Sheaff Brock

Innovative Portfolios for Intelligent Investors™

MARKET UPDATE

February 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 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.

> "It is health that is real wealth and not pieces of gold and silver."
> Mahatma Gandhi

Coronavirus has the potential to be a significant pandemic. Scary? Yes. Should you lighten up on stocks because of it? Probably not based on past outbreaks.

The table to the right shows the effect on the S&P 500 from epidemics over the last 4 decades. The average forward 6-month return of 9.2% and 12-month return of 13.6% were quite strong.

The chart below shows the duration of major epidemics and the global death toll of each, with the big ones highlighted.

Although scary and headline-grabbing, pandemics haven't historically sickened the stock market.

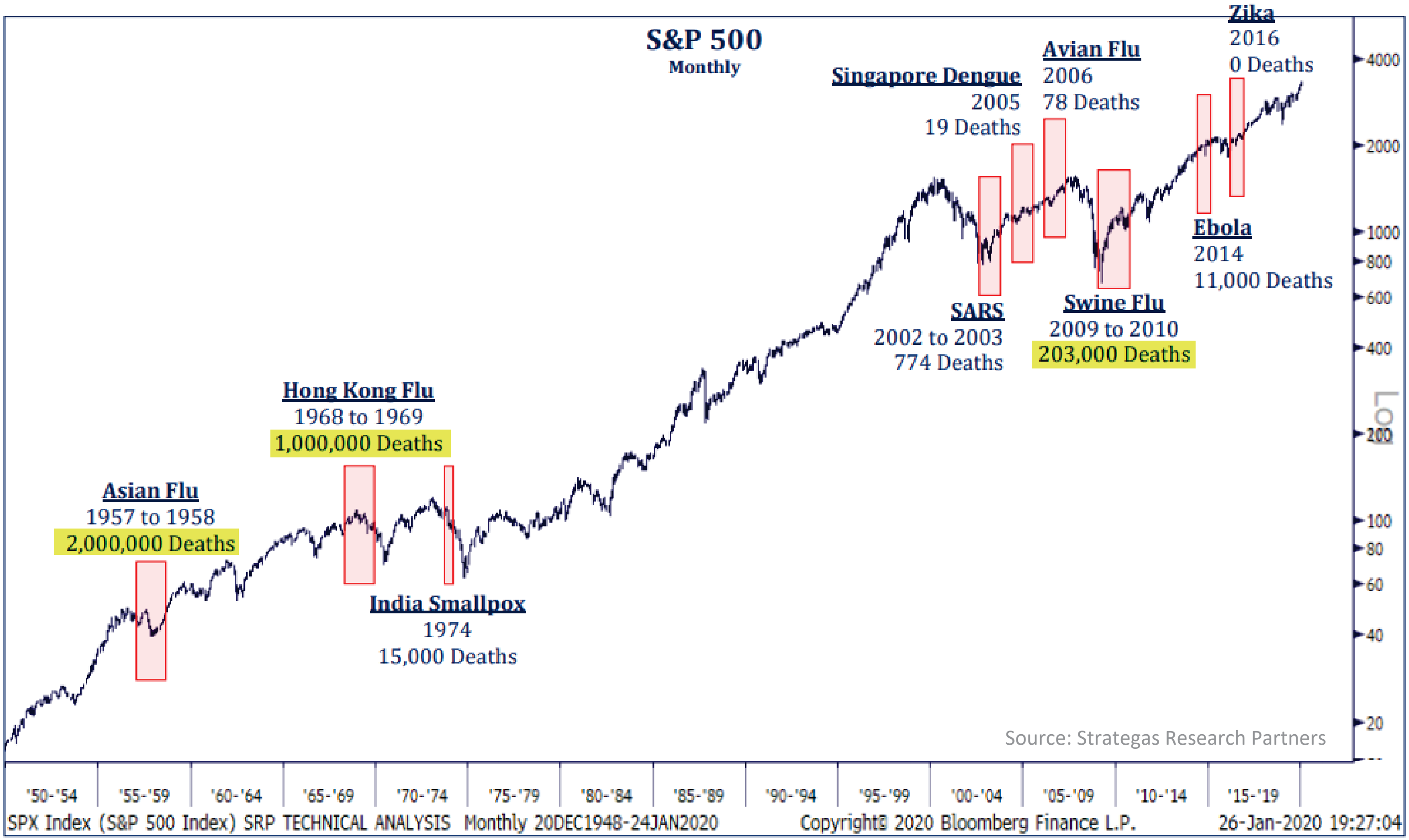
Epidemic	Month end	6-month % change of S&P	12-month % change of S&P
HIV/AIDS	June 1981	-0.3	-16.5
Pneumonic plague	September 1994	8.2	26.3
SARS	April 2003	14.59	20.76
Avian flu	June 2006	11.66	18.36
Dengue Fever	September 2006	6.36	14.29
Swine flu	April 2009	18.72	35.96
Cholera	November 2010	13.95	5.63
MERS	May 2013	10.74	17.96
Ebola	March 2014	5.34	10.44
Measles/Rubeola	December 2014	0.20	-0.73
Zika	January 2016	12.03	17.45

Average 6 month return 9.2%

Average 12 month return 13.6%

—Source: Dow Jones Market Data

HISTORY OF EPIDEMICS / PANDEMICS…



<u>Tiffany's Financial Planning Tips!</u> 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:

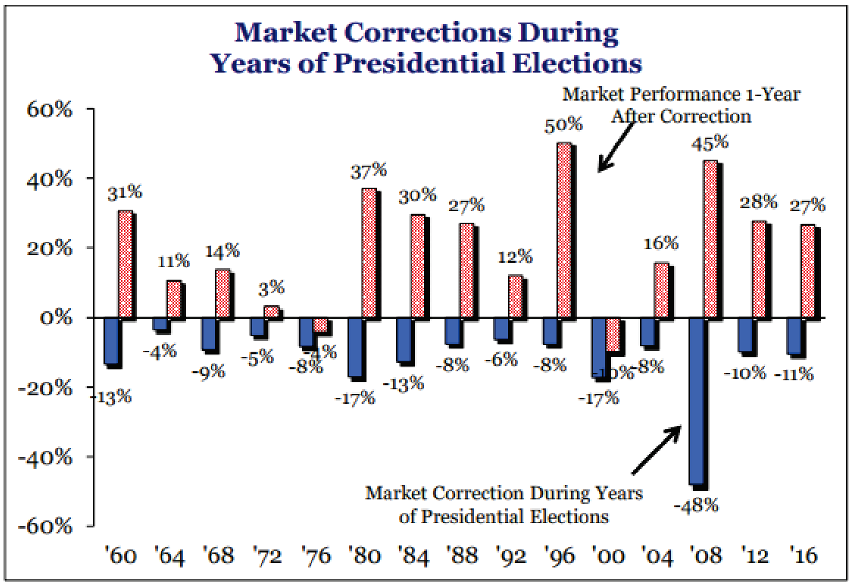
Congress passed the **SECURE Act**, which became effective this year and reforms retirement plans. Highlights include:

√ <u>Babies</u> The SECURE Act will allow withdrawals from a 401(k), IRA or other retirement account prior to age 59½ for child birth and adoption cost without penalty. Withdrawals will be allowed, up to $5,000, without paying the usual 10% early withdrawal penalty. Distributions will be treated as taxable income. Each spouse can withdraw $5,000 from his or her own account, penalty-free. Taxpayers have one year from the date the child is born, or adoption is finalized, to withdraw the funds from the retirement

√ <u>Home purchase</u> The SECURE Act continues to allow loans as much as 50% of your 401(k) balance without exceeding $50,000 with a repayment of five years and longer if used to buy a home.

√ <u>529 Plans</u> Currently, 529 education saving plans must be used for qualified education expenses. The SECURE Act expands the definition to include student loan payments and costs of apprenticeship programs up to $10,000.

A stock market correction is probably coming. There has been a correction during every election year since 1960 averaging -10% to -12%.



Source: Strategas Research Partners

All but twice there was a market rally following the corrections. Some of the subsequent recoveries were whoppers.

A **Netflix film** worth watching is a kind, moving, yet powerful documentary entitled ***Cuba and the Cameraman***. It recounts the periodic travels of an American filmmaker to the island nation over a 45-year period. Jon Alpert, an upbeat, socially progressive, and genial man, first started visiting Cuba in the early '70s. He was intrigued, given the political tension in America at the time, with Castro's implementation of social programs – like free health care, housing, and education – that "we were fighting for here in New York." He follows the lives of a variety of people through the years, tracing the arc of their hopes for a better future to their ultimate resignation and acceptance to the realities of life under a system that ultimately fails them.

American politicians used to tout Cuba's cutting-edge medical system as a model; viewers will see, among other things, a shortage of drugs at pharmacies, doctors who must reuse plastic gloves, glass syringes, and vintage medical tools. Alpert revisits three brothers, simple farmers who have few ambitions other than to till their fields, unable to keep their oxen and horses from being stolen or slaughtered, by others wishing to feed themselves. Perhaps most tragically, the film shows the innocence of youth transformed into middle-aged cynicism and hopelessness. There are some genuinely funny moments in the film too, especially when Alpert gets familiar with his subjects, including Castro himself.

This film shows the truth about a socialistic economic system over a five-decade period. It is also a powerful political commentary, perhaps especially for young people attracted to the promises of socialism.

Portfolio Updates

The year just started, so instead of performance talk we will describe the portfolios and a few attributes.

Dividend Growth & Income

Twenty-five stocks, equally weighted, large and mid-cap dividend payers, average dividend yield about 50% higher than the S&P 500, rising dividend income is sought, of which there is no guarantee, but every company in the portfolio raised its dividend last year.

Bulls of the Dow

Ten stocks from the thirty Dow Jones Industrials, all buys and sells quant-computer generated, rebalanced quarterly. A simple concept which has enjoyed solid results.

IntelliBuilD Growth™

IntelliBuilD™ consists of 33 positions, fully invested and equally weighted. Buys and sells are quant-computer generated with very little human bias. All are growth stocks from *Investor's Business Daily's* lists and a market cap agnostic.

Twenty Under Thirty-Five

Twenty-position portfolio of lower-priced stocks (under $35 when purchased), currently biased toward mid-cap and small-cap stocks. Buys and sells are quant-computer generated.

Covered Call

Large-cap stocks, both growth and value, about 25 to 30 positions, covered calls written on all appropriate positions. Cash from option premiums, cash from dividends and cash from possible appreciation are the goals. Accounts are bespoke.

Real Estate Income and Growth

REITs, dividends with tax advantaged income, 20 positions, and best of all a historical low correlation to the U.S. stock market (REITs have often zigged when the S&P 500 has zagged).

Preferred Income

Preferred stocks of the $25-par retail type and the $1000-par institutional type. Many preferreds pay tax-advantaged dividends. Relative to other fixed Income, preferreds offer a high after-tax yield. Income comfort food anyone?

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

Put income overlay uses a client's otherwise invested account as collateral to sell index put credit spreads as well as puts on individual equities. The goal is to create incremental income/capital gains on top of another portfolio. January's 2% gross and 1.7% net-of-max-fees were our best month ever. **Index Income** is similar but only uses the S&P 500 index option credit spreads for the income augmentation overlay. Index Income had a stellar year last year, stumbled out of the gate in January, but has 11 months left to catch up.

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	2020	2019	2018	2017	2016	2015	2014	2013	2012
Fixed Income	**Preferred Income** - Preferred stocks	1.44	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	23.57	-10.38	12.96	6.16	-1.11	6.33	22.28	10.23
	Dividend Growth & Income - Dividend paying stocks	-2.62	26.48	-8.95	21.99	11.07	-7.27	5.04	36.23	12.17
	Real Estate Income & Growth - REITs/real estate stocks	0.75	24.50	-5.34	2.99*	*5/1/17 inception				
Growth	**IntelliBuilD™ Growth** - IBD growth stocks	0.21	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.	-1.48	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	-4.99	26.65	-18.74	5.72*	*10/1/17 Inception				
Option Overlay	**Put Income** - Realized gains return	1.70	7.32	0.58	*5.66*	*0.21*	*-8.86*	0.55	4.04	
	Index Income - Cash-flow return	0.08	4.69	1.67	2.48	3.35*	*6/1/16 inception date			
	Index Income - Total return mark-to-market^	-0.68	8.99	-3.59	2.46	2.49*				
	Index									
Large-Cap Stocks	S&P 500	-0.04	31.50	-4.38	21.83	11.96	1.38	13.69	32.39	16.0
30 Giant Stocks	Dow Jones Industrial Index	-0.89	25.35	-4.78	28.09	8.66	7.70	10.05	22.41	
Mid-Cap Stocks	S&P Mid-Cap 400	-2.61	26.21	-11.10	14.45	18.73	-3.71	8.19	31.57	16.07
Covered Index	CBOE S&P 500 Buy/Write	-1.13	15.67	-5.26	13.00	7.06	5.24	5.64	13.26	5.20
Fixed Income	Barclays Aggregate Bond	1.92	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)