Sheaff Brock

Innovative Portfolios for Intelligent Investors™

MARKET UPDATE
July 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, and the S&P Mid-cap 400 is the next largest 400 stocks. These are not managed portfolios and do 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. 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. Check out our blog. Good stuff.

"It's tough to make predictions, especially about the future."

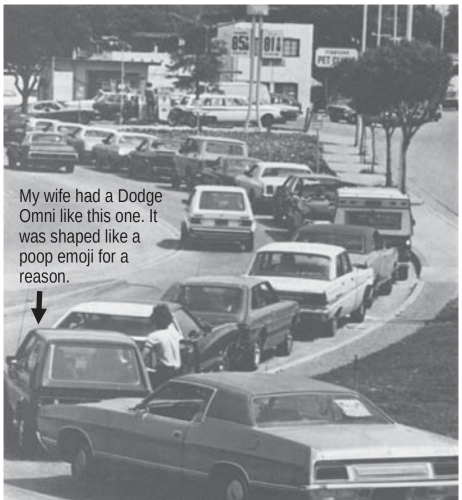
Yogi Berra

Absolute Truth

In the 1970s the world was running out of oil. Everybody knew it, and the fact was an accepted absolute truth. OPEC controlled the global supply and there were periodic shortages of gasoline.

Many readers remember waiting in line to buy gas...no air conditioner, radio playing Gladys Knight and the Pips' *Midnight Train to Georgia*, and when it was finally your turn there was usually a 10-gallon limit.

Periodically gas stations would put out a sign like this.



Linda Whitcomb: Pinterest

In 1973 or 1979, the two big years of gasoline shortages, there was not one person on planet Earth that would have predicted this headline would appear about four decades later:

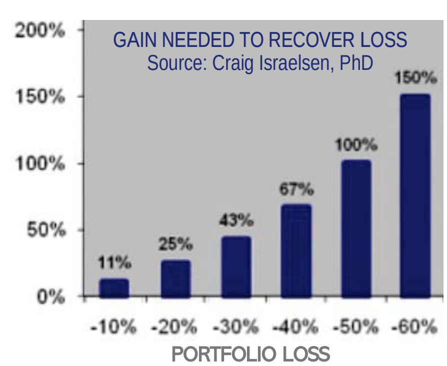
> **U.S. Is Set to Become World's Top Oil Producer**
>
> -Bloomberg 7/10/18
>
> The Energy Information Administration (EIA) sees U.S. crude output increasing in 2019 and forecasts that the United States will average nearly 12 million barrels of crude oil production per day," said Linda Capuano, Administrator of the EIA. "If the forecast holds, that would make the U.S. the world's leading producer of crude."

Of course there are truths that are absolute; gravity and passage of time for example. But when it comes to the economy, it seems like much of what we know today to be true, isn't absolute, nor will some of it even turn out to be true.

Flickr: Infowire

Because it is impossible to predict the future or know what "truths" will hold long-term, the best way to invest (in our opinion) is to follow four simple principles:

1. Put as much into equities as you can stomach. Over long periods there has been no other liquid investment which has come close to returns equities have delivered; not bonds, not gold, not cash, not cryptocurrencies. Some real estate has done well, although liquidity is questionable. http://newworldeconomics.com/total-return-of-stocks-bonds-gold-1871-2015/
2. Seek high-quality. Over long time periods, high quality equities outperform lower quality. Also, it is mentally easier to hold on to high quality stocks during a downdraft. Holding on is the long-term key to success, so it makes sense to give yourself every advantage. Forbes, 6/9/18, Simon Moore, *How Owning Quality Stocks Can Help Performance*
3. Focus on downside risk before upside potential. If you lose money on an investment, you need to make a higher percentage return to get back to even. Example in the chart: lose 40%, need 67% return to get back even. Losses hurt more than gains help. *All of our equity research starts with downside risk.*



4. Let time work for you. Intuitively you know that holding an investment longer increases the odds of success. Below are the stats for the S&P 500 for the last 90+ years. You can see that the longer you hold on, the more likely it is you'll make a profit.

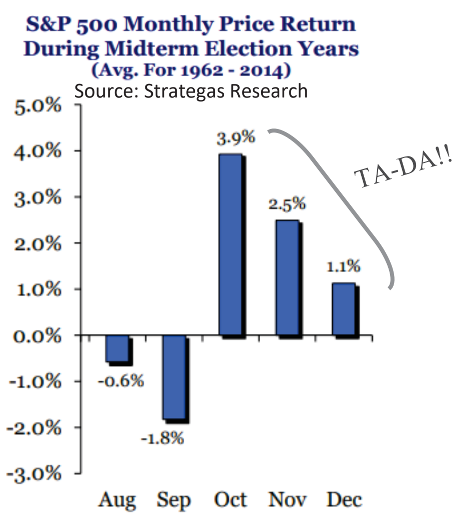
Length of time S&P 500 is held	A gain was earned:
1-Year	74% of the time
3-Years	83% of the time
5-Years	87% of the time
10-Years	93% of the time
20-Years	100% of the time

Source: Standard & Poor's, total return of S&P 500 over rolling monthly periods 1926-2017.

None of this is rocket science, in fact it's quite simple. It's just that sometimes the stock market acts crazy, like an out-of-control rocket, making it darn hard to hold on.

Mid-term Elections

Mid-term elections are about 3-months away. Nasty vitriol is already coming through every form of media your eyes and ears are exposed to. Remember as summer comes to a close, during previous mid-term years the stock market acted ornery in August and September, then rallied in the 4th quarter.



Markets

Second-quarter earnings reports are just starting to come in. According to the smart people we pay attention to earnings should be very good, and so-far-so-good. The first half of the year came to a close with most indices little changed from the start of the year. The S&P 500 was up a couple percent while the Dow Jones Industrial Average was down a couple percent. Mid-cap stocks gained mid-single-digits and small-cap gained high single digits. Growth stocks mostly went up, value stocks mostly down. Bonds generally lost money. Besides the excitement of the January-February 10% downdraft, the first half of 2018 was kind of a non-event.

Portfolio Updates

Half-time reports.

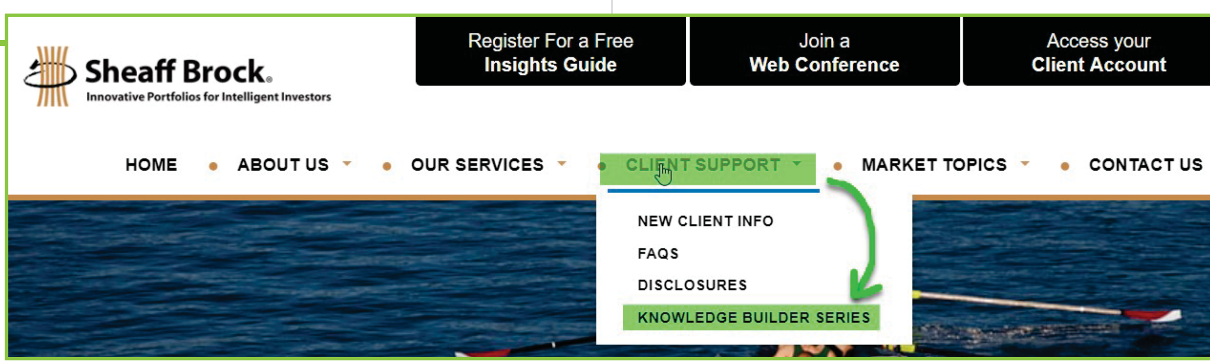
Dividend Growth & Income

The portfolio is fully invested in 25 stocks and diversified in 9 of the S&P 500's 11 sectors (no telecom or utilities). In May, we sold our only telecom stock and replaced it with a regional bank. In September, S&P is rejiggering their sectors which will move several technology and internet type stocks to the Telecom and Communications sector, making the sector more "growthy", and again we will have telecom weighting. Year-to-date, about half of the portfolio holdings are up in price and half are down. Of our current holdings, the biggest gainer YTD is ONEOK, Inc. (OKE, pipelines) which is +31% in price. The worst YTD is Walmart (WMT, pretty sure we don't have to tell you what business Walmart is in) which is –11% in price. The portfolio is all about dividends and the growth of those dividends. The current holdings have an average 5-year dividend growth rate of 12%, about 5X higher than inflation.

IntelliBuilD Growth™

Investors Business Daily's IBD 50 and New America stock lists (about 85 stocks in total) are sorted by their "downside risk" characteristics and the portfolio owns the least risky. Currently, we own 32 stocks of which a couple were bought last month and a few have been owned more than two years. About 2/3 of the positions have been owned over 1 year. The average holding of all 32 stocks is 443 days and the average price gain of the current stock holding is 42.8%.

WEBINARS! Go to our website, sheaffbrock.com, and click on **CLIENT SUPPORT**, then **KNOWLEDGE BUILDER SERIES**. Various subjects are covered. The economic and market outlook webinars are most popular so far. Watching them through the website is the best because you can view...pause...bathroom break...view...pause...watch a little Comedians in Cars...come back to view...



Bulls of the Dow

Four of the ten stocks changed in July; our most active re-balancing ever. Team substitutions coming in the game: Walgreen Boots, Caterpillar, Intel, and UnitedHealth. Simplicity + analysis = results ≠ coincidence.

Twenty Under Thirty-five

This is our newest growth portfolio and has accelerated out of the gates like a cheetah. We sort 2400 stocks by their low risk score and buy the 20 stocks with the lowest risk characteristics that are below $35 in price. We started 35/20 last year, and it is an interesting blend of small, midsized, and large companies. We sell when the risk score tips to the higher risk side. So far, quite good. The concept is similar to Bulls of the Dow, only using el-cheapo-price-stocks.

Covered Call

It has been a challenging year for covered calls with lowish volatility and lower premiums. Mid-term election volatility and a year-end rally would help. We're competitive with others, but want to win the race.

Real Estate Income and Growth

REITs are cheap and pay a high dividend yield. According to Bloomberg, REITs have not been this cheap since 2009. It has been a challenge in 2018 to make money in this space, but yields are high and valuations are low, making them a "value" buy for the patient investor.

Preferred Income

Second verse, same as the first. Preferred stocks are cheap and pay a high dividend yield. Several articles in *Barron's* have pointed this out. Yields are high and valuations are low, making them a "value" buy for the patient investor.

The following option overlay products are additive in return to other investments held in an account, and are not appropriate for all investors. Realized gains and losses can be very inconsistent. These are long-term strategies and may not produce capital gains over the short-term.

Put Income Overlay

Near the end of 2016 we brought the management of Put Income in-house. 2017 and thus far in 2018 have been very strong. This year, we could stop after the first six-months and 2018 would be a good year...but of course we aren't going to stop. Put Income is a simple concept, but hard to execute. It is still our biggest strategy and clients who stayed the course through the oil-patch trough have been rewarded.

Index Income Overlay

This overlay just had its second birthday! Even though volatility has been low for most of the 2 years, results have been in line with expectations by adding a single digit additional return for the client.

Gladys Knight and the Pips' *Midnight Train to Georgia, Neither One of Us, If I Were Your Woman* are all great songs. The question for the ages is what the heck is a Pip?

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 June 2018	2017	2016	2015	2014	2013	2012	2011
Fixed Income	Preferred Income - Preferred stocks	-1.10	7.44	1.61	5.23	14.01	-4.59	9.19	
Growth and Income	Covered Call Income - Quality stocks & covered calls	-0.97	12.96	6.16	-1.11	6.33	22.28	10.23	-11.09
	Dividend Growth & Income - Dividend paying stocks	0.18	21.99	11.07	-7.27	5.04	36.23	12.17	5.62
	Real Estate Income & Growth - REITs/real estate stocks	2.53	2.99*	*5/1/17 inception					
Growth	IntelliBuild™ Growth - IBD growth stocks	2.56	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.	3.63	33.76	9.39	0.97	12.10	23.99*	*2/1/13 Inception	
	Twenty Under $35 - 20 best scoring stocks under $35	7.83	5.72*	*9/30/17 Inception					
Option Overlay	Put Income - Overlay of short equity puts	*3.95*	*5.66*	*0.21*	*-8.86*	0.55	4.04		
	Index Income - Overlay of unleveraged put credit spreads	1.82	2.68	3.76*	*6/1/16 inception date				
	Index								
	S&P 500	2.65	21.83	11.96	1.38	13.69	32.39	16.0	2.1
	S&P Mid-Cap 400	3.49	14.45	18.73	-3.71	8.19	31.57	16.07	-3.10
	CBOE S&P 500 Buy/Write	1.52	13.00	7.06	5.24	5.64	13.26	5.20	5.72
	Barclays Aggregate Bond	-1.62	3.54	2.65	0.55	5.97	-2.15	4.2	7.8

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.