Sheaff Brock

Innovative Portfolios for Intelligent Investors™

MARKET UPDATE

August 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, 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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Google **sheaffbrock/in-the-news** for our latest columns posted on abc News and CNBC

“Everybody has a plan ‘til they get punched in the mouth.”

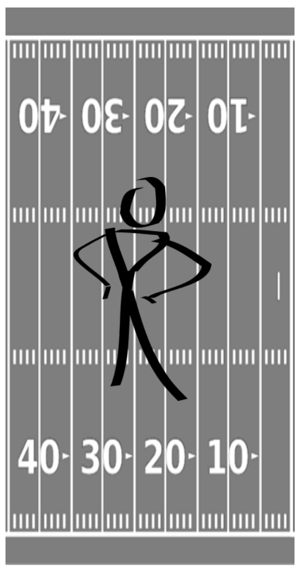
Mike Tyson

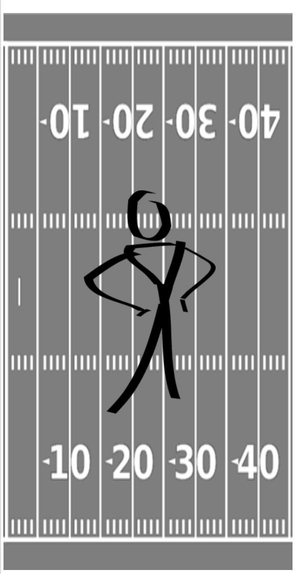
What is Sheaff Brock?

We take it for granted that people know what type of firm we are and what services we provide. Recently, some clients asked questions that clearly show even longer-term clients don’t fully grasp what all we do.

As Ricky Ricardo used to say to Lucy, “You got some ‘splainin’ to do.” First we will ‘splain what type of firm Sheaff Brock is.

The wealth management field can pretty much be segregated by how an advisor is paid. Standing on one-half of the field are advisors paid on products they sell to a client (the product might even be a “fee-based” product). These advisors work for broker/dealers or insurance companies. Most representatives of well known firms, Morgan Stanley, Merrill Lynch, UBS and Ed Jones fall into this camp, as well as most all insurance folk. Generally *they are paid by a firm* to sell stuff to the firm’s clients. Back in the old days we called them stockbrokers or insurance agents, but nowadays they call themselves advisors.





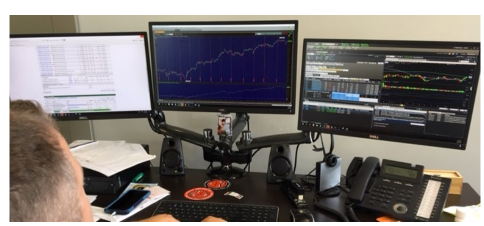
On the other side stand “fee-only” advisors. Registered Investment Advisors (RIAs) are mostly independent, and are *paid a fee by the client* for a service. The fee may be a specific amount for a service (financial plan for example), or it might be a percentage of assets under management for various services. Larger RIAs (over $100 million in assets under management, or “AUM”) are regulated by the SEC and must adhere to the higher “fiduciary standard” when advising a client. Some experts think fee-only compensation is better because it is more transparent and keeps the advisor’s goals aligned with the client’s.

Some advisors have one foot in each field and are called “dually-registered.” A difficult balancing act.

Sheaff Brock is a fee-only Registered Investment Advisor (RIA) that started in late-2001 with 4 employees and about $65 million of assets under management. According to *FA Magazine’s* RIA Survey in January of 2017, there are about 15,000 RIA’s in the U.S. and most are small financial planning shops. Of those thousands of RIAs only 214 firms, less than 2%, have more than $1 billion of assets under management. As of our last ADV filing, Sheaff Brock is one of the 214 RIAs with a bit over $1 billion in AUM and 31 employees in 5 states.

The RIA World

Generally speaking, in the RIA world there are also two groups. There are financial planners and there are money managers. The vast, vast, vast majority of RIAs are planners first. They might create a computer-modeled retirement plan for a client and then often use mutual funds, ETFs, annuities or other packaged products for the investment of the plan. They may meet with a client once or twice a year, redo the computer model and “rebalance” the investment allocation. They are planning specialists first and investment people second; most often using funds, ETFs or 3rd party money managers to run the money. Clients pay the planner a fee and then also pay, usually hidden in the fund cost, the asset manager’s fees (and yes, even index funds have fees).



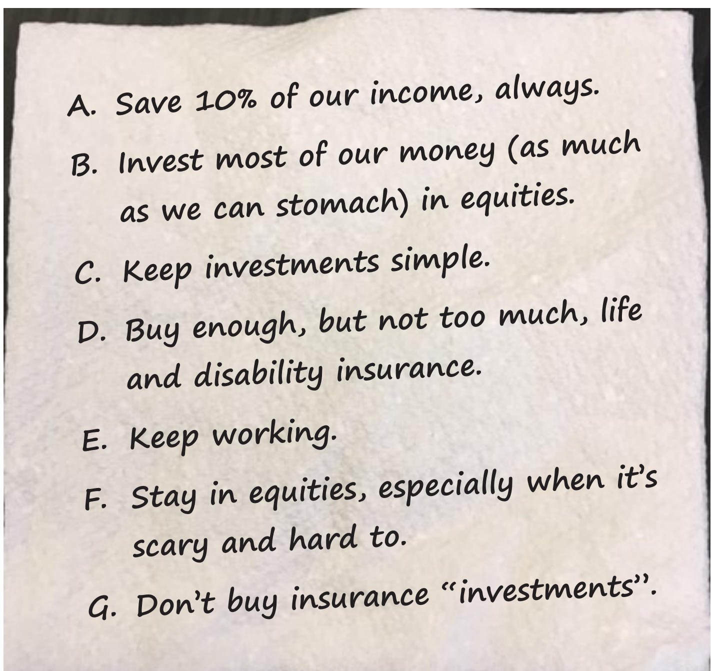
The other group of RIAs are investment specialists first, or money managers. Some are giant companies that only manage money (i.e.Blackrock, Franklin-Templeton) and try to entice planners to use their products. Some are hedge funds or small boutique firms that specialize in esoteric investments, and some are wealth managers that get paid to manage money first and help with long-term financial planning second.

What does Sheaff Brock Do?
Sheaff Brock is a wealth management firm that is a money manager first and a planner second. This has evolved over time by design for three reasons:

1. Reasonable investing drives the success of a plan. You can have the greatest plan in the world but, if your execution is poor or you have the wrong allocation, the plan is worthless.
2. Like Mike Tyson says in the quote to the left, life can punch you, the economy can punch you, job situations can punch you, health issues, divorce, etc. Much of life causes plans to change, often dramatically.
3. It's often cheaper. Managing money internally can save a client money because one layer of fees is eliminated.

The investment industry has an unfortunate history of creating products and services that are overpriced and unnecessary for most investors. Sometimes these are pitched as part of a comprehensive plan and then, after signing a bunch of paperwork the client finds out (maybe years later) that the plan was fine until it got punched in the face.

Many, many clients could live with a plan written on the back of a napkin:



Sheaff Brock is a money manager first and a planner second. That said, we have some cool planning tools on our website in the **PLANNING TOOLS** tab. We have a ***Retirement Savings Assessment*** tool, a ***Retirement Spending*** tool, and a ***College Savings Assessment*** tool. Soon we will have a pretty neat ***Healthcare Cost*** estimator that utilizes science-based data on lifestyle, family history, and health analytics to help estimate your potential long-term healthcare costs. Even with these tools you might get a punch in the face, but you might remove some of the surprise. Your portfolio consultant can help you with the tools.

WOO-HOO here they come!! **New management agreements are arriving in mailboxes. *Sign and return.*** The Department of Labor's fiduciary requirement is to blame.

Knowledge Builder webinars are pretty dang good and touch on various subjects. You can watch the recording of previous Knowledge Builders on our website. Invites come by email. Take a few minutes and learn something new.

Portfolio Updates

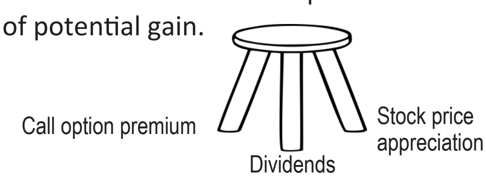
So far, stocks and bonds have ignored the political bunkum and balderdash. For the most part, our portfolios performed within expectations through July. September is often squirrely for the markets, but the 4th quarter is historically the best quarter.

Dividend Growth & Income
Dividend Growth & Income has enjoyed a solid 7 months, beating the benchmark Dow Jones Select Dividend Index's gain by 250bps. The portfolio has 24 positions with about 4% in cash. Currently we have a position in all S&P sectors except energy. This month's purchase of a telecom stock refilled that sector, and we have an overweighting in healthcare with this month's addition of another drug/biotech company. The portfolio's dividend yield is 3.2% , average P/E is 17, earnings growth this year (according to First Call) should avearage 21%, and the average dividend growth rate is 13%.

IntelliBuilD Growth™
A growth equity portfolio based on *Investors Business Daily's* stock lists. Right now the portfolio is split between mid-cap and large-cap companies. It had a good first 7 months gaining over 11% net-of-fees. The S&P 500 gained a smidgen more, but the S&P Mid-Cap 400 only gained 6.7%, so we are quite happy with 11%+. This is a high-turnover growth portfolio of 33 stocks. As of 8/22/17, the current positions have an average holding period of 253 days and an average unrealized gain per position of 20.5%. The portfolio's beta is 1.4, average earnings growth this year should be over 40%.

Bulls of the Dow
The big old Bulls continued last month's trend by being our best equity portfolio; gaining through 7/31 nearly 14% net-of-fees, and beating both the S&P 500 and the Dow Jones Industrial Index. A simple portfolio untouched by human hands.

Covered Call
Covered call accounts had a decent July and delivered a competitive 7 month total return. A covered call position is a three-legged stool of potential gain.



Low volatility has depressed option premiums, however according to thinkpipes, the theta of the composite (yield from call premium decay) is $2.2 million per year. The average annualized dividend yield is 1.9%, or about $800,000. That means two legs of the stool are generating about $3 million annually which is 7.3%. That alone is a decent number before the appreciation leg is even considered.

Preferred Income

Through July, the Preferred composite was +7.8% net-of-fees. Nice, and much better than most other areas of the fixed income world. The portfolio's yield to call is still over 4% and the dividend yield is over 5%.

Alternative

Metals, emerging markets, and other non-dollar correlated assets have delivered a very strong gain through July.

Mid-Cap 10

This aggressive portfolio has had large positive and large negative months, with 5 of the 7 months returning over 100bps up or down. Year-to-date it has struggled to find momentum.

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

Besides continuing to add index put credit spreads on the SPDR S&P 500 ETF (SPY) in all accounts with notional exposure allowance, much of the activity has centered around repairing some broken positions. The repair entails either totally replacing a deep in-the-money put (by exchanging it for puts on other larger-cap and higher quality stocks) or ratcheting down exposure to the problem name while adding risk to a couple of new stocks (a partial replacement). In either case the new positions have a much higher statistical probability of expiring for a gain. On the monthly calls we discuss this in detail. Through July, realized gains have been encouraging, the book's quality is higher, and probability of expiration is better.

Index Income Overlay

The simple overlay which just keeps on ticking. 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 consistent with spreads expiring for gains. During July, we were lucky enough to place the trade during the period when the VIX popped up over 14, which allowed us to capture a higher premium and yield than we did in the previous few months. As of today, the September short-strike is 4.7% out-of-the-money, October is 3% and November is in between the two. The 4th quarter is usually the best quarter for equities, so perhaps the expiration streak will continue a few months longer. Since inception of the strategy not one punch has landed. Who knew Mike Tyson had such wisdom?

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 July	2016	2015	2014	2013	2012	2011	2010
Fixed Income	**Preferred Income** - Preferred stocks	7.83	1.66	5.22	14.02	-4.57	9.11		
	High Yield Bond	3.73	11.63	-7.32	-1.93	8.78	15.38	3.99	15.93
Growth and Income	**Covered Call Income** - Quality stocks & covered calls	6.10	6.24	-1.20	6.39	22.04	10.14	-11.57	
	Dividend Growth & Income - Dividend paying stocks	9.16	11.22	-7.17	5.20	36.47	12.46	5.80	16.94
Growth	**IntelliBuilD Growth** - IBD growth stocks	11.26	-2.71	2.52	7.63	11.18*	*10/1/13 inception date		
	Bulls of the Dow - 10 strongest of the Dow 30	13.92	9.65	1.14	12.42	30.05	7.83		
	Mid-Cap 10 - Mid-cap growth momentum stocks	-1.53	-7.90	-12.68					
Alternative	**Alternative** - Metals, foreign currencies, commodities	12.84	4.37	-8.25	-4.23	-0.70	9.02	-7.74	
Option Overlay	**Put Income** - Overlay of short equity puts	*3.75*	*0.26*	*-9.17*	0.56	5.92			
	Index Income - Overlay of unleveraged put credit spreads	1.76	3.67*	*5/31/16 inception date					
	Index								
	S&P 500	11.59	11.96	1.38	13.69	32.39	16.0	2.1	15.1
	CBOE S&P 500 Buy/Write	8.62	7.06	5.24	5.64	13.26	5.20	5.72	
	Barclays Aggregate Bond	2.71	2.65	0.55	5.97	-2.15	4.2	7.8	6.5
	DB Commodity Index Tracking Fund (NAV Total Rtn.)	-5.17	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. Composite performance consist of all client accounts that are at least 80% invested in the strategy. 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.