Sheaff Brock

Innovative Portfolios for Intelligent Investors™

MARKET UPDATE

December 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.

"JANE, GET ME OFF THIS CRAZY THING!"

George Jetson on the treadmill

Choose the correct box:

In 2018, stock market volatility has been:

LOWER THAN NORMAL	ABOUT NORMAL	HIGHER THAN NORMAL

Last month we discussed why investing in the stock market is so hard. It is difficult because:

- Most of the time, prices (and your portfolio value) are clawing their way back up to their previous high.
- Most of the time, your statement value is lower than it had been in the past.
- It's a noisy world. Political-based fury and media obsession with lame-o economic reporting is omnipresent.
- All of the above cause you to doubt your and your advisor's long-term investment convictions.

Recent volatility doesn't help; makes you quote George Jetson. Between the stock market, Brexit, interest rates, tariffs, China, and wacky tweets the desire is to reach for a barf bag when the news is on. Instead maybe leave the TV on the Hallmark Channel, get a case of pinot noir, and watch sappy movies until New Years Day. There are worse plans.

Of the typical year's 365 days, the stock market is open about 252 days. A good measure of stock market volatility is counting the number of days during the year the S&P 500 closes either +1% or –1%. Just count the number of volatile days and compare from year to year.

As you can see at the lower right, bottom of the table, since 1994, the S&P 500 has averaged 68 days of volatile moves per year, or 27% of the days. Of those 68 days, positive volatility was slightly more likely (35 vs. 33 days) and only in 6 years were there more negative volatile days than positive. In fact, the last year in which negative volatile days exceeded positive was ten years ago in 2008. In recent years, with the exception of 2015, volatility has been generally low. And 2017 was downright sleepy with only 9 volatile days!

How about 2018, we must be back into the higher volatility numbers again right? In 2018 there were a spate of volatile days early in the year, a long lull over the summer, and then starting in mid-October almost every other day has been volatile. Yikes! In total this year through December 13th, there have been 240 trading days and only 58 have been ±1%. Of those volatile days, 31 were up and 27 were down days, very normal. That is less volatile than average with more up days than down.

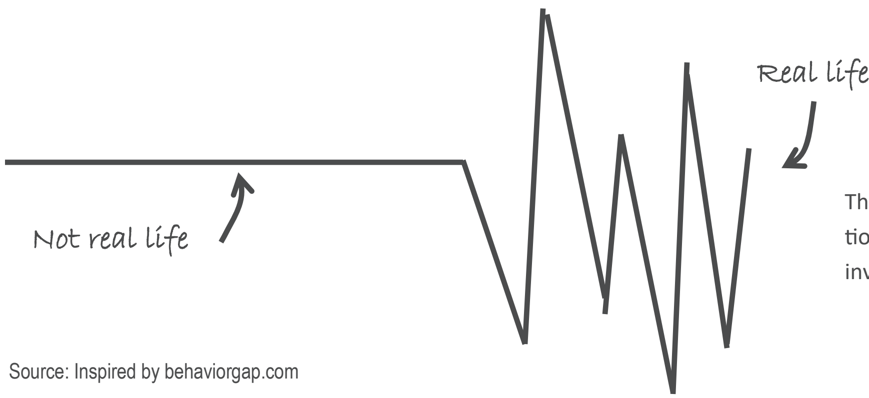
The bottom line is 2018 has been below average as far as volatility goes! For several years you were spoiled; today's volatility is the old normal. Bet you didn't pick the "LOWER THAN NORMAL" box did you?

Year	Total # of Trading Days	Number of Trading Days with S&P 500 ≥ +1%	≤ -1%	Total
1994	252	15	17	32
1995	252	18	5	23
1996	254	25	19	44
1997	253	55	37	92
1998	252	52	33	85
1999	252	46	41	87
2000	252	52	57	109
2001	248	53	50	103
2002	252	55	73	128
2003	252	42	37	79
2004	252	23	23	46
2005	252	16	21	37
2006	251	14	14	28
2007	251	32	34	66
2008	253	60	78	138
2009	252	59	51	110
2010	252	39	37	76
2011	252	47	47	94
2012	250	28	21	49
2013	252	19	18	37
2014	252	19	17	36
2015	252	41	33	74
2016	252	25	20	45
2017	251	5	4	9
Average	252	35	33	68

Source: Milton.ai, medium.com/

Tiffany's Tips! Tiffany VanHook serves our clients 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 we share a planning tip or two from Tiffany:

- Harvest tax losses. Unless the mail delayed this newsletter, you may still have a few trading days left in 2018 to git 'er done! Don't buy the losing positions back for 31 days to avoid the wash sale rule.
- Don't forget that estimated quarterly tax installments are due January 15th. It's the IRS' way to say Happy New Year!



Source: Inspired by behaviorgap.com

This illustration is an accurate description about a lot of areas of life, not just investing.

Markets

Ten years ago this month, Madoff's Ponzi scheme came unglued and the steady positive returns his clients "earned" suddenly went poof. We would all like a slow and steady gain in our investments, but like the above illustration shows, slow and steady isn't real life.

This year, it has been difficult to make a positive return in almost any asset class. Some have just struggled while others have been taken out behind the woodshed. November was rough and December (so far) has made Mr. Market uncommonly grumpy, Grinch-like even. Maybe by the time you get this he will have a more cheerful demeanor.

Portfolio Updates

Dividend Growth & Income

Near the end of November we added Walgreens Boots (WBA) to the portfolio which makes this fully invested in 25 stocks and diversified in 9 of the S&P 500's 11 sectors (no materials or utilities). The December market selloff has dropped prices enough to give our composite a forward P/E ratio of only 13 according to our Panaray software. The holding's average P/E over the last 5 years has been 17, which means, as measured by P/E, prices are 23% below the average price, not the high, but the average! Today's prices seem crazy-cheap. Even if the stocks recovered to a P/E of just 15, that would imply a price gain of over 15% from today's prices. Valuations are really low, especially when you consider the analyst's estimate of the portfolio's earnings should grow 25% this year and 10% next year, plus dividends have gone up double-digits! Dividend payers are cheap. Shaking my head as I write this.

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 buys the least risky (according to the research tool we use). We try to stay fully invested, and currently we are in 33 stocks blended about 2/3 large-cap and 1/3 mid and small-cap stocks. This portfolio has a higher beta than the market, but much lower volatility than the ETF that tracks the IBD 50 index (FFTY). For example at the end of August, our IntelliBuilD™ composite was up 9.2% for the year compared to +15% for FFTY. After the October/November correction at the end of November, FFTY was (7.5%) and IntelliBuilD™ was (1.5%). We had about an 11% swing from peak to valley whereas FFTY had a 23% swing, or half the volatility of the competition. Year-to-date, even though we have had less volatility than FFTY we've had better performance.

Bulls of the Dow

The 10 best ranking (lowest risk) stocks in the Dow Jones Industrials (DJIA) by DRA, updated quarterly. This portfolio concept, even a 1st grader can understand, has been stellar this year. Through November, up 14.2% vs. 5.6% for the Dow Industrials and 5.1% for the S&P 500. About 900 basis points of outperformance over the S&P 500 this year which is on top of 1200 bps of outperformance in 2017! We started using the DRA research tool about 3 years ago. In the trailing 3 years ending November, our Bulls have gained 17.7% annually vs. 15.7% for the DJIA and 12.2% for the S&P 500. Do you know how hard it is to beat the S&P 500 by 500 bps per year? (It's almost harder than writing a Christmas song that doesn't offend anybody.)

Twenty Under Thirty-Five

Using Morningstar's database, value-oriented funds have struggled in 2018; performance declining with market-cap. Mid-cap have done worse than large-cap and small-cap have done worse than mid-cap. This portfolio is stuffed with small and mid-cap names which took quite a gut-punch during the last two months. This portfolio is only about a year old so it is still getting its sea-legs. The recent market storm was rough.

Covered Call

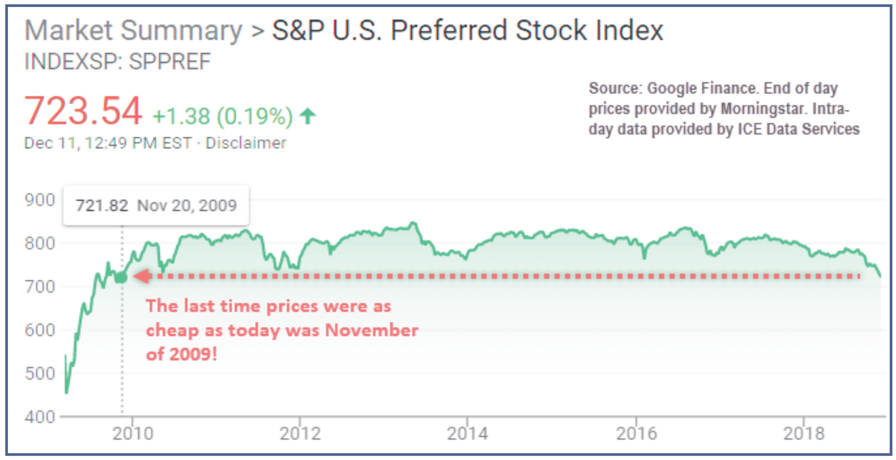
The portfolio had a good November, good enough to pull the composite into positive territory gross-of-fees, but we are slightly negative net-of-fees. The volatility spike (measured by the VIX) has increased option premiums quite a lot. Because of this you will likely see some work being done on the problem positions where we are trying to be prudent about moving to better opportunities.

Real Estate Income and Growth

The REITs have been our 2nd best performer in 2018. This sector has held up surprisingly well given the retail sales shift and the interest rate push by the Fed. If the Fed slows down the rate increases, which is getting more likely, REITs could benefit. The dividend income alone (some of it even tax advantaged) has been competitive with other income vehicles and could be a big part of the total return going forward.

Preferred Income

As measured by the S&P U.S. Preferred Stock Index, preferred stocks have not been this cheap since November of 2009. Yields are high, prices are low, load the wagon.



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 and Index Income Overlay

Through November, both overlays were cruising along with cash-flow solid and gains as expected. As of today, December's in-the-money position on SPY may force a roll-out which could offset most of 2018's taxable gains. Good news: positive cash-flow and maybe low taxable gains in 2018. Bad news: maybe higher taxable gains in 2019.

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 Nov. 2018	2017	2016	2015	2014	2013	2012	2011
Fixed Income	**Preferred Income** - Preferred stocks	-4.65	7.44	1.61	5.47	14.30	-4.64	9.37	
Growth and Income	**Covered Call Income** - Quality stocks & covered calls	-1.11	12.96	6.16	-1.11	6.33	22.28	10.23	-11.09
	Dividend Growth & Income - Dividend paying stocks	0.49	21.99	11.07	-7.27	5.04	36.23	12.17	5.62
	Real Estate Income & Growth - REITs/real estate stocks	4.33	2.99*	*5/1/17 inception					
Growth	**IntelliBuilD™ Growth** - IBD growth stocks	-1.15	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.	14.22	33.76	9.39	0.97	12.10	23.99*	*2/1/13 Inception	
	Twenty Under $35 - 20 best scoring stocks under $35	-9.98	5.72*	*10/1/17 Inception					
Option Overlay	**Put Income** - Realized gains return	4.88	*5.66*	*0.21*	*-8.86*	0.55	4.04		
	Index Income - Cash-flow yield	2.82	2.48	3.35*	*6/1/16 inception date				
	Index Income - Total return mark-to-market^	1.60	2.41	2.52*					
	Index								
	S&P 500	5.11	21.83	11.96	1.38	13.69	32.39	16.0	2.1
	S&P Mid-Cap 400	0.24	14.45	18.73	-3.71	8.19	31.57	16.07	-3.10
	CBOE S&P 500 Buy/Write	3.21	13.00	7.06	5.24	5.64	13.26	5.20	5.72
	Barclays Aggregate Bond	-1.79	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)