Sheaff Brock

Innovative Portfolios for Intelligent Investors™

MARKET UPDATE

October 2018

Sheaff Brock

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Monthly Update

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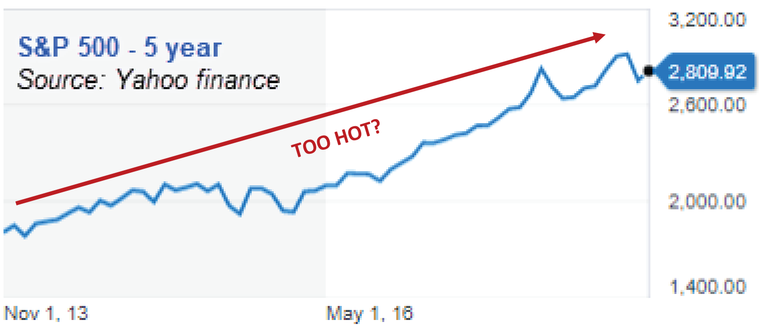
SheaffBriefs

Go to sheaffbriefs.com. Check out our blog. Good stuff.

"Don't wait. The time will never be just right."
Napoleon Hill

The *just right* place to invest

Goldilocks would have been a poor investor because rarely is anything "just right". Volatility has cranked back up and some people (not necessarily us) think the stock market is too hot, making the potential for higher returns limited.



Most people think high-grade bonds will continue to be a tough place to make money since interest rates will likely continue moving up, making bond prices drop even lower.

The old investing adage is "buy low, sell high". We think there are two areas today where you could do one-better by buying low and *keeping...for a long time.* The prices of two asset classes seem just about right to us, especially if you want income while you wait for prices to recover. Both of these asset classes have been around for years and years, both of them currently pay dividend income between 4% and 6%, and both could provide some appreciation in capital (although one more than the other). Today, there are very few liquid, high-quality investments that offer decent income *and* upside potential.

Just right #1

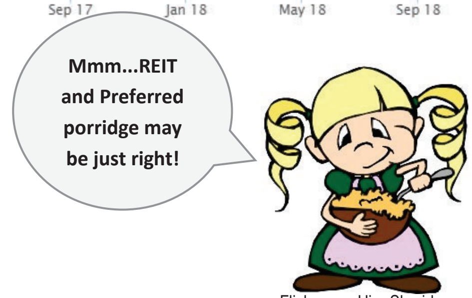
In last weekend's *Barron's* they wrote, "If you are searching for yield, you should now be looking at preferred stock." A corporate preferred stock is a mish-mash between a bond and a stock that pays like a bond and trades like a stock. Dividends can be fixed, or float higher if rates go up. Retail preferreds are issued at $25/share and usually can be called by the issuer at $25 after 5 or more years. There isn't much price appreciation potential, unless you buy them at the right time. You can see in the chart below that in the last 8 years there have been several times when prices were low making preferreds a good buy. Prices are low again, maybe *just right*.

Most preferreds are issued by financial service companies, so prices are influenced by that sector's common stock prices. This year's downdraft in financials has presented a buying opportunity in preferreds, in our opinion. As of September 30th, the yield of the S&P U.S. Preferred Stock Index was 5.63%, and today it is pushing 6%. Our preferred stock portfolio managed by JR Humphreys contains $25 par-value retail preferreds, some institutional $1000 par-value preferreds, is well diversified, has several fixed-to-floating preferreds which can benefit from rising interest rates, and can provide a nice dividend income. In today's world, where else can you earn about 6% with reasonable stability of principal, and maybe get a little upside gain? We believe today's low preferred stock prices allow an investor to buy low and keep...for a long time.

Just right #2

Real Estate Investment Trusts, aka REITs. Today's modern REIT industry really started in the early 1970s, and those offered today are not the same as your dad's REITs. Back in the day, REITs were pretty much just office buildings, apartments, or warehouses. Today's REITs offer those sectors plus targeted industry sectors like self-storage, triple-net, senior living, cheap hotels, high-end hotels, server farms, cell towers, farm land, timber, malls, strip malls, single-family homes, etc. REITs don't pay corporate income tax but, in exchange, must pay out 90% of their earnings in dividends. That means for the most part, REIT dividend yields can be high. As the old real estate saying goes, "They don't make it anymore," so the underlying property the REIT owns can appreciate over time, taking the share price with it. The chart below shows the North American REIT Index over the last 4 years. Despite rising interest rates from Fed tightening, the index has generally been in an uptrend. Now and then the index has come down in price and touched the uptrend line, the greenishy/blueishy zone, which several times has been a good buying opportunity. We are in the zone again.

As of 9/30/18, our Real Estate Income & Growth portfolio owned 20 REITs which cover 12 different sectors. Our portfolio is very different in construction from the index, or any index-based fund, which are all heavily weighted in shopping malls. Our weightings as of 10/18, heaviest to lightest, are: healthcare, hotel, industrial, apartments, triple-net, strip malls, self-storage, data storage, mall, timber. We like the blend, the upside potential, plus the dividend yield is over 4.5% as of 10/18. *Just right*.



Flickr.com, Hiro Sheridan

Tiffany's Tips! Tiffany VanHook recently joined Sheaff Brock to serve as a financial planner and estate specialist. Tiffany is a graduate of Baylor Law School and has many years of experience providing ultra-high-net-worth families financial and estate planning services. Now (lucky you) her expertise and planning services are available for Sheaff Brock clients. Every month in the newsletter we will share a planning tip or two from Tiffany.

- If you're over age 70.5, make sure you take your IRA required minimum distribution (RMD) or face a 50% penalty. If you don't need the income and are charitably inclined, consider a Qualified Charitable Distribution of up to $100,000 of your RMD.
- Consider making a 529 contribution (if not for your kids, for your grandkids) by 12/31 to take advantage of any state income tax deductions/credits or qualify as an annual exclusion gift for federal gift tax (check your state gifting and financial aid laws first).

Markets

Volatility is back as interest rates are creeping up and creeping some people out. So far, October has been a bit turbulent for stocks and bonds, but remember the end of a mid-term year has traditionally been quite good for the stock market. Also, according to Strategas Research, the trailing 12-months after a mid-term election has been positive for the stock market every time since 1950. That's not creepy. Keep the faith.

Portfolio Updates

Our portfolios have enjoyed decent results in 2018. Overviews:

Dividend Growth & Income

The portfolio is fully invested in 25 stocks and diversified in 9 of the S&P 500's 11 sectors (no materials or utilities). We recently replaced our lone materials holding with Cisco Systems (CSCO) which had pulled back a bit. Cisco should benefit from the internet-of-things movement and 5G. Good earnings, a good dividend yield and good dividend growth rate can make for a triple-triple. YTD through August our composite has returned 6.1% net-of-fees vs. our benchmark, the Dow Jones Select Dividend Index, of 4.1%.

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 are fully invested in 33 stocks, two-thirds large-cap companies and a third mid-to-small-cap stocks. Some holdings are household names like Apple, Visa, and Texas Instruments; and some not-so-much like Lamb Weston, Zebra Tech, and Warrior Met Coal. As of 10/22, the average holding of all current positions is 420 days and the average price gain of the current stock holding is 29% vs. 13% for the S&P 500 over the last 420 days.

Bulls of the Dow

Still our best performer. Two replacements stocks, Nike and Cisco, joined the herd in October which was our last re-balance for the year.

Twenty Under Thirty-Five

Our newest portfolio made up of 20 stocks below $35 in price (when purchased) with the lowest downside risk characteristics. It’s a year old, a little prone to mood swings, but has great potential; not unlike our 1-year old grandchildren.

Covered Call

The portfolio had a very good September and is quite competitive vs. the competition year-to-date. Volatility has spiked up which means option premiums are higher, which means sellers of calls may get paid more, which makes Wally happy.

Real Estate Income and Growth

Reread the first page. REITs are cheap...in the zone!

Preferred Income

Reread the first page. In last weekend’s *Barron’s* there were two interesting points made about preferreds:

1. “If you are searching for yield, you should now be looking at preferred stock.”
2. When investing in preferreds “active management may make more sense than passive strategies.”

The REIT/preferred porridge may be just right!

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

Put Income is running hard to beat last year’s record results. October’s stock market swoon may inflict a bit of pain since early exercises tend to drag gains down, but the volatility spike should help with results posted a few months from now.

Index Income Overlay

In the last year, month after month, Index Income has been the model of consistency. That may get tested in November and December because our short strike index positions are slightly in or out of the money. Rolling out to puts may be in our future. Volatility has greatly improved index option premiums so in the long run, a roll likely would be a good thing.

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 Sept. 2018	2017	2016	2015	2014	2013	2012	2011
Fixed Income	**Preferred Income** - Preferred stocks	-0.98	7.44	1.61	5.23	14.01	-4.59	9.19	
Growth and Income	**Covered Call Income** - Quality stocks & covered calls	4.85	12.96	6.16	-1.11	6.33	22.28	10.23	-11.09
	Dividend Growth & Income - Dividend paying stocks	6.14	21.99	11.07	-7.27	5.04	36.23	12.17	5.62
	Real Estate Income & Growth - REITs/real estate stocks	1.26	2.99*	*5/1/17 inception					
Growth	**IntelliBuildTM Growth** - IBD growth stocks	7.74	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.	13.40	33.76	9.39	0.97	12.10	23.99*	*2/1/13 Inception	
	Twenty Under $35 - 20 best scoring stocks under $35	2.01	5.72*	*10/1/17 Inception					
Option Overlay	**Put Income** - Overlay of credit spreads/short equity puts	*4.97*	*5.66*	*0.21*	*-8.86*	0.55	4.04		
	Index Income - Overlay of unleveraged put credit spreads	2.53	2.68	3.76*	*6/1/16 inception date				
	Index								
	S&P 500	10.57	21.83	11.96	1.38	13.69	32.39	16.0	2.1
	S&P Mid-Cap 400	7.47	14.45	18.73	-3.71	8.19	31.57	16.07	-3.10
	CBOE S&P 500 Buy/Write	6.51	13.00	7.06	5.24	5.64	13.26	5.20	5.72
	Barclays Aggregate Bond	-1.60	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 opposite page.