



**Sheaff Brock**

**Innovative Portfolios for Intelligent Investors**



**Market Update**  
February 2022

## 2020 & 2021: CNBC Top 100 Financial Advisors in America

(Continued from page 4) Performance presented are time-weighted returns. Valuations and performance is reported in U.S. dollars. Composite performance is presented on gross-of-fees and net-of-fees basis and includes the reinvestment of income (dividends/interest). Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of-fees returns are calculated by deducting a model management fee of 0.3125, ¼ of the highest annual management fee of 1.25%, from the quarterly gross composite return. Option Overlay model management fee of 1.25% is deducted from the quarterly gross cash flow yield or realized gain/loss. Actual advisory fees incurred by clients may vary.

Performance information of widely recognized indexes is included to for comparison purposes and to reflect material market conditions. Composites are compared to the performance of various indices although the Composite, which contains much fewer positions, may not reflect the securities making up these indices. The 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. An index is not available for direct investment and does not reflect any of the costs associated with buying and selling individual securities or management fees, the incurrence of which would have the effect of decreasing historical performance results.

Indexes: *The S&P 500 Index* is a market capitalization-weighted index comprised of 500 stocks of the largest publicly traded U.S. companies. *The Dow Jones Industrial Average Index* is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and NASDAQ. *The S&P MidCap 400 Index* is a value weighted index comprised of mid-sized companies with total market capitalization from \$750 million to \$ billion. *The CBOE S&P 500 BuyWrite Index* is an index designed to track the performance of a hypothetical buy-write strategy on the S&P 500 Index. It is a passive total return based on (1) buying an S&P 500 stock index portfolio, and (2) "writing" (or selling) the near-term S&P 500 Index "covered" call option, generally on the third Friday of each month. The S&P 500 Index call written will have about one month remaining to expiration, with an exercise price just above the prevailing index level (i.e., slightly out of the money). The S&P 500 Index call is held until expiration and cash settled, at which time a new one-month, near-the-money call is written. *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).

\*Cash flow yield represents the cash received (premiums) from the sale of index put credit spread options divided by the beginning composite overlay exposure (notional value).

\*\*Composite performance is restated to calculate on overlay exposure, which is the notional value of the strategy being managed.

The 2021 CNBC FA 100 & the 2020 CNBC FA 100 list is an independent ranking. CNBC enlisted data provider AccuPoint Solutions to assist with the ranking of registered investment advisors for the CNBC FA 100 list. The analysis started with 38,302 registered investment advisors for 2021 and 37,369 for 2020. AccuPoint screened the list down to 749 registered investment advisors for 2021 and 750 for 2020 who were required to complete a survey to be in consideration for the CNBC FA 100 list. Neither the registered investment advisor nor their employees pay a fee for the listing. Data points used by AccuPoint for the ranking included disclosures, number of years in the business, number of employees, number of investment advisors registered with the firm, ratio of investment advisors to total number of employees, total assets under management, percentage of discretionary assets under management, total accounts under management, number of states where the RIA is registered and country of domicile. Third-party rankings and recognition from rating services or publications, such as the CNBC FA 100, is no guarantee of future investment success and working with a highly rated advisor does not ensure that a client or prospective client will experience a higher level of performance or results. The ranking may not reflect a client or prospective client's experience with the registered investment advisor. Past performance does not guarantee or indicate future results.

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

“War, What is it good for? Absolutely nothing, Say it again.”  
“War”, song by Edwin Starr

- IN THIS ISSUE:**
- ◆ Rubber tanks and interest rates.
  - ◆ What’s on sale now?
  - ◆ Month-end portfolio updates.



An inflatable dummy tank, modeled after the M4 Sherman.  
Source: Wikipedia, 'Ghost Army'

As the Russians kinda-sorta-maybe claim to be turning around some of their toys-of-war, investors can fixate on the next fear, which will likely start playing out in March. We'll talk about that in a second. If the Russians head home, maybe it's because they are getting tired of Ukrainian borscht, or maybe they're just cold. The Ukrainian army was using the WWI strategy of digging trenches, so maybe we'll find out the Russians were actually mustering WWII era inflatable tanks. Google 'ghost army'; it's interesting.

As March comes in like a lion, investors, news anchors, and other talking heads will fixate on the Fed finally raising the Fed Funds rate.

**MUCH** airtime will be wasted by these folks pontificating on what rising rates will do to stock prices. Even though there are over a dozen historical precedents of Fed tightening and the resulting stock market, there will likely be a myriad of reasons why “this time is different”. But, it's usually not *that* different. As you can see in the table, the Fed has done tightening campaigns over a dozen times in the last seven decades. Some tightening cycles lasted a few months and some lasted a few years.

### Don't Mind the Fed

When the Fed has raised rates, the stock market has mostly moved higher

Rate Hike Campaign	Fed Funds Rate Change	S&P 500 Index Price Change
7/1954 to 10/1957	2.7 % points	33%
5/1958 to 11/1959	3.4	32
7/1961 to 11/1966	4.6	21
5/1967 to 9/1969	5.2	5
3/1971 to 9/1971	1.8	-2
2/1972 to 7/1974	9.6	-26
1/1977 to 7/1981	14.4	28
2/1983 to 8/1984	3.0	13
3/1988 to 3/1989	3.3	14
12/1993 to 4/1995	3.1	10
1/1999 to 6/2000	1.9	14
6/2004 to 7/2006	4.2	12
11/2015 to 1/2019	2.3	30

Sources: Federal Reserve, Bloomberg

Observations:

- Most of the cycles coincided with a rising S&P 500. Of the 13 cycles, stock prices gained 11 times, with the average gain being 14%.
- The two featuring declining stock prices were in the early 1970's. We would argue a massive recession, huge inflation, an oil embargo, Vietnam, and Nixon's resignation contributed too.
- During the last 7 cycles the S&P 500 has risen.

**Financial Planning Tips!** Tiffany VanHook serves our clients as a financial planner and estate specialist. Tiffany has many years of experience providing high-net-worth families financial and estate planning services. Here's a tip or two:

- Even though it's 2022, there is still time to potentially lower your 2021 tax bill. If your AGI is below \$76,000 for a single filer (\$125,000 for married filing joint filers), consider making a deductible IRA contribution prior to the April 15th tax filing deadline.
- For trusts and estates, remember you have until March 6, 2022 to push out any income you want counted in the 2021 tax year.



presentermedia.com

Rising rates may end up being as scary as inflatable war machines.

← Here is a picture of the stock market so far in 2022. For the most part, securities prices are in the discount bin.

What's on sale now? The recent rough patch has hit some investment sectors harder than others. Some of the hardest hit: crypto, NFTs, and zero-profit stocks are areas we don't even look at. With our screens we miss most of the go-go stuff because in our equity portfolios we stick with companies that are profitable, we think will grow their sales and earnings, and have lower downside-risk scores by the metrics we use.

Regardless, some of the portfolios we manage have sold off and offered investors a chance to buy "on sale". Here are some we think are particularly attractive:

1. **Growth strategies.** Growth stocks, even the high quality ones, have taken a harder blow than most groups. As of mid-February, our **IntelliBuild™** and **Outlier Growth** portfolios have sold off double-digits and may offer compelling value, in our opinion.
2. **Preferred stocks.** Fixed income has been hurt by the fear of rising interest rates. Many preferred share prices have sold off 8% or more. The current dividend yield of the portfolio is north of 4% as of 2/18/22.
3. **REITs.** Many REITs are over 10% cheaper than at year-end. With a dividend yield of about 4% as of 2/18/22, our Real Estate Income & Growth portfolio could be a great place to hang out while waiting for appreciation.

## Portfolio Updates

We've repeatedly stated 2022 could be a decent year for the stock market, although likely more volatile. Election years usually are much more volatile than non-election years. So far in 2022, we have seen the volatility part, but the markets have been more indecent than decent. Since the year just got started we'll do a short synopsis of the portfolios. Soon, our semi-annual report will land in your mailbox which will include more info on each one than you probably want.

## **Dividend Growth & Income**

Our portfolio of dividend payers and dividend raisers has held up better than the market during the banana peel slip. Historically, dividends have offered a bit of downside protection.

## **Bulls of the Dow**

The ten lowest "downside risk" stocks from the thirty Dow Jones Industrials (DJIA) was a bit sleepy in 2021, but likewise is ahead of the game as 2022 starts. Sleepy can be OK.

## **IntelliBuild Growth™**

33 growth stocks. Looking for growth, nothing but growth. On sale. Not much more to add except earnings growth looks strong and earnings season was solid for our companies.

## **Outlier Growth**

This portfolio is 33 stocks with very large, buy-side volume over previous months, plus growth attributes, strong technicals, and good downside risk scores. Really on sale.

## **Covered Call**

Our shining star equity portfolio YTD. Buy stocks, sell calls, hope we're called, repeat. The covered call premium income has helped cushion the banana peel fall.

## **Real Estate Income and Growth**

Numero uno for us last year; on sale this year. Good dividend yield, and historically an inflation hedge, so what's not to like?

## **Preferred Income**

← First, read that again. Second, open a preferred account. Third, write on your calendar to maybe thank us in 3 years.

## **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. **Option overlay products are additive in return to other investments held in an account**, and may not be appropriate for all investors. Realized gains and losses can be inconsistent. These are long-term strategies and may not produce capital gains over the short-term.*

**Put Income** - After posting a small December loss, and even though stocks were slipping in January, we were lucky enough to book \$633K in gains across the client book. Lucky or good?

**Index Income** - The goal is to manufacture cash from volatility over a long period of time; additional cash in an account. In January, we added positive cash-flow, but the falling market made total return slightly negative. Still, over 5-years, adding an additional 4-ish% net cash-flow to a portfolio ain't nothin'.

## INNOVATIVE portfolios® Performance<sup>^</sup>

Style (as of 1/31/2022)	(Average Annual) (%)	Year to Date	1 Year	3 Year	5 Year	10 Year	
<b>Fixed Income</b>	<b>Preferred Income</b> Gross	(2.82)	2.35	6.44	4.94	5.52	
	<b>Preferred Income</b> Net	(3.13)	1.07	5.13	3.65	4.22	
<b>Growth &amp; Income</b>	<b>Covered Call Income</b> Gross	(1.27)	19.55	16.03	11.18	9.92	
	<b>Covered Call Income</b> Net	(1.58)	18.08	14.60	9.81	8.57	
	<b>Dividend Growth &amp; Income</b> Gross	(4.41)	22.37	16.31	13.60	12.67	
	<b>Dividend Growth &amp; Income</b> Net	(4.72)	20.87	14.89	12.21	11.29	
	<b>Real Estate Income &amp; Growth</b> Gross	(7.94)	32.15	13.55	-	-	
	<b>Real Estate Income &amp; Growth</b> Net	(8.25)	30.56	12.17	-	-	
<b>Growth</b>	<b>IntelliBuild® Growth</b> Gross	(10.66)	17.91	20.64	16.28	-	
	<b>IntelliBuild® Growth</b> Net	(10.97)	16.45	19.18	14.87	-	
	<b>Bulls of the Dow</b> Gross	(2.67)	17.02	14.19	17.84	-	
	<b>Bulls of the Dow</b> Net	(2.98)	15.58	12.78	16.40	-	
	<b>Outlier Growth</b> Gross <sup>1</sup>	(13.52)	9.54	11/1/2020 inception. Short-term returns may be unreliable vs. long-term.			
	<b>Outlier Growth</b> Net <sup>1</sup>	(13.83)	8.18				
<b>Option Overlay**</b>	<b>Index Income - Cash Flow</b> Gross*	0.52	7.66	6.94	5.99	-	
	<b>Index Income - Cash Flow</b> Net*	0.20	6.41	5.69	4.74	-	
	<b>Index Income Total Return</b> Gross	(0.25)	7.97	6.36	5.06	-	
	<b>Index Income Total Return</b> Net	(0.56)	6.72	5.11	3.81	-	

Index Returns	(Average Annual) (%)	Year to Date	1 Year	3 Year	5 Year	10 Year
<b>Large-Cap</b>	S&P 500®	(5.17)	23.29	20.71	16.78	15.43
<b>30 Giant Stocks</b>	Dow Jones Industrial Average	(3.24)	19.36	14.47	14.61	13.44
<b>Mid-Cap</b>	S&P MidCap 400	(7.21)	14.05	14.55	11.04	12.63
<b>Covered Calls</b>	CBOE S&P 500 BuyWrite	(2.49)	17.35	8.51	6.83	7.12
<b>Fixed Income</b>	Bloomberg Barclays US Aggregate Bond	(2.15)	(2.97)	3.67	3.08	2.59

## Sheaff Brock® Performance<sup>^</sup>

Style (as of 1/31/2022)	(Annual) (%)	Year to Date	2021	2020	2019	2018
<b>Option Overlay</b>	<b>Put Income - Realized Gain</b> Gross <sup>+</sup>	0.20	12.01	0.78	8.50	2.98
	<b>Put Income - Realized Gain</b> Net <sup>+</sup>	(0.11)	10.76	(0.47)	7.25	1.73

<sup>+</sup> Realized gain/loss return represents the realized gains/losses on the sale of put options divided by the average account value for the period.

Index Returns	(Annual) (%)	Year to Date	2021	2020	2019	2018
<b>Large-Cap</b>	S&P 500®	(5.17)	28.71	18.39	31.49	(4.39)

### Performance data quoted represents past performance. Past performance does not guarantee future results.

<sup>^</sup>Effective December 2018, Sheaff Brock Investment Advisors, LLC (SBIA) engaged Innovative Portfolios, LLC (IP), a wholly owned subsidiary of our parent company, as a sub-advisor to manage the above listed IP strategies. Performance prior to January 1, 2021, occurred while the investment management team was affiliated with SBIA. The investment management team has managed the composite since its inception, and the investment process has not changed. The IP historical performance has been linked to performance earned at SBIA.

SBIA provides the Newsletter for general informational and educational purposes, and where appropriate, to assist in explaining the composites. It is not investment advice for any person. The information provided should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any securities transaction or holding discussed was or will prove to be profitable, or that the investment recommendations or decisions in the future will be profitable or will equal the investment performance of the securities discussed herein. 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 is no guarantee of future performance and there is a risk of loss of all or part of your investment. Individual client performance returns may be different than the composite returns listed. Changes in investment strategies, contributions or withdrawals, and economic conditions may materially alter the performance of your portfolio. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment or composite will be suitable or profitable for a client's portfolio. Individuals should not enter into option transactions until they have read and understood the risk disclosure document titled, Characteristics and Risks of Standardized Options which can be obtained from their broker, any of the options exchanges, or OCC. (Continued on page 1)