Sheaff Brock

Innovative Portfolios for Intelligent Investors™

MARKET UPDATE
April 2018

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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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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SheaffBriefs

Go to sheaffbriefs.com and check out our blog. All kind of good info there.

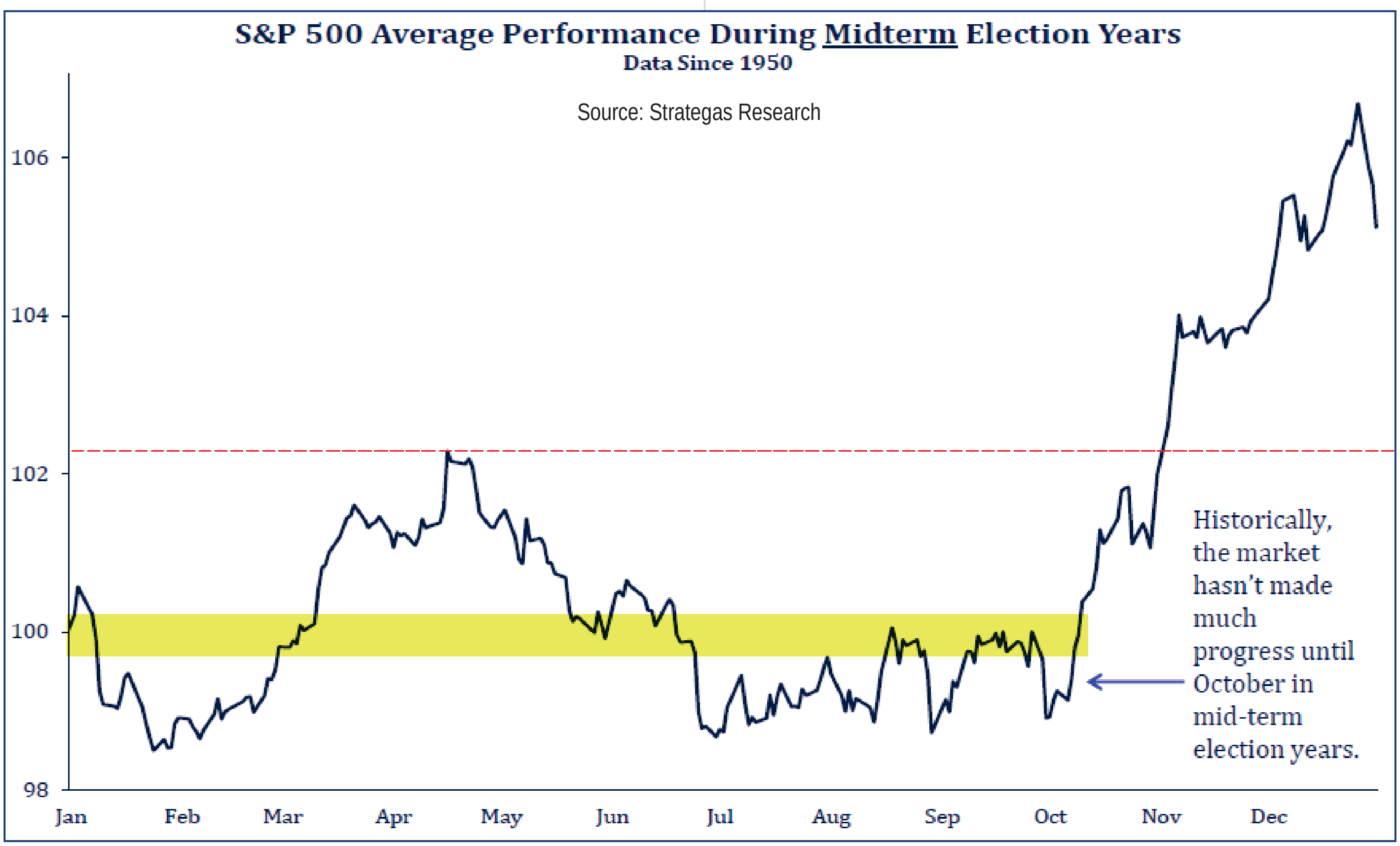
> "The people who cast the votes don't decide an election, the people who count the votes do."
>
> Joseph Stalin

Mid-term election years. Noise. Wobble. Profits.

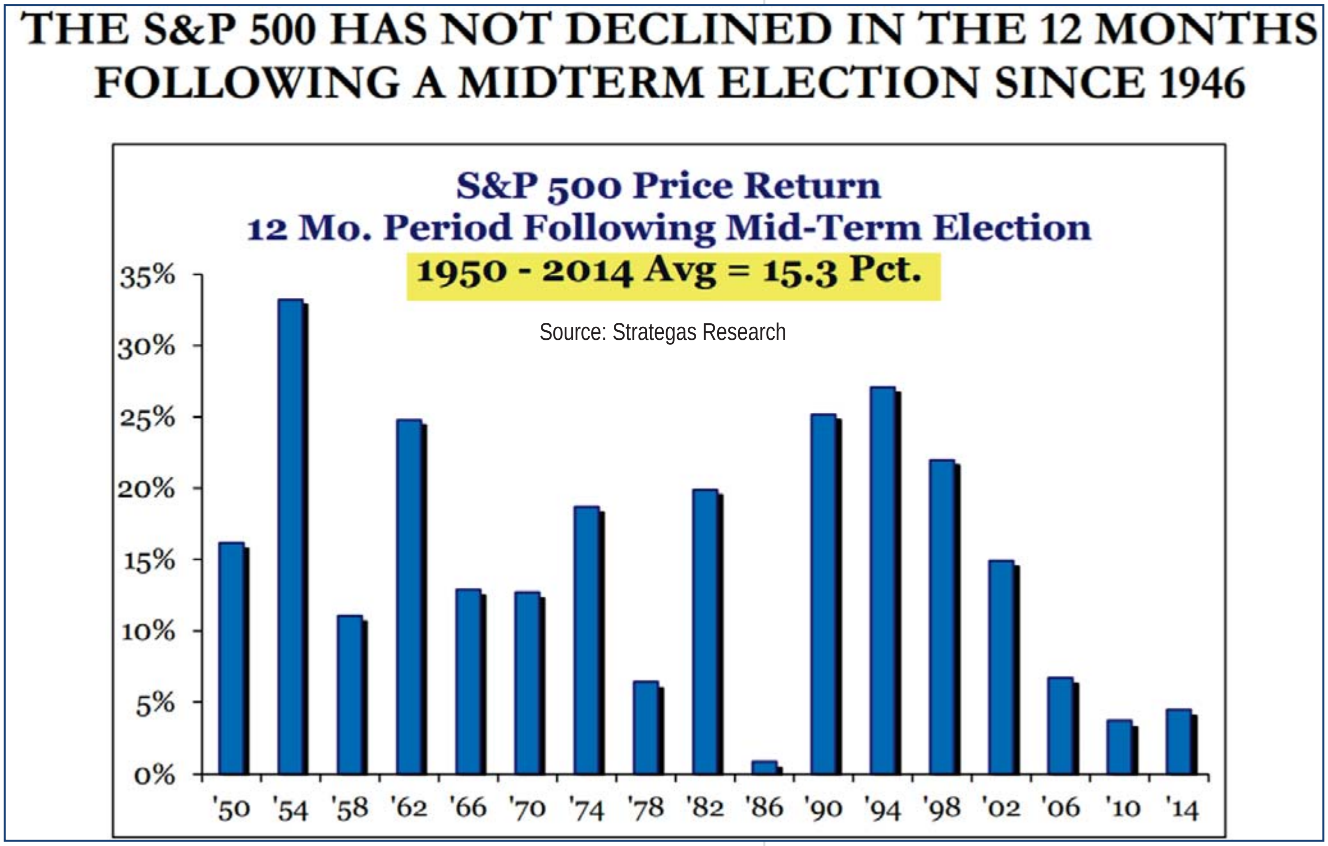
Noise. Mid-term election ads are starting to run on TV, radio, and on social media. Russian advertising agencies must love that the U.S. has elections every 2 years because they certainly couldn't earn a living in their homeland with Putin and his pals winning every time. What you should do is order some industrial grade ear protection to wear while commercials come on and avoid the political ads. Could be the best $15 you've ever spent.

Wobble. Investors always seem to worry about the stock market, especially during election years...which is every other year; so, investors are *really* worried half the time and just *kind of* worried the other half. The chart below shows how the stock market has performed, on average, during all mid-term election years since 1950. The yellow box at the breakeven mark shows how the stock market typically treads water until October and then shoots up in the last three months. If this year is similar it could be a long summer wearing earmuffs and enduring schweaty ears while watching the stock market wobble.

Profits. Historically, profits follow mid-term elections, and not only for Russian ad agencies, but also for U.S. equity investors. To the right is a chart showing how the S&P 500 has done during the 12 months following a mid-term election. This goes back to 1950, when Harry Truman was President, so the chart encompasses a lot of good and bad markets, economics, and music genres including jazz, blues, doo-wop, folk, R&B, pop, soul, Motown, surf, psychedelia, bubblegum, new-wave, southern rock, punk rock, heavy-metal, glam, grunge, ska, emo, alternative, reggae, rap, hip-hop and electropop. When you look back, most of the music was great, but some was worse than any of the recessions, or market crashes. I mean emo, really?



Anyway, back to the chart. It is interesting that the stock market went up an average of 15% in the 12 months following a mid-term election, but what is even more interesting is that it went up after *every* one, 17 out 17 times! Here's to 18 for 18, cheers! You can print this out, keep it in your pocket, and win a bar bet with it...no charge, you're welcome.



Markets:

U.S. stocks and bonds generally finished lower for the first quarter of 2018 while volatility was higher. The S&P 500 experienced nearly 30 trading days with ±1% daily moves, which was almost half of the time the market was open. An average *year* has 45 to 50, so the first quarter was twice as bouncy as average. And 2017 only had eight ±1% trading days, the least ever, so Q1 seemed extra bumpy. The increase in volatility probably helped increase Q1 Xanax prescriptions, thus proving the old golf saying, "Every putt makes somebody happy".

First-quarter earnings season is in full swing and so-far-so-good. It is the first one under the new lower corporate tax rate. Analysts are expecting great things, so if companies just match the great-expectations, the market might act like the chart to the left, and wobble lower. But long-term, earnings drive prices, so the index could easily rhyme with chart above.

Strong earnings, especially for domestic companies, paired with rising interest rates (both good for financials and credit ratings) and rising oil prices (positive for high yield bonds in the oil patch) lends credence to the argument that credit sensitive preferred stocks and high yield bonds could still be a good bet to pay above average yield and gain in price.

Portfolio Updates

The 1st quarter was kind of a yawner for most portfolios, not-so-hot for REITs, but volatility really helped the option overlays which had a solid showing. By the way, Barron's has recently been touting REITs and preferreds as a great buy with valuations at low historic levels.

Dividend Growth & Income

Our dividend-driven equity strategy had an index beating Q1 with the composite earning a total return of –1% gross-of-fees and –1.3% net-of-fees. Our benchmark, the Dow Jones Select Dividend Index, returned –2.5% during the same period. The portfolio is fully invested in 25 stocks, diversified in 10 of the S&P 500's 11 sectors, and pays an average dividend yield of 3.1%. During the quarter we added two stocks, the largest auto-auction company and a semiconductor equipment company. This earnings season will likely lead to a couple of other changes.

IntelliBuilD Growth™

A portfolio based on *Investors Business Daily's* IBD 50 and New America stock lists. IntelliBuilD puts 'Merican growth stocks through a value screen to find the 33 growth stocks with the lowest "downside risk" characteristics. IntelliBuilD's great 2017 was followed by a nearly flat Q1 of –0.2% gross-of-fees and –0.5% net-of-fees, vs. –0.8% for the S&P 500. Yawn. According to analyst estimates the 33 stocks are projected to grow earnings 71% this year. As this is being written only six companies have reported, so we'll see.

Bulls of the Dow

The Bulls were our standout performer last year and stood atop the podium in Q1 as well. The composite gained 1.4% gross-of-fees and 1.1% net-of-fees, vs. the S&P 500 return of –0.8%. Two stocks were benched in April (the normal quarterly rebalance) and two new ones entered the portfolio.

Covered Call

As you can see in the table, our Covered Call composite beat its benchmark by about 25bps for the quarter. Recent volatility has increased call option premiums, which is good for sellers of premium. Not much else to say.

Preferred Income

Rising interest rates of 2018 have effectively put preferred stocks on sale. Prices on preferreds as measured by the preferred stock ETF (PFF) have only been at today's levels five times since 2009. Dividend yield is about 6% annualized, and prices of preferreds are cheap right now, in our opinion.

Real Estate Income and Growth

REITs are also cheap and pay a high dividend yield. According to a Bloomberg chart we have, REITs have not been this cheap since 2009.

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

2017 was our best year for realized gains. Q1 of 2018 was our best first-quarter ever, so we are very strong out-of-the-blocks. The first quarter delivered almost half as many gains as it took us all year to make in 2017. We'll take it. In the last few months, many of the "problem children" have straightened out, and the theta, delta, and average duration have all improved.

Index Income Overlay

This is our simple overlay using three put option credit-spreads on the SPDR® S&P 500 ETF (SPY), staggered monthly. The volatility spike has been good for the strategy. Last year during the low volatility months, spreads were only yielding about 3.5% annualized, whereas lately they have yielded closer to 6% annualized. The April 20th position with a 269 strike (SPY is at $266) was the first one in-the-money spread we had to roll; which we did today, and still picked up a high yield. Boom.

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	Thru March 2018	2017	2016	2015	2014	2013	2012	2011
Fixed Income	Preferred Income - Preferred stocks	-1.40	7.44	1.61	5.23	14.01	-4.59	9.19	
Growth and Income	Covered Call Income - Quality stocks & covered calls	-1.33	12.93	6.16	-1.11	6.33	22.28	10.23	-11.09
	Dividend Growth & Income - Dividend paying stocks	-1.28	21.99	11.07	-7.27	5.04	36.23	12.17	5.62
	Real Estate Income & Growth - REITs/real estate stocks	-6.84	2.99*	*5/1/17 inception					
Growth	IntelliBuilD™ Growth - IBD growth stocks	-0.52	25.40	-2.85	2.46	7.55	11.18*	*10/1/13 Inception	
	Bulls of the Dow - 10 stocks of the Dow Jones 30 Indus.	1.08	33.76	9.39	0.97	12.10	23.99*	*2/1/13 Inception	
Alternative	Alternative - Metals, foreign currencies, commodities	-0.95	17.51	4.38	-8.24	-4.25	-0.72	9.02	-7.64
Option Overlay	Put Income - Overlay of short equity puts	*2.64*	*5.66*	*0.21*	*-8.86*	0.55	4.04		
	Index Income - Overlay of unleveraged put credit spreads	0.85	2.68	3.76*	*6/1/16 inception date				
	Index								
	S&P 500	-0.76	21.83	11.96	1.38	13.69	32.39	16.0	2.1
	CBOE S&P 500 Buy/Write	-1.57	13.00	7.06	5.24	5.64	13.26	5.20	5.72
	Barclays Aggregate Bond	-1.46	3.54	2.65	0.55	5.97	-2.15	4.2	7.8
	DB Commodity Index Tracking Fund (NAV Total Rtn.)	1.88	5.12	18.50	-27.41	-28.18	-7.57	3.31	-2.71

Composites include all fully discretionary accounts. Composite performance consist of all client accounts that are at least 80% invested in the strategy. Returns are presented net of maximum 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. Returns are calculated using the highest fee to reduce the composite gross of fee return to obtain the composite net of fee return. An analysis is performed on a quarterly basis to determine the highest fee paid in the portfolio as the highest fee paid may change over time . 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.