Sheaff Brock

Innovative Portfolios for Intelligent Investors™

MARKET UPDATE

February 2019

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

Publication date: 2/22/19

SheaffBriefs

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

> "If voting made any difference they wouldn't let us do it."
>
> Mark Twain

Woo-hoo, election rhetoric is cranking up!!

Lucky us to live in a time when running for President is nearly a two-year job! The political B.S. will continue to ramp up over the next 20 months...but hey, it is still a great country, especially after the invention of noise cancelation headphones.

January delivered a nice belated holiday gift to investors as the stock market earned back much of the loss from 2018's dismal 4th quarter. As this is being written, both the S&P 500 and the Dow Jones Industrials (DJIA) have gained a bit over 11% since January 1st. This year's January was the best for the U.S. stock market in over 30 years. We'll take it, since December was the worst December ever!

Another nice gift (from the calendar) is that 2019 is the 3rd year, or pre-election year, of the "Presidential Cycle"; a cycle that has been tracked for decades by the Stock Trader's Almanac. The green highlight in the table shows the average return for these pre-election years is 15%, which is the best by far of the 4 year cycle. There have been 20 pre-election years since 1940, half under Republican presidents and half under Democrats. Of the 20 years, all but one, 2012, have delivered a positive year for the stock market. Bottom line: pre-election years have consistently been good for equities and returns have usually been double-digit.

The other interesting trend is the lack of negative years in pre-election and election years. Look at the preponderance of negative years highlighted in the table. There have been 55 positive years vs. 24 negative years, a 70/30 ratio. But, over 70% of the negative years (17 out of 24) happened in the first two years of a President's term, not the last two. That means based on historical numbers, the probability of a positive return for the stock market between 2019 and 2020 is over 90%.

Why has this 2-year positive stock market phenomenon happened? We would speculate that every administration has one real goal, and that is to get reelected or at least keep the incumbent party in the White House. All Presidents, Senators, and Congress-folk want to keep their jobs, so they all grease

Annual Change in the Dow Jones Industrial Average During the Presidential Cycle

Election Year	President elected	Post-election	Mid-Term	Pre-Election	Election Year
1940	Roosevelt (D)	-15.4% (1941)	+7.6% (1942)	+13.8% (1943)	+12.1% (1944)
1944	Roosevelt (D)	+26.6% (1945)	-8.1% (1946)	+2.2% (1947)	-2.1% (1948)
1948	Truman (D)	+12.9% (1949)	+17.6% (1950)	+14.4% (1951)	+8.4% (1952)
1952	Eisenhower (R)	-3.8% (1953)	+44.0% (1954)	+20.8% (1955)	+2.3% (1956)
1956	Eisenhower (R)	-12.8% (1957)	+34.0% (1958)	+16.4% (1959)	-9.3% (1960)
1960	Kennedy (D)	+18.7% (1961)	-10.8% (1962)	+17.0% (1963)	+14.6% (1964)
1964	Johnson (D)	+10.9% (1965)	-18.9% (1966)	+15.2% (1967)	+4.3% (1968)
1968	Nixon (R)	-15.2% (1969)	+4.8% (1970)	+6.1% (1971	+14.6% (1972)
1972	Nixon (R)	-16.6% (1973)	-27.6% (1974)	+38.3% (1975)	+17.9% (1976)
1976	Carter (D)	-17.3% (1977)	-3.1% (1978)	+4.2% (1979)	+14.9% (1980)
1980	Reagan (R)	-9.2% (1981)	+19.6% (1982)	+20.3% (1983)	-3.7% (1984)
1984	Reagan (R)	+27.7% (1985)	+22.6% (1986)	+2.3% (1987)	+11.8% (1988)
1988	Bush (R)	+27.0% (1989)	-4.3% (1990)	+20.3% (1991)	-3.7% (1992)
1992	Clinton (D)	+13.7% (1993)	+2.1% (1994)	+33.5% (1995)	+26.0% (1996)
1996	Clinton (D)	+22.6% (1997)	+16.1% (1998)	+25.2% (1999)	-6.2% (2000)
2000	GW Bush (R)	-7.1% (2001)	-16.8% (2002)	+25.3% (2003)	+3.1% (2004)
2004	GW Bush (R)	-0.6% (2005)	+16.3% (2006)	+6.4% (2007)	-33.8% (2008)
2008	Obama (D)	+18.8% (2009)	+11.0% (2010)	+5.5% (2011)	+7.3% (2012)
2012	Obama (D)	+26.5% (2013)	+7.5% (2014)	-2.2% (2015)	+25.1% (2016)
2016	Trump (R)	+25.1% (2017)	-5.6% (2018)	11.0% (2019) *	
Average, 1940-2018:		+6.6%	+5.7%	+15.0%	+5.5%

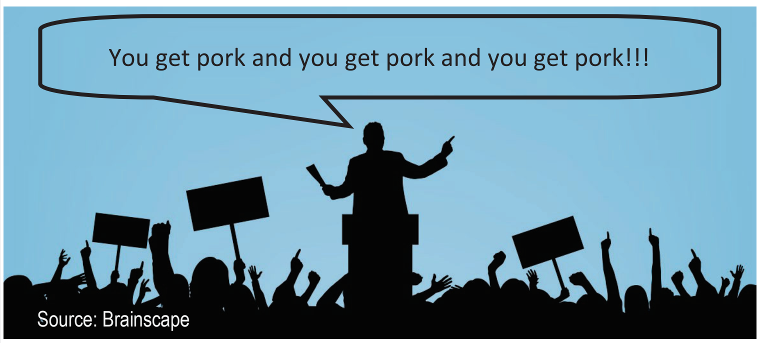
Source: Stock Trader's Almanac. and Yahoo Finance;

*The Dow is up 11% so far in 2019

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. Her expertise and planning services are available for Sheaff Brock clients. Every month we share a planning tip or two:

- Request a free copy of your credit report. Each of the three credit reporting companies is required to provide you a free copy once every 12 months. Spread them out throughout the year to give you multiple free peeks at your credit each year, at no cost. Even if you know you have a high credit score you should look to make sure no unsavory characters are trying to highjack your credit identity. Visit hwww.annualcreditreport.com to do it.
- Reevaluate your emergency fund. There's no magic number, but somewhere between three to six months of expenses is a good target. This amount should be kept liquid, preferably at a different institution from your regular bank to avoid the temptation to dip into it for non-emergencies.

the skids of the economy in concert with each other. The old saying is, "Desperate men do desperate things." Elected officials are desperate to keep their jobs, which makes them stimulate the economy by doling out "pork" spending.



Source: Brainscape

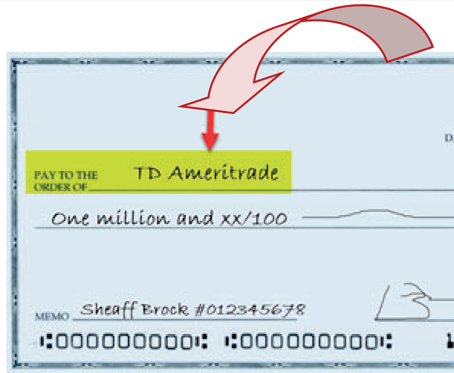
Stimulus spending makes the stock market happy, at least in the short run. Based on precedence, the next couple of years could be quite good for U.S. stocks.

Markets

Last month we wrote, *"In the last four-and-a-half decades there have been ten negative years for the S&P 500, including 2018. After the previous nine down years, the S&P 500 bounced back an average of 22% the following year, seven of the nine times"*. So far in 2019, we have earned back about half of that 22% amount. Bingo!

The Fed has pretty much gone on vacation for most of the rest of this year, and we think odds are slim that the Fed will raise rates in an election year (we believe the last time they did was when George H.W. Bush lost to Clinton and Bush promptly blamed the Fed for the loss, although we think it was Slick Willie's saxophone prowess that beat Bush 41). The Fed doesn't like to be perceived as meddling in an election, so they may raise interest rates a smidge late this year, but then go back on vacation.

The U.S. has the highest rates compared to other large countries which keeps a lid on our Treasury interest rates. Bottom line is interest rates are pretty low which is good for borrowers, but not so good for bond and CD buyers. Might want to get used to low rates since they might stick around for a while.



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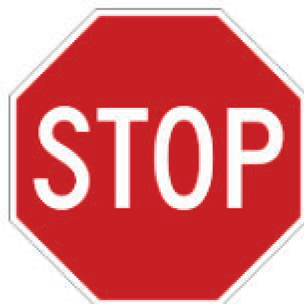

NOW, READ IT AGAIN.

Portfolio Updates

Dividend Growth & Income

No new stocks were added in January but the 25 we have exhibit nice metrics. Our composite portfolio has a very low forward P/E ratio of only 13, according to our Panaray software. This compares to the forward P/E of the Dividend Achiever stocks (companies that have raised their dividends for 10 or more consecutive years) of 18 and also 18 for the S&P 500. Measured by P/E, that means our holdings are 28% cheaper than comparable indices. At the same time, our composite has nearly identical earnings growth estimates as both indices. Similar growth, with a 28% lower price. Oh, and by the way our dividend yield at 3.3% is higher than both too.

Bulls of the Dow

This is the portfolio even the village idiot can understand. Rank the 30 stocks in the Dow Jones Industrials by their Downside Risk score, buy the ten stocks with the lowest downside risk, then re-rank and rebalance quarterly. January was rebalancing month. Two of the ten stocks came back to the bench and Apple and IBM went back into the game. January was a very solid month, which coming on the heels of a stellar 2018 was an unexpected pleasant event. This strategy is now six years old. Since the January 2013 inception, our Bulls have cumulatively gained 147% gross of fees, 129% net of maximum fees vs. 109% for the Dow Jones Industrials benchmark.

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). January saw a nice recovery from the December beat-down. All but a handful of our 33 stocks have reported 4th quarter earnings and as a group they beat estimates by an average of 6%, about 2X higher than the S&P 500's 3% beat rate. The average 2019 EPS growth estimate for our composite is 11% vs. 7% for the S&P 500. Our average forward P/E is 17, the same as the S&P 500. Same P/E, way better earnings growth.

Twenty Under Thirty-Five

This fully invested twenty-stock portfolio delivered a whopper of a January. We made one switch by selling one of our stocks purchased 17 months ago and buying Polyone, (POL). POL is a mid-sized polymer manufacturer with a 52-week price range between $46 and $26. We bought it at $31.87, which is well below the year-high. Plus, POL pays a nice dividend.

Covered Call

The portfolio had a nice January recovery. The current standstill yield (call premium theta) of the current portfolio composite is $4600 per day, $1.7 million per year, or 5.6% if repeatable. This is the yield of just the option premium. Basically, if the underlying stocks just sit there, that is how much the call options are earning.

Real Estate Income and Growth

Our NUMERO UNO portfolio for January! REITs are typically pretty sleepy so you might not read that first sentence again for a while. A month or two ago, the REIT sector was priced like a close-out sale. Prices bounced back a fair amount but the big picture looks to be the same; good dividends with a tax advantage, little tariff risk, all US, no currency risk. Win, win, win, win?? Could be.

Preferred Income

Preferreds came back 3X faster than the aggregate bond index, but the sector is still cheap, in our opinion. Where else can you earn about 6% with some of the dividends taxed at capital gains rate?

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

In January, we completed the SPY restructure and as of today two of the three SPY positions are out-of-the-money and the March position is only $2 in-the-money. At today's prices, the current unrealized gains across the entire book are over $21MM, about 5%. Most positions expire sooner than later. We'll work to capture gains. Stay tuned.

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	2019*	2018	2017	2016	2015	2014	2013	2012	2011
Fixed Income	**Preferred Income** - Preferred stocks	3.85	-5.66	7.44	1.58	5.47	14.29	-4.65	9.42	
Growth and Income	**Covered Call Income** - Quality stocks & covered calls	5.93	-10.38	12.96	6.16	-1.11	6.33	22.28	10.23	-11.09
	Dividend Growth & Income - Dividend paying stocks	6.65	-8.95	21.99	11.07	-7.27	5.04	36.23	12.17	5.62
	Real Estate Income & Growth - REITs/real estate stocks	11.33	-5.34	2.99*	*5/1/17 inception					
Growth	**IntelliBuilD™ Growth** - IBD growth stocks	9.33	-11.30	25.40	-2.85	2.53	7.47	11.56*	*10/1/13 Inception	
	Bulls of the Dow - 10 stocks of the Dow Jones 30 Indus.	7.25	4.51	33.76	9.35	0.96	11.41	24.35*	*2/1/13 Inception	
	Twenty Under $35 - 20 best scoring stocks under $35	10.57	-18.74	5.72*	*10/1/17 Inception					
Option Overlay	**Put Income** - Realized gains return	0.09	0.58	*5.66*	*0.21*	*-8.86*	0.55	4.04		
	Index Income - Cash-flow yield	0.94	1.67	2.48	3.35*	*6/1/16 inception date				
	Index Income - Total return mark-to-market^	4.83	-3.59	2.41	2.52*					
	Index									
	S&P 500	8.01	-4.38	21.83	11.96	1.38	13.69	32.39	16.0	2.1
	S&P Mid-Cap 400	10.46	-11.10	14.45	18.73	-3.71	8.19	31.57	16.07	-3.10
	CBOE S&P 500 Buy/Write	3.43	-5.26	13.00	7.06	5.24	5.64	13.26	5.20	5.72
	Barclays Aggregate Bond	1.06	0.02	3.54	2.65	0.55	5.97	-2.15	4.2	7.8

*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)