Sheaff Brock

Innovative Portfolios for Intelligent Investors™

MARKET UPDATE

October 2017

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, 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. (continued below)

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Any portfolio returns mentioned are composite total 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.**

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Monthly Update

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Google **sheaffbrock/in-the-news** for our latest columns or quotes posted on **abc News, CNBC** and **Forbes.com**

> "Fortune befriends the bold."
>
> Emily Dickinson

For several years, Sheaff Brock has been a Susan B. Komen supporter honoring bold women in our lives who have endured breast cancer.

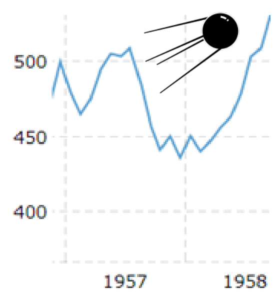
October Scares - Stocks Won

October has been characterized as a scary month for reasons other than ghosts knocking on our doors.

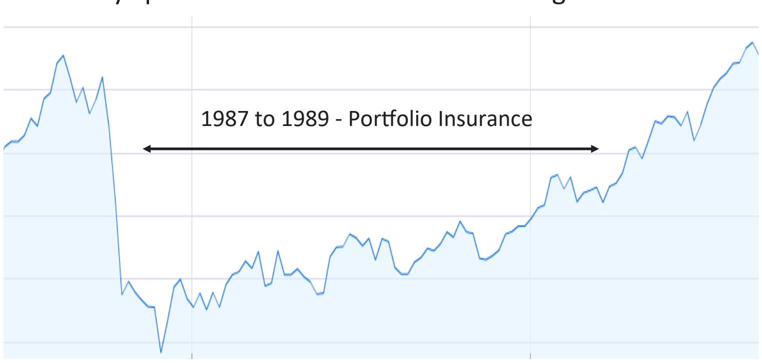
In October of 1907, the Banker's Panic caused the DJIA to drop almost 50% and lead to the creation of the Federal Reserve System. A couple of years later, stocks had recovered and won the return-race vs. other assets.

In October of 1929, the big-one knocked the market for a loop and it took over two decades to recover from the depression punch. The Dow Industrials (DJIA) dropped from 380 to 41 which spawned all kinds of regulation; the New Deal, the Securities and Exchange Commission, and a Minimum Wage among them. It took a while, but stocks recovered and then won.

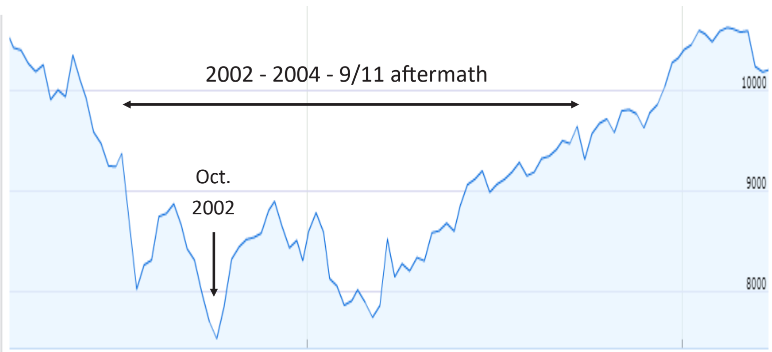
In October of 1957 the Soviet Union launched Sputnik, the first satellite, ramping up the Cold War and the Space Race. The DJIA had tumbled down 19% and fear of America's end was palatable. Adults made kids hide under their desks, which seems absurd today, but was very serious then. Stocks recovered, and by 1958 had won again.



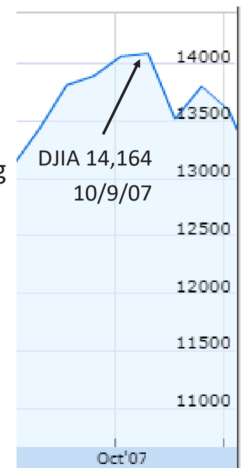
In October of 1987 the market crashed 25% but recovered to a new high about 18 months later. Oddly enough, the drop was caused by "portfolio insurance". Stocks won again.



In October of 2002 (the aftermath of the 9/11 fallout) the DJIA bottomed after a 3000 point (almost 30%) swoon that had



started earlier in the year. Less than 18 months later, in early 2004, the bull had awoken and pushed the DJIA back to the pre-9/11 level. October of 2002 was scary, but the bold benefitted.



Which leads us to exactly 10 years ago, October 9, 2007. On that day the DJIA closed at a new record high of 14,164. Nothing scary about that. But, what if you had seen the future, had known then what was going to unfold right before your eyes?

Soon, very soon...

- Major banks and financial institutions will collapse or be taken over by the government.
- Unemployment will soar to 10%.
- We will have the deepest recession since the 1930s (which took nearly 25 years to erase).
- Starting the <u>next</u> <u>day</u>, the stock market will drop by 50%, so you know this is coming.
- General Motors will declare bankruptcy.
- Interest rates will go to zero percent.
- National debt will skyrocket.
- Home foreclosures will hit an all-time high.
- AAA rated US Government debt will be downgraded by S&P.

OK, so you know what is ahead, and it is scary stuff, really scary stuff. Brian Wesbury, Chief Economist at First Trust, posed an interesting question. *"Then, imagine you were allowed one investment choice, a choice you had to stick* *to for the next ten years, through thick and thin, no reallocation allowed. Put all your investable assets in the S&P 500, a 10-year Treasury Note, gold, oil, housing, or cash. Pick just one of these assets and let your investment ride. Which asset would you have picked? Be honest! In that environment, with that kind of foresight, right at a stock market peak, it would have been awfully tough to pick stocks. And yet, on the basis of total return, over the last ten years, that's the asset that did the best. The S&P 500 has generated a total return (capital gains plus reinvested dividends) of 7.2% per year, essentially doubling in value in ten years. Gold did well, but lagged stocks, increasing 5.7% per year. A 10-year Treasury Note purchased that night (now coming due), would have generated a yield of 4.7%. Oil was a laggard, down 4.3% per year. Home prices increased about 1% per year, on average, and "cash" averaged 0.4%..."*

Once again, over the last ten tumultuous years, stocks won.

Today, with the DJIA at 22,800+, many of you reading this think stocks are overvalued, and a some are looking for other "less risky" places to invest. But you know what? We firmly believe that investing in world class companies to build wealth will again be the best strategy. Ten years from now, we have high conviction that stocks will have won...again. Just like in the past, fortune will probably befriend the bold.

Portfolio Updates

The first three-quarters of 2017 are in the books, and today is a record breaking day. As of October 10, 2017, the S&P 500 has gone 334 days without a 5% correction, beating the previous record, a 333-day rally that began on November 24, 1994. Today's streak has been tortoise-like, only rising about 33% vs. the nearly 60% rise back in the 90s. The previous 1994-96 record ended with a 6% correction. Equating that to today would drop the DJIA from 22,800 to 21,400. Bull markets don't die of old age, they die from unbridled optimism that suddenly turns to fear. No doubt a correction is coming, that's market nature.

Dividend Growth & Income

Dividend Growth & Income has enjoyed a solid run year-to-date, beating the benchmark Dow Jones Select Dividend Index by over 5%. The portfolio has 25 positions, is fully invested, and currently we have a position in all S&P sectors except energy. During the third-quarter we added three companies, one each in the healthcare, telecom, and consumer discretionary sectors. This is the early stage of "earnings season", which sometimes causes portfolio changes, so there may be some portfolio repositioning later in the quarter.

IntelliBuilD Growth™

This is our growth portfolio based on *Investors Business Daily's* stock lists. Today (as like most of this year), the portfolio is solely comprised of mid-cap and large-cap companies. Historically we have had a few small-cap stocks screen into the portfolio, but none now. It could be because larger companies have less downside risk, which our screening methodology favors. Regardless, IntelliBuilD had a super-strong September (gaining over 500bps) and has a great year going, gaining 16.37% net-of-fees through September. The S&P Mid-Cap 400 index gained 9.1% and the S&P 500 (large-cap) index gained 14.2% over the same period. This is a high-turnover growth portfolio of 33 stocks, and earnings season usually forces several portfolio changes.

New management agreements are arriving in mailboxes. *Sign and return please, and thank-you in advance.* The government's fiduciary language change requires the update.

Knowledge Builder webinars have good content, touch on various subjects, and only last 30 to 40 minutes. You can watch the recording of previous Knowledge Builders on our website. Invites are by email. Watch them, learn something.

Bulls of the Dow

The Bulls delivered by gaining through September 15.31% net-of-fees, 110bps ahead of "the market", the S&P 500's 14.2% total return. The Bulls are a simple portfolio consisting of the 10 lowest-risk stocks (as determined by our research data) of the 30 that make up the Dow Jones Industrials, tweaked 4 times a year. We did our quarterly rebalancing in early October using our Downside Risk Analysis research. Three of the ten stocks changed.

Covered Call

Covered Call accounts turned in a 9-month total return of 7.88%, net-of-fees. A covered call position is sort of like the SUV of equity investing because you have more than one wheel providing traction. A growth stock has one-wheel driving it, potential appreciation. A dividend paying stock has two-wheels providing traction, potential appreciation + dividends. Covered call accounts have three-wheels, potential appreciation + dividends + call option premium. Appreciation is the unknown, and usually the least productive wheel, because the stocks get called away (brakes stop the wheel) just when it gets going a bit. From thinkpipes, TD Ameritrade's option software platform, the theta of the composite (yield from call premium decay) is today at 8.5% and dividend yield is about 1.3%, meaning two of the wheels are currently turning out around 9% before the appreciation wheel even turns. Because the stock's appreciation is capped by the call option, a covered call strategy will usually underperform in a bull market.

Preferred Income

Through September, the Preferred composite was +8.11% net-of-fees. This is very competitive, and better than most other areas of the fixed income world. The portfolio's yield to call is still over 4% and the dividend yield is over 5%.

Alternative

The Alternative portfolio managed for us by Mark Salzinger has been rockin' even though commodities have been rollin'.

Emerging markets and non-dollar assets have been strong driving the 14.57% gain through September.

Mid-Cap 10

The 10-stock, mid-cap portfolio ended September with a 9-month total return of 5.88%, lagging the S&P Mid-Cap 400 Index by about 3.5%. Given the fact there are only 10 stocks in the portfolio, returns are often disparate from the index which has 400 constituents.

Real Estate Income and Growth

Our newest portfolio which is a 20 stock portfolio of real estate investment trusts, or REITs. The composite started April 30th and since inception through September, has gained a total return of 3.67% net-of-fees. This portfolio currently owns 20 REITs with an average dividend yield of 4.3%. Our portfolio looks very different from the NAREIT Real Estate index because it is equally weighted, mostly mid-cap sized companies, followed by large-cap, and one small-cap.

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 Overlay

Besides continuing to add index credit-spreads on the SPDR® S&P 500 ETF (SPY) in accounts, the majority of recent transactions have centered around reworking some in-the-money positions. This usually entails a partial replacement, bringing down the strike price in the problem name while adding risk to a couple of new stocks. New positions have a much higher statistical probability of expiring for a gain. On the monthly calls we discuss this in detail. Listen to the monthly calls, recorded or live. As it stands today, realized gains in the 4th quarter could be quite good, mainly because of the restructuring done earlier this year.

Index Income Overlay

A simple overlay where we use put option credit-spreads on the SPDR® S&P 500 ETF (SPY) staggered monthly, one spread expiring month, after month, after month. Since inception of this overlay, results have been uncommonly consistent, each spread expiring for a gain. One of these months, the market will correct more than a few percent forcing us to roll an in-the-money spread. As of today, we have an October, November, and December spread, each 5 to 7% out-of-the-money. The thinkpipes software calculates the current October spread has a 97% probability of expiring for its full gain, November has a 92% expiration probability, and December's spread has an 83% probability of expiring.

A market like today's, that has been strong through September, historically showed a high likelihood of closing out the year strong. If history rhymes again, 2017 should befriend the bold U.S. stock market investors (like you).

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	2017 Thru Sept.	2016	2015	2014	2013	2012	2011	2010
Fixed Income	**Preferred Income** - Preferred stocks	8.11	1.66	5.22	14.02	-4.57	9.11		
	High Yield Bond	4.73	11.63	-7.32	-1.93	8.78	15.38	3.99	15.93
Growth and Income	**Covered Call Income** - Quality stocks & covered calls	7.88	6.24	-1.20	6.39	22.04	10.14	-11.57	
	Dividend Growth & Income - Dividend paying stocks	13.94	11.22	-7.17	5.20	36.47	12.46	5.80	16.94
	Real Estate Income & Growth - REITs/real estate stocks	3.67*					*4/30/17 inception date		
Growth	**IntelliBuilD Growth** - IBD growth stocks	16.37	-2.71	2.52	7.63	11.18*	*10/1/13 inception date		
	Bulls of the Dow - 10 stocks of the Dow Jones 30 Indus.	15.31	9.65	1.14	12.42	30.05	7.83		
	Mid-Cap 10 - Mid-cap growth momentum stocks	5.88	-7.90	-12.68					
Alternative	**Alternative** - Metals, foreign currencies, commodities	14.57	4.37	-8.25	-4.23	-0.70	9.02	-7.74	
Option Overlay	**Put Income** - Overlay of short equity puts	*3.28*	*0.26*	*-9.17*	0.56	3.97			
	Index Income - Overlay of unleveraged put credit spreads	2.17	3.67*	*5/31/16 inception date					
	Index								
	S&P 500	14.24	11.96	1.38	13.69	32.39	16.0	2.1	15.1
	CBOE S&P 500 Buy/Write	8.7	7.06	5.24	5.64	13.26	5.20	5.72	
	Barclays Aggregate Bond	3.14	2.65	0.55	5.97	-2.15	4.2	7.8	6.5
	DB Commodity Index Tracking Fund (NAV Total Rtn.)	-2.72	18.50	-27.41	-28.18	-7.57	3.31	-2.71	

Composites include all fully discretionary, management fee-paying and non-management fee-paying accounts. Composite performance consist of all client accounts that are at least 80% invested in the strategy. 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. Please see additional disclaimers on the next page.