Sheaff Brock

Innovative Portfolios for Intelligent Investors™

MARKET UPDATE

July **2020**

Six Feet

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.

In America, anyone can become president. That's the problem. — *George Carlin*

No COVID-19 discussion this month. The virus will be with us, until it's not. Eventually it will be gone, but until then we just have to learn to live with it. Even though the election is a few months away, we have been getting many questions about investment direction based upon one outcome vs. another. Election results are a highly-charged emotional issue, especially this election, but based on history, probably shouldn't be used in making asset allocation decisions. Some people feel Republicans in charge would be better for the economy (and thus the stock market), however historical evidence doesn't support that belief.

Below is a table showing historical returns based upon the party in control of the White House and the two bodies of Congress. Under the table we laid out four election scenarios using Trump wins or Biden wins and Senate stays Republican control or Senate flips to Democrats. We didn't include the House going Republican since that is very unlikely. The results might surprise you.

2020 ELECTION CHARTBOOK

Source: Strategas Research

S&P 500 Average Annual Performance Under Partisan Control Scenarios

	1933 - 2019		1945 - 2019		1965 - 2019	
Political Scenarios	% Change	# Years	% Change	# Years	% Change	# Years
Unified Government	**10.03%**	**42**	**10.63%**	**30**	**8.79%**	**18**
1 > Democratic President	9.34%	34	9.79%	22	7.76%	12
> Republican President	12.95%	8	12.95%	8	10.86%	6
Unified Congress	**7.42%**	**32**	**7.42%**	**32**	**7.50%**	**24**
> Democratic President	12.96%	10	12.96%	10	16.28%	8
2 > Republican President	4.91%	22	4.91%	22	3.11%	16
Split Congress	**10.38%**	**12**	**10.38%**	**12**	**10.38%**	**12**
3 > Democratic President	13.60%	4	13.60%	4	13.60%	4
4 > Republican President	8.77%	8	8.77%	8	8.77%	8
All Years	9.11%	86	9.20%	74	8.57%	54

*Data excludes 2001 due to Rep Jeffords changing party mid-year

<u>**Listed in order of best S&P 500 returns**</u>

3. Biden wins, House stays Democrat, Senate stays Republican
   Sample size is small, but returns were good, +13.6% per year returns

1. Biden wins, House stays Democrat, Senate goes Democrat
   Sample size is large and returns were average, +8% to +10% per year returns

4. Trump wins, House stays Democrat, Senate stays Republican
   Sample size is decent and returns were average, +9% per year returns

2. Trump wins, House stays Democrat, Senate goes Democrat
   Sample size is large, and returns were low, +3% to +5% per year returns

When you look at it, three out of four scenarios seem OK for the stock market. The one outcome history says might be tough on your account balance would be Trump wins, but the Senate flips to the Democrats. Probably low odds of that.

Bottom line: While it may be important for other reasons you are passionate about, the political affiliation of the President doesn't seem to correlate very highly with future stock market returns; so <u>don't make big changes based upon ballot results</u>.

Tiffany's Financial Planning Tips! 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:

√ Make sure you periodically check bank and/or credit card fees. Banks are trying every-which-way to earn profits and some fees are increasing. A promotional period may have expired or the bank may have changed their fees. Every penny counts!

√ Review your insurance coverage and beneficiary designations. Make sure your coverage is still appropriate for your needs and make sure your deductible amount is not too low, or you may be paying too much in premiums!

√ Review your beneficiary designations. This is very important, especially in the case of divorces or deaths.

Portfolio Updates

The following was a July 1st post from Oliver Renick at TD Ameritrade, and I thought was very good:

The message of the second quarter is that America is still the greatest economic power in the world, by a long shot. The S&P 500 rallied 20 percent in the last three months, a 180-degree pivot from the first quarter, in which stocks dropped 20 percent. This epic 20-20 reversal is the first such swing since the Great Depression. By all suppositions, the COVID Crisis should have butchered the economy. Fear, panic, and hysteria gripped even the smartest, most logical people like no other time in recent history, for good reason; according to every textbook, the pain should have been excruciating. Instead, everyone got a check. It's truly extraordinary. Policymakers around the world, led by the U.S. in both our swiftness and size, decided to stop calamity in its tracks. Now, supported by the most disruptive technology companies since the invention of the internet, the stock market came back. This was only possible because investors around the world continue to acknowledge America's economy as the most stable. Our companies are the most innovative, and our currency is the bedrock of global commerce – for now. Next to the second-biggest economy in the world (China), our citizens are wildly freer. Like all countries, our moral compass is never perfectly pointed north. Our wealth disparity is glaring, but in a time of crisis that directly hit those lowest on the income ladder – our policymakers extended a helping hand. America is on top. The world went through this crisis together, so the U.S. dollar's role as a reserve currency was never under threat. If COVID becomes our own problem, or our recovery is stunted by domestic chaos, our authority to save ourselves may become limited. Being able to sidestep economic collapse means saving livelihoods; the ability to stop a depression is the economic touch of God. Abuse it, and it may well be a one-time trick.

The second quarter of 2020 featured different forces capturing our attention: COVID-19 spreading, shutdowns, protests, riots, CHAZ/CHOP, re-re-openings, and a crazy divided political landscape. While all of this was going on, the economy came off life support and showed surprisingly surging activity. For example, retail sales are almost back to pre-COVID-19 levels, the number of passengers going through TSA airport security checks went up from a low of 88,000 on April 14th to over 750,000 on July 6th, although traffic has since dropped a bit. Overall, recent economic reports have mostly surprised to the upside. Americans are tired of being cooped up, are learning to live with the virus, and the economy is chugging back to life. Remember, the stock market is a leading indicator, and the second quarter S&P 500 gain of 20% made for the best quarterly gain in over two decades. The economy will be messy and uneven, and the election will be beyond-ugly, but the stock market is likely telling us the overall direction is probably up. Choppy, but up.

Our portfolios had a solid quarter, some of them super-solid.

Dividend Growth & Income

Through June, our composite was –16% net-of-max-fees vs. a drop of –21.7% for our benchmark, the Dow Jones Select Dividend index. Nobody thinks losing money is good, but losing over 5% less than the index is actually quite good. Already this year, amidst the uncertainty, 17 of our stocks have increased their dividend. Since the last newsletter, we added one technology stock with a strong "downside risk" score. There are now 30 positions in the portfolio; closing the gap to our goal of 33 positions later this year.

Bulls of the Dow

For a large-cap value portfolio, this has been a stellar performer with a YTD return of –1.7% net-of-fees vs. –8.4% for the Dow Jones Industrial Average (DJIA). This is a simple portfolio of ten stocks from the thirty Dow Jones Industrials (DJIA), with all trades quant-computer generated and rebalanced quarterly. The July portfolio refresh saw 4 stocks exit and 4 new stocks take their places. This is quickly becoming our most popular institutional offering.

IntelliBuilD Growth™

IntelliBuilD™ consists of 33 positions and is fully invested. All positions are growth stocks from *Investor's Business Daily's* lists, and trades are quant-computer generated. So far in 2020, growth stocks have carried the market. Through June, our composite beat comparable indices, any way you slice it, by returning –1.7% net-of-fees vs. –3.1 for the S&P 500 and a drop of –13.0% for the S&P Mid-cap 400 Index. Of the 33 positions, 8 have turned over in 2020. The upcoming earnings season may prompt more changes.

Twenty Under Thirty-Five

This is a 20 position portfolio of lower-priced stocks (under $35 when purchased), and mostly small-cap value stocks, the worst subset to be in. 2020 has been unkind to this group.

Covered Call

Income from covered calls, dividends, and appreciation are the goals. Through June, Wally did a great job of manning the helm in uncharted waters. The covered call composite returned –7.4% net-of-fees vs. –15.1% for the CBOE Buy/Write index. I'd call 700+bps of alpha pretty friggin' good.

Real Estate Income and Growth

At –18.4% year-to-date our REIT portfolio looks ugly, but compared to our benchmark, the Dow Jones Select REIT Index which was –22% through June, we look fairly smart. REITs have had a tough time with the pandemic, but the strongest sectors have been data centers, cell towers, and industrial warehouses which make up 7 of our 20 positions.

Preferred Income

Preferred stocks of the $25-par retail type and the $1000-par institutional issues. Many preferreds pay tax-advantaged dividends with a 5%+ average dividend yield. Preferreds are the best valued income sector out there, in my opinion.

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. In June, we again booked realized losses, however currently there are nearly $20 million in unrealized gains across the book. All things being equal, gains could be booked in the 2nd half. **Index Income** is similar but only uses the S&P 500 index option credit spreads for the income augmentation overlay. In June, we had positive cash-flow and total return. As of today, all of the current index spread positions are out-of-the-money. Yee-haw! It was a wild five months, but rolling contracts forward created positive cash-flow every month. If there is continued market strength, total return may follow.

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	-4.87	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	-7.43	23.73	-10.36	12.95	6.16	-1.01	6.36	22.28	10.23
	Dividend Growth & Income - Dividend paying stocks	-16.03	26.48	-8.95	21.99	11.07	-7.27	5.04	36.23	12.17
	Real Estate Income & Growth - REITs/real estate stocks	-18.42	24.50	-5.41	2.77*	*5/1/17 inception				
Growth	**IntelliBuilD™ Growth** - IBD growth stocks	-1.69	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.	-1.67	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	-29.31	26.65	-18.74	5.72*	*10/1/17 Inception				
Option Overlay	**Put Income** - Realized gains return	-18.75	7.32	0.58	*5.66*	*0.21*	*-8.86*	0.55	4.04	
	Index Income - Cash-flow return	1.42	4.69	1.67	2.48	3.35*	*6/1/16 inception date			
	Index Income - Total return mark-to-market^	-4.75	8.99	-3.59	2.46	2.49*				
	Index									
Large-Cap Stocks	**S&P 500**	-3.08	31.50	-4.38	21.83	11.96	1.38	13.69	32.39	16.0
30 Giant Stocks	**Dow Jones Industrial Index**	-8.43	25.35	-4.78	28.09	8.66	7.70	10.05	22.41	
Mid-Cap Stocks	**S&P Mid-Cap 400**	-13.01	26.21	-11.10	14.45	18.73	-3.71	8.19	31.57	16.07
Covered Index	**CBOE S&P 500 Buy/Write**	-15.11	15.67	-5.26	13.00	7.06	5.24	5.64	13.26	5.20
Fixed Income	**Barclays Aggregate Bond**	6.14	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)