# Sheaff Brock

**Innovative Portfolios for Intelligent Investors™**

# MARKET UPDATE

## September 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 Bloomberg 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 Bloomberg 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**

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SheaffBriefs

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*A national debt, if it is not excessive, will be a national blessing.*

Alexander Hamilton

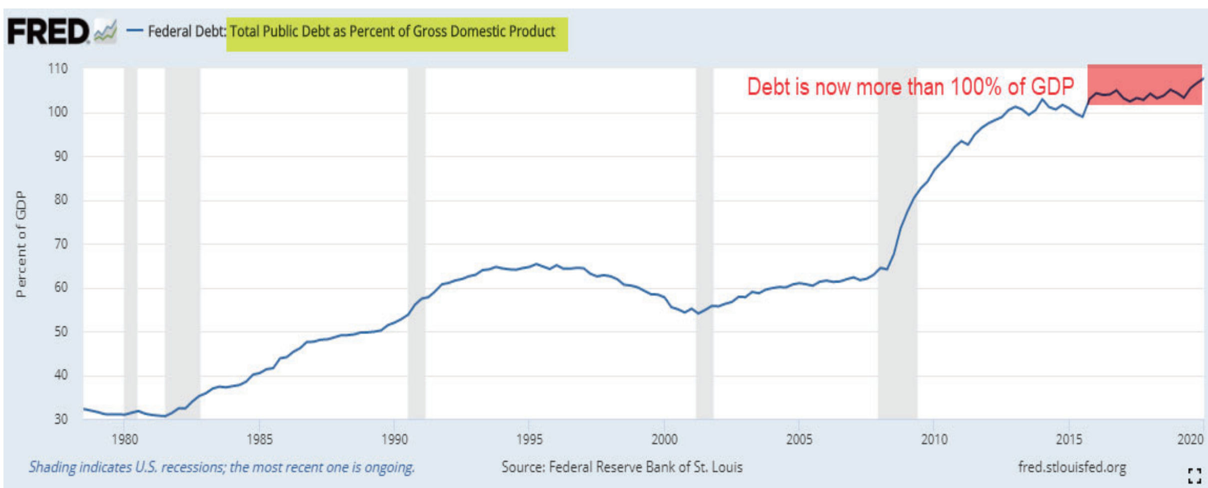
As this is being written, the election is about 6 weeks away. Political commentary and social media will really get ugly, if getting uglier is even possible.

Even though politicians love to spend other people's money, they all talk about how terrible debt is. The national debt, and the impending doom caused by it, has triggered gnashing-of-teeth since the founding days of the U.S. In fact, Alexander Hamilton, the current Golden Boy of the Founding Fathers, is one of the few that thought debt wasn't so bad. Besides, this country has carried debt for 243 of the 244 years since John Hancock scrawled his famous signature. And just think, cursive writing isn't even taught in school anymore! If Hancock had gone to today's schools he would have signed it like JOHN HANCOCK..

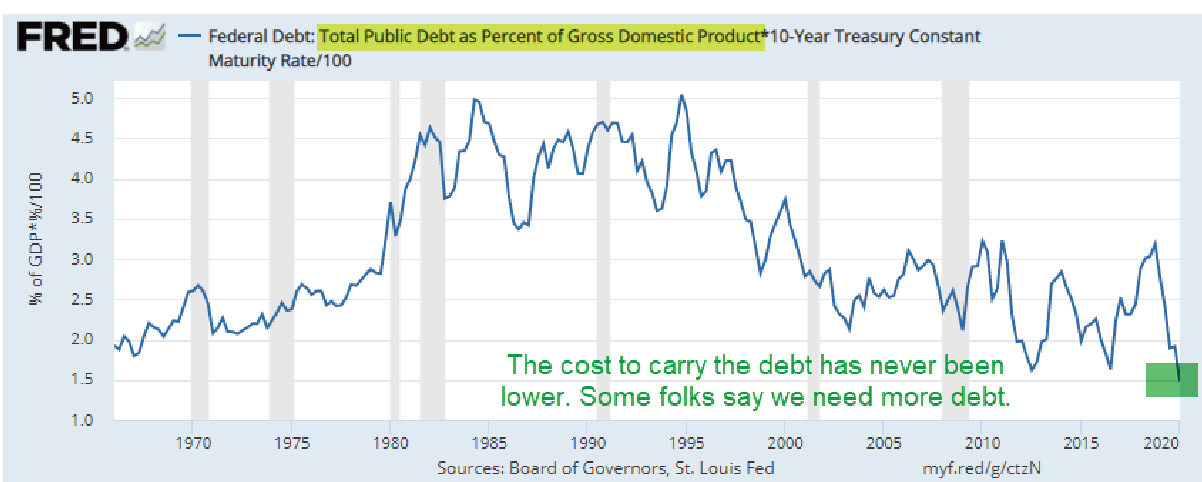
Andrew Jackson was the only President that insisted the debt be paid off, which during his second term was paid off. No more debt…"dolla-dolla bills ya'll" probably became the Jacksonian rally cry. But, a major depression, The Panic of 1837, soon followed. After that, subsequent Presidents probably figured, "What the hell, just borrow some money, keep the economy going, and let the next administration worry about the debt". And here we are with about $25 trillion of it (give or take a few trillion).

Is that too much debt, or is it no big deal? Depends on how you view it. Look at these charts from the Federal Reserve Economic Data group.

This chart gets the "debt-is-too-high" crowd worked up. Public debt has exploded from 50% or 60% of GDP to over 100% of GDP.




This graph multiplies the <u>same data</u> above by the 10-year Treasury rate. This represents how much the debt costs, as a share of GDP. The cost is remarkably low, only 1.5% of GDP, thanks to low interest rates. Looking from this angle, some consider the debt to be too low.



**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:

As we approach the November elections, here are a few planning tips to consider in the event the Democrats sweep:

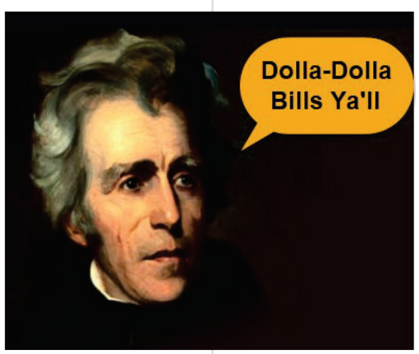
√ Examine your income & deductions to see if any income can be accelerated into 2020 and/or any deductions pushed to 2021. This may be wise if the Democrats take control and enact higher taxes on wages and capital gains.

√ Review 2021 cash needs and appreciated assets. Again, if the Democrats gain control and raise the capital gains tax, you may want to raise necessary cash in taxable accounts in 2020.

√ If you're considering a Roth conversion, 2020 may be your year under Biden's proposed tax increases.


About when you read this, the marriage between TD Ameritrade and Schwab will become official. Chuck will kiss his bride and the honeymoon will start. We have been told you won't need to do anything, and combining of the businesses will likely take many, many months. Eventually your statements will come from Schwab, but you probably won't notice any other changes.

However, nothing is changing at Sheaff Brock. Same great people, same service, same phone numbers, same strategies, same dumb humor in the newsletters, same...you get the picture. We are adding a custody relationship with E-Trade, so if you have an E-Trade account and want us to be able to advise on it, let us know.




**Portfolio Updates**

There is a lot of chatter that market volatility will increase going into the election. According to CFRA's Sam Stovall, that is false. Since WWII, volatility has actually been lower than average in the months leading up to an election, but has been higher than average following an election.


**Dividend Growth & Income**

Dividend payers are mostly "value" stocks, which until recently were the red-headed stepchildren of equities. This month, the S&P 500 Growth Index has dropped about 2X more than its Value Index. We will see if "value" stocks continue to hold their value. Through August, our composite portfolio of dividend payers returned –7.7% net-of-max-fees vs. a drop of –17.8% for our benchmark, the Dow Jones Select Dividend index. We own 32 positions, of which 28 have raised their dividends in the last year. Second quarter earnings for our stocks, which encapsulated the pandemic shutdown, surprised to the upside a median of 13% vs. an 11% surprise for our benchmark, according to Panaray. Our groups' earnings growth for next year is expected to be a median of 17% higher vs. 7% earnings growth for the index. We believe the portfolio is well positioned for both dividend growth and earnings growth.

**Bulls of the Dow**

This is our simpleton portfolio of ten stocks from the thirty Dow Jones Industrials (DJIA), with all trades quant-computer generated and rebalanced quarterly. The next portfolio refresh will be about a week after you get this letter. The DJIA will include the three new stocks added at the end of August: Amge, Salesforce, and Honeywell. The changes to the index may cause a changing of the Bulls.

**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 and helped this portfolio. Year-to-date IntelliBuilD has been our best performer by returning 9.4% net-of-fees vs. 9.8% for the S&P 500 and a drop of –5.9% for the S&P Mid-cap 400 Index. According to Panaray, of the 33 positions, 32 beat earnings estimates in the most recent quarter. GoDaddy was the only stock in the portfolio that didn't, although their EPS growth next year is expected to be +152%, the highest of the 33 stocks. In Q2, our stocks' median earnings "beat" was 21.4% vs. a median "beat" of 15.1% for the S&P 500 stocks.

### 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 not been kind to small-cap value stocks, including the 20 we own.

### Covered Call

Income from covered calls, dividends, and appreciation are the goals. Through August, accounts have done well as compared to benchmarks and other competitive offerings. The covered call composite returned –1.8% net-of-fees vs. –9.6% for the CBOE Buy/Write index. For most of 2020, the higher-than-average VIX has increased call option premiums, which has helped option income. Although the added volatility has added to the peril of an already perilous year.

### Real Estate Income and Growth

At –13.1% year-to-date, our REIT portfolio may not seem to be so hot. But compared to our benchmark, the Dow Jones Select REIT Index which was –18.8%, we look pretty decent. REITs have had a rough experience with COVID-19, especially retail, strip center, and urban apartment REITs. Data centers, cell towers, medical research campuses, federal government buildings, medical marijuana farms, and industrial warehouses have helped the portfolio. Recently we swapped an apartment REIT with northeast city exposure to one with southeast suburban apartment exposure. Cities in the northeast may have a tougher slog than the sunnier cities.

### Preferred Income

Our preferred composite went positive in YTD total return in August. Many preferreds pay tax-advantaged dividends with a 5%+ average dividend yield. To get a similar income stream one has to buy the junkier of junk-bonds. Most preferreds are issued by financial service companies like banks and insurers which, since 2008, have been under regulator's microscopes which has resulted in a higher level of issuer safety, in our opinion. Need income? Look at preferreds.

*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

The goal is to create incremental income/capital gains on top of another portfolio by selling index put credit spreads or put options on equities. **Put income -** In August we booked over $8.4 million in realized gains, the biggest total since bringing the strategy in-house about 4 years ago. More work is required to offset   spring losses. But with a little luck, we may be able to book enough gains in the last 4 months of 2020 to squeak by with a positive number for the year. **Index Income -** August gave us another "best" monthly cash-flow, beating last month's previous best. As of today, all of the current spread positions are out-of-the-money. YTD cash-flow is good and total return  has almost come back to  even-money after the double-digit drop during the pandemic abyss.

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<br>Net-of Maximum-Fee | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| Fixed Income | **Preferred Income** - Preferred stocks | 1.05 | 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 | -1.77 | 23.73 | -10.36 | 12.95 | 6.16 | -1.01 | 6.36 | 22.28 | 10.23 |
| | **Dividend Growth & Income** - Dividend paying stocks | -7.66 | 26.48 | -8.95 | 21.99 | 11.07 | -7.27 | 5.04 | 36.23 | 12.17 |
| | **Real Estate Income & Growth** - REITs/real estate stocks | -13.08 | 24.50 | -5.41 | 2.77* | *5/1/17 inception | | | | |
| Growth | **IntelliBuilD™ Growth** - IBD growth stocks | 9.41 | 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. | 0.80 | 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 | -21.79 | 26.65 | -18.74 | 5.72* | *10/1/17 Inception | | | | |
| Option Overlay | **Put Income** - Realized gains return | -14.03 | 7.32 | 0.58 | *5.66* | *0.21* | *-8.86* | 0.55 | 4.04 | |
| | **Index Income** - Cash-flow return | 3.01 | 4.69 | 1.67 | 2.48 | 3.35* | *6/1/16 inception date | | | |
| | **Index Income** - Total return mark-to-market^ | -0.56 | 8.99 | -3.59 | 2.46 | 2.49* | | | | |
| | **Index** | | | | | | | | | |
| **Large-Cap Stocks** | **S&P 500** | 9.75 | 31.50 | -4.38 | 21.83 | 11.96 | 1.38 | 13.69 | 32.39 | 16.0 |
| **30 Giant Stocks** | **Dow Jones Industrial Index** | 1.31 | 25.35 | -4.78 | 28.09 | 8.66 | 7.70 | 10.05 | 22.41 | |
| **Mid-Cap Stocks** | **S&P Mid-Cap 400** | -5.87 | 26.21 | -11.10 | 14.45 | 18.73 | -3.71 | 8.19 | 31.57 | 16.07 |
| **Covered Index** | **CBOE S&P 500 Buy/Write** | -9.56 | 15.67 | -5.26 | 13.00 | 7.06 | 5.24 | 5.64 | 13.26 | 5.20 |
| **Fixed Income** | **Bloomberg Barclays Aggregate Bond** | 6.85 | 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)