



# Sheaff Brock

Innovative Portfolios for Intelligent Investors™

## MARKET UPDATE

October 2020

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. The Dow Jones Industrial Average is a price-weighted index of 30 giant American companies. These are not managed portfolios and do not reflect the deduction of fees or expenses; returns include dividends. The Bloomberg 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 Bloomberg 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.

The 2020 CNBC FA 100 list is an independent ranking. CNBC enlisted data provider AccuPoint Solutions to assist with the ranking of registered investment advisors for the 2020 CNBC FA 100 list. The analysis started with 37,369 registered investment advisors. AccuPoint screened the list down to approximately 750 registered investment advisors that were required to complete a survey to be in consideration for the 2020 CNBC FA 100 list. Neither the registered investment advisor nor their employees paid a fee for the listing. Data points used by AccuPoint for the ranking included disclosures, number of years in the business, number of employees, number of investment advisors registered with the firm, ratio of investment advisors to total number of employees, total assets under management, percentage of discretionary assets under management, total accounts under management, number of states where the RIA is registered and country of domicile. Third-party rankings and recognition from rating services or publications, such as the 2020 CNBC FA 100, is no guarantee of future investment success and working with a highly rated advisor does not ensure that a client or prospective client will experience a higher level of performance or results. The ranking may not reflect a client or prospective client's experience with the registered investment advisor. Past performance does not guarantee or indicate future results.

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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. 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

Publication: 10/20/2020



Go to [sheaffbriefs.com](http://sheaffbriefs.com). Check out our blog.

*Most people live as if the purpose of life is to arrive safely at death.*

Mark Batterson

We received some nice news this month. Sheaff Brock was named by CNBC as one of the top 100 investment advisors in the U.S. They call the list the:



Financial Advisor 100

Below is the headline for the story:

## FA 100: CNBC ranks the top-rated financial advisory firms of 2020

PUBLISHED TUE, OCT 6 2020 9:01 AM EDT | UPDATED TUE, OCT 6 2020 9:15 AM EDT



### KEY POINTS

- A financial advisor can play a major role in helping clients grow and protect their wealth.
- The key is to find an advisor you can trust.
- The CNBC FA 100 list celebrates those advisory firms that top the list when it comes to comprehensive planning and financial services that help clients navigate their financial lives.

We have 25 members on the Sheaff Brock team who work really hard, and it's nice for us to get recognized for doing what we would do anyway. To come up with the top 100, the analysis started with 37,369 registered investment advisors (who knew there are that many?). That list was screened down to approximately 750 firms that were asked to submit information, and the top 100 came from those. We were asked to be listed and did not pay to be put on it. Surprisingly, some of these accolade lists require payment to get on them, but we are WAY too cheap to pay for a pat on the back. Please read the disclaimer next to your address on the flip-side if you want to learn more about how the FA 100 list was created.

At some level we feel a little like Steve Martin in *The Jerk*. But, it's still nice to be noticed, so we'll take it.



The new phone book's here! The new phone book's here! My name is in print! Things are going to start happening now!

This newsletter will arrive in your mailbox within a few days of the election. Many of you are **VERY** concerned about the election results, how long it might take to determine a winner, what the streets of America might look like in the aftermath, and what might happen to the stock market as a result.

On the next page is an election item we put in July's newsletter, and we thought this would be a good time to repeat it. We numbered 4 likely scenarios, and then below the chart listed the historical returns for each scenario.



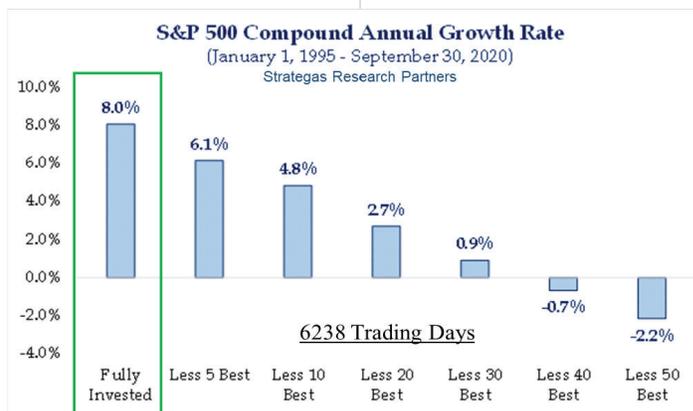


**Tiffany's Financial Planning Tips!** Tiffany VanHook serves our clients as a financial planner and estate specialist. Tiffany has many years of experience providing ultra-high-net-worth families financial and estate planning services. Her planning services are available for Sheaff Brock clients. Every month we share a planning tip or two:

- ✓ **PLEASE REMEMBER THERE IS NO REQUIRED MINIMUM DISTRIBUTION (RMD) FROM IRA ACCOUNTS IN 2020. IF YOU HAVE A QUESTION ABOUT THIS, PLEASE CALL.**
- ✓ Repeat: Review 2021 cash needs and appreciated assets. Again, if the Democrats gain control and raise the capital gains tax, you may want to raise necessary cash in taxable accounts in 2020.
- ✓ Also a repeat: If you're considering a Roth conversion, 2020 may be your year under Biden's proposed tax increases.

## Portfolio Updates

If you're thinking of "going to cash" before the election, think again. Over the last 25 years, encompassing over 6200 trading days, being fully invested in the stock market yielded much better results (green box) than if you missed just a few trading days. Market timing is a fool's game. During the 4 decades of being in this business, we've never met one person who could successfully do it. Investors fear the results of elections, um, well, pretty much every four years.



A super-friendly Fed, better-than-expected corporate earnings from the early announcers, good COVID treatment news, and a landing strip perhaps in sight for a potential vaccine has the stock market climbing near previous highs. Some folks are nervous, but stocks tell us the recovery corner may have been rounded. *The easy part of the economic recovery is probably behind us,*

*but the market is telling us that more recovery is likely ahead.*

## Dividend Growth & Income

Dividend payers, dividend raisers, and growing companies are

the attributes we look for in the stocks that make up this portfolio. Most reasonable yielding dividend payers have had a rough go during the pandemic, mainly because the majority of the companies are sort of "old-school" industrials, financials, utility and staples companies. Through September, our composite portfolio of dividend payers returned -9.3% net-of-max-fees vs. -19.9% for our benchmark, the Dow Jones Select Dividend index. We did some portfolio rejiggering in September, selling 5 stocks and buying 3. We now own 30 of a possible 33 stocks, and may wait until after the election to add any others. We'll see.

## Bulls of the Dow

This is the ten stocks with the best "downside risk" scores from the thirty Dow Jones Industrials (DJIA), with all trades quant-computer generated and rebalanced quarterly. The early

## 2020 ELECTION CHARTBOOK

Source: Strategas Research

### S&P 500 Average Annual Performance Under Partisan Control Scenarios

Political Scenarios	1933 - 2019		1945 - 2019		1965 - 2019	
	% Change	# Years	% Change	# Years	% Change	# Years
<b>Unified Government</b>	<b>10.03%</b>	<b>42</b>	<b>10.63%</b>	<b>30</b>	<b>8.79%</b>	<b>18</b>
1 > Democratic President	9.34%	34	9.79%	22	7.76%	12
> Republican President	12.95%	8	12.95%	8	10.86%	6
<b>Unified Congress</b>	<b>7.42%</b>	<b>32</b>	<b>7.42%</b>	<b>32</b>	<b>7.50%</b>	<b>24</b>
> Democratic President	12.96%	10	12.96%	10	16.28%	8
2 > Republican President	4.91%	22	4.91%	22	3.11%	16
<b>Split Congress</b>	<b>10.38%</b>	<b>12</b>	<b>10.38%</b>	<b>12</b>	<b>10.38%</b>	<b>12</b>
3 > Democratic President	13.60%	4	13.60%	4	13.60%	4
4 > Republican President	8.77%	8	8.77%	8	8.77%	8
<b>All Years</b>	<b>9.11%</b>	<b>86</b>	<b>9.20%</b>	<b>74</b>	<b>8.57%</b>	<b>54</b>

\*Data excludes 2001 due to Rep Jeffords changing party mid-year

### Listed in order of best S&P 500 returns

3. Biden wins, House stays Democrat, Senate stays Republican  
Sample size is small, but returns were good, +13.6% per year returns
1. Biden wins, House stays Democrat, Senate goes Democrat  
Sample size is large and returns were average, +8% to +10% per year returns
4. Trump wins, House stays Democrat, Senate stays Republican  
Sample size is decent and returns were average, +9% per year returns
2. Trump wins, House stays Democrat, Senate goes Democrat  
Sample size is large, and returns were low, +3% to +5% per year returns

Unlikely



October portfolio refresh saw 5 stocks swap places; the most ever. Changes were prompted by the recent upgrade to the index and the Q3 economic bounce. Coming into the portfolio in October were UnitedHealth, Merck, Johnson & Johnson, Apple, and Amgen.

### IntelliBuild Growth™

IntelliBuild™ is 33 positions, fully invested, made up of growth stocks from *Investor's Business Daily's* lists, with trades quant-computer generated. So far in 2020, growth stocks have been the darlings, which has helped this portfolio. Year-to-date, IntelliBuild™ has been our best performer by returning 6.1% net-of-fees vs. 5.6% for the S&P 500. The upcoming earnings season might switch-up the portfolio.

### Twenty Under Thirty-Five

Same story as last month. This portfolio of lower-priced, mostly small-cap value stocks, have been the worst subset to be in. 2020 has not been kind to this group.

### Covered Call

Income from covered calls, dividends, and appreciation are the goals. Through September, the covered call composite returned -2.7% net-of-fees vs. -9.6% for the CBOE Buy/Write index; a nice lead going into the 4th quarter.

### Real Estate Income and Growth

Through September, we're -15.8% vs. our benchmark, the Dow Jones Select REIT Index, which was -21.4%. We have less retail, strip center, and urban apartment REITs than the

index, and more data centers, cell towers, medical marijuana, and industrial warehouse holdings.

### Preferred Income

Preferreds are getting more and more positive press as a place to earn potentially tax-advantaged, mid-single-digit dividend yield, with some relative safety of principal. Need income? Look into preferreds, but maybe don't wade into the complex preferred-space alone. They can be quirky.

*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 and Index Income Overlay

*The strategy objective is to manufacture cash-flow in exchange for the investor accepting some additional volatility in their existing portfolio. Our hope is to create incremental income/capital gains on top of another portfolio by selling index put credit spreads or put options on equities.*

**Put income** - In the third quarter we booked over \$18.6 million in realized gains, the biggest quarter we've had since bringing the strategy in-house about 4 years ago. Nice, but we have more gains required to offset spring losses. We are still hoping for a positive year. **Index Income** - Volatility has helped cash-flow in 2020. September's total was well above average. Total return is looking pretty good too. More are becoming believers, especially in today's low interest rate world, in the concept of trying to add a few percentage points of return to an otherwise invested account. In the last 12 months, this account composite has grown by \$70MM.

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](mailto:audreyk@sheaffbrock.com); you can also reach her, or any other Sheaff Brock representative, at 317-705-5700.

Style	Performance Update Net-of Maximum-Fee	2020	2019	2018	2017	2016	2015	2014	2013	2012
Fixed Income	Preferred Income - Preferred stocks	1.37	13.62	-5.66	7.44	1.58	5.47	14.29	-4.65	9.42
Growth and Income	Covered Call Income - Quality stocks & covered calls	-2.66	23.73	-10.36	12.95	6.16	-1.01	6.36	22.28	10.23
	Dividend Growth & Income - Dividend paying stocks	-9.31	26.48	-8.95	21.99	11.07	-7.27	5.04	36.23	12.17
	Real Estate Income & Growth - REITs/real estate stocks	-15.81	24.50	-5.41	2.77*	*5/1/17 inception				
Growth	IntelliBuild™ Growth - IBD growth stocks	6.07	32.79	-11.30	25.40	-2.85	2.53	7.47	11.56*	*10/1/13
	Bulls of the Dow - 10 stocks of the Dow Jones 30 Indus.	-0.35	28.68	4.51	33.76	9.35	0.96	11.41	24.35*	*2/1/13
	Twenty Under \$35 - 20 best scoring stocks under \$35	-20.38	26.65	-18.74	5.72*	*10/1/17 inception				
Option Overlay	Put Income - Realized gains return	-12.76	7.32	0.58	5.66	0.21	-8.86	0.55	4.04	
	Index Income - Cash-flow return	3.44	4.69	1.67	2.48	3.35*	*6/1/16 inception date			
	Index Income - Total return mark-to-market <sup>^</sup>	-0.34	8.99	-3.59	2.46	2.49*				
<b>Index</b>										
Large-Cap Stocks	S&P 500	5.58	31.50	-4.38	21.83	11.96	1.38	13.69	32.39	16.0
30 Giant Stocks	Dow Jones Industrial Index	-0.90	25.35	-4.78	28.09	8.66	7.70	10.05	22.41	
Mid-Cap Stocks	S&P Mid-Cap 400	-8.97	26.21	-11.10	14.45	18.73	-3.71	8.19	31.57	16.07
Covered Index	CBOE S&P 500 Buy/Write	-9.58	15.67	-5.26	13.00	7.06	5.24	5.64	13.26	5.20
Fixed Income	Bloomberg Barclays Aggregate Bond	6.79	8.73	0.02	3.54	2.65	0.55	5.97	-2.15	4.2

\*Returns are through previous month-end. Composites include all fully discretionary accounts and 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. Index Income total return reflects the realized and unrealized gain/loss including the reinvestment of cash-flow income from the options divided by the prior period ending composite value. Cash flow yield represents the cash received from the sale of index option premium divided by the average composite value. ^Returns have been restated to reflect the change in unrealized gain/loss on the option premiums. 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. (continued on opposite page)