Sheaff Brock

Innovative Portfolios for Intelligent Investors™

MARKET UPDATE

April 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: 4/15/19

SheaffBriefs

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

> "The last leg of a bull market always ends in hysteria; the last leg of a bear market always ends in panic."
>
> Jim Rogers

Happy 10th (or maybe 6th) Birthday

Last month, the bull turned ten years old if you start counting at the 2009 bottom, but only six years old if you count from 2013, when a previous high was eclipsed. In last month's newsletter we showed a chart of every bull and bear market since 1926. The chart showed there were four previous bull markets that were longer and stronger than our current one. Then we asked a question:

Why couldn't the current bull market last a long time, like the 13-year to 15-year bull runs in the past?"

Regardless of age, this bull has been very unloved by U.S. investors. Consider that, according to Morningstar, in 2018 U.S. equity funds had the worst inflows since 2008 and money-market funds had their best year of inflows since 2008. That seems counterintuitive since the stock market hit a new high in 2018 and money-market funds yield almost nothing. But, equity fund inflows have been low for years, prompting many commentators to describe it as the "most hated bull market in history." The bull's birthday party was a yawner.

This hatred is good news. Bull markets often end with hysteria, when the public is jacked-up about buying stocks and are big net buyers of equities. Since the retail investor is not yet a believer, the bull could keep running.

Poor equity flows in 2018 were probably exacerbated by the sharp stock market correction in December, which then caused the whole year to register a weak performance. Thus, 2018 joined 2011 and 2015 to become the third "weak" year in the current ten-year bull run.

To the right is a table we used three years ago in the January 2016 newsletter, a couple of weeks after the 2015 weak year ended. The table shows that since WWII, weak years during a bull market are common, but it also shows that they allow the stock market to catch its breath and sprint forward the next two years. After a weak year in a bull market, the following two years have *always* delivered a double-digit combined return averaging over 47%. When we posted this in 2016 we had no idea what 2016-17 would bring. After all, 2016 was an ugly-and-getting-uglier election year, plus the economy was barely plowing ahead (2011-12 had a similar storyline: the European debt crisis and Obama's reelection). Now we know despite the political rhetoric and panting economies, 2012-13 delivered a 53% return and 2016-17 gave the S&P 500 a 36% total gain.

Now we are in 2019 after 2018's weak year. So far so good as the U.S. stock market enjoyed the best 1st quarter in over 20 years. Could 2019-20 give the S&P 500 a whopper double-digit gain like it has after the previous weak years? The naysayers point out that the global economy is slowing and an ugly-and-getting-uglier election is on the horizon. Hmm, sounds a lot like 2011 and 2015. Maybe the bull could snort at least a couple more years. Matador, wave the red cape and bring it on!

S&P 500 PERFORMANCE AFTER WEAK YEAR IN A BULL MARKET

		Gains After Weak Year (%)		
Weak Year During Bull Market*	Gain (%)	First Year	Second Year	2-Year Total
1946	-8.2	5.1	5.0	10.4
1948	5.0	17.8	30.2	53.4
1953	-1.1	52.3	31.4	100.2
1957	-10.9	43.4	11.9	60.4
1960	0.4	26.8	-8.8	15.6
1962	-8.8	22.6	16.3	42.7
1990	-3.2	30.4	7.6	40.3
1994	1.2	37.4	22.8	68.8
2011	1.9	15.7	32.2	53.0
2015	1.4	12.0	21.8	36.4
2018	-4.4	13.6^	??	??
Median	**-1.1**	**24.7**	**19.1**	**47.9**

Notes: *Weak year = 5% or less gain in the S&P 500 Total Return Index during a secular bull market. ^YTD as of 3-31-19. Median of first year results does not include 2019. Data source Standard and Poors.

Table source Ned Davis Research and Sheaff Brock Investment Advisors

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:

Finishing your taxes is a great time to organize and shred financial papers! Timelines to keep documents vary based on the need to access in the future:

* Month or so—Bank & credit card receipts until you reconcile with your monthly statement. Keep statements until the new one arrives.
* Longer but not forever—For items with fluctuating end dates, such as loan documents or investment trade confirmations, hold until the loan is paid off or the investment is sold.
* Seven years—Tax records should be kept for 7 years. The IRS has 6 years to collect taxes or start legal proceedings on the failure to report income.
* Forever—Birth and death certificates, marriage licenses, divorce decrees, Social Security cards and military discharge papers should be kept forever.

Markets and Economy

- This is the third year of the President's term. Since the birth of the global economy 75 years ago, according to Strategas Research, a recession has *never* started in the third year of a President's term and recessions have rarely started in the fourth year.
- Even though the world's economy seems to be slowing down a bit, stock markets here and abroad have had a great start to the year.
- Based on the table on the opposite page, the stock market through 2019 and 2020 could continue a solid upward run.
- According to Jim Rogers, bull markets end in hysteria. Investors are nowhere near hysterical to get in. Far from it.
- Generally, our portfolios had a very solid first quarter.

Portfolio Updates

Dividend Growth & Income

Dividend payers had a nice start to kick off the pre-election year. In the first quarter, our portfolio composite did quite well at 11.6% net-of-fees, 50bps above our Dow Jones Select Dividend Index benchmark. This year, healthcare stocks have been a drag on performance (losing between -2% and -22%) while technology and financials have been the stars (gaining between 24% and 38%). Right now, the portfolio is heavily weighted toward Financials, Technology, and Industrials. We have no exposure in Materials and Utilities, and very little in Real Estate and Communications. Earnings for Q1 are just now coming out which might prompt some portfolio changes.

Bulls of the Dow

The Bulls almost never stop plowing forward. During the first quarter of 2019, the Bulls composite once again beat both the Dow Jones Industrials and the S&P 500; 13.8% net-of-max-fees vs. 11.8% and 13.6% respectively. The April rebalancing was the most active we have ever had. Five stocks went to the bench while five others came in the game. Normally only two or three stocks change. Back in the lineup are Walmart, United Health, and Boeing. Making the starting lineup for the first time are Exxon and Chevron. We were surprised both of the energy stocks rose to the top of the class, but as we have said before in this portfolio we don't pick the stocks, the stocks pick us. Often times an unpopular or controversial stock makes the grade, such as Boeing in this quarter. Terrible news and tragedy brought the stock price down in March. In April, just focusing on the quantitative numbers, Boeing's fundamentals and valuation scored high so it's back in the game. The Bulls methodology is a 100% quantitative system that no human bias can screw up...which is probably why it has worked so well. Since its inception in January of 2013, the Bulls of the Dow has cumulatively returned 143% net-of-maximum-fees vs. 117% total return for the Dow Jones Industrial Index.

IntelliBuilD Growth™

Investors Business Daily's IBD 50 and New America stock lists are sorted by their "downside risk" characteristics and the portfolio buys the 33 best scoring stocks. The first quarter was fruitful and brought year-to-date performance to 15.4% net-of-fees vs. 13.6% for the S&P 500. Over time, this portfolio morphs around the market cap spectrum and now is 70% large-cap, 21% mid-cap, and 9% small-cap. Currently IntelliBuilD™ is fully invested with the largest company being Apple, the closest to our average sized company being CSX Corp., and the smallest being Warrior Met Coal.

Twenty Under Thirty-Five

This fully invested, twenty-stock portfolio of American companies priced under $35 (at least when first purchased) had a great January and February, but stumbled in March. It went from our best performing equity portfolio at the end of February to the bottom of the leaderboard at quarter's end. Low-priced stocks of smaller companies sometimes get smacked around, and this blend is currently 95% small and mid-cap stocks. Volatility kind of comes with the territory. So far in April, much of March's drawdown has been recovered; maybe the portfolio has found its stride again.

Covered Call

A very solid first quarter: 9.6% net-of-fees vs. 6.8% for the CBOE Buy/Write index. Currently the top positions in the composite portfolios are Texas Instruments, AT&T, Abbvie, Disney, Marriott, and Masco. Currently the covered calls are generating time value “theta” of $7950 per day, about 9.6% annualized on the whole composite. This means that if the underlying stocks just sit and tread water, the theoretical yield from just the covered calls could be high-single-digits. Add dividends and possible appreciation, then subtract the rest of the year’s management fees and commissions, and with just a little luck 2019 might end up being “nice, nice, very nice” (using the words of the character Bokonon from Kurt Vonnegut Jr.’s book *Cat’s Cradle)*.

Real Estate Income and Growth

Sheaff Brock’s best performer year-to-date? REITs? Shut up!! If you would have taken a poll on New Year’s Eve not a soul would have predicted REITs would lead the way so far this year. We started this portfolio two years ago this month with 20 stocks. Along the way we have changed the portfolio a bit, but still have over half of the original positions. We most recently swapped a hotel REIT that hadn’t raised its dividend into a specialty greenhouse REIT with a short-but-strong history of dividend increases. According to Panaray, our blend of REITs sports a dividend yield a bit over 4%.

Preferred Income

Preferred stocks are sort of akin to bonds that trade like stocks. Our portfolio composite is a blend of retail $25 par preferreds and institutional $1000 preferreds. The U.S. Preferred Stock Index yields about 6%, which is even a bit sweeter than high-yield corporate bonds. The bonus for preferred stock buyers is some of the dividends are taxed at capital gains rate. In 2019, there has been some appreciation, but that is not why most people invest in the sector. In our opinion preferreds are one of the best buys at the fixed income smorgasbord.

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

After a quiet February, the option overlay portfolios were quite active in March. The SPY option position restructure required from the December rollout made for a quiet February, but that position expired in March leading to a lot of activity. In the first quarter of 2019, Put Income (index credit-spreads on SPY plus puts on individual stocks) enjoyed a solid 2.24% net-of-maximum-fee return from realized gains. It’s a nice start to the year and hopefully we can build on it.

Index Income (just index credit-spreads on SPY) earned 1.3% in cash-flow and 5.3% in total return during 2019’s Q1. The rising price of the S&P 500 added to the total return by giving back most of what was taken away during last year’s 4th quarter swoon. In Q1, Index income had the best 3-month-running cash-flow since August of 2016 and the best total return since inception in June 2016.

The strong market in 2019 has been a welcome reprieve from December’s wicked selloff. However, a low-ish VIX is making it harder to get juicy premiums and forcing us to look harder for entry points. I guess that’s why they call it “work”.

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	6.19	-5.66	7.44	1.58	5.47	14.29	-4.65	9.42	
Growth and Income	**Covered Call Income** - Quality stocks & covered calls	9.60	-10.38	12.96	6.16	-1.11	6.33	22.28	10.23	-11.09
	Dividend Growth & Income - Dividend paying stocks	11.58	-8.95	21.99	11.07	-7.27	5.04	36.23	12.17	5.62
	Real Estate Income & Growth - REITs/real estate stocks	15.49	-5.34	2.99*	*5/1/17 inception					
Growth	**IntelliBuild™ Growth** - IBD growth stocks	15.43	-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.	13.82	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	7.52	-18.74	5.72*	*10/1/17 Inception					
Option Overlay	**Put Income** - Realized gains return	2.24	0.58	*5.66*	*0.21*	*-8.86*	0.55	4.04		
	Index Income - Cash-flow yield	1.33	1.67	2.48	3.35*	*6/1/16 inception date				
	Index Income - Total return mark-to-market^	5.29	-3.59	2.46	2.49*					
	Index									
Large-Cap Stocks	S&P 500	13.64	-4.38	21.83	11.96	1.38	13.69	32.39	16.0	2.1
Mid-Cap Stocks	S&P Mid-Cap 400	14.49	-11.10	14.45	18.73	-3.71	8.19	31.57	16.07	-3.10
Covered Index	CBOE S&P 500 Buy/Write	6.76	-5.26	13.00	7.06	5.24	5.64	13.26	5.20	5.72
Fixed Income	Barclays Aggregate Bond	2.94	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)