Sheaff Brock

Innovative Portfolios for Intelligent Investors™

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MARKET UPDATE

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Have a friend, adult child, or rich uncle who might like to receive this monthly letter? Let us know and we'll add them to the list.

> "Fixed-income investors world-wide face a bleak future...bonds are not the place to be these days."
>
> Warren Buffett's 2021 Berkshire-Hathaway shareholder letter

Many investors consider this an absolute fact:

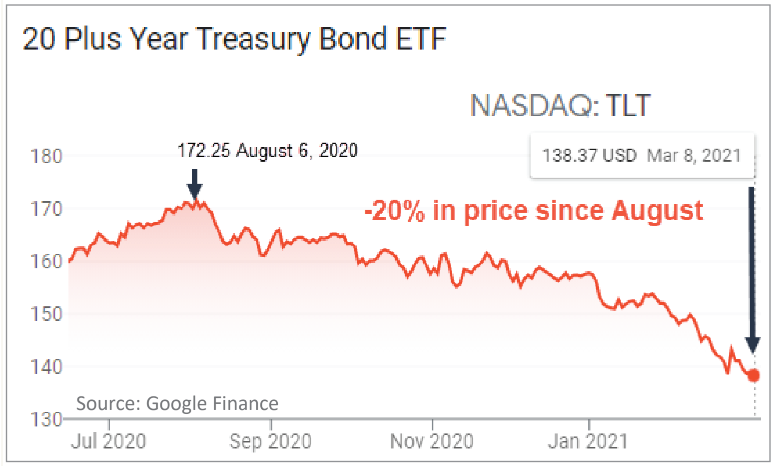
Bonds are safe, stocks are risky.

High quality bonds, like U.S. Treasury bonds, pay interest regularly, eventually mature, and then pay back their original "par" value to the investor. The investor gets interest on their money, and then gets their money back. According to Morningstar, since 1980, the U.S. Bloomberg/Barclays Aggregate Bond Index (AGG) has averaged over 7% returns, while only showing negative returns three times, with the worst year being –2.9% in 1994. Make 7% and lose less than 3% a few times. Safe, right?

The stock market has no guarantees, dividends can be cut, prices gyrate daily for no apparent reason, and sell-offs are sometimes terrifying. During those same years, the S&P 500 suffered negative returns seven times, more than twice as often, with the worst year being –37% in 2008. Besides that, the stock market fell peak-to-valley -50% more than once! Sure, long-term returns beat bonds, but jeezul, what a ride. Risky, right?

Since interest rates have generally been dropping for nearly four decades, bonds have been in a <u>very</u> long-term bull market. For years now, as complacent investors have motored into Bond Town they have quit looking at this warning sign:

Why worry about something that hasn't happened since Jimmy Carter was in the Oval Office? Between a bond's issuance and maturity, interest rate changes affect the price. Rising rates, mostly nonexistent for forty years, make prices drop. There is an ETF that follows the Barclays Twenty-Plus Year Treasury Bond Index (TLT). Rates on these bonds have gone up about 1% since August. I mean a 1% move, big whoop, right? Look what happened to TLT with that little 1% move:



Wham-o, down 20%! Today TLT yields 1.5%, so in only 13 years the ETF may pay in interest what it lost in principal over the last 7 months. Silver lining...investors might be whole by 2034!

A couple of years ago when the 20-yr Treasury yielded 3%, TLT traded at $115 vs. today's $138. A 20-year Treasury rate of 3% is still very low in the grand scheme of things. If, or more likely when, 20-yr rates go back the 3% level, TLT could lose another 20% in principal. A 40% scalping would be on par with most any stock market correction. No worries, investors might get whole by 2047. Are bonds really safe?

The stock market has no guarantee and prices gyrate wildly, but returns over time have been much higher than bonds. And historically, the stock market has always rebounded. According to Strategas Research, the S&P 500 has hit a new high an average of 18 times per year since 1954, but it doesn't hit a new high <u>every</u> year. Although, most years have them, as over 60% of the years have registered new all-time market highs. There have been three stretches of 5 and 6 years in a row (1970's, Dot Com, and 2008 Great Recession) without new highs. I'd rather earn higher returns and periodically wait a few years to "get whole", than earn a paltry income and wait decades for a return of inflation decimated principal. Are stocks really risky?

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. Every month we share a planning tip or two:

1) With a new stimulus package in the works, you may wish to delay (or accelerate) the filing of your 2020 tax return. If your 2019 AGI was below the phaseout ranges, but your 2020 AGI is above, DELAY. If your 2019 AGI was above the phaseout ranges, but your 2020 AGI is below, FILE ASAP! Phaseouts based on the current version of the proposed bill are as follows:

Married Filing Jointly: $150K - $200K   Single: $75K - $100K   Head of Household: $112.5K - $150K

2) Don't forget you still have time to make IRA, Roth IRA and/or HSA contributions for 2020! The deadline for these contributions is April 15th. If you are making a SEP IRA contribution, you have until the due date of your return, which could be October 15th if you filed an extension.

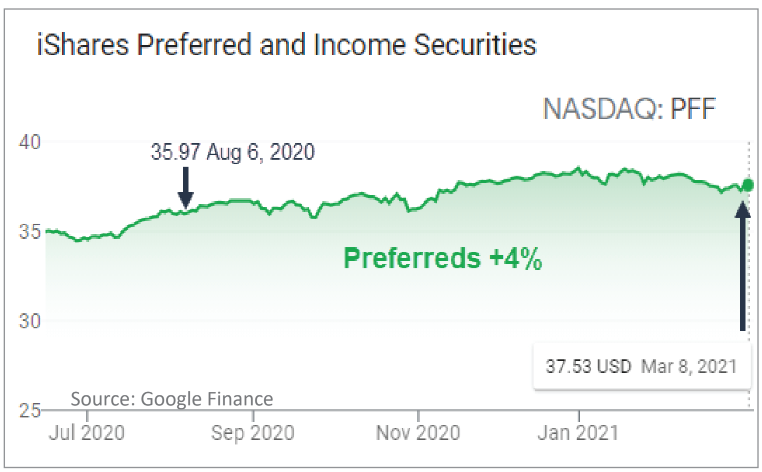
HEY YA'LL

Like the vaccinations, many of you have participated, but there are stragglers! You may receive, by either email or snail-mail, a letter and form to return to help us with a project. If by email, it will be a DocuSign form, whereas snail-mail will include a paper form. We would appreciate it if you could return the signed form sooner-than-later. The purpose of the project is to consolidate the "money management" portion of our business into our wholly owned sister company, Innovative Portfolios, for institutional asset management reasons.

We want to assure you that nothing changes on your end - the management remains the same, your ability to interact with anyone at the firm remains intact, and costs don't change one penny. The same people will continue to manage your assets and Sheaff Brock is still your advisor; Innovative Portfolios will simply be acting as a sub-advisor to Sheaff Brock, and again, we own both. *Literally nothing changes in the management of your accounts.*

When you get the forms, please sign and return them. THANKS!

If interest rates continue to rise and bond prices continue to fall, where can investors earn income? We've been harping on this income sector for some time, but why not harp some more? Look at the chart below of how preferred stocks have done during the same period 20-yr Treasuries took the –20% hit. This is a chart of an ETF that tracks a preferred stock index:



Wow, preferreds gained 4% while long-term Treasury bonds were whacked –20%! Our Preferred Income strategy still offers a strong yield paired with good credit ratings and partially tax-advantaged income. Don't want to commit $100K? If you want to make a smaller commitment to preferreds, you might want to look into the preferred fund, also managed by JR Humphreys, through our sister company, Innovative Portfolios.

Pencil-heads consider preferreds riskier than bonds, but are they? Certainly preferreds have risk, but in the current environment they don't look riskier to me.

Portfolio Updates

It's a mixed-up market bag so far in 2021. Last year's darlings in the technology space are down, the sad-sack bond market is sitting around reliving its glory days, old-school stocks are revving their engines, COVID news is improving, Disney Cast Members are dusting off their costumes, and stock market volatility is bouncing around at above average levels.

Dividend Growth & Income

Dividend payers, dividend raisers, and growing companies are what we look for. We recently added three stocks to the portfolio, Corning (GLW), Dow (DOW), and Johnson & Johnson (JNJ). Corning's business is fiber optics and display screen glass (phones, tablets, monitors). GLW has solid earnings and dividend growth, plus just technically broke out of a multi-year channel. Dow is a 200-year old company that is brand new. What? DowDuPont rejiggered their businesses and spun off Dow as the commodity chemical and plastics giant. At over 4.5%, their dividend is quite high and an economic reopening should help demand. JNJ - You know what they do, but what you might not know is the company has raised its dividend 59 years in a row.

Bulls of the Dow

Ten stocks with the best "downside risk" scores from the thirty Dow Jones Industrials (DJIA). The January refresh resulted in no changes, and in 2021 the portfolio has struggled a bit. It's not unusual for the Bulls to sometimes zig when the market zags, which is probably a function of a concentrated, ten stock portfolio. The next rebalance will be in April.

IntelliBuilD Growth™

33 positions, growth stocks from *Investor's Business Daily*. The tech stock correction in 2021 hurt this strategy's performance a bit, and has caused some turnover. But, we are still in the early innings for the year. Recent buys include Applied Materials (AMAT), TechTarget (TTGT), and an interesting old-school stock, Deere (DE).

Outlier Growth

This is our new portfolio of stocks showing unusually large institutional buy-side volume over the previous six months. Some of the stocks are widely known, some you've likely never heard of. We are trying to identify companies with high growth potential, and find them fairly early in their growth cycle, which can make the portfolio a bit of a wild pony. Potential candidates are quantitatively analyzed in about the middle of every month. Currently, it is mostly populated with technology stocks.

Covered Call

These accounts are chugging along like *The Little Engine That Could*. Out of the blocks, being ahead of the CBOE Buy/Write index is good. The largest holdings in the accounts are Apple, Eaton, Johnson & Johnson, JP Morgan and Walmart; a solid group, all in different sectors.

Real Estate Income and Growth

In last month's letter we said, "REITs may be the best-valued reopening play with income." As of February, our REIT portfolio was the best of the bunch. Last year, every portfolio we offer had a good year, except this one. Perhaps the REIT valuation pendulum swung too far toward undervalued, and the bang-up start in 2021 is reflecting that. Many REITs stand to see improved cash-flow as people climb out of their COVID caves and back into offices and shopping malls.

Preferred Income

Preferred stocks. If you want to earn about 4% income on a pool of capital, there aren't a heck-of-a-lot choices, like about two really, *preferreds* and *junk* bonds. Their one-word descriptions tell it all. Re-read this letter from the beginning if you think preferreds are the same as bonds. The steepening yield curve should benefit earnings and the credit risk of financial stocks, which are the biggest issuers of preferreds.

Put Income and Index Income Overlay

The strategy objective is to manufacture cash-flow in exchange for the investor accepting some additional volatility in their existing portfolio. Our hope is to create incremental income/capital gains on top of another portfolio by selling index put credit spreads or put options on equities. 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 - Two months in, and we've pretty much booked the gains of a typical *entire* year. So far, much of what has happened in 2021 are deferred gains from last year's crazy swoon, but it's a great way to start.

Index Income - Our goal is to manufacture cash from volatility, and volatility as measured by the VIX, has been higher-than-average for an entire year now, helping this strategy.

If you have 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 Net-of Maximum-Fee	2021	2020	2019	2018	2017	2016	2015	2014	2013
Fixed Income	**Preferred Income** - Preferred stocks	-3.16	6.75	13.62	-5.66	7.44	1.58	5.47	14.29	-4.65
Growth and Income	**Covered Call Income** - Quality stocks & covered calls	1.63	8.79	23.73	-10.36	12.95	6.16	-1.01	6.36	22.28
	Dividend Growth & Income - Dividend paying stocks	2.88	5.30	26.48	-8.95	21.99	11.07	-7.27	5.04	36.23
	Real Estate Income & Growth - REITs/real estate stocks	4.47	-3.82	24.50	-5.41	2.77*	*5/1/17 inception			
Growth	**IntelliBuilD™ Growth** - IBD growth stocks	0.77	21.65	32.79	-11.30	25.40	-2.85	2.53	7.47	
	Bulls of the Dow - 10 stocks of the Dow Jones 30 Indus.	-5.08	4.80	28.68	4.51	33.76	9.35	0.96	11.41	
	Outlier Growth - Unusual volume & growth metrics	3.57	12.86*	*10/31/20 Inception. Short-term returns may be unreliable vs. long-term						
Option Overlay	**Put Income** - Realized gains return	5.33	-0.47	7.25	1.73	5.65				
	Index Income - Cash-flow return	1.02	6.37	4.69	1.67	2.48	3.35*	*6/1/16 inception date		
	Index Income - Total return mark-to-market^	-0.04	2.22	8.99	-3.59	2.46	2.49*			
	Index									
Large-Cap Stocks	**S&P 500**	1.72	18.40	31.50	-4.38	21.83	11.96	1.38	13.69	32.39
30 Giant Stocks	**Dow Jones Industrial Index**	1.41	9.73	25.35	-4.78	28.09	8.66	7.70	10.05	22.41
Mid-Cap Stocks	**S&P Mid-Cap 400**	8.35	13.10	26.21	-11.10	14.45	18.73	-3.71	8.19	31.57
Covered Index	**CBOE S&P 500 Buy/Write**	1.15	-2.76	15.67	-5.26	13.00	7.06	5.24	5.64	13.26
Fixed Income	**Bloomberg Barclays Aggregate Bond**	-2.15	7.50	8.73	0.02	3.54	2.65	0.55	5.97	-2.15

*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 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. (continued on opposite page)