

Sheaff Brock

Innovative Portfolios for Intelligent Investors™

**MARKET
UPDATE**
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Forget dancing like
nobody's watching.
Dance like a toddler.
They don't even care if
there's music.

Monthly Update

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- Dancing on the Ceiling
- Portfolio Updates

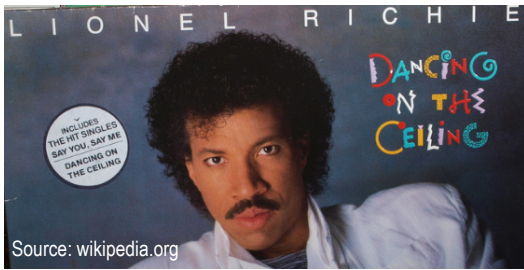
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(continued from page 4) such as asset class, style or strategy, geographic area, or sector, for example, similar to characteristics of a composite. Although a NF index may have characteristics similar to those of a composite, actual composite holdings will differ significantly from the securities that comprise an index. Consequently, use of a NF index does not indicate that a composite will achieve returns, volatility or other results similar to those of the index. The composition of a NF index will not reflect the manner in which a composite is constructed in relation to investment holdings, Portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change over time. Comparison of a narrowly-focused index to a composite must be limited to the similar characteristics. Clients should NOT expect performance comparable to a narrowly-focused index in an actual account.

Any portfolio returns mentioned are composite returns, and are net of fees and commissions. There is the chance that market conditions or portfolio performance may deteriorate in the future, and clients may experience real capital losses in their managed accounts. Portfolios are compared to the performance of various indices although the portfolio, which contains much fewer positions, may not reflect the securities making up these indices. None of the indices may be an appropriate comparison index as our managed accounts may own companies not represented in the benchmarks. All clients of SBIA who desire to participate in option transactions receive the option disclosure document, titled Characteristics and Risks of Standardized Options, which outlines the purposes and risks of option transactions. Despite their many benefits, options are not suitable for all investors. Individuals should not enter into option transactions until they have read and understood the risk disclosure document which can be obtained from their broker, any of the options exchanges, or OCC. All investment strategies carry risk, and transactions in options may carry a high degree of risk. Options derive their value from underlying equities or indices, and the derivative value is directly related to the underlying security, thus they carry many, if not more, of the same risks as the underlying equity or index. Sellers of options should familiarize themselves with the type of option (i.e. put or call) which they contemplate trading and the associated risks. You should calculate the extent to which the value of the options must increase for your position to become profitable, taking into account the premium and all transaction costs. Selling ("writing") an option generally entails greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavorably. Standstill option yield is calculated by dividing the aggregate annual option time decay by the aggregate account values. The yield is reflected gross of management fees. There were no other strategies employed to obtain the results portrayed other than those strategies disclosed in the SBIA ADV or other disclosure brochure. SBIA provides this Newsletter for general informational and educational purposes, and where appropriate, to assist in explaining the portfolios and composites. It is not investment advice for any person. Information is obtained from sources SBIA believes are reliable, however, SBIA does not audit, verify, or guarantee the accuracy or completeness of any material contained therein. The statements and opinions reflect the judgment of the firm, and along with the information from third-party sources and calculations, are made on the date hereof and are subject to change without notice. SBIA does not assume liability for any loss that may result from reliance by any person upon any material in this Newsletter. Clients or prospective clients are directed to SBIA's Form ADV Part 2A and to one or SBIA's representatives for individualized information prior to deciding to participate in any portfolio or making any investment decision. SBIA does not provide tax advice. Clients are strongly urged to consult their tax advisors regarding any potential investment. **Past performance does not guarantee future results, there is always a possibility of loss.**

Dancing on the Ceiling

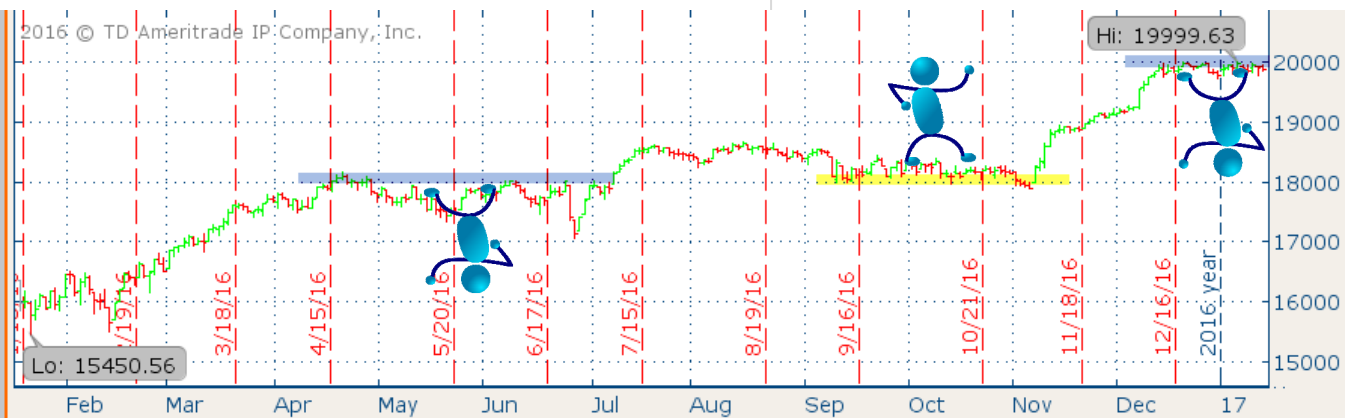


Thirty years ago, the video for Lionel Richie's song "Dancing on the Ceiling" was released. It featured really cool footage of him and his bandmates dancing in a room, walking up the walls, and dancing on the ceiling. This was before CGI special effects, which caused us all to ask, "How did they do that?" Watch the youtube video of it and you will still think it is pretty neat.

2016 was a crazy year politically (both in this country and in Europe) and 2017 could be a lot crazier. Lord only knows. But politics and the economy often zig and zag, and the U.S. economy is a giant machine that takes a long time to speed up or slow down. For years the U.S. economy has been chugging along, and just recently seems to be picking up steam.

Sometime this year, the globalization and trade yammering will reach a crescendo. When you hear it, just remember this fact; over 75% of the U.S. GDP is domestic, insular, and thus somewhat immune from the nonsense-talk surrounding foreign trade. Bottom line is, the rest of the world needs us as a trading partner more than we need them.

During the year, if the market sells off due to trade related issues, it would probably be a good time to step out on the dance floor.



The stock market has been dancing this same video during the last year. A year ago the Dow Jones Industrials (DJIA) bottomed at 15,450. The index then rallied through tax day, but hit the 18,000 ceiling (highlighted in blue above), and investors danced on the 18,000 ceiling for about 3 months. Finally, the 18,000 ceiling was meaningfully broken and then, by September, 18,000 became a dance floor (yellow highlight). The post-election blastoff lifted the DJIA up to within a whisker of 20,000, but investors have again been dancing on the 20,000 ceiling for a month now.

Our contention is that, just like the 18,000 ceiling, soon the 20,000 level will be meaningfully broken and Dow 20,000 will become the new dance floor.



After you watch Lionel Richie's video, google a long-term chart of the DJIA and you will see this same DJIA dance party happened at 2000, 5000, 10,000, 12,000 and 16,000.

1099 Info

The first batch of 1099s will be posted by TD Ameritrade online on about January 20th, but that is for accounts with almost no account activity in December. Most of your 1099s will come out February 7th or the 15th. You will likely get corrected 1099s well into March.

Tip: Wait until mid-March (or later) to file your taxes

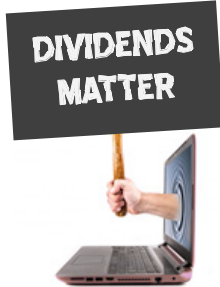
Portfolio Updates

You will be reading this in the thick of earnings season, and currently earnings expectations for the S&P 500 are a gain of 3.2% for the 4th quarter. As 2017 unfolds, earnings vs. last year should improve dramatically, due in part to better prices and earnings from energy companies. If Congress passes a solid corporate tax reform bill, paired with a cash repatriation carrot, we have read earnings could shoot up 20%. Some corporate repatriated cash would likely be used to buy back stock.

Tax Bill + EPS growth + buybacks = DANCE LIKE A TODDLER!

Dividend Growth & Income

After the election, this composite had a great run and ended the year with a competitive return. In the first 10 months of 2016, our lack of exposure to utility and consumer staple stocks hurt performance. After the election, our heavy weighting in industrials helped, making the whole year pretty good. At 3%+, the average dividend yield is about 50% higher than the S&P 500 and our current portfolio's 16% dividend growth rate is about 2X as much.



One conclusion we have reached from the "Downside Risk" research we have been using for about a year now, is to reduce the large sector bets. Going forward, you will see a more sector balanced portfolio, with overweight/underweight shading. In the first quarter there will be some reshuffling to get sectors more balanced.

IntelliBuild Growth™

IntelliBuild™ is our momentum-stock growth equity portfolio based on *Investors Business Daily's* IBD 50 list. 2016 was a tough year for the IBD 50 and other momentum strategies. We underperformed the IBD 50 index by about 5%, and we aren't happy about it. Our performance drag can be attributed to the stop-loss constraints we have. In January of 2016, the stock market had a sharp downdraft which caused us to get stopped out of over 40% of the portfolio. This "downside protection" also forced us into a lot of cash right when share prices quickly rebounded, thus leaving the rebound gains on the table. We are in the midst of a six-year historical study looking into our sell discipline to see if we can improve returns while still limiting volatility. The portfolio characteristics are very strong, sporting high earnings growth, a reasonable P/E, high return-on-equity, and low debt. Historically, strong stocks = strong returns, so patience will probably pay.

Bulls of the Dow

This is our K.I.S.S. portfolio of owning the ten highest scoring stocks (by our fundamental research tool) from the 30 stocks in the Dow Jones Industrial Average. Giant, strong companies with dividends. Usually, a couple/three stocks get replaced every quarter. In January, only one stock was replaced, which made it our lowest turnover quarter in the last 20 quarters. We rebalance quarterly and stay fully invested. Last year was a good year for the strategy. The portfolio is now five years old and the composite of all accounts has delivered positive returns every year. Bulls of the Dow is not too sexy, but it has been very comfortable and even tempered; easy to live with.

Mid-Cap 10

Like other momentum based equity styles, it had a tough year. But, similar to Mae West, when it's good, it's really good. In the last two months of 2016, Mid-Cap 10 had a 7% return which was over 20% better than the S&P 500. Because there are only ten stocks (at most) being held, and they are all mid-sized companies on the Nasdaq, volatility is high. If there is a dance party, this might win, but it could be a crazy dance.

Covered Call

Call option premiums are significantly influenced by volatility. A good measure of volatility is the VIX, sometimes referred to as the "fear gauge". Below is a chart of the VIX for the last 12 months. Other than the three highlighted periods, the VIX was a couple of points either side of 14 most of the year. The first highlight was when the stock market stumbled 10% right out of the box in 2016. The second highlight was the volatility



around the Brexit vote, and the last highlight was Trump's surprising (except to him) election win. Over the 15 years prior to 2016, the VIX has averaged 20. With the current reading down below 12, volatility is 40% below the 15 year average. Lower volatility means lower option premiums. The accounts are pretty fully invested and the current daily theta is \$18,966 for the \$41 million in the composite. This means if the stocks stand still, just sit there, our clients should earn about \$19K per day from just call premium time decay. *This is a theoretical, Black-Scholes derived amount that changes daily.* We are mostly using shorter-dated, closer to the money calls, which have a higher theta. It's better to stay short when call premiums are low since you don't get paid enough to commit to a long holding period.

Preferred Income

Preferred stock prices had a great January through October, and then a lousy November and December. Through it all, for 2016 the composite turned in a low single-digit total return (beating net-of-fees both of the two largest ETFs in the preferred space). The portfolio's current yield is 6.1%, has a yield-to-worst call of over 5%, and the average call protection is about 4.4 years. We are looking into putting a few \$1000 par value, institutional share preferreds into the portfolio. They could add some stability and longer call protection. Regard-

less, 5+% yield with decent quality...not too bad.

The following option overlay products are intended to be additive in return to other investments held in an account, and are not appropriate for all investors. Historically, the cash-flow from overlays has been positive from year-to-year. However, realized gains and losses are very inconsistent. These are long-term strategies and may not produce capital gains over the short-term.

Put Income

The short put values improved tremendously in 2016. The recovery in many commodity based stocks helped. If one gauges success by realized capital gains, 2016 was positive, and December was one of the best months we ever had. It has been a l-o-n-g process of rolling some in-the-money names out, and we still have a handful-and-a-half of positions that require continued patience. Index puts on the SPDR S&P 500 ETF were added to accounts (with notional exposure room) in each of the last 3 months. Account exposure going forward will be about half on the S&P 500

index, and the other half on individual equities. This way returns will be more consistent, and account positions will be more homogenous. The discussion about the VIX on the previous page applies to selling puts too. Lower volatility = lower prices.

Index Income

Starting in April of last year, we introduced a more simple overlay using only put options on the SPDR S&P 500 index ETF. Plain 'ole credit spreads, staggered monthly over 3 months. Using an index generates lower yield than individual stocks, but the diversification of 500 stocks reduces likelihood of being stuck rolling an in-the-money put quarter after quarter. Lower yield, less risk. We have about \$40 million in client assets that have morphed this way, mostly because of the simplicity, low volume of trades, diversification, and consistency. The K.I.S.S. of option overlays, not sexy, but generally pleasant, easier to live with, etc.

If you have any questions or comments regarding this letter, including any portfolio or composite, please contact our Chief Compliance Officer, Audrey Kurzawa at audreyk@sheaffbrock.com; you can also reach her, or any other Sheaff Brock representative, at 317-705-5700.

Style	Performance Update Portfolio							
	2016	2015	2014	2013	2012	2011	2010	
Fixed Income	Preferred Income - Preferred stocks	1.66	5.22	14.02	-4.57	9.11		
	High Yield Bond	11.63	-7.32	-1.93	8.78	15.38	3.99	15.93
Growth and Income	Covered Call Income - Quality stocks & covered calls	6.24	-1.20	6.39	22.04	10.14	-11.57	
	Dividend Growth & Income - Dividend paying stocks	11.22	-7.17	5.20	36.47	12.46	5.80	16.94
Growth	IntelliBuild Growth - IBD growth stocks	-2.71	2.52	7.63	11.18*	*10/1/13 inception date		
	Bulls of the Dow - 10 strongest of the Dow 30	9.65	1.14	12.42	30.05	7.83		
	Mid-Cap 10 - Mid-cap growth momentum stocks	-7.90	-12.68					
Alternative	Alternative - Metals, foreign currencies, commodities	4.37	-8.25	-4.23	-0.70	9.02	-7.74	
Option Overlay	Put Income - Overlay of short equity puts	0.25	-9.17	0.56	5.92			
	Index Income - Overlay of unleveraged put credit spreads	3.20*	*4/30/16 inception date					
Index								
	S&P 500	11.96	1.38	13.69	32.39	16.0	2.1	15.1
	CBOE S&P 500 Buy/Write	7.06	5.24	5.64	13.26	5.20	5.72	
	Barclays Aggregate Bond	2.65	0.55	5.97	-2.15	4.2	7.8	6.5
	DB Commodity Index Tracking Fund (NAV Total Rtn.)	18.50	-27.41	-28.18	-7.57	3.31	-2.71	

Composites include all fully discretionary, management fee-paying and, beginning on January 1, 2011, non-management fee-paying accounts, including those accounts no longer with the firm of reasonable size that are substantially invested in accordance with the composite strategy or style. Returns are presented net of management fees and all trading expenses, and the reinvestment of all income. Put income results are only realized gains and Index Income reflects the total return of only the option overlay. Net-of-fee results were calculated using actual management fees. Actual advisory fees and transaction fees will vary depending on, among other things, the portfolio, account size, and activity. Fees are described in SBIA's ADV Part 2A. *Denotes partial year, with note reference. Prior to October 1, 2015 Preferred Income was sub-advised by Trust Investment Advisors, Indianapolis, IN.

Benchmarks: The S&P 500 Index is a market capitalization-weighted index comprised of the 500 stocks with the largest market capitalizations trading in the United States. This is not a managed portfolio and does not reflect the deduction of fees or expenses; returns include dividends. The Barclays US Aggregate Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market in the United States, including Treasuries, government-related and corporate securities, mortgage backed securities, asset-backed securities and CMBS (agency and non-agency). The CBOE S&P 500 Buy-Write Index (BXM) is a passive total return index based on buying an S&P 500 stock index portfolio, and selling the near-term S&P 500 Index (SPX) covered call option, generally on the third Friday of each month. The SPX call will have about a one month expiration, with an exercise price just above the prevailing index level, slightly out of the money. The BXM Index does not take into account significant factors such as transaction costs and taxes and, because of factors such as these, investors should be expected to underperform passive indexes. The BXM Index represents a hypothetical buy-write strategy. DB Commodity Index Tracking Fund (DBC) The PowerShares DB Commodity Index Tracking Fund seeks to track changes in the level of the DBIQ Optimum Yield Diversified Commodity Index Excess Return™ plus the interest income from the Fund's holdings less the Fund's expenses. The Fund is designed for those who want a convenient way to invest in commodities. The Index is composed of futures contracts on 14 of the most heavily traded and important physical commodities in the world. The Fund and the Index are rebalanced and reconstituted annually in November. The Alternative portfolio is a commodity centric portfolio of ETFs and mutual funds whose constituents' profits are highly sensitive to general commodity prices. It may perform differently than DBC since the composite does not hold futures contracts. Indexes are unmanaged and unavailable for direct investment. Benchmark returns include reinvestment of income, but do not reflect taxes, or other fees that would reduce performance. Performance information of benchmark indexes is included for comparison purposes only. Two general types of benchmarks are provided.. The first type is a well-known and widely-recognized index, such as the S&P 500 Index (described previously), and the Barclays US Aggregate Bond Index (described previously). These types of indices are not selected to represent an appropriate benchmark, but rather to allow for comparison of a composite's performance to that of a well-known and widely recognized index. The second type of index is a narrowly-focused (NF) index selected on one or more characteristics, (continued page 1)