Sheaff Brock

Innovative Portfolios for Intelligent Investors™

MARKET UPDATE

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> When your outgo exceeds your income, the upshot may be your downfall.
>
> Paul Harvey

Monthly Update

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- REIT Baby
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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.

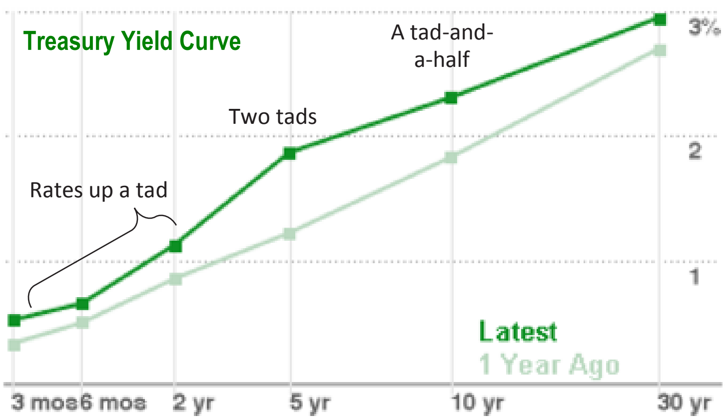
Any portfolio returns mentioned are composite returns, and are net of fees and commissions. There is the chance that market conditions or portfolio performance may deteriorate in the future, and clients may experience real capital losses in their managed accounts. Portfolios are compared to the performance 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.**

Where's the Income?

If Clara Peller, the star of the Wendy's "Where's the beef?" 1980's ad campaign, was alive today she might be asking, "Where's the income"?

There has been a lot of talk of rising interest rates, the Fed bumped up its Fed funds rate in December, and likely will bump it again soon. But during the last year, the main yardstick of rates, interest rates on Treasury bonds, has only gone up a tad. At nearly every maturity length rates have risen ever-so-slightly. Three month rates are still about 0.5%, the ten-year is less than 2.5%, and thirty-year bonds are under 3%. Who would lock up money for three decades at less than 3%?

Below is a yield curve chart from 2/28/17 showing the amount interest rates have risen in a year. At 1 to 3%, even a tad or two increase isn't much to get excited about.



Source: TD Ameritrade, Institutional 2/28/2017

Today the ten-year Treasury is yielding about 2.4%. At the bottom of this page is a chart showing where the ten-year rate was over the last 150 years. The chart ends last summer when the yield was only 1.58%, so rates have risen 80 bps since then. The chart shows that for about two-thirds of the time (100 out of the 150 years) the ten-year Treasury has yielded 4% or less. It also clearly demonstrates that interest rates can stay low for a really l--o--n--g time, like 30 years long.

A couple of weeks ago, the San Francisco Fed President John Williams told *Bloomberg* that historically low interest rates are here to stay. Williams wrote in the San Francisco Fed's latest economic letter that a low-rate world is "likely to be very persistent" as an aging population and lagging productivity hold down growth.

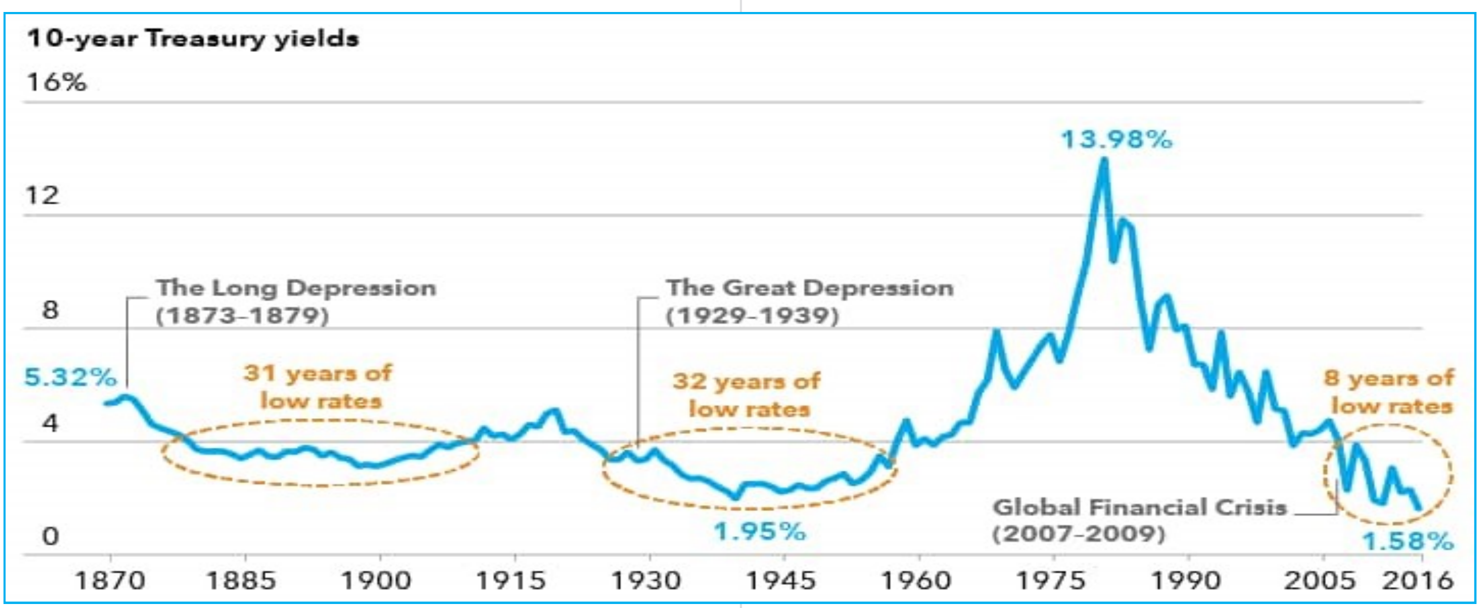
Even if the Fed raises rates three times this year, money-market funds will still be yielding less than 2% (two tads over nothing). CDs may yield three tads more than nothing, and decent quality bonds a tad more than that. Problem is most people can't live on 2, 3, or 4% interest.

Low fixed income yields have given rise to high cost products with dubious histories like complex annuities, reverse mortgages, and structured notes. These things are designed such that the happiest person at the closing table is the salesman, not the investor. Also they generally have little (if any) transparency, since costs are concealed by an opaque covering.

One thing we feel most investors should require is complete transparency. They should know exactly what they own, what the gain, loss, and income is, and what they pay in costs. However, over 35 years of working with investors has taught us that some people would rather be ostrich-like, not know their investment's details and costs, but get a monthly check, even if their principal is bleeding out.

REIT baby

Many of our offerings address the need discussed on the first page, income. In fact, 7 out of 10 provide some form of decent



Sources: Federal Reserve, Thomson Reuters Datastream. 2016 data as of June 30., 2016 income, and 5 of them even have the word "income" in their names. Shortly, we will be offering a new strategy, also designed primarily for income, which invests in real estate investment trusts, better known as REITs. For decades REITs have become increasingly popular, and in August of 2016 Standard and Poor's designated REITs as their own S&P sector.

REITs allow anyone to invest in portfolios of large-scale properties the same way they invest in other industries – through the purchase of stock. The stockholders of a REIT earn a share of the income produced through real estate investment – without actually having to go out and buy or finance property.

The two main types of REITs are equity REITs and mortgage REITs. Equity REITs own properties for the long-term. Mortgage REITs invest in mortgages or mortgage securities.

Today, REITs are tied to almost all aspects of the economy, including apartments, hospitals, hotels, industrial facilities, infrastructure, nursing homes, offices, shopping malls, storage centers, computer server farms, student housing, and timberlands.

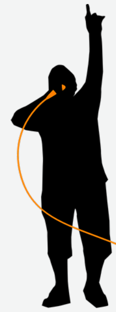
Our portfolio is still in the design stage, but it will focus on equity REITs diversified by sector, stocks with lower downside risk at the security level, and lastly yield. Number one will be focusing on the security level downside risk. In the spirit of Will Rogers' famous quote, our REIT portfolio will be "more concerned with the return OF your capital, than the return ON your capital".

Over time, REITs can provide income, non-correlation to traditional investments, diversification, and some inflation protection. REITs can be tricky and you need to look way beyond the yield, which is where many investors stumble.

It will be another income portfolio for long-term intelligent investors. We will keep you posted on REIT baby's debut date, but look how cute she is already!

<u>Portfolio Updates</u>

When you read this the 8 year anniversary of a bull stock market run that has driven the DJIA from 6500 on March 9, 2009 to over 21,000 will have passed. The bull could keep snorting due to one simple fact; the DJIA went up both in January and in February. According to Bespoke Research, this two month jump has happened 27 previous times since 1945. In <u>each of those 27 times</u> the stock market went up for the year, and the average gain for the entire year was 19.9%. Based on precedent, 2017 could be a good year for equities. That average historical gain would send the DJIA to 24,000!



YO-YO-YO, TURN DA EARS, LISTEN UP,
SENDIN' IN A CHECK? GOT TO QUIT MESSIN' UP.
TAX MAN, THE AX MAN, HE'S JUST GOT TO WAIT,
BUT TD AMERITRADE'S CUTTIN' YOU A BREAK.
KNOWLEDGE BUILDERS MONTHLY, LEARNIN' IS FINE,
MOST BLOW 'EM OFF, THINKIN' THEY'RE EINSTEIN

(read it again like Kanye, then grunt "UH" at the end)

1. When you send a check to us to deposit in your TD Ameritrade account: Make the check out to TD Ameritrade. <u>DO NOT</u> make the check out to Sheaff Brock (doing so delays your deposit).
2. Just like those videos of dogs on Facebook...wait for it, wait for it... You may get corrected tax info yet this month. Wait a little bit longer to file your taxes.
3. TD Ameritrade reduced their commission rates. $$
4. **Knowledge Builder** webinars are offered monthly. They are less than an hour long and are for our clients on various investment subjects. If you want to learn a little something, sign up for March's (after all, you probably don't know <u>everything</u> about investing). You can also view the recording of previous Knowledge Builders on our website. Invites come by email.

Dividend Growth & Income

We added two consumer staple retail stocks in December, a utility in January, a financial in February, and just bought a beverage stock. This gives us at least one stock in each S&P sector. We are fully invested in 25 stocks with these average stats: 3.2% dividend yield, dividend growth rate of 14%, beta of .92, P/E of 15, and estimated 2017 earnings growth of 9%.

IntelliBuilD Growth™

IntelliBuilD™ is the growth equity portfolio based on *Investors Business Daily's* stock lists. It is off to a great start in 2017 and sports these stats: 1.4% dividend yield, beta of 1.35, P/E of 19, 2016 earnings growth of 29%, estimated 2017 earnings growth of 10%, and an ROE of 32%. We're fully invested with 33 stocks and turnover has slowed down from recent months.

Covered Call

A low VIX, shorter-dated calls, and a rising market has generated a high number of called positions (which is a good thing). Large-cap stocks dominate new positions. The option theta yield* (if the underlying stocks sit there, the call premium time decay) is still 8% net of fees, and the average dividend yield of our 29 largest positions is 2.2% **A theoretical, Black-Scholes derived statistic.*

Preferred Income

This segment of the fixed income world is enjoying a great start in 2017. The portfolio's current yield is 6%, has a yield-to-worst call of almost 5%, and the average call protection is a bit more than 4 years.

High Yield Bond

Corporate high-yield bonds have also had a good jump out of the gate, continuing the 2016 momentum. Small-cap and mid-cap companies, big issuers of low grade bonds, are gaining strength reflecting higher bond prices.

Mid-Cap 10

A good February helped Mid-Cap 10 get back in the black for the year. Currently 9 of the 10 slots are invested, leaving 10% cash.

Bulls of the Dow

The current ten stocks are represented by one word, 'Merica. They are paying dividends and growing in value. The dividend yield is 2.9% , and prices are chugging along.

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 February index puts on the SPDR S&P 500 ETF (SPY) expired and a May position was initiated. We are now aggressively working through the legacy problematic in-the-money positions and transferring the risk to new large-cap names with better fundamentals and technical strength. Stronger positions, potentially bigger gains, but the cost is losses now.

Index Income

A simple overlay using put option spreads on the SPDR S&P 500 ETF (SPY) staggered monthly. The February index puts on the SPDR S&P 500 ETF (SPY) expired and a May position was initiated. The rising market and low VIX has crimped the yield, but we are still within the target range.

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 Feb	2016	2015	2014	2013	2012	2011	2010
Fixed Income	**Preferred Income** - Preferred stocks	3.71	1.66	5.22	14.02	-4.57	9.11		
	High Yield Bond	1.68	11.63	-7.32	-1.93	8.78	15.38	3.99	15.93
Growth and Income	**Covered Call Income** - Quality stocks & covered calls	3.83	6.24	-1.20	6.39	22.04	10.14	-11.57	
	Dividend Growth & Income - Dividend paying stocks	4.21	11.22	-7.17	5.20	36.47	12.46	5.80	16.94
Growth	**IntelliBuilD Growth** - IBD growth stocks	7.50	-2.71	2.52	7.63	11.18*	*10/1/13 inception date		
	Bulls of the Dow - 10 strongest of the Dow 30	5.04	9.65	1.14	12.42	30.05	7.83		
	Mid-Cap 10 - Mid-cap growth momentum stocks	1.61	-7.90	-12.68					
Alternative	**Alternative** - Metals, foreign currencies, commodities	5.95	4.37	-8.25	-4.23	-0.70	9.02	-7.74	
Option Overlay	**Put Income** - Overlay of short equity puts	*-1.30*	*0.25*	*-9.17*	0.56	5.92			
	Index Income - Overlay of unleveraged put credit spreads	0.87	3.20*	*4/30/16 inception date					
	Index								
	S&P 500	5.94	11.96	1.38	13.69	32.39	16.0	2.1	15.1
	CBOE S&P 500 Buy/Write	3.64	7.06	5.24	5.64	13.26	5.20	5.72	
	Barclays Aggregate Bond	0.87	2.65	0.55	5.97	-2.15	4.2	7.8	6.5
	DB Commodity Index Tracking Fund (NAV Total Rtn.)	-0.51	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)