Sheaff Brock

Innovative Portfolios for Intelligent Investors™

MARKET UPDATE

November 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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"True nobility is exempt from fear."

Shakespeare - King Henry the Sixth, Part II

Hamlet's Famous Quote

TO BE HEDGED, OR NOT TO BE HEDGED, THAT IS THE QUESTION:
WHETHER 'TIS NOBLER IN THE MIND TO SUFFER
THE SLINGS AND ARROWS OF MARKET FORTUNE,
OR TO TAKE ARMS AGAINST CORRECTION.

Hamlet recited these words, OK not these exact words, usually holding a skull, but in this depiction he has his brokerage account statement in his hand. His account value has grown very

nicely this year, yet he is afraid there could be a big market correction. Hamlet is debating between hanging on through a downdraft and suffering the slings and arrows of a down market, or taking up arms against a correction by raising some cash, or hedging his portfolio in some way. During the play, the audience finds out Hamlet had more pressing problems (like a poisonous sword) than the value of his investment account, but first let's tackle his worry of his account balance dropping. And you thought life was simpler in the 16th century!

For over three decades, ever since the Dow Jones Industrials (DJIA) doubled in price and crossed *2000* for the first time in January of 1987, some of our clients have been worried about protecting their accounts from a falling stock market. We talk to a lot of clients every day, and today some of you are worried about how to "take arms" against an imminent correction.

<u>Five to ten-percenters</u>

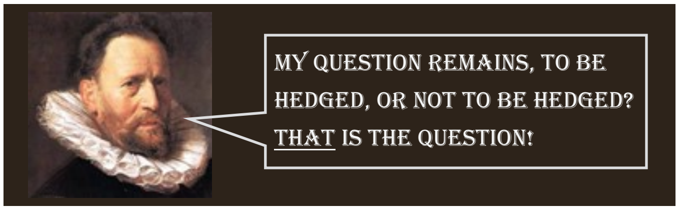
First of all, if a completely out-of-the-blue 5% drop in your account value would cause you sleepless nights, you shouldn't invest in stocks at all. Put your money in a bank and call it a day. Market pullbacks of 5% happen all the time; probably 100 times since 1987. As of today, there hasn't been a five-percenter in almost a year-and-a-half which has lulled investors into a stupor of complacency. A high-single-digit correction is sort of the cost of admission to the cheap seats of short-term wealth creation from equities and <u>will</u> happen again, maybe today.

<u>Ten to twenty-percenters</u>

Bigger corrections of 10% happen fairly often too. According to Yardeni Research, corrections of 10% *or more* have happened 22 times since 1987, on average every 16 months. Weathering the ten-percenters is the cost of admission to the longer-term, decent seats at the wealth creation show. If 5% is OK but 10% causes nausea, better put only half of your money in stocks. A 10%+ pullback <u>will</u> come again; maybe soon.

<u>Whoppers</u>

Of those 22 bigger corrections, 6 were a drop of about 20% *or more,* which are considered "bear markets". About half of those were just barely a 20% drop, but 3 of them were whoppers, and all were during recessions, -33% in 1987, -49% during the dot-com bust, and –57% during the Great Recession. Weathering the whoppers is the cost of admission to the long-term, best seats at the wealth creation show. If bear markets don't scare you and you can hang tough, put a lot of your money in stocks. Over the years it's been a great show, and far-and-away the best liquid way to build long-term wealth.



Geez Hamlet, OK, why not just hedge an account, or raise a bunch of cash when prices seem high? Why not have a tactical strategy that swaps asset allocation from stocks, to bonds, to cash, etc.?

1. Hedging. Hedging a portfolio is very, very expensive. If you had a portfolio of stocks with similar volatility to the S&P 500, you could buy insurance on the value of the portfolio with the purchase of put options on the S&P 500 index. Today, if you wanted insurance to kick in 5% below the current market level (think of it like a 5% deductible where you will absorb the first 5%, but want coverage if the market falls more than that) the annual cost of insurance is 4.0% of the amount that is in stocks. A 4% annual cost chews up about half of the long-term return the S&P 500 has delivered over the last 30 years. Giving up half of your return is way too high of a cost, in our opinion.
2. Raise cash. Raising cash is OK but it requires two correct decisions to be additive to your return. First, you must raise cash at the right time, and second you must reinvest the cash at the right time. It is hard enough to be right once, let alone twice. A couple of times in the past, we have raised cash in our Dividend Growth & Income portfolio. In 2007, we had some cash going into the 2008 bear market, which turned out to be a good thing and additive to returns. The next time, we raised about 20% cash in the portfolio just before the election last year. In that case, the market didn't pull back, but instead took off like a jackrabbit. Since we weren't fully invested, the high cash balance hurt our composite returns a little bit. But, if taking some profits and raising cash makes you sleep better at night, tell us to raise some cash.
3. Tactical allocation. This is moving investments from equities, to bonds, to real estate, to foreign stocks, to emerging markets, to commodities, or to cash depending on valuations, where the least risk is, and where the most potential seems to be. Doing this sounds like the greatest solution ever. The biggest problem is that in 35 years, we have never found a tactical system that works.

The solution to be hedged or not to be hedged…
A person is much better off keeping most of their money in fairly simple investments and then tweaking them at the margins. If you think a portfolio of dividend paying stocks are a good long-term investment (like we do), keep a big slug of money invested through thick-and-thin, and then take a little out if you think prices are too high or add some in when there is a correction. Be noble. Don't ever make big, wholesale bets (like selling all stocks and moving to cash) based on news.

New management agreements are slowly but surely being sent. *Sign and return please, and thank-you in advance.*

Knowledge Builder webinars touch on various subjects and only last 30 to 40 minutes. Watch the recording of previous Knowledge Builders on our website. Invites are by email. You might learn something, really you might.

Portfolio Updates

Half-way through the 4th quarter it looks like the economy might deliver an annualized GDP growth rate of 3% or more. If so, this would be the 3rd consecutive quarter of 3+% growth. The last time we had three quarters in a row of 3% or more was thirteen years ago, in 2004. A decent tax bill wouldn't hurt extend it a bit longer. The stock market is high, although in in our March of 2016 newsletter (when the DJIA was at 17,200) we said that if the S&P 500 returns could just match the the nine previous decade's average returns, the DJIA should be above 30,000 in 2021, four years from now.

Dividend Growth & Income

Dividend Growth & Income has delivered a really solid year-to-date return of 15.2% net-of-fees. As a comparison, the Dow Jones Select Dividend Index was up 9.7% during the same period. The portfolio has 25 positions, is fully invested, and currently we have a position in every S&P sector. Since the last update, we added one financial service company. The highest weighted sectors are healthcare, consumer discretionary, technology and industrials.

IntelliBuilD Growth™

This is our growth portfolio based on *Investors Business Daily's* IBD 50 and New America stock lists. IntelliBuilD had a strong September (gaining over 5%) and an even better October, gaining over 6% during the month. Year-to-date it has a great year going, gaining 22.4% net-of-fees through October. IntelliBuilD is currently a blend of mid-cap and large-cap companies. The S&P Mid-Cap 400 index gained 11.6% and the S&P 500 (large-cap) index gained 16.9% over the same period. This is a high-turnover growth portfolio of 33 stocks. Often, earnings seasons drive several portfolio changes. But, the most recent earnings reports were good for the existing holdings, so fewer than normal changes happened.

Bulls of the Dow

The Bulls also charged ahead in October adding another 7% to the already strong results. Through October, the Bulls were our standout portfolio and returned 22.7% net-of-fees. The "market" as measured by the S&P 500 (large-cap) index gained 16.9% over the same period. 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, rebalanced 4 times per year. Right now, six of the ten holdings are long-term and four have been bought in the last year. The next rebalancing will be in early January.

Covered Call

Covered Call accounts gained a total return of 7.2%, net-of-fees through October. Because the stocks in the composite have their appreciation capped by the covered call option, a covered call strategy will usually underperform in a bull market, which has been the case in 2017. Generally, the high-single-digits to low-double-digits is the best return you can expect in strong years, so we are right in the ballpark. The periods when the market struggles to tread water is when covered calls often show their buoyancy.

Preferred Income

Through October, the Preferred composite was +7.85% net-of-fees. This is very competitive, and better than the general U.S. bond market as measured by the Bloomberg Barclays US Aggregate Index which gained 3.2% during the same period. The portfolio's yield to call is a little over 4%, average call duration is 4 years, and the dividend yield is over 5%.

Alternative

The Alternative portfolio managed for us by Mark Salzinger is having its best year ever, helped by emerging markets.

Mid-Cap 10

After three years of sporadic performance, we are no longer supporting this portfolio. The handful of clients that were still in the portfolio have been moved into other strategies.

Real Estate Income and Growth

Our newest offering is a portfolio of real estate investment trusts, or REITs. The composite started April 30th and currently owns 20 REITs with an average dividend yield of 4.3%. Our portfolio looks very different from both the Dow Jones and the NAREIT Real Estate indices because ours is equally weighted and we have no exposure to the indices largest weighting, that being retail shopping malls.

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

It has now been one year since we brought the management of this strategy in-house, and it has been a good year. 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 by adding new positions with a much higher statistical probability of expiring for a gain. October was a good month for gains. November options are mostly in the bag and as it stands today, realized gains in the 4th quarter could be (as Kurt Vonnegut would say) nice, nice, very nice.

Index Income Overlay

A simple overlay using put option credit-spreads on the SPDR® S&P 500 ETF (SPY) staggered monthly, one spread expiring month, after month, after month. And, for 18 months they have done just that. Boring, the way we like it.

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 Oct.	2016	2015	2014	2013	2012	2011	2010
Fixed Income	**Preferred Income** - Preferred stocks	7.85	1.66	5.22	14.02	-4.57	9.11		
	High Yield Bond	4.97	11.63	-7.32	-1.93	8.78	15.38	3.99	15.93
Growth and Income	**Covered Call Income** - Quality stocks & covered calls	7.20	6.24	-1.20	6.39	22.04	10.14	-11.57	
	Dividend Growth & Income - Dividend paying stocks	15.24	11.22	-7.17	5.20	36.47	12.46	5.80	16.94
	Real Estate Income & Growth - REITs/real estate stocks	3.24*					*4/30/17 inception date		
Growth	**IntelliBuilD™ Growth** - IBD growth stocks	22.43	-2.71	2.52	7.63	11.18*	*9/30/13 inception date		
	Bulls of the Dow - 10 stocks of the Dow Jones 30 Indus.	22.70	9.65	1.14	12.42	30.05	7.83		
Alternative	**Alternative** - Metals, foreign currencies, commodities	14.65	4.37	-8.25	-4.23	-0.70	9.02	-7.74	
Option Overlay	**Put Income** - Overlay of short equity puts	*3.63*	*0.26*	*-9.17*	0.56	3.97			
	Index Income - Overlay of unleveraged put credit spreads	2.35	3.67*	*5/31/16 inception date					
	Index								
	S&P 500	16.91	11.96	1.38	13.69	32.39	16.0	2.1	15.1
	CBOE S&P 500 Buy/Write	9.77	7.06	5.24	5.64	13.26	5.20	5.72	
	Barclays Aggregate Bond	3.20	2.65	0.55	5.97	-2.15	4.2	7.8	6.5
	DB Commodity Index Tracking Fund (NAV Total Rtn.)	1.11	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.