Sheaff Brock

Innovative Portfolios for Intelligent Investors™

MARKET UPDATE

November 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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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

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SheaffBriefs

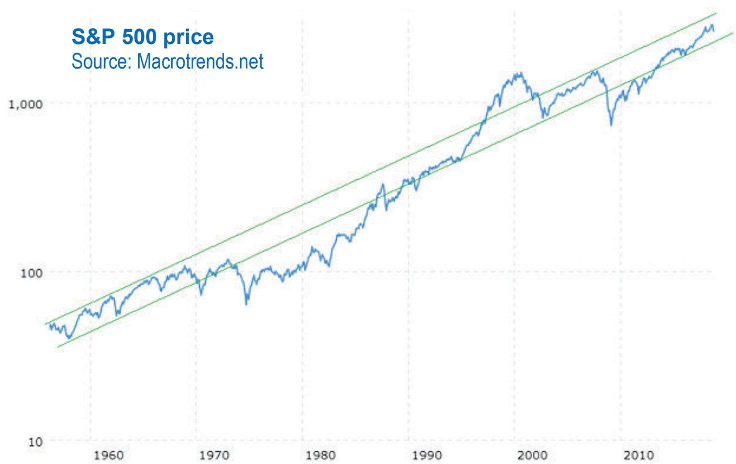
Go to sheaffbriefs.com. Check out our blog. Good stuff.

"Substitute 'damn' every time you're inclined to write 'very' and the writing will be just as it should be."
Mark Twain

Why is it so damn hard?

Investing in the stock market is hard. Anybody who has studied capital markets knows long-term total returns for the U.S. stock market have been good, about 9 to 10% per year over most 10-year periods. But, even people who know *nothing* about investing are aware that in the short-term stock prices can go down a lot. Returns in the short-term can be terrible. Investing successfully can be difficult on your emotions, often painful to your net worth, and periodically make you question your beliefs. It's hard. I guess this is why they call it work.

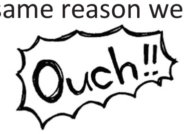
Below (in blue) is a chart of the price of the S&P 500 from the month I was born, June of 1956, through today.



In June of 1956 the index was at 47 and today is at 2673. The green trend lines show the rising channel. The index has enjoyed a rising price with many years hitting new all-time highs, doubling in value about every decade. If you extended this chart back 75 or 100 years, it would look very similar; rising steadily with some bumps and doubling about every decade.

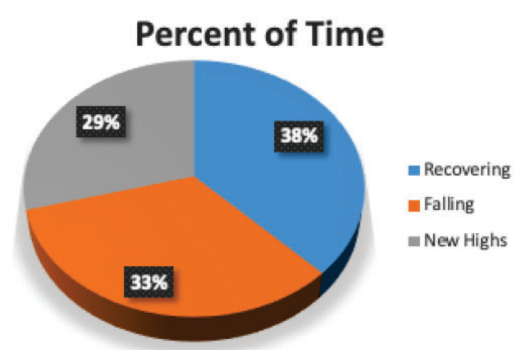
If you applied this same average return to house values making a $500,000 house worth $1 million in 10 years, $2 million in 20 years and $4 million in 30 years, your reaction would be, "Sign me up!" The bumps in valuation aren't that noticeable, so you would probably stay with owning the house. Because stock market price changes are in your face constantly, there are so many conflicting opinions bantered about, and your emotions are usually wanting to pull the "sell" trigger, returns are often harder to obtain.

The reason emotions are always trying to make you pull the "sell" trigger is the same reason we naturally want to avoid pain.



Behavioral finance studies suggest the mental pain caused by losing money is <u>much</u> greater than the mental pleasure obtained from making the same amount of money. That is why it is so damn hard, it hurts more to lose.

A recent study by Harmish Naik at Tacita Capital determined that since 1926, the stock market has spent 71% of the time either dropping, or recovering from a drop. Only 29% of the time was the market enjoying new high values. This means the vast majority of your monthly statements show your account value is below a previous high-water-mark, fighting to claw its way back. And during that vast majority of time, the mental pain caused by the valuation drop is causing you to doubt your convictions, hear and pay attention to negative media reports, and maybe even causing you to throw in the towel.



Source: Tacita Capital Analysis with Morningstar data. S&P 500 data based on month-end values with dividends reinvested.

The difficult stock market in the last couple of months has mostly wiped out the prior year's increase in your statement values and put your convictions and expectations to the test. Just remember, eventually stock market averages have always hit new highs. Your statement values have likely also periodically hit a new high, and history suggests (chart) new market and statement highs will probably come again.

There was a very good Thanksgiving commentary written by an economics professor named Michael Hicks, Ph.D. Following are a few quotes from it and the link at the end:

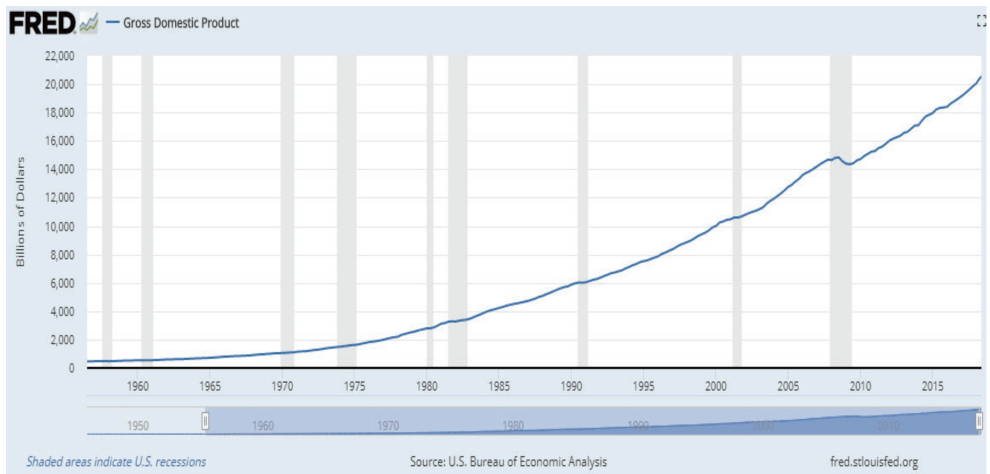
In 2018, we live in a world economy that has grown more in each of the past three centuries than all the previous centuries combined. This has resulted in a striking improvement across the globe. In just the past 25 years, the number of people worldwide in real poverty has halved. This growth touches nearly every aspect of life. As late as 1990, perhaps half the world's population had never spoken on a telephone. Today, almost two thirds of adults own a cell phone. In the desperately poor nation of India, per capital income has risen by three times more in the past 25 years than in the previous 25 centuries combined. Nothing even faintly like the last quarter century ever happened before. This is unleashing a torrent of human flourishing.

In the last 100 years, the share of the world's population living in a democracy grew threefold, and now approaches 60 percent. The 1900s saw more war deaths than all previous centuries combined. But today we live in a far more peaceful world, with risk of violent death lower than at any other time in our history. The share of Americans who have never been in battle is lower than at any time in history.

On Thanksgiving 1900, about half the people born in 1850 had already died. Life expectancy hovered near 50 years. Today it seems likely that half the Americans born in 2000 will be alive to enjoy Thanksgiving 2100. The abundant growth of human flourishing cannot be universally realized without at least a semblance of a market-based economy, democracy and civil rights.

https://commentaries.cberdata.org/978/thanksgiving-for-economic-growth-and-human-flourishing

Here is a chart from the Federal Reserve Economic Data division of the St. Louis Fed. It again starts in 1956, the year of my birth, through 6/2018. It is a chart of the U.S. GDP, which in 1956 was less than $1 trillion but now exceeds $20 trillion per year. The clearly visible setback to the upward trajectory was during the recession of 2008-2009, which is why investors are still suffering from a bit of PTSD. The chart's trajectory also shows why stock markets and statement values have periodically hit new highs, and likely will again.



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.

- Manage your capital gains by harvesting losses. Don't forget about capital gain distributions from mutual funds…did you know funds publish estimated gains? Most already have. Don't get caught off guard!
- Health Savings Account (HSA) – If you have a high-deductible health insurance plan, maximize your contribution to your HSA. Those in individual health plans can contribute up to $3,450, and those in family health plans can contribute up to $6,900. Don't forget the extra $1,000 for those age 55 or older in 2018!

Markets

This year, it has been tough to make money in anything: stocks, bonds, commodities, real estate, cryptocurrencies, etc. Previous positive returns have been mostly shredded.

In 2018 even artwork shredded itself! Although that incredibly timed stunt made this Banksy piece double in value. If only stocks did the same!

Portfolio Updates

Our portfolios have mostly shown competitive results in 2018. Relative to our peers we have mostly been good. But, as *The Doors* (kinda-sorta) said, relative performance "may give me a thrill, but that performance can't pay no bills."

Dividend Growth & Income

The portfolio is invested in 24 stocks and diversified in 9 of the S&P 500's 11 sectors (no materials or utilities). We have about 4% in cash from the sale of a pharmaceutical company. This gives us the ability to buy one more position. Currently, our composite has a 3.3% dividend yield, a dividend growth rate of 12% annually, a forward P/E ratio of only 13.5. The holding's average P/E over the last 5 years has been 17. Valuations are really low. Growing earnings, high dividend, growing dividend, and mixed with a low P/E can be a nice brew.

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 blended between largecap, mid-cap, and small-cap stocks. This portfolio has a higher beta than the market and acts like it. During September and October the IntelliBuilD™ composite lost about -10% in value, net-of-fees vs. about -6% for the S&P 500. However according to Morningstar, the IBD 50 as tracked by the Innovator IBD 50 ETF (FFTY) fell by –18%. In this case the Downside Risk Analysis (DRA) we use seemed to have done its job.

Bulls of the Dow

The 10 best ranking stocks in the Dow Jones Industrials (DJIA) by DRA. Still our best performer. Humming along like a well-tuned V-10 engine. During September and October when the DJIA was -6%, the Bulls were –1%.

Twenty Under Thirty-Five

Mostly mid and small-cap stocks which had a rough October.

Covered Call

The portfolio had a very good September but a rough October. The volatility spike (measured by the VIX) has helped with option premium collection.

Real Estate Income and Growth

REITs held up surprisingly well given the interest rates push by the Fed. If the Fed ties their hands behind their backs and slows down the rate increases, the positive effect on income stocks could be coiled spring-like.

Preferred Income

Has also held up fairly well in price. JR is adding more and more institutional shares ($1000 preferreds) because yields are usually a bit higher and prices are usually a bit steadier.

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

October's stock market swoon inflicted a flesh wound, but the portfolio has the potential for a record year. Overall, position quality and diversification is the best it has ever been.

Index Income Overlay

Our November short strike index position is slightly in-the-money, so rolling out and down will likely be in our future. Currently, the January and February (rolled out from October's in-the-money position) index puts are out-of-the-money by a few bucks. All-in-all, Index Income is working as it should.

Santa told my granddaughter what the recent market swoon did to her college fund.

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 Oct. 2018	2017	2016	2015	2014	2013	2012	2011
Fixed Income	**Preferred Income** - Preferred stocks	-2.08	7.44	1.61	5.47	14.30	-4.64	9.37	
Growth and Income	**Covered Call Income** - Quality stocks & covered calls	-4.22	12.96	6.16	-1.11	6.33	22.28	10.23	-11.09
	Dividend Growth & Income - Dividend paying stocks	-1.67	21.99	11.07	-7.27	5.04	36.23	12.17	5.62
	Real Estate Income & Growth - REITs/real estate stocks	-0.99	2.99*	*5/1/17 inception					
Growth	**IntelliBuilD™ Growth** - IBD growth stocks	-1.45	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.	9.02	33.76	9.39	0.97	12.10	23.99*	*2/1/13 Inception	
	Twenty Under $35 - 20 best scoring stocks under $35	-10.49	5.72*	*10/1/17 Inception					
Option Overlay	**Put Income** - Realized gains return	4.20	*5.66*	*0.21*	*-8.86*	0.55	4.04		
	Index Income - Cash-flow yield	2.46	2.48	3.35*	*6/1/16 inception date				
	Index Income - Total return mark-to-market^	0.31	2.41	2.52*					
	Index								
	S&P 500	3.01	21.83	11.96	1.38	13.69	32.39	16.0	2.1
	S&P Mid-Cap 400	-2.79	14.45	18.73	-3.71	8.19	31.57	16.07	-3.10
	CBOE S&P 500 Buy/Write	0.65	13.00	7.06	5.24	5.64	13.26	5.20	5.72
	Barclays Aggregate Bond	-2.38	3.54	2.65	0.55	5.97	-2.15	4.2	7.8

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/losson 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)