Sheaff Brock

Innovative Portfolios for Intelligent Investors™

MARKET UPDATE

December 2017

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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Any portfolio returns mentioned are composite total returns, and are net of fees and commissions. 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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> "To put a trillion dollars in context, if you spent a million dollars every day since Jesus was born, you still wouldn't have spent a trillion."
>
> Mitch McConnell

During the constant chatter about the tax law proposal, the TV pundits and the politicians throw around the word trillion like it is chump change. We hear statements like, "Scoring from the CBO shows the plan will only add $1.5 trillion to the debt over a decade." It's kind of mind-blowing to hear the word "only" just before the word "trillion".

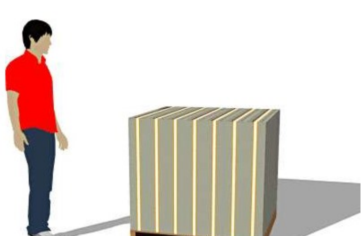
Debt in-and-of-itself is not bad. This country is 241 years old, and we have owed debt to others for 240 of those years. Andrew Jackson was fiercely opposed to debt, so in 1835 during the sixth year of his presidency, he had all of the debt paid off. It looked good on paper, but this led to a disastrous economic slowdown and a massive six-year depression.

Five years ago in this newsletter, we showed an illustration of what a trillion dollars looks like. We thought this would be a good time to bring it out of the archives, since a decade from now we might be throwing around the word "quadrillion", or a thousand trillion.

Here is $10,000. One hundred $100 bills, a half inch thick.

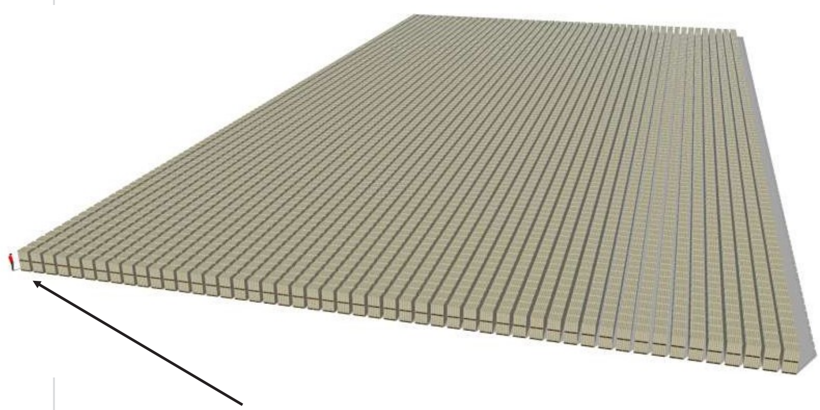
Here is a guy standing next to $1 million. One hundred packets of $10,000.

Here is the same guy next to $100 million stacked nicely on a pallet.



Below is $1 billion, ten pallets. It used to be a billion was a big number, and it still seems pretty big to us, but ain't nuthin' in Washington.

Now, here's a trillion; which is a million-million, or a thousand billion. It's hard to visualize so here is a picture.



Look closely, the guy is standing next to the pallets; and notice they are double stacked! It resembles the warehouse at the end of *Raiders of the Lost Ark*. Every year, the U.S. government spends about 4 of the above picture and borrows around one picture to do it.

Luckily the entire U.S. economy, as measured by GDP, is 19 of the above photos every year. While Washington is busy spending, the rest of us are even busier making more. For over 240 years, capitalism has grown the total economy bigger and faster than Washington could spend it. The economy is an enormous engine continually chugging along, like John Fogerty said in the song Proud Mary, "Big wheel keep on turnin'".

Portfolio Updates

Santa has been very good to the stock market this year, and our clients' managed portfolios have benefitted. Nearly all of our strategies are performing at a high level relative to their benchmarks. The stock market has been strong, but it is interesting to note that almost 40% of all stocks in the S&P 1500 are either flat or down in price year-to-date. About 60% of the stocks are carrying the load, singing *"He Ain't Heavy, He's My Brother"* as they trudge along. Next year will be interesting, and although we are expecting gains, it might be asking a lot for returns of over 20% from equities. A tax bill out of Washington may help the market, but stocks are overdue for a pullback. Expect one. Then you'll be prepared when it happens!

Dividend Growth & Income

Our flagship strategy is having a bang-up year, sporting a total return year-to-date of 19.6% net-of-fees. As a comparison, our benchmark, the Dow Jones Select Dividend Index, was up 14.1% during the same period. The portfolio has 25 positions, is fully invested, and the highest weighted sectors are healthcare, consumer discretionary, technology and industrials. The portfolio's beta is low at 0.9, average dividend yield is 3%, dividend growth rate is 11%, P/E is 18, and average earnings growth is 24% this year.

IntelliBuilD Growth™

This is our growth portfolio based on *Investors Business Daily's* IBD 50 and New America stock lists. IntelliBuilD had a strong September, a great October, and a market beating November. During those three months, IntelliBuilD gained 14% net-of-fees vs. 7% for the S&P 500. Turbo spooled up. Year-to-date it has a great year going, gaining 26.3% net-of-fees through November vs. 20.5% for the large-cap S&P 500 and 15.6% for the S&P Mid-Cap 400 Index. Thirty-three stocks with average earnings growth this year of 52%, P/E of 20, beta is bouncy at 1.5, and the average composite rating by William O'Neil & Co. is 90 (out of 100).

Bulls of the Dow

Year-to-date, the Bulls are running like they are chasing stupid tourists in Pamplona, Spain. Through November, the Bulls were our standout portfolio and returned 29.3% net-of-fees. The "market" as measured by the S&P 500 (large-cap) index gained 20.5% over the same period. The Bulls is a simple portfolio consisting of the 10 lowest-risk stocks (as determined by our research data) of the 30 that make up the Dow Jones Industrials, rebalanced 4 times per year. This year is a classic example of the lower-risk companies delivering higher total returns. As it stands today, at the next rebalancing there would be two companies sold and two new added. But for now we wait and enjoy the holidays (and maybe a wee dram or two), because the next rebalancing won't be until January.

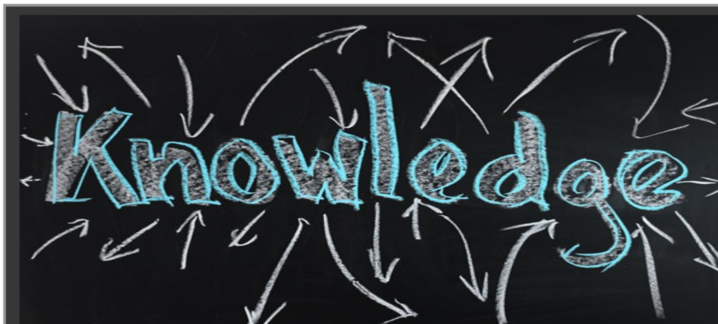
WE ARE GROWING UP:
Starting next year, Sheaff Brock will be operating with recorded phone lines. This is being done first for training and coaching purposes, but also to insure accuracy of instructions from clients. Recorded lines are pretty much a standard feature in many industries these days, so this should not be a big deal for us, or you.

Covered Call

November was an excellent month for Covered Call accounts and brought the total return of the composite up to 11.3% net-of-fees through November. This compares to the Morningstar Option Writing (XR) category gain of 8.3% and the CBOE Buy-Write Index gain of 11.6% during the same period. Because the stocks in the composite have their appreciation capped by the covered call option, generally, a low-double-digit return is what you can expect in strong years.

Preferred Income

During November, bond prices dropped a bit and so did our Preferred composite. We still have a nice year going with a total return through November of 7.2% net-of-fees. This is over twice as good as the general U.S. bond market as measured by the Bloomberg Barclays US Aggregate Index which gained 3.07% during the same period. This year we have been adding more fixed-to-floating preferreds (listen to the conference calls for an explanation) and recently have tiptoed into the $1000 par institutional preferreds. Generally, institutional yields can be better and volatility is often lower. Win, win.



Knowledge Builder webinars touch on various subjects and only last 30 minutes or so. Watch the recording of previous Knowledge Builders on our website. Invites are by email. You might learn something, really you might, and who doesn't want more knowledge?

Alternative

The Alternative portfolio managed for us by Mark Salzinger is having its best year ever, helped by emerging markets. Several pundits we respect are preaching that commodities, metals, and materials will be the big story of 2018. The Alternative portfolio might still be getting warmed up.

Real Estate Income and Growth

We launched "REIT Baby" earlier this year which is a portfolio of real estate investment trusts, or REITs. The composite started April 30th and currently owns 20 REITs with an average dividend yield of 4.6%. It is designed to pay a decent income, have a rising income, and perhaps gain some growth of capital. We are in every sector except retail shopping malls. The retail mall REITs are enticing with good dividend yields, but we feel the space could still be a value trap.

35/20

A couple of months ago, we incubated a new growth portfolio which owns 20 stocks, initially purchased under $35 per share, and all of them with the low downside risk attributes we use in our other portfolios. It's too early for returns, but it looks promising...we'll keep you posted.

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

It has now been 13 months since we brought the management of this strategy in-house, and 13 has been a lucky number for us. We continue to add index credit-spreads on the SPDR® S&P 500 ETF (SPY) in accounts, as well as reworking some in-the-money positions by adding new positions with a much higher statistical probability of expiring for a gain. In the last year, we extricated clients out of many in-the-money positions. Work continues on the remaining dirty dozen: WLL, MOS, KR, FOXA, VIAB, M, OXY, CVS, NE, MCK, GILD, and F. October was a good month for gains and November was better. As of today, December looks like it should be strong too. If the commodity story came to fruition in 2018, many of the above problems could become beautiful...ooh-la-la.

Index Income Overlay

A simple overlay using put option credit-spreads on the SPDR® S&P 500 ETF (SPY) staggered monthly, one spread expiring month, after month, after month. Since inception, the spreads have expired like clockwork. Keep those fingers crossed. In 2017, a low VIX has made getting a theta yield a bit of a challenge. Instead of increasing risk to obtain the yield target, we have opted to stay at the same risk level and accept less yield. Our belief is to accept less yield now, so that when (not if) a correction comes we can roll out to a lower strike price easier, and hopefully more profitably.

2017, politically crazy, but economically good...Cheers!

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	2017 Thru Nov.	2016	2015	2014	2013	2012	2011	2010
Fixed Income	**Preferred Income** - Preferred stocks	7.20	1.66	5.22	14.02	-4.57	9.11		
	High Yield Bond	4.53	11.63	-7.32	-1.93	8.78	15.38	3.99	15.93
Growth and Income	**Covered Call Income** - Quality stocks & covered calls	11.32	6.24	-1.20	6.39	22.04	10.14	-11.57	
	Dividend Growth & Income - Dividend paying stocks	19.60	11.22	-7.17	5.20	36.47	12.46	5.80	16.94
	Real Estate Income & Growth - REITs/real estate stocks	4.74*					*4/30/17 inception date		
Growth	**IntelliBuilD™ Growth** - IBD growth stocks	26.33	-2.71	2.52	7.63	11.18*	*9/30/13 inception date		
	Bulls of the Dow - 10 stocks of the Dow Jones 30 Indus.	29.32	9.65	1.14	12.42	30.05	7.83		
Alternative	**Alternative** - Metals, foreign currencies, commodities	15.28	4.37	-8.25	-4.23	-0.70	9.02	-7.74	
Option Overlay	**Put Income** - Overlay of short equity puts	*4.75*	*0.26*	*-9.17*	0.56	3.97			
	Index Income - Overlay of unleveraged put credit spreads	2.38	3.67*	*5/31/16 inception date					
	Index								
	S&P 500	20.49	11.96	1.38	13.69	32.39	16.0	2.1	15.1
	CBOE S&P 500 Buy/Write	11.61	7.06	5.24	5.64	13.26	5.20	5.72	
	Barclays Aggregate Bond	3.07	2.65	0.55	5.97	-2.15	4.2	7.8	6.5
	DB Commodity Index Tracking Fund (NAV Total Rtn.)	2.08	18.50	-27.41	-28.18	-7.57	3.31	-2.71	