



Sheaff Brock

Innovative Portfolios for Intelligent Investors™

**MARKET
UPDATE
May 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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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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Go to sheaffbriefs.com. Check out our blog. good stuff.

"Investing is simple, but not easy"

Warren Buffett

K.I.S.S. and picking stocks

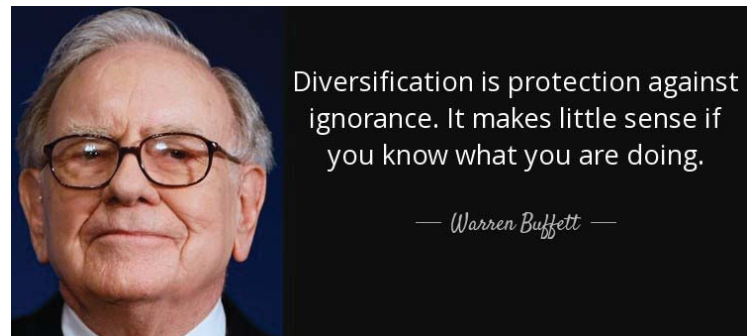
As you no doubt know, for our clients we mostly manage portfolios of common stocks, preferred stocks, or portfolios that utilize options on stocks. Using individual securities is a lot of work. The truth is, it would be a lot easier to just plop client investments into mutual funds or ETFs and spend more time trying to improve our golf game.



In Sheaff's and Brock's early career days of the 1980s, we were considered "stock brokers", but today that term has gone by the wayside. These days, very few advisors are "stock pickers" and virtually no retail reps at big brokerage houses know the first thing about individual stocks. Today, nearly all "financial advisors" have adopted the modern portfolio theory religion and put their faith in asset allocation, extreme diversification and Monte-Carlo simulations. Their clients usually pay a fee to them as an adviser for planning and allocation, and then pay another fee to the funds or ETFs that the advisor picks for them. In contrast, we nearly always cut out the middleman and just buy the securities straight-up.

Maybe we're dinosaurs, but we only use United States domiciled equities; sticking to what we know.

As far as asset allocation goes, we feel people should have most of their money in equities, and we strongly feel that the best way to accumulate long-term wealth is to stick with solid equity strategies for years and years. Our strategies may be less diversified than some other offerings, but there has been little evidence that allocations to foreign equities, emerging markets, frontier markets, alternatives, hedge funds or complex fixed income has been a benefit to wealth creation. We sort of identify with Warren Buffett's belief shown below.



Our American equities blinders may go against conventional wisdom, but by sticking to simple-knitting, middleman costs can be reduced, foreign currency risk is mitigated, and complexity is removed. It's basically the old K.I.S.S. theorem.

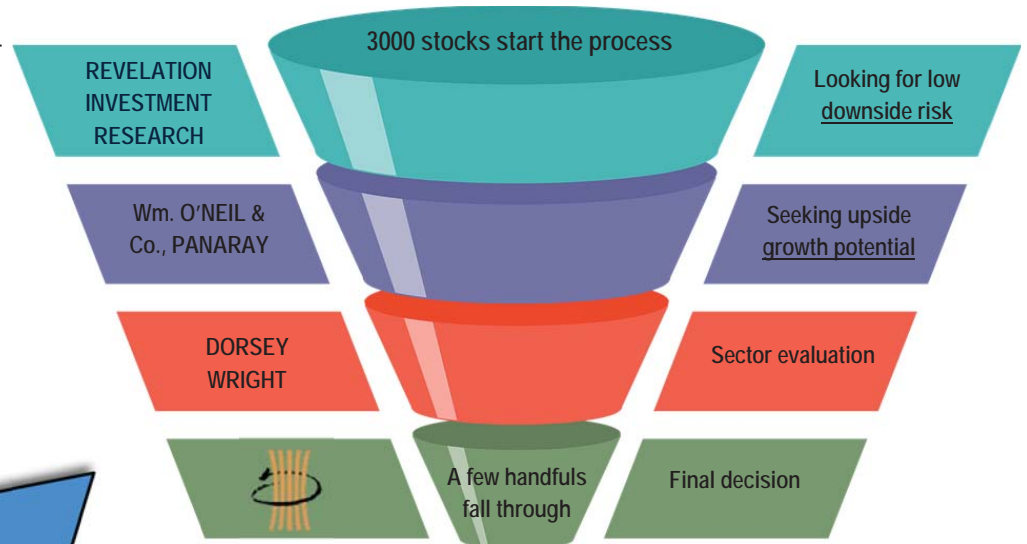


K.I.S.S. and picking stocks

While we obtain research from multiple sources like Strategas Research, Bloomberg, Dorsey Wright, and S&P, we lean heavily on two sources for stock picking. The first is Revelation Investment Research (RIR), and the second is William O'Neil's Pannaray. Each source looks for different things, in that RIR is focused on downside risk, projecting the odds of losing money on a stock, whereas O'Neil (also the firm behind *Investors Business Daily*) is all about growth, ranking stocks by how much upside potential there is. When these two sources are combined and

a stock displays lower downside risk attributes, but also has the growth attributes that drive upside appreciation, that stock gets our attention.

Every equity portfolio we manage, and the Put Income overlay, uses one or more of these screens to winnow down the list of all stocks to a few handfuls of buyable stocks. What we most like about the process is that it takes away much of the human bias and keeps our natural prejudice from screwing up an otherwise good decision.



Markets:

First-quarter earnings reports have wound down and the S&P 500 posted 25% year-over-year average earnings growth, paired with 8% average sales growth! That 25% EPS growth was 7% better than analysts' expectation. Corporate earnings knocked it out of the park making it a stunning earnings season. As we highlighted in the April newsletter, a mid-term election year historically delivers a sloppy, semi-weak summer for the stock market. But, the 4th quarter of a mid-term election year has historically been very good. The S&P 500 index is now at around 2700, and we are sticking with 3000 on the S&P 500 for a reasonable year-end target, which is about 10% higher than today.

Year-to-date through April, most stock market indices just bobbed up and down like a swimmer treading water in the Pacific Ocean, rising and falling with the swells. When April

ended the swells were mostly at a low point (have since risen in May), so the first 4 months of 2018 ended not far from where the year began. Action, just not much movement.

Portfolio Updates

There isn't much exciting news, so most of these updates are short and sweet.

Dividend Growth & Income

The portfolio is fully invested in 25 stocks, diversified in 9 of the S&P 500's 11 sectors (no telecom or utilities), and pays an average dividend yield of 3%. In the last month we sold our only telecom stock and replaced it with a regional bank. The portfolio's average 5-year dividend growth rate is 12%. If that continues, using the rule-of-72, the dividend income would double in 6 years. The main idea with this portfolio is dividend growth, which is why we gave it that first name.

WEBINARS! Go to our website, sheaffbrock.com, and click on CLIENT SUPPORT, then KNOWLEDGE BUILDER SERIES. Various subjects are covered. The April webinar, our economic and market outlook, was our most popular so far. Watching them through the website is the best because you can view...pause...bathroom break...view...pause...get glass of wine...view...pause...refill wine...view.....

IntelliBuild Growth™

Investors Business Daily's IBD 50 and New America stock lists start this funnel and then those stocks are sorted by their "downside risk" characteristics. According to analyst estimates, the 33 stocks are projected to grow earnings 75% this year, 3X the S&P 500's rate. But, the average trailing P/E of the portfolio is the same as the S&P 500. Same valuation, more growth.

Bulls of the Dow

This was our standout performer last year and still is through April of 2018. Two of the ten stocks changed in April during the normal quarterly rebalancing, and in July we will reevaluate again. Simple.

Covered Call

One of the thresholds Wally uses to put on a new position is a 10% annualized same-price cash-flow from the call option premium. When volatility is low that requires quite a search. At any given time, there may be a handful of potential buys. A simple requirement, but not easy, not at all.

Preferred Income

Preferred stocks are on sale, but nobody wants to buy them. Recent articles in *Barron's* has pointed out this same fact. Prices on preferreds as measured by the preferred stock ETF (PFF) have only been at today's levels five times since 2009. Dividend yield is about 6% annualized, and someday the prices should recover. Patience should (once again) pay.

Real Estate Income and Growth

Pretty much the same story as preferreds. REITs are cheap and pay a high dividend yield. According to Bloomberg, REITs have not been this cheap since 2009. What else is as cheap as it was in 2009? Not much else, except Beanie Babies, according to this article in the 2/21/18 *Wall Street Journal*, "Sorry Collectors, Nobody Wants Your Beanie Babies Anymore". REITs yes, Beanie Babies no.

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

Eighteen months ago, we brought the management of Put Income in-house. 2017 and thus far in 2018 have been very strong. The oil price recovery, higher quality stocks coming through the research funnel, a strong stock market, and patience have combined to give us our best 18 month stretch for realized gains since the inception in 2012. It's really a simple concept, but damn hard to execute. Clients who hung in there with us now think we're halfway-smart.

Index Income Overlay

We are closing in on the two-year mark since inception of this simple (but not easy) overlay. Even though volatility has been low for most of the 2 years, results have been in line with expectations.

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 April 2018	2017	2016	2015	2014	2013	2012	2011
Fixed Income	Preferred Income - Preferred stocks	-2.27	7.44	1.61	5.23	14.01	-4.59	9.19	
Growth and Income	Covered Call Income - Quality stocks & covered calls	-2.20	12.93	6.16	-1.11	6.33	22.28	10.23	-11.09
	Dividend Growth & Income - Dividend paying stocks	-2.31	21.99	11.07	-7.27	5.04	36.23	12.17	5.62
	Real Estate Income & Growth - REITs/real estate stocks	-5.17	2.99*	*5/1/17 inception					
Growth	IntelliBuild™ Growth - IBD growth stocks	-1.22	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.	0.95	33.76	9.39	0.97	12.10	23.99*	*2/1/13 Inception	
Alternative	Alternative - Metals, foreign currencies, commodities	-1.56	17.51	4.38	-8.24	-4.25	-0.72	9.02	-7.64
Option Overlay	Put Income - Overlay of short equity puts	2.89	5.66	0.27	-8.86	0.55	4.04		
	Index Income - Overlay of unleveraged put credit spreads	1.03	2.68	3.76*	*6/1/16 inception date				
Index									
	S&P 500	-0.38	21.83	11.96	1.38	13.69	32.39	16.0	2.1
	CBOE S&P 500 Buy/Write	-0.50	13.00	7.06	5.24	5.64	13.26	5.20	5.72
	Barclays Aggregate Bond	-2.19	3.54	2.65	0.55	5.97	-2.15	4.2	7.8
	DB Commodity Index Tracking Fund (NAV Total Rtn.)	6.09	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 maximum 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.