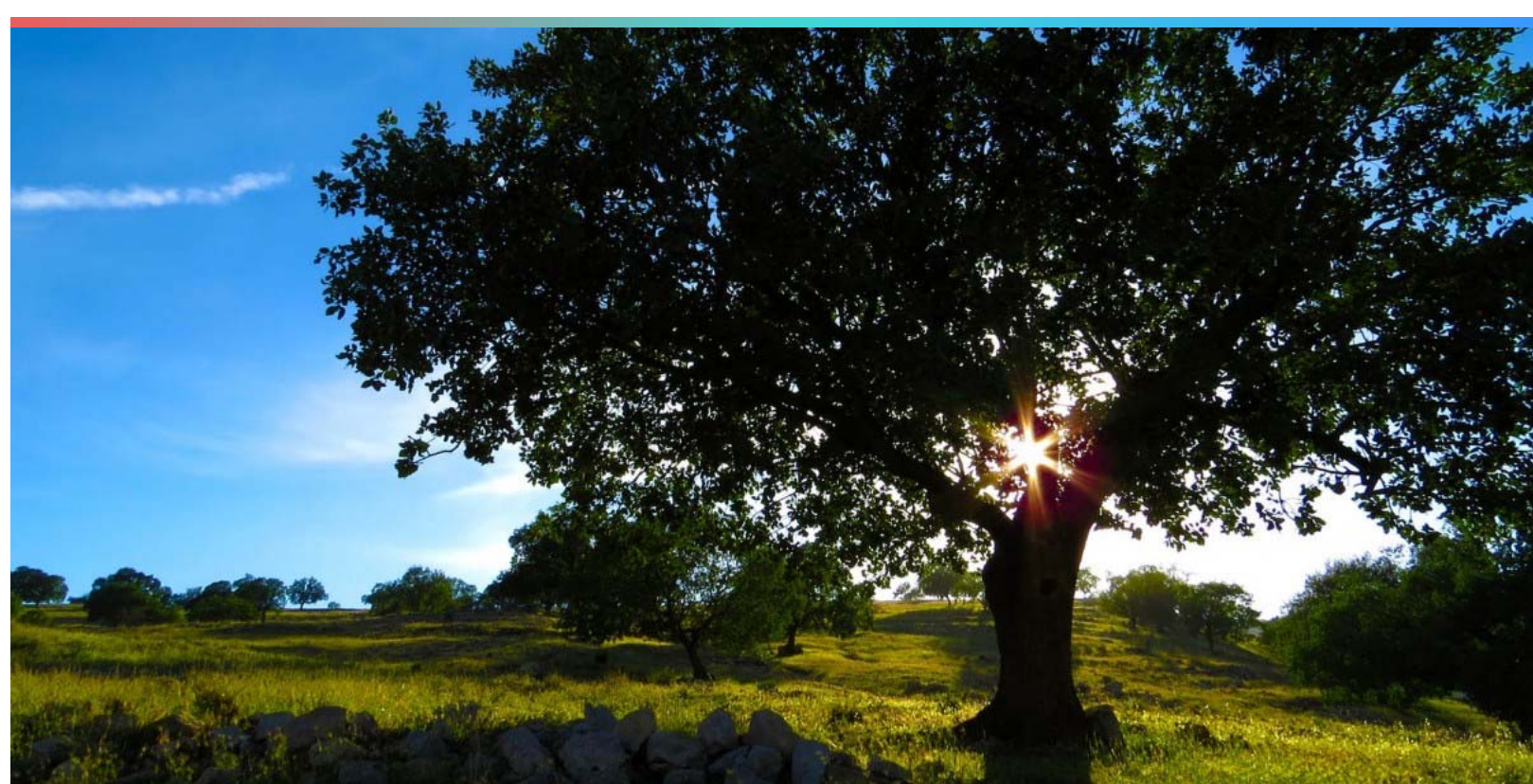


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RATIONAL IRON HORSE FUND

IRHAX | IRHCX | IRHIX



A brief overview of covered calls and how to
use the strategy in client portfolios

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Rational Advisors | 36 North New York Avenue | Huntington, NY 11743

Website: www.RationalMF.com

Shareholder Services: 1 (800) 253-0412 **Advisor Services:** (646) 757-8063

Overview of Covered Calls

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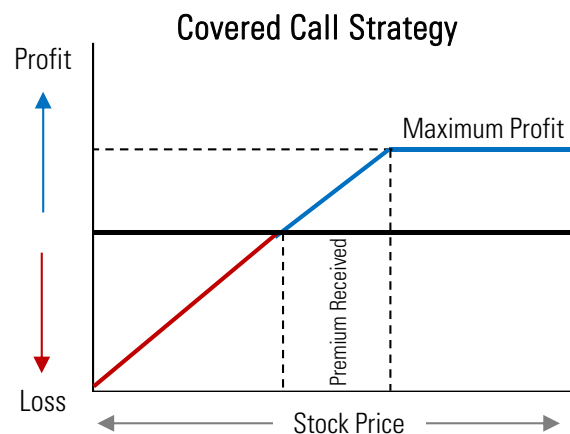
A covered call is an options strategy whereby an investor holds a long position in an asset (i.e. General Electric "GE") and writes (sells) call options on that same asset in an attempt to generate increased income from the asset. A covered call is also known as a "buy-write".

An investor who buys or owns stock and writes call options in the equivalent amount can potentially earn income without taking on additional risk. The premium received is income to the investor, received up front and deposited into the investor's cash account. It also may offer some downside "cushion" in the event the stock slides downward and has the potential to boost returns on the upside.

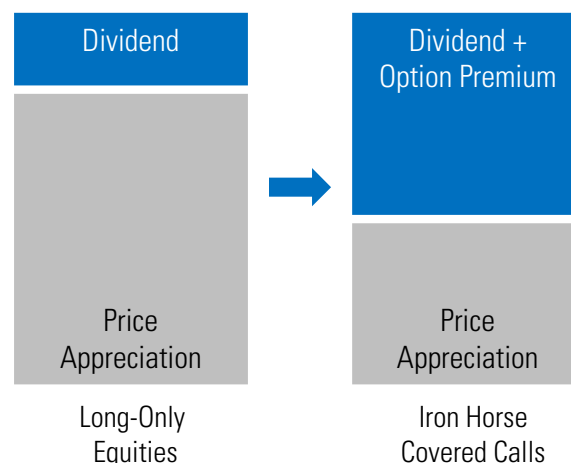
Key Traits of Covered Calls

Potentially, the primary advantage of a covered call strategy is to earn premiums, which may have the effect of boosting overall returns on the stock and seeking a measure of downside protection. The covered call writer is looking for a steady or slightly rising stock price for at least the duration of the option.

What a covered call position does is exchange unknown price appreciation potential for a known income component (option premium). The best candidates for covered calls are stocks that the portfolio managers are willing to sell if the stock rises and the calls are assigned. That would mean that the optimum total return has been achieved over a certain time period. This passage of time (time decay) has a positive impact on this strategy, all other things being equal. Some refer to this as a "get paid for waking up" investment. If the options expired worthless, the portfolio manager can collect another option premium. Collecting option premium has the potential to provide extra income.



Re-Shaping Total Return



Covered Calls: How to Use the Strategy in Client Portfolios

What type of investors invest in Covered Calls?

Covered call investing has been around for over 40 years and a broad range of investors use covered calls as an allocation within a larger portfolio. It is the fund managers opinion and experience, that pensions are using covered calls to replace both U.S. large-cap equity allocations and also fixed income allocations. Also family offices, foundations, ultra-high net worth, certain trusts and non-profit organizations are using covered calls. The CBOE website¹ references three different studies that have been performed on the risk-return dynamics of covered calls. All three studies done by Asset Consulting Group, Callan and Ibbotson concluded that the CBOE S&P 500 BuyWrite Index (BXM) earned roughly the same annualized return as the S&P 500 over the long term, but at lower risk (30-33% lower average standard deviation). However, options strategies are not suitable for all investors.

Portfolio Positioning

In the fund managers opinion, covered calls could potentially be used in three primary positions: Investors seeking equity returns with less risk than stock-only allocations use covered calls. Investors who seek income similar to high yield bonds use covered calls as a fixed income alternatives. Investors seeking an allocation to alternatives may consider covered calls, because of the positioning on the security market line.

Possible Outcomes for a Covered Call Position

1. Stock rises ↑ and the option gets called away (maximum possible profit);
2. Stock remains unchanged (results in a profit from the call income received);
3. Stock drops ↓ (results in a loss just as with long only stocks, except the loss will be partially offset by the call income received).

Hypothetical Covered Call Example

An investor purchases shares of the hypothetical TSJ Sports Conglomerate (TSJ) for \$50. The investor then sells a call option on TSJ with a strike price of \$55, the investor receives the premium (\$5/share) from the option sale and has agreed to sell his shares of TSJ at \$55 no matter how high the shares may rise in value.

One of three scenarios is going to play out:

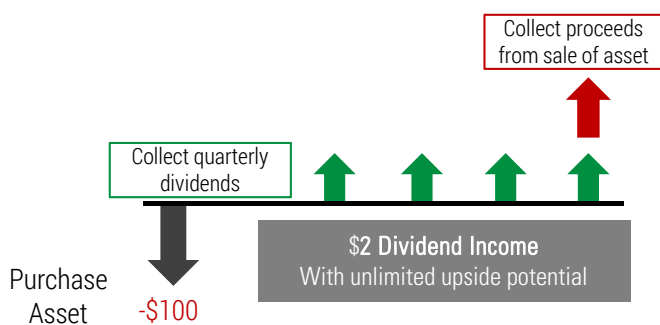
1. TSJ shares trade flat (below the \$55 strike price) - the option expires worthless and the investor keeps the premium from the option. In this case the investor can write another option.
2. TSJ shares fall ↓ - the option expires worthless and the investor keeps the stock. In this case the investor can write another option. (The investor could experience a potential loss of principal).
3. TSJ shares rise above \$55 ↑ the option is exercised, i.e. sell the shares, and the upside is capped at \$55 (\$5 price gain), plus the option premium (\$5 income gain). In this case, the maximum total return is achieved.

Hypothetical examples do not represent or imply performance of any strategy and are provided for illustrative purposes only.

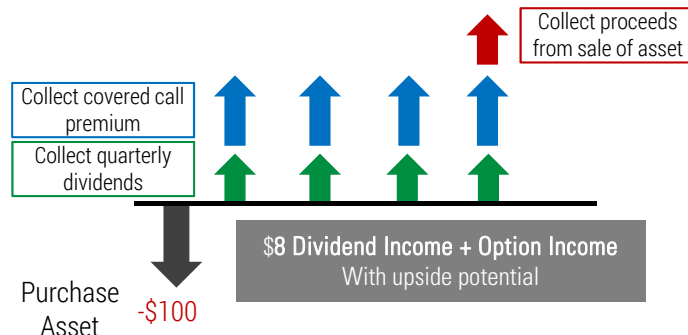
Summary of Covered Calls

The CBOE website¹ references three different studies that have been performed on the risk-return dynamics of covered calls. All three studies done by Asset Consulting Group, Callan and Ibbotson concluded that the CBOE S&P 500 BuyWrite Index (BXM) earned roughly the same annualized return as the S&P 500 over the long term, but at lower risk (30-33% lower average standard deviation).

Long-Only Equity vs. Covered Call Equity Strategy



Typical long-only strategies rely on price appreciation for most of their return.



A covered call strategy seeks to capture a portion of return at inception. Potentially creating a steady income component.

Comparisons of strategy can have limitations as each strategy has its particular set of characteristics and risks. Long Only Equity strategy primary risks include market risk and changes in financial prospects of an individual company. Whereas a Covered Call Equity strategy can additionally include leverage risk that can be embedded in written options which can limit the fund's gains because the fund may lose more than the option premium received.

Rational Iron Horse Fund (IRHIX, IRHAX, IRHCX)

The strategy invests in large cap companies that the portfolio managers expects to produce strong return on investment, pay regular dividends, have below-average leverage, attractive valuations, and a consistent shareholder value-oriented track record. The strategy predominantly invests in dividend-paying companies and uses call options in an attempt to create incremental income and reduce portfolio volatility. The strategy seeks to make income a more significant component of the total investment return and targets long term risk-adjusted returns versus long-only equities. Although the Fund will strive to meet its investment objective, there is no assurance that it will do so. The options component of the fund strategy is subject to risk and the inclusion of options increase the risks of investing in the fund.

The advisor on the fund, Van Hulzen Asset Management, has an over 15 year track record in managing covered calls.

For more information on the fund: www.rationalmf.com/funds/iron-horse-fund.

For more information on the Advisor Van Hulzen Asset Management: www.vaminstitutional.com

¹Data Source: www.cboe.com

RISK CONSIDERATIONS:

Past performance is not a guarantee of future results.

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Investors should carefully consider the investment objectives, risks, charges and expenses of the Rational Funds. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling (800) 253-0412 or at www.RationalMF.com. The prospectus should be read carefully before investing. The Rational Funds are distributed by Northern Lights Distributors, LLC member FINRA/SIPC. Rational Advisors, Inc. is not affiliated with Northern Lights Distributors, LLC.

Mutual Funds involve risk including the possible loss of principal. There is no assurance that the fund will achieve its investment objectives. The use of leverage embedded in written options will limit the Fund's gains because the Fund may lose more than the option premium received. Selling covered call options will limit the Fund's gain, if any, on its underlying securities and the Fund continues to bear the risk of a decline in the value of its underlying stocks. The CBOE S&P 500 BuyWrite Index (BXM) is a benchmark index designed to track the performance of a hypothetical buy-write strategy on the S&P 500 Index. The BXM is a passive total return index based on (1) buying an S&P 500 stock index portfolio, and (2) "writing" (or selling) the near-term S&P 500 Index (SPXSM) "covered" call option, generally on the third Friday of each month. The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. It is widely used as a benchmark of U.S. equity performance. It is not possible to invest directly in an index. Standard deviation is a statistical measurement of volatility risk based on historical returns. Investing in the Fund carries certain risks.

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36 North New York Avenue
Huntington, NY 11743

Email: info@rationalmf.com

Phone: 1-800-253-0412

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