Sheaff Brock

Innovative Portfolios for Intelligent Investors™

MARKET UPDATE
April 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, 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. (continued below)

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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.**

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Monthly Update

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Check out sheaffbrock/in-the-news for our latest column at abcnews.com.

True terror is to wake one morning and discover that your high school class is running the country.

Kurt Vonnegut Jr.

Five thriving canaries

A canary in a coal mine was there to warn of risk, impending doom, and catastrophe. If you don't know why canaries were used in coal mines, google it, and read the rest later.

Regarding the stock market, what canaries should you be watching for warning of a possible bear market? It's OK to admit you are concerned about another "big one", a big 'ole bear that snuffs out the canary and then your equity with it. Since 1926 (when records of the S&P 500 started), there have been 8 bear markets and 5 of them were bad-news, lasting over one year. Those five did the most damage to prices, sawing off between 30 and 80% of value. All of the big five were associated with recessions. If you are worried about a big bear, you should look for signs of not just a market top, but also signs of a recession. There are five warning signs that have often preceded big recession-influenced bear markets. Think of them as five canaries in your portfolio's coal mine.

1

Job growth rolls over and trends down

Non-farm payroll data is very erratic from month to month. But for the last five years, there has been an average of 200,000 jobs created every month, and the average is actually increasing a bit. Job data is still thriving.

2

The yield curve inverts (long-term bonds pay less than short-term bonds)

2.93%

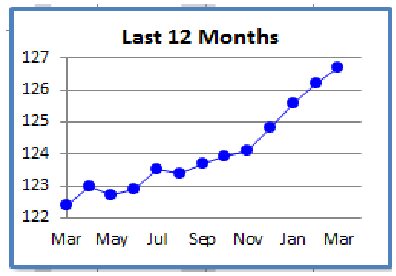
As of April 25th, 3-month Treasury bills are yielding 0.81%, 10-year notes yield 2.28%, and 30-year bonds are at 2.93%. The yield curve is sloping up, and still healthy.

0.81

3

Leading Indicators start trending down

In the next column is a chart of the last 12 months of leading indicators, published by the Conference Board. They are still trending higher, in fact for 7 months in a row. Leading Indicators are chirping.



dshort.com, April 2017, data thru 3/2017

4

Forward P/E of the S&P 500 is above 20

High valuations are often present at market tops. Before the dot-com bust, the S&P 500 P/E was at 24, overvaluation was a big problem. However in 2007, the forward P/E was only 15, but financial shenanigans were to blame for the '08-'09 bear. Today, the forward P/E of the S&P 500 is 17, which is not cheap, but not terribly expensive either.

5

Investor sentiment gets too bullish

Retail investor sentiment has been a pretty good contrarian indicator. When the regular-folk investors get too bullish, it's usually time to lighten up on equities. The latest American Association of Individual Investors (AAII) survey shows the most bearishness in 6 months, and last week's *Barron's* reported that AAII bullish sentiment hasn't been above 50% in two years, or rarely above 50% in the last eight years. This is the longest bearish streak in the 30+ year history of the survey! It is a lonely, unloved bull.

All five canaries are still singing away, which tells you to stay invested in US stocks. We are.

Portfolio Updates

Here is a repeat from last month, but it bears repeating: The S&P 500 went up both in January and in February. According to Bespoke Research, this two month jump has happened 27 previous times since 1945. In each of those 27 times the stock market went up for the year, and the average gain for the entire year was 19.9%!

Year-to-date performance as of 4/26/2017:

Large-cap stocks, S&P 500	+7.4%
Mid-cap stocks, S&P 400	+5.5%
Small-cap stocks, S&P 600	+2.6%

Why is the S&P 500 doing so much better than the rest? Mainly because of the giant companies highlighted in the chart below. Indices are capitalization weighted, meaning the bigger the company, the more influence it has on the index. The big boys are doing the heavy lifting. Notice how the five biggest companies are all tech stocks. It wasn't long ago that Exxon Mobil was the biggest, and before that, General Electric. The top 4 have a combined market-cap of over $2.7 trillion dollars, which is more than the combined market-cap of the entire Russell 2000 Index!

Twelve Largest S&P 500 Companies

Stock	Company	Market Cap	Price	YTD % Chg
AAPL	Apple Inc	$758,038,462,090	144.48	24.56
GOOGL	Alphabet Inc	$607,359,981,541	887.52	11.18
MSFT	Microsoft Corp	$524,657,546,117	67.89	8.95
AMZN	Amazon.com Inc	$434,332,388,439	908.74	20.50
FB	Facebook Inc	$425,001,860,187	146.69	26.80
BRK/B	Berkshire Hathaway	$412,637,798,978	167.28	2.74
XOM	Exxon Mobil	$345,580,525,406	81.51	-9.51
JNJ	Johnson & Johnson	$334,318,857,289	123.32	7.24
JPM	JPMorgan Chase	$314,991,437,179	88.53	2.78
WFC	Wells Fargo	$272,811,113,216	54.52	-0.47
GE	General Electric	$256,471,619,201	29.45	-6.72
T	AT&T Inc	$245,149,911,335	39.84	-5.72

Bespoke Investment Research, data as of 4/25/2017

Dividend Growth & Income

Dividend Growth & Income had a decent first quarter. We have been gradually reshaping the portfolio which has caused a bit more turnover than the portfolio has historically experienced. We are cognizant of the word "Income" in the strategy's title, so the portfolio's dividend yield is still over 3%, and the dividend growth rate of our current positions is 15%. The average P/E is 15 and estimated earnings per share growth for 2017 is 10%. All of those statistics are better than the S&P 500 so, in aggregate, portfolio characteristics are quite good. Currently we have a position in all but one S&P sector, telecom being the unrepresented group. At the end of the day, this portfolio revolves around earnings growth, dividend growth, and current dividend yield. If those 3 bases are loaded and value is up to bat, good things can happen.

IntelliBuilD Growth™

IntelliBuilD™ is the growth equity portfolio based on *Investors Business Daily's* stock lists. It is continuing to build on the strong first quarter, approaching a double-digit total return as of today. This portfolio is a quant model, with most decisions made for us by computerized ranking factors. Interestingly, turnover has slowed down this year. The strategy is not for the faint of heart with a beta of 1.4. One could say that earnings growth is what you have, and the P/E ratio is what you pay to get the growth. Our portfolio has reported earnings growth, year-over-year, of 30% and the stocks carry an average P/E of 18. As a comparison, the S&P Mid-Cap 400 Index has trailing earnings growth of 10% and a P/E of 19. Three times the historical growth rate and a lower P/E? That's why we call it IntelliBuilD™.

Covered Call

Wally is continuing to use larger-cap stocks, and with the low VIX, shorter-dated calls. We have been methodically removing "problem children" from the accounts and replacing them with larger, higher quality names. A very good first quarter came from several called positions, and the ability to raise expiring strike prices. The option theta yield* (if the underlying stocks sit there, the call premium time decay) on the entire $42 million in the strategy is $9500 per day X 365 days = $3.5 million per year, or about 7% net of fees. Add to that the dividend yield of about 2%, and you get the static yield of the portfolio; high single digits. **A theoretical, Black-Scholes derived statistic calculated by thinkpipes*.

Real Estate Income & Growth

The REIT baby we wrote about last month is now a full fledged offering. For many years, real estate has been known as an effective inflation hedge and income generator. Most mutual funds and ETFs in this space have similar top holdings of very large REITs. Our portfolio difference, and advantage in

We apologize in advance for the next announcement:
In the next few weeks, new management agreements will arrive in your mailbox. They will need to be signed and returned. The update is mostly due to the changes in the Department of Labor's language requirement regarding fiduciaries. We are a fiduciary already, but the language update is needed. Thank-you regulators!!
We all love busy work!

Knowledge Builder webinars are offered monthly. They are less than an hour long and are for you, our clients, on various investment subjects. If you want to learn a little something, sign up for them (after all, you probably don't know everything about investing). You can also view the recording of previous Knowledge Builders on our website. Invites come by email.

our opinion, is the ability to equally own both larger and smaller REITs, plus own companies in the real estate space that are not REITs, but are connected closely to real estate. The portfolio's 19 current positions yield a bit over 4%, are all REITs, and are spread among half-a-dozen sectors such as hotels, billboards, medical properties, data storage, etc. The one sector we purposely do not own is retail property REITs. Owning retail malls now? Not for us or our clients.

Bulls of the Dow

Two stocks were replaced at the beginning of the second quarter. New additions were Apple (AAPL) and American Express (AXP). The current ten stocks are doing what they are supposed to do, pay and raise dividends, and grow in value.

Mid-Cap 10

In the first quarter, a competitive 2nd half helped Mid-Cap 10 get back in the black. The portfolio turned over nearly 100% during the quarter, which is higher than normal. Currently all 10 slots are invested.

Preferred Income

This had a strong first quarter aided by the price rebound of the European bank preferreds. Lately, and luckily, the preferred space has been boring, just the way we like it. JR has been slowly adding a few more "fixed-to-floating" rate preferreds which, over time, have the ability to increase dividends with short-term interest rate hikes.

High Yield Bond

They are doing fine...not much more to say.

Alternative

Year-to-date, this is our #1 performing strategy. This is a commodity centric, non-U.S., emerging market exposed strategy. It is meant to be a sleeve of someone's total account, a diversifier.

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

Six months ago we started adding index put spreads on the SPDR S&P 500 ETF (SPY) with the intent of eventually having half of an account's risk on the index. Currently, we are halfway to the goal with 26% of the $460 million book's exposure on SPY. We are continuing to work through the legacy problematic in-the-money positions and are transferring the risk to new names with higher probabilities of expiring.

Index Income

A simple overlay using put option spreads on the SPDR S&P 500 ETF (SPY) staggered monthly, one trade a month. We are closing in on one year of history, which has unfolded exactly as expected, and has resembled riding on *The City of New Orleans*, "rhythm of the rails is all they feel", clickity-clack.

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 March	2016	2015	2014	2013	2012	2011	2010
Fixed Income	**Preferred Income** - Preferred stocks	3.90	1.66	5.22	14.02	-4.57	9.11		
	High Yield Bond	1.07	11.63	-7.32	-1.93	8.78	15.38	3.99	15.93
Growth and Income	**Covered Call Income** - Quality stocks & covered calls	4.24	6.24	-1.20	6.39	22.04	10.14	-11.57	
	Dividend Growth & Income - Dividend paying stocks	4.56	11.22	-7.17	5.20	36.47	12.46	5.80	16.94
Growth	**IntelliBuilD Growth** - IBD growth stocks	7.51	-2.71	2.52	7.63	11.18*	*10/1/13 inception date		
	Bulls of the Dow - 10 strongest of the Dow 30	5.63	9.65	1.14	12.42	30.05	7.83		
	Mid-Cap 10 - Mid-cap growth momentum stocks	1.41	-7.90	-12.68					
Alternative	**Alternative** - Metals, foreign currencies, commodities	7.99	4.37	-8.25	-4.23	-0.70	9.02	-7.74	
Option Overlay	**Put Income** - Overlay of short equity puts	*-1.23*	*0.25*	*-9.17*	0.56	5.92			
	Index Income - Overlay of unleveraged put credit spreads	1.19	3.20*	*4/30/16 inception date					
	Index								
	S&P 500	6.07	11.96	1.38	13.69	32.39	16.0	2.1	15.1
	CBOE S&P 500 Buy/Write	4.00	7.06	5.24	5.64	13.26	5.20	5.72	
	Barclays Aggregate Bond	0.82	2.65	0.55	5.97	-2.15	4.2	7.8	6.5
	DB Commodity Index Tracking Fund (NAV Total Rtn.)	-3.81	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. Please see additional disclaimers on the next page.