Sheaff Brock

Innovative Portfolios for Intelligent Investors™

MARKET UPDATE
June 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 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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> The secrets of success are a good wife and a steady job. My wife told me.
>
> Howard Nemerov

Recently, much has been written about how low volatility precedes bear markets, and since we have had a long period of low volatility, a big, bad, growling bear must be right around the corner. Our response?

Fake news!!

The most readily source of a volatility reading is the VIX®, the volatility index created by the Chicago Board Options Exchange , often referred to as the CBOE. The VIX is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

Since its introduction in 1993, the VIX Index has been considered by many to be a barometer of investor sentiment and market volatility. The VIX reflects *current* S&P 500 option prices, basically the prices people (mostly large institutions) are willing to pay to insure a large portfolio against loss or participate for a gain.

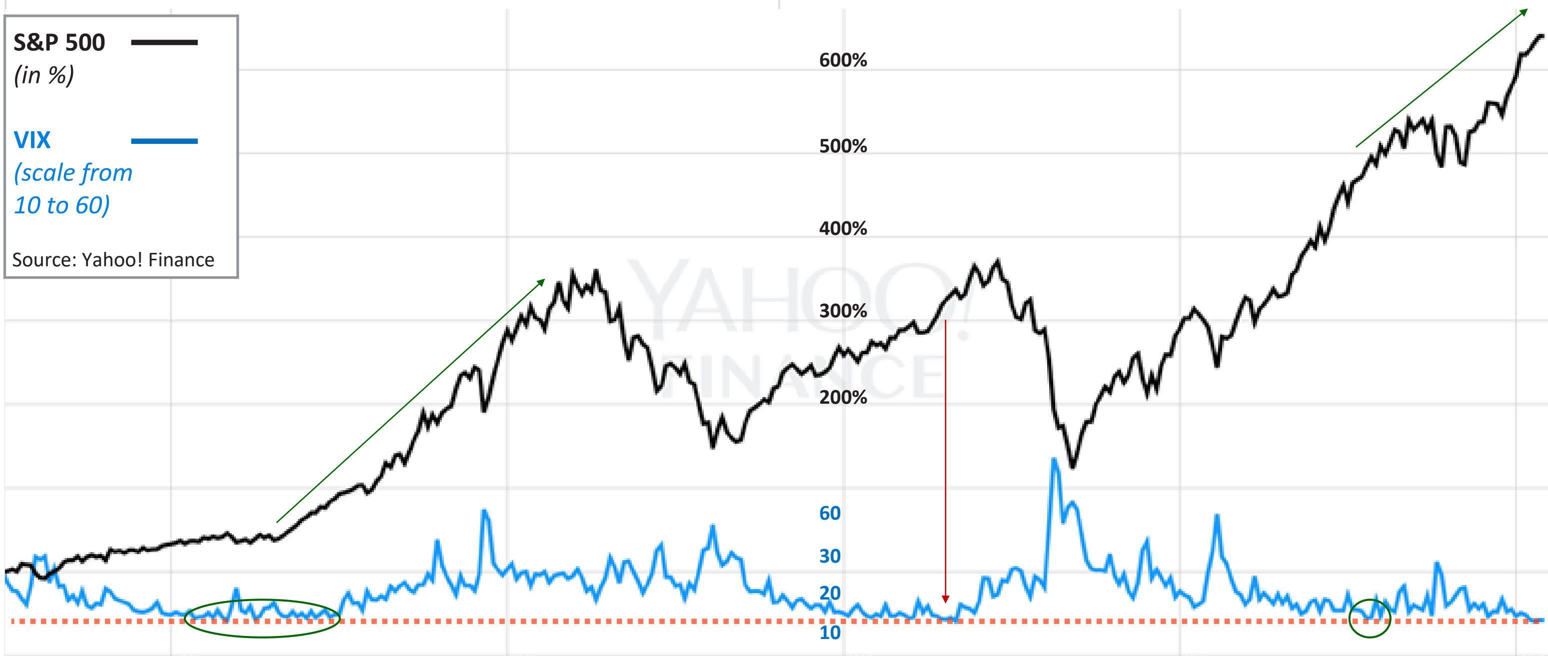
Below is a chart of the **VIX** paired with a chart of the **S&P 500**. The average VIX since 1993 is about 20. The orange dotted line represents a VIX at 10, which is where we are now. This means that volatility is low. Pundits with a bearish bent point to the VIX being around 10 in early 2007 (red arrow), and point out that had investors sold then, they would have avoided the downdraft during the "Great Recession", which is true, but only part of the story.

The stock market doesn't *always* go down when the VIX is low. The VIX was very low in the early to mid-nineties (green ellipse), and had you sold in say 1994, you would have left a 200% gain on the table (green arrow). Likewise in the summer of 2013, it was at 10 (another green almost-circle), and since then the S&P 500 is up significantly.

There are a few problems using the VIX as a market-timing tool:

1. The history is too short, twenty-four years of data is not enough to draw absolute conclusions.
2. The VIX is influenced by more than just fear and volatility. Interest rates, which play a big role too, are very low (in case you haven't noticed).
3. Extrapolating actionable decisions from only one or two data points is foolhardy, at best.

The bottom line is there is no one indicator that is flawless. Using a low VIX as a definitive reason to sell is not much better than using a divining rod to find water, or a Ouija board to tell you who you are going to marry.



Portfolio Updates

The plodding stock market just keeps plodding along. Earnings are the fuel for stock prices. Second quarter earnings will start being reported about when this lands in your mailbox, and expectations are for pretty good results. This is what Strategas Research (brainiac market research dudes) says about earnings. *"S&P 500 operating earnings have been roughly flat at $118 for three years. We are forecasting about $124 in 2017 and $135 in 2018, without accounting for any potential benefit from a corporate tax cut that could be considerable. We also believe that if the 2003/2004 period is any guide, investors may be underestimating the potential impact of a tax cut on economic growth and earnings."*

As this is being written, it is almost half-time for 2017. In the U.S. markets, growth stocks have performed better than value stocks, and large-cap have done better than small. Technology and healthcare stocks shot the lights out and had a great first half. Financials struggled some and energy stocks continued their slump.

For the most part, portfolios are performing well.

Dividend Growth & Income

Dividend Growth & Income has had a very competitive first five months. In May we added no new names, but in June bought a food service company and a natural gas distributor. These two stocks brought us up to 25 positions, which is fully invested. Currently we have a position in all but one S&P sector; no telecom stocks make the grade. The portfolio's dividend yield is a bit over 3% and of the 25 stocks currently in the portfolio, the average dividend growth rate is 15%, according to William O'Neil & Co.

IntelliBuilD Growth™

This is the growth equity portfolio based on *Investors Business Daily's* IBD 50 and New America stock lists. It has enjoyed a strong first five months, gaining 8.07% (through May), nearly twice as much as the S&P Mid-cap 400 Index, which gained 4.17%, and 800 basis points more than the S&P Small-cap 600 Index, which lost –0.2%. This is a fairly volatile and very high turnover portfolio. Earnings reports made May was one of our busier months with five portfolio changes. Portfolio stats are compelling: Average P/E is 22 and average trailing EPS growth is 39%. As a comparison the S&P Mid-cap 400 has a trailing P/E of 26 and earnings growth of only 12%. Pay less but get more. We are paying 15% less and getting 3X more.

Bulls of the Dow

By the time you read this we will have done our quarterly rebalancing. Last quarter, two stocks were replaced and if we did the screen today, a couple of other new ones would be added. For the second quarter, eight positions gained in price and two Bulls ran the wrong way. But overall through May, by gaining 8.73%, the big-old-bulls beat the smaller and younger stocks.

Covered Call

Covered call accounts stumbled a little in May, but still have a decent year going. The low VIX is making it tough to get much yield from the call options, but the rising market has allowed more positions to be called away, providing a decent overall return. By design the stocks are becoming more large-cap and nearly all of them pay a dividend. Two sources of income, dividends and call option premiums, is the name of the game.

Preferred Income

Through May, the preferred composite had six months in a row of positive returns, giving this strategy the best start to a year since 2014. The preferred space has been a great slice of the fixed income pie. Yields are still pretty strong and you may have noticed that the number of preferreds called away has increased. The portfolio's yield to call is still over 4%, which in a world of 2% ten-year treasuries looks pretty attractive.

Mid-Cap 10

May was a great month for this momentum based, growth stock, mid-cap strategy. Although 2017 has been choppy, through May, the strategy bounced back to positive territory.

Announcement repeat-repeat: As Herman's Hermits would say "Second verse, same as the first." In this case the third verse is the same too! Soon, new management agreements will arrive in your mailbox. *They will need to be signed and returned.* The update's catalyst was the Department of Labor's language requirement regarding fiduciaries. We are a fiduciary (always have been), but the language update is required by your friendly Washington D.C. regulator.

Knowledge Builder webinars are offered monthly. They are 45 minutes long and are on various subjects. You can also watch the recording of previous Knowledge Builders on our website. Invites come by email. Maybe you do know everything already, but if not, take a few minutes and learn something new.

Alternative

A single digit 2016 has ushered in a double digit 2017. This portfolio tends to be hot or cold, and right now it is the Steph Curry of offerings. Emerging markets, especially small-cap International funds, have driven performance. If it can hold the gains this will be Alternative's best year since Carly Rae Jepsen had her 15 minutes of pop music fame (2012).

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

If you are invested in this overlay you really should listen to the monthly portfolio calls. This offering requires more than one paragraph to give a thorough update, and we can get into the weeds much more on the calls. We are continuing to add index put spreads on the SPDR S&P 500 ETF (SPY) in all accounts with notional exposure wiggle room. The long-term goal is to have half of an account's risk on the index, and the other half of risk on individual stocks. We are continuing to exchange deep in-the-money puts on some old positions for puts on other larger-cap and higher quality stocks that have a much higher statistical probability of expiring for a gain. Remaining are some oil patch, retail, and medical stock put positions to continue working through. It is taking time, but much of the year-to-date gains we have taken are a result of this exercise.

Index Income Overlay

The simple overlay. We use put option credit-spreads on the SPDR S&P 500 ETF (SPY) staggered monthly, one spread expiring month, after month, after month. Since inception of this overlay, results have been a textbook example of the strategy. Every month the spreads have expired for gains, and clients have received a low-single-digit percentage *addition* in cash-flow and realized gains to their account, which was also invested in one of our strategies, or self-directed by the client.

A rising market has made for easy paddling, but one of these days there will be a correction, and the more turbulent water will force us to roll out the spreads. When that happens, the VIX will be higher and option premiums will also spike up, which is good since we are sellers of premium.

Thanks for reading through to the end. There's no prize, but we appreciate your attention!

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 May	2016	2015	2014	2013	2012	2011	2010
Fixed Income	**Preferred Income** - Preferred stocks	5.59	1.66	5.22	14.02	-4.57	9.11		
	High Yield Bond	3.04	11.63	-7.32	-1.93	8.78	15.38	3.99	15.93
Growth and Income	**Covered Call Income** - Quality stocks & covered calls	3.87	6.24	-1.20	6.39	22.04	10.14	-11.57	
	Dividend Growth & Income - Dividend paying stocks	4.74	11.22	-7.17	5.20	36.47	12.46	5.80	16.94
Growth	**IntelliBuilD Growth** - IBD growth stocks	8.07	-2.71	2.52	7.63	11.18*	*10/1/13 inception date		
	Bulls of the Dow - 10 strongest of the Dow 30	8.73	9.65	1.14	12.42	30.05	7.83		
	Mid-Cap 10 - Mid-cap growth momentum stocks	0.09	-7.90	-12.68					
Alternative	**Alternative** - Metals, foreign currencies, commodities	9.00	4.37	-8.25	-4.23	-0.70	9.02	-7.74	
Option Overlay	**Put Income** - Overlay of short equity puts	*3.38*	*0.48*	*-9.17*	0.56	5.92			
	Index Income - Overlay of unleveraged put credit spreads	1.44	3.67*	*5/31/16 inception date					
	Index								
	S&P 500	8.66	11.96	1.38	13.69	32.39	16.0	2.1	15.1
	CBOE S&P 500 Buy/Write	6.82	7.06	5.24	5.64	13.26	5.20	5.72	
	Barclays Aggregate Bond	2.38	2.65	0.55	5.97	-2.15	4.2	7.8	6.5
	DB Commodity Index Tracking Fund (NAV Total Rtn.)	-7.79	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, 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.