Sheaff Brock

Innovative Portfolios for Intelligent Investors™

MARKET UPDATE

February 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. 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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Monthly Update

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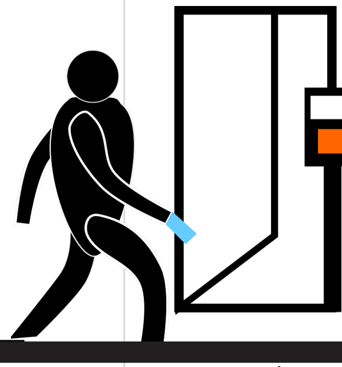
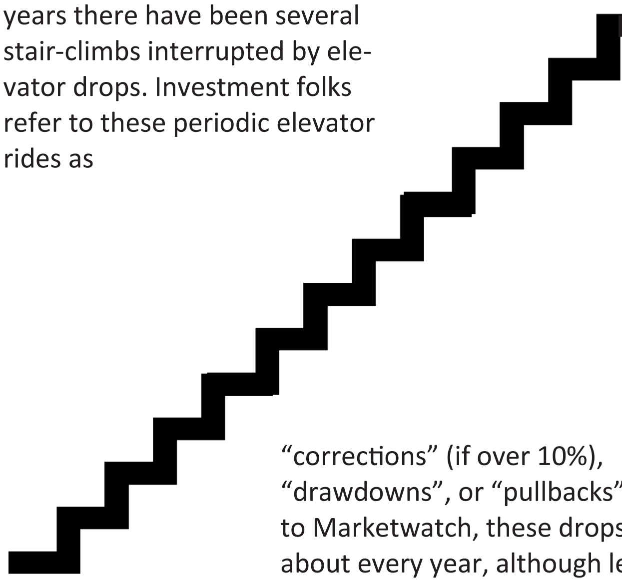
> "If you die in an elevator, be sure to push the UP button."
>
> Sam Levenson

The stock market takes the steps up and the elevator down

After climbing a gradual and solid staircase of a rising stock market for the better part of 2 years, investors were reminded early this month that stock prices go down as well as up. The elevator that investors invariably wander into can be scary because the investor doesn't know how many floors down the ride will be before he can get back on the stairs and resume the climb. The chart in the blue box at the bottom of this page shows that in the last 4 years there have been several stair-climbs interrupted by elevator drops. Investment folks refer to these periodic elevator rides as





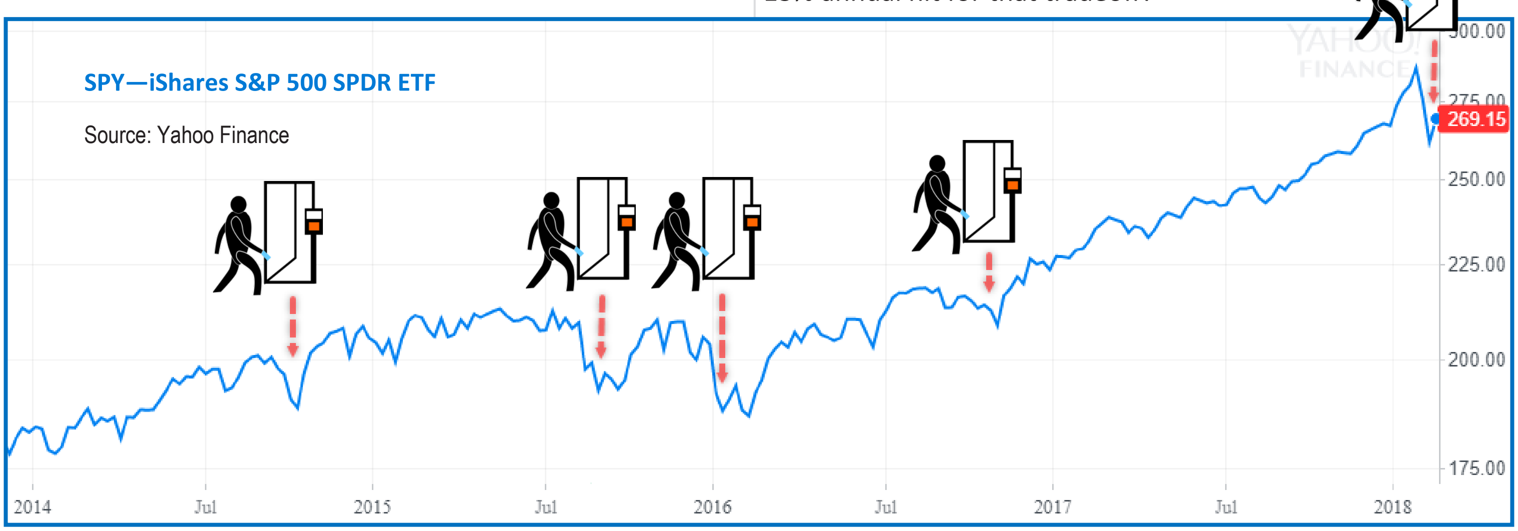
"corrections" (if over 10%), "drawdowns", or "pullbacks". According to Marketwatch, these drops happen about every year, although less frequently since the Great Recession.

Since 1945,the average correction has been about -13% and has lasted about 14 weeks. They really only matter if you are a short-term trader, so for long-term investors like us, corrections are just a periodic annoyance, but can be useful as an opportunity to buy more good stocks while they are "on sale".

As you can see in the chart below, the price of SPY went up 100 points during the 4 years the chart covers; up 55% from about 180 to over 280. It was a profitable time to be an investor in the U.S. stock market. But, to enjoy the upside, there were 5 elevator drops to endure. From left to right:

1. Elevator drop of -12 points, from 200 down to 188.
2. Elevator drop of - 20 points, from 212 down to 192.
3. Elevator drop of - 23 points, from 210 down to 187.
4. Elevator drop of -11 points, from 219 down to 208.
5. Elevator drop of - 34 points, from 286 down to 252.

Since our start in the business in 1981, we have experienced between 30 and 40 corrections of –10% or more, and most aren't memorable, although the whoppers like 1987 and 2008 caused some temporary PTSD. Scary elevators aside, during those 37 years the S&P 500 has climbed from 117 to 2700, up 23-fold! That's like your house value going from \$117,000 to \$2.7MM. Who wouldn't take a 13% annual hit for that tradeoff?



Economy:

Pretty darn good, not only in the U.S., but also in nearly every developed country. The exception is Venezuela, which is governed by some bad hombres. At home a whiff of inflation is starting to appear in several places, interest rates are a tad higher, most people that want to work are doing so, and the change in tax law is putting more money in worker's pockets, as well as their corporate employer's pocket. Like it or not, the tax cut on the corporate side could be a really big long-term deal as tax rates on American companies haven't been this low since 1945. Media types like to report that since this has been such a long-running recovery the end must be near. According to Strategas Research, the GDP in the average economic expansion has gained 23% from its prior peak, and the expansion lasted six years before petering out. This expansion is 10 years from the prior peak, but GDP has only gained 15%. It has been a long recovery, but it has also been lame-o compared to prior ones...so, why couldn't it be longer still? The smart people we read don't see a recession in the cards until 2020 or later.

WARNING

For years, instead of receiving them at home, many clients have directed companies to send quarterly reports, annual reports, and proxies to Sheaff Brock's office. Unfortunately, that practice is ending. You will now start receiving the corporate mailings and proxies at your address of record.

Make sure your mailbox is ready for more business!

Markets:

Treasury bond rates (which influence the interest rate on all bonds and mortgages) have recently climbed to multi-year highs. The 10-year Treasury bond is now at 2.91%, which is still low in the grand scheme of things, but has been going up. When rates go up, bond prices go down. Bond prices have hardly gone down in 35 years so some folks are spooked by it. This, along with the inflation whiff, took the wind out of the stock market's sails. In January, the S&P 500 gained over 5%, but then came the elevator drop. Overall, earnings are really good and valuations are OK, so the stock market could have a decent year. One historical statistic that is in the stock market's favor is the "January effect". According to Cornerstone Macro, since 1928, when January was good (like the 5% January we just had) the whole year was good 82% of the time. Nice odds. Also, when January was positive, the average gain during the remaining 11 months was an additional 8.7%. Odds are bullish and similar results would give us a low-double-digit year for the S&P 500. Maybe 3000 on the S&P 500 and 27,500 on the Dow Jones Industrial average. Perhaps another elevator drop is ahead, but who wouldn't take 27,500?

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Portfolio Updates

2017 was a very good year for Sheaff Brock's portfolios and January carried the baton onward. As we discussed, the runner stumbled in early February, so the January numbers have somewhat been negated (at least as of today). Volatility has popped higher after being moribund for nearly 2 years. So far, 2018 seems very volatile, but in reality it is just back to average. The quietness of the last year was abnormal. This year's volatility is normal.

Dividend Growth & Income

Our flagship and largest (in assets) equity strategy had a great 2017 and a terrific January. In January, the composite earned a total return of 6.0% gross-of-fees and 5.7% net-of-fees. As a comparison, our benchmark, the Dow Jones Select Dividend Index, only gained 2.1% during the same period. Party on Garth! The portfolio is fully invested in 25 stocks, has exposure to 10 of the S&P 500's 11 sectors (no utility stocks), and pays an average dividend yield of 2.9%, which is a fair amount higher than the S&P 500. Every stock except one (DowDupont reduced their dividend after the merger) has raised its dividend in the last year. The strategy has an appropriate name.

IntelliBuilD Growth™

A portfolio based on *Investors Business Daily's* IBD 50 and New America stock lists. It looks for growth, growth, and nothin' but growth. IntelliBuilD takes great American growth stocks and then applies a value screen to find 33 growth stocks with the lowest "downside risk" characteristics. IntelliBuilD followed a great 2017 with a solid January by gaining 5.9% gross-of-fees and 5.6% net-of-fees vs. 5.7% for the S&P 500 and 2.8% for the S&P Mid-cap 400. This systematic strategy has turnover. Of the 33 stocks, about half of them were purchased in the last year. It also has a higher beta than the market at 1.3. The portfolio has sales and earnings growth about 2X higher than the S&P 500, but has an average P/E 12% lower than the market. Get more but pay less.

Bulls of the Dow

Last year was a great year for the Bulls and it was our standout portfolio. January's performance was also our #1 offering by gaining 6.6% gross-of-fees and 6.3% net-of-fees, vs. January's S&P 500 return of 5.7%. The Bulls are ballers. January was our rebalancing month and two companies were sold and two were added. Typical turnover, and we now have 4 tech stocks. Go cloud go!

Covered Call

2017 was a very good year and the super-strong market in January called several of our gainers away. Even still, the total return of the composite gained 1.95% gross-of-fees and 1.64% net-of-fees in January. This compares to the CBOE S&P 500 Buy-Write Index gain of 0.6% in January. We had a nice launch out of the blocks for 2018. The increase in volatility also increases the premiums we can earn from the call options. Some investors don't like volatility, but on the whole it is a positive for covered call writing.

Preferred Income

Preferred equities, which are a bond in a stock's clothing, had a very good 2017, but the rising interest rates of late have pushed prices down. The composite had a total return of –2.4% gross-of-fees and –2.7% net-of-fees in January vs. the S&P US Preferred Stock Index return of –1.4%. When prices drop, but the dividends stay constant, that means the yield increases. The portfolio's current yield is now pushing 6% vs. the 10-year Treasury yield of 2.9%.

Real Estate Income and Growth

REITs took a similar punch as preferred stocks in January. Rising rates negatively impact the prices of REITs, although historically the price drops are fairly temporary. The dividend income is still high, and since this is an income portfolio, that is the most important thing.

Alternative

Emerging markets and commodities threw a one-two punch and gave the Alternative strategy its best year ever. Several strategist types we respect are preaching that commodities, metals, and materials may be the big story of 2018.

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

Last year was the best year for realized gains this strategy ever had, and January of 2018 was the best month the strategy ever had. Our team did a great job realizing 1.78% gross-of-fees and 1.47% net-of-fees. Being an overlay, this is difficult to compare to an index, but as a comparison the S&P 500 returned 5.7% during January.

Index Income Overlay

A simple overlay using three put option credit-spreads on the SPDR® S&P 500 ETF (SPY), staggered monthly. The volatility spike has been good. In December and January the VIX was low and our 3% out-of-the money spreads were only yielding 3.6%. This month, with the VIX high, our May spread yielded 6% and was 4.5% out-of-the-money. Less risk, but more money. When selling options the math is pretty darn easy, +VOL = +$.

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	Jan. 2018	2017	2016	2015	2014	2013	2012	2011
Fixed Income	**Preferred Income** - Preferred stocks	-2.71	7.44	1.61	5.23	14.01	-4.59	9.19	
Growth and Income	**Covered Call Income** - Quality stocks & covered calls	1.64	12.93	6.19	-1.17	6.37	22.09	10.12	-11.53
	Dividend Growth & Income - Dividend paying stocks	5.72	21.99	11.07	-7.27	5.04	36.23	12.17	5.62
	Real Estate Income & Growth - REITs/real estate stocks	-2.03	2.99*	*5/1/17 inception					
Growth	**IntelliBuilD™ Growth** - IBD growth stocks	5.57	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.	6.30	33.76	9.39	0.97	12.10	23.99*	*2/1/13 Inception	
Alternative	**Alternative** - Metals, foreign currencies, commodities	3.40	17.51	4.38	-8.24	-4.25	-0.72	9.02	-7.64
Option Overlay	**Put Income** - Overlay of short equity puts	*1.47*	*5.66*	*0.21*	*-8.86*	0.55	4.04		
	Index Income - Overlay of unleveraged put credit spreads	-0.02	2.68	3.76*	*6/1/16 inception date				
	Index								
	S&P 500	5.73	21.83	11.96	1.38	13.69	32.39	16.0	2.1
	CBOE S&P 500 Buy/Write	0.60	13.00	7.06	5.24	5.64	13.26	5.20	5.72
	Barclays Aggregate Bond	-1.15	3.54	2.65	0.55	5.97	-2.15	4.2	7.8
	DB Commodity Index Tracking Fund (NAV Total Rtn.)	2.85	5.12	18.50	-27.41	-28.18	-7.57	3.31	-2.71

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 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 next page.