# Sheaff Brock

Innovative Portfolios for Intelligent Investors™

# MARKET UPDATE
## November 2016

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**Invest 45 Minutes to Build your Knowledge and Skill as an Investor**

Look for our email invitations to our webinars, or call our office for a reservation.

In Sheaff Brock's December **Knowledge Builder** webinar, we'll talk about ***Financial Planning: Year-end Tips*** Our presenter is our own financial planning guru, Paul Coan, CFP®, ChFC, CEA® who will offer important strategies for year-end, and 2017 planning.

**December 6 and 8 from 7:00 to 8:00 pm EST**

Sure to put you in the holiday spirit, so don't miss it!

"I love to talk about nothing. It's the only thing I know anything about."

Oscar Wilde

## Monthly Update

Publication date: 11/18/16

- Sumthin or Nuthin
- 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.**

## Sumthin or Nuthin

My brother-in-law will often rate things like an event, movie, book, or meal at a restaurant in a binary way of either "sumthin" or "nuthin". If he liked the experience, "That was sumthin." is the verdict. Once, after an evening on a cruise ship he remarked, "Tonight's meal was sumthin, desert and the show was nuthin."

Let's look at two recent events and rate them:

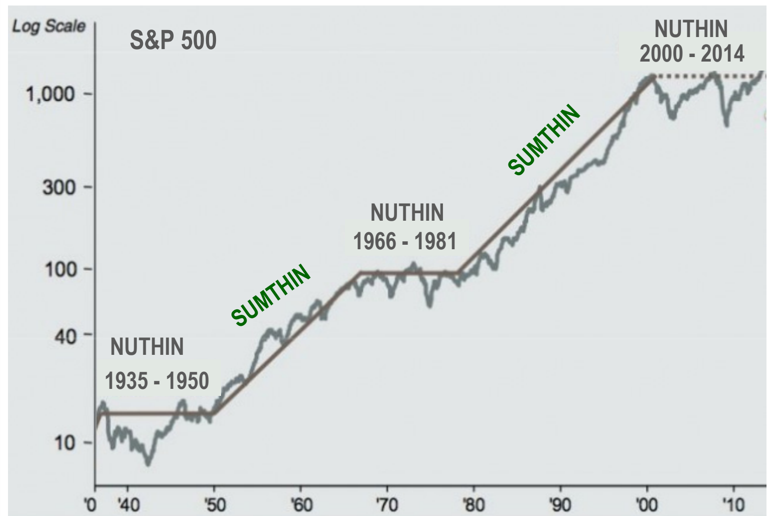
- Election—Wow, that was sumthin! Your candidate either won the popular vote, won the electoral vote, or helped another candidate win the popular or electoral vote. Almost nobody predicted the correct outcome, and no matter your political leanings, you can't deny it wasn't sumthin.
- CUBS WIN! CUBS WIN! Down 3 to 1 and win in Cleveland. That was sumthin. My brother-in-law lives in Cleveland, and he even said it was sumthin.

How about stock market things coming down the pike?

Recent stock market rally, the "Trump trade"; probably pretty much nuthin in the grand scheme of things. The rally of the last couple of weeks is represented by the two green lines at the far right end of each of the below charts. Over a longer period, the last two weeks look like nuthin. What is striking is how stocks have pretty much done nuthin for two or three years.

Maybe sumthin is comin'? In stock markets of the past, long periods of nuthin have been followed by even longer periods of sumthin. Look at the chart of the S&P 500 below. The flat, churning market of the 1930s to 1950 was followed by a big run in the 50s and 60s. The flat period from 1966 to 1981 was followed by the great bull run of the 80s and 90s. Starting in 2000 we had the "lost decade" and "great recession". What's to follow? Something YUGE? Who knows? Nuthin, sumthin, nuthin, sumthin, nuthin, ________. *(fill in the blank)*

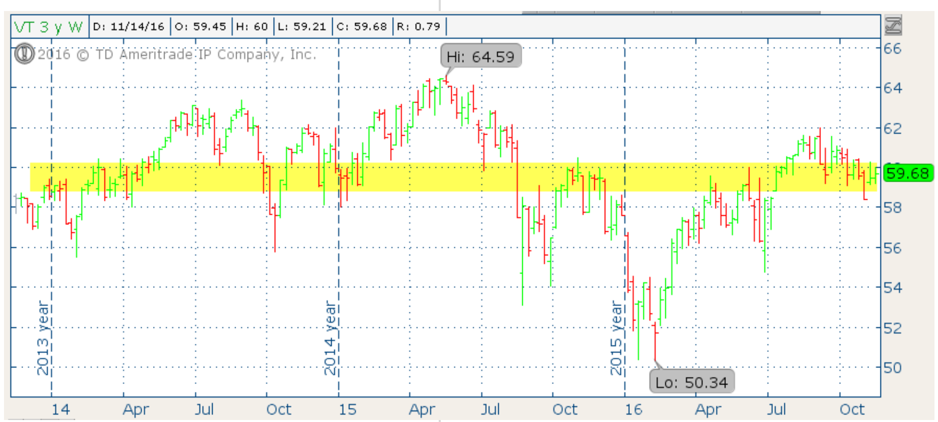
The catalyst of sumthin in the 1950s and 60s was the end of the depression, WWII, and massive infrastructure spending. In




the 1980s the catalyst was tax and regulation reduction, end of the Cold War, and global trade. Could tax and regulation reduction paired with infrastructure changes be the catalyst to the next sumthin?

?

The first chart is the Vanguard Total World Stock ETF (VT). Equities across the planet have done mostly nuthin (indicated by the yellow band) for almost 3 years!



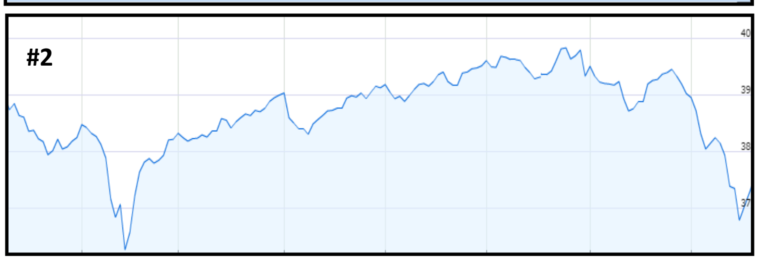

The bottom chart is the S&P 500 ETF (SPY) which has done almost nuthin (blue line) for about 2 years! If you are frustrated by your equity returns, these two charts are a clue to your angst.


**Portfolio Updates**

You can see in the chart above that even with the post-election rally in stocks, the "Trump Trade", the **S&P 500** has made no progress since the dog days of summer. **Bonds** withered in price, and then slipped on the Trump/Fed banana peel. Earnings came in for the 3rd quarter better than expected. The Fed will likely raise rates in December (about time, they've been yammering about it for a year). And lastly, recent economic news has been pretty good.

**Preferred Income**

Look at the two charts below and presume each security pictured pays the same yield. Which one would you rather own for stability and income; number 1 or number 2?


It looks like volatility is nuthin in #1. But for #2, better swallow a double dose of Dramamine. Most investors would want to own #1. Surprise! They are both a chart of the same thing, the preferred stock ETF (PFF). Chart #2 is just the year 2016 expanded. Over the last 5 years, preferred shares *have* offered relative stability, but every now and then, prices dip (which provides a great buying opportunity).

Through October, our composite of accounts was up just under 5% for the year. The recent price dip took some of that away. But, the portfolio's current yield is about 6%, has a yield-to-worst call over 4%, and the average call is about 4.75 years. Rising rates might add some price pressure, but the yield spread vs. the ten-year Treasury is still historically high. The current dip in the road is probably...just a dip in the road. Competitive yield with relative stability. I think that's sumthin. For sure isn't nuthin.

**High Yield and Core-Plus Bonds**

All bond prices recently dropped. Last month's webinar in our Knowledge Builder series featured bond guru Leo Dierckman from Oppenheimer. He talked all about rising rates and bonds. The recording of it is available on our website. You should take 45 minutes and watch it. You'll learn something (which might come in handy at a holiday party), where you can amaze your friends by explaining the difference between average maturity and duration. Seriously though, there is a lot of good stuff in our Knowledge Builder webinars. You get email invites to them. Below is an ad for the next one.

**Invest 45 Minutes to Build your Knowledge as an Investor**

Look for e-mail invites to our upcoming webinar:

**December 6th or 8th, from 7 to 8 pm EST**

**Financial Planning: Year-end Checklist**

Learn year-end financial planning tips for you and yours

Presenter will be **Paul Coan CFP®, ChFC, CEA®**

**Dividend Growth & Income**

This is our flagship portfolio of high quality, dividend paying companies which do exactly as the title says. Over the summer and fall we were selectively selling stocks with higher downside risk scores and building up cash. The idea was to have a cash buffer in case of an election related market issue. On election night, when futures printed -700 points, we thought we were geniuses. But, as it turned out the cash buffer wasn't needed. In November we chewed up some of the cash and bought three stocks. Compliance won't allow us to name names, but one of the companies serves billions of hamburgers and now breakfast all-day. The second one makes the Lipitor you take after eating breakfast all-day, and the third makes the elevator you take up to the doctor's office to refill your Lipitor prescription. The portfolio's dividend yield is still over 3% and growing. We discussed it at length in last month's portfolio conference call.

**IntelliBuilD Growth™**

IntelliBuilD was also discussed at length in our monthly portfolio call. It has been a tough 18 months for *Investors Business Daily's* IBD 50 index, the backbone for our IntelliBuilD portfolio. The portfolio characteristics are really strong. The list has a reasonable P/E, high earnings growth, high return-on-equity, and low debt. The post-election pop has been great, but we need the big-mo to continue.

### Covered Call

In the fall, as stocks were called away, we built up pre-election cash. Now, the cash has been redeployed. We are mostly using shorter-dated, closer to the money calls. Larger-cap stocks are being emphasized. Today, across all accounts in the composite, the standstill-simple option yield is in the low double digits.

*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

Please listen to the monthly option overlay call, as we had a long discussion about all of the overlays. The recent recovery in the market in general, and commodity stocks in particular, have helped Put Income account values. Index puts on the S&P 500 will be added to accounts (as notional risk allows). But we will not be abandoning puts on individual stocks. Index puts can offer diversification, lower commission costs, and smoother historical returns, while puts on individual names can offer a bit more juice.

### Index Income

For over six months we have managed a soft introduction to a more simple overlay using only index options. Plain vanilla credit spreads on the S&P 500, staggered monthly over 3 months. One trade a month. Not as exciting, but can be *much* more consistent.

### Index Spread

No trades were put on in October, although one was placed in November. Half the risk position is a slower, theta earning position, and the other risk will be opportunistic, placed when an index drops, the VIX pops up, etc. The restructuring should increase consistency.

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<br>Portfolio | Thru Oct - 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|---|---|
| Fixed Income | **Preferred Income** - Preferred stocks | 4.76 | 5.22 | 14.02 | -4.57 | 9.10 | | |
| | **High Yield Bond** | 10.17 | -7.32 | -1.93 | 8.78 | 15.38 | 3.99 | 15.93 |
| Growth and Income | **Covered Call Income** - Quality stocks & covered calls | 1.13 | -1.20 | 6.39 | 23.56 | 11.56 | -10.25 | |
| | **Dividend Growth & Income** - Dividend paying stocks | 3.02 | -7.16 | 5.20 | 36.09 | 12.36 | 5.36 | 17.09 |
| Growth | **IntelliBuilD Growth** - IBD growth stocks | -10.03 | 2.57 | 7.62 | 19.69* | *9/1/13 inception date | | |
| | **Bulls of the Dow** - 10 strongest of the Dow 30 | 1.98 | 1.14 | 12.42 | 30.05 | 7.83 | | |
| | **Mid-Cap 10** - Mid-cap growth momentum stocks | -13.69 | -12.68 | | | | | |
| Alternative | **Alternative** - Metals, foreign currencies, commodities | 6.45 | -8.25 | -4.23 | -0.70 | 9.02 | -7.74 | |
| Option Overlay | **Put Income** - Overlay of short equity puts | *-0.11* | *-9.17* | 0.56 | 5.92 | | | |
| | **Index Income** - Overlay of unleveraged put credit spreads | 1.92* | *4/30/16 inception date | | | | | |
| | **Index** | | **2015** | **2014** | **2013** | **2012** | **2011** | **2010** |
| | **S&P 500** | 5.87 | 1.38 | 13.69 | 32.39 | 16.0 | 2.1 | 15.1 |
| | **CBOE S&P 500 Buy/Write** | 1.97 | 5.24 | 5.64 | 13.26 | 5.20 | 5.72 | |
| | **Barclays Aggregate Bond** | 4.99 | 0.55 | 5.97 | -2.15 | 4.2 | 7.8 | 6.5 |
| | **DB Commodity Index Tracking Fund (NAV Total Rtn.)** | 11.98 | -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 2015 Mid-Cap 10 was a model account. 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)

# year-end CHECKLIST

SHEAFF BROCK

## Now may be an ideal time to consider year-end tax strategies that may benefit you and help you plan for the year ahead.

**Questions? Call your Sheaff Brock Portfolio Consultant at 866.757.5700.**

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Innovative Portfolios for Intelligent Investors

## GENERAL STRATEGIES

### Offset Capital Gains and Defer Income

- ❑ Harvest your losses by selling taxable investments, keeping in mind short-term losses are most effective at offsetting capital gains. **Note:** wait at least 31 days before buying back a holding sold for a loss to avoid the IRS wash sale rule.
- ❑ Take your deductions this year (pay your Q4 state income tax payment, medical expenses, deductible interest and alimony payments before January 1st.)
- ❑ Evaluate if you should delay purchasing mutual fund shares until January 1st to avoid capital gains taxes on brand new investments.
- ❑ Defer your year-end bonus, the sale of capital gain property and receipt of distributions to delay income to 2017.
- ❑ Increase your W-2 federal income withholding amount in preparation of a significant tax bill or to avoid the under-withholding tax penalty.
- ❑ If you are subject to the Alternative Minimum Tax (AMT), or if you are close to being in the Alternative Minimum Tax, you should speak with your CPA or other tax advisor before implementing these strategies.

## RETIREMENT PLANNING

### Seize Opportunities and Avoid Missteps

- ❑ Confirm your retirement income is on track by speaking with your Sheaff Brock Portfolio Consultant (PC) to complete your Retirement Income Map.
- ❑ If you are 50 or older, take advantage of catching up on IRA contributions and certain qualified retirement plans.
- ❑ Maximize your IRA contributions.
- ❑ Consider converting from a Traditional IRA to a Roth IRA.
- ❑ Avoid taking IRA distributions prior to age 59 ½, otherwise a 10% early withdrawal penalty may apply.
- ❑ Consider increasing your 401(k) and retirement account contributions.
- ❑ Take your Required Minimum Distribution (RMD) if you are past the age of 70 ½ prior to December 31st.
- ❑ Determine the optimal time to begin taking Social Security benefits, which you can apply for between ages 62-70.
- ❑ Explore taking employer stock under favorable tax rules.

Sheaff Brock Investment Advisors, LLC, is not a custodian and does not render tax advice. All decisions regarding the tax implications of your investment should be made in consultation with your independent tax advisor. If applicable, only figures provided by the custodian should be relied upon for tax purposes.

## GIFTING

### Give to Loved Ones and Those in Need

- ❑ Gift up to $14,000 per individual in federal tax free gifts.
- ❑ Contribute to charities using appreciated stock in place of cash to reduce capital gains in your portfolio while generating an income tax deduction.
- ❑ Give an outright charitable gift of cash for an immediate income tax deduction.
- ❑ Set up a Donor Advised Fund for an immediate income tax deduction and provide immediate and future donor gifting to charity over time.
- ❑ Set up a Private Foundation for an immediate income tax deduction and provide complete control over current and future charitable giving.
- ❑ Make a will or trust bequest so that the estate can take both income and estate tax deductions.
- ❑ If you are over 70 ½ and would like to make a donation to charity from your IRA, you can donate up to $100,000 under favorable tax provisions as of 2016.

## PLANNING

### Set Yourself Up for Success in the Upcoming Year

- ❑ Discuss major life events with your Sheaff Brock PC, such as marriages or divorces, births or deaths in the family, job or employment changes, and significant elective expenses (real estate purchases, college tuition payments, etc.)
- ❑ Send capital gains and investment income information to your accountant for a more accurate year-end projection.
- ❑ Ensure your account paperwork, risk tolerance and investment objectives are up to date with your Sheaff Brock PC.
- ❑ Revisit contribution amounts to your 529 Plan college savings accounts; make contributions prior to December 31st.
- ❑ Review Medicare Part D plan, make changes during open enrollment, which begins October and ends December 7th.
- ❑ Double check your beneficiary designations and update as necessary with your Sheaff Brock PC or custodian.
- ❑ Check your Health Savings Account contributions and confirm you've spent the entire balance in your Flexible Spending Accounts.
- ❑ Remember, tax estimates are due January 15th.