



Sheaff Brock

Innovative Portfolios for Intelligent Investors



Market Update

June 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.

"It's tough to make predictions, especially about the future."

Yogi Berra

IN THIS ISSUE:

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- ◆ Dividend payers, a retiree's friend
- ◆ Portfolio Update

EI-Erian Warns Inflation Has Yet To Peak As Energy Prices Rise

"The drivers of inflation are broadening," strategist Mohamed El-Erian said.

Fed to raise rates aggressively in coming months ... - Reuters



Will There Be a Recession This Year? Grantham, Shilling, Others Weigh In

Here's what forecasters like Jeremy Siegel, Liz Ann Sonders and Robert Shiller think the near future could hold.

An inordinate amount of time and head-scratching is spent by people in our industry trying to predict the unpredictable. These headlines are examples. In these letters, or our monthly portfolio Zoom meetings (which by the way you should watch), we sometimes take a stab at predictions. For example in our December 2021 newsletter we stated this about 2022 being a mid-term election year:

"The second year of a president's term, the midterm election year, has historically been the most volatile of the four years of a president's term. Since 1950, the average mid-term year correction was -17%. If 2022 rhymes with past midterm years the Dow Jones Industrials (DJIA) could drop to 30,000."

Today, the DJIA is at 29,800 and may be headed lower. This year's correction could be worse than average. Who knows? Luckily for you we don't try to predict the unpredictable when it comes to our portfolios, but just stick to our knitting.

One effective strategy for retirement income is to own companies that pay a dividend and raise their dividends from year to year. To illustrate we will use numbers from the NASDAQ Rising Dividend Achievers Index. The 12-year data starts at the end of 2007, just before the Great Recession, which could have been one of the worst moments for a retiree to invest in the stocks. But, over the 12 year assumed retirement the rising dividends helped offset inflation, especially when compared to fixed income solutions like municipal bonds.

According to NASDAQ, the 50 stocks in the index have increased their dividends by an average of 9% per year over the last 5 years. During the 12 years of this illustration, for the pur-

poses of this hypothetical example, we'll use the actual numbers during the Great Recession which only averaged 7.5% per year dividend growth rate and compare it to municipal bond yields paid during the same 12 years.

Please remember this meant to be educational and is for illustration purposes only. This is not representative of any strategy, but is a hypothetical example of growing dividend income. It's fiction for God's sake, so don't call your lawyer if your dividend paying stocks don't raise their dividend. There is no guarantee of dividend payments or dividend increases in any dividend equity strategy. In fact, there's no guarantee any of us will be alive 90 seconds from now, so maybe instead of finishing this letter you should take a break and spend the next 90 seconds getting right with your Maker. As you know, past performance is no guarantee of the future, neither here, nor in the hereafter (BTW, compliance is going to love this).

If you've been preoccupied for 90 seconds, here is a refresher; at the end of 2007 a 60 year old invests \$1 million in one of two buckets:

1. Dividend paying stocks from the Rising Dividend Achievers index.
2. Municipal bonds using 2007-2019 annual yields.

| Annual Income at Various Ages | | |
|-------------------------------|----------------------------|------------------|
| Age | Rising Dividend Achievers* | Municipal Bonds^ |
| 65 | \$20,502 | \$45,000 |
| 70 | \$27,893 | \$39,000 |
| 75 | \$42,035 | \$32,500 |
| 78 | \$48,061 | \$24,000 |
| 12 Yr. Total | \$386,000 | \$432,500 |

*Source NASDAQ. Reflects dividend payment rate from 2008-2019 the NASDAQ Rising Dividend Achievers Index.

^Source: munibondadvisor.com, govinfo.gov/pdferp-2012

The income from dividend paying stocks, although starting out low, grows 134% over this 12-year illustration whereas the bond income was nearly cut in half. The cumulative income over 12-years from stocks totaled \$386,000 vs. \$432,000 from

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. A tip or two for this month:

READ THIS. BE CAREFUL HOW YOU TRANSFER MONEY.

As part of last year's "American Rescue Plan" stimulus bill, the new law requires cash apps and online marketplaces including Venmo, Facebook Marketplace, and eBay to send 1099-K forms to people who receive \$600 or more in a calendar year. The IRS will also get a copy of the form, which details who got paid and through which third-party service. The law, which went into effect this year, is seen as having the greatest impact on rank-and-file people who use platforms like Etsy and Airbnb, freelancers, people with side hustles and gig economy workers like Uber drivers.

EVEN IF YOU ARE NOT ONE OF THOSE FOLKS IT COULD ENSNARE YOU TOO; HERE ARE SOME EXAMPLES:

- ◆ You bought a vintage brass table in 1985 for \$50 and sold it this year on eBay for \$1,200, you may get a 1099-K and you must report the \$1,150 profit on your federal return as an investment sale.
- ◆ A grandmother sending her grandchild \$1500 through Venmo as a college graduation gift should not be getting a tax form, but might erroneously get one, and have to prove that it was a gift vs. payment for services.
- ◆ Many people routinely use cash-transfer apps to pay much more than \$600 per year to nannies, babysitters, gardeners, housecleaners, and repairmen. Say you hire a nanny and pay them \$1,000 a week through Venmo. Under IRS rules, the nanny is a domestic employee, and the payer (you) is supposed to pay domestic payroll taxes.

This year, if you pay cash wages of \$2,400 or more to any household employee who is not your spouse, parent, offspring under age 21 or other child under age 18, both you and the recipient are each supposed to pay Social Security and Medicare taxes of taxes of 7.65%. If you pay total wages of \$1,000 or more in any calendar quarter of 2022 to household employees, you also owe the 6% federal unemployment tax, known as FUTA.

Transferring over \$600 in payments by electronic apps may increase the odds of tax forms in your mailbox.

Psst...READ WHAT IS IN THIS BOX

Just when you thought cash was going the way of the Dodo bird, it turns out CASH IS STILL KING!!



bonds. Even though the bond income kept dropping and dropping, the bonds paid more over the 12 years. Bond folks point out that the income from bonds is "safe" vs. stocks which have no guarantee. This is true. But the companies in this index have been raising their dividend for years or decades, so while there is no guarantee, the precedence for continued dividend payments and dividend increases is solid. What if this hypothetical retiree lived another 12 years to the age of 90? Could his dividend income go up another 134% from \$48,000 to over \$110,000 per year? If income grew that much during a giant recession, why not?

Besides potentially growing income over a lifetime, the other reason a retiree should invest in dividend paying stocks is the growth of capital. Using the index price as of 6/16/22 of 2192, the original \$1 million stock portfolio invested on 12/31/07 would have grown to \$2,970,200 vs. the bonds would likely still be near their original value of \$1 million in principal.

The combined income plus portfolio value of the stocks is over 2X the bond's total, and that's starting right before the Great

Recession and even includes the current drawdown in the stock market. The bottom line is, although it is sometimes painful to watch portfolio values gyrate, like today, over a lifetime the difference in wealth and income from equities can be massive.

| | Dividend Stocks | Municipal Bonds |
|-------------------------|--------------------|--------------------|
| Income 2008-2019 | \$386,000 | \$432,500 |
| Portfolio Value 6/16/22 | \$2,970,200 | \$1,000,000 |
| Total | \$3,356,200 | \$1,432,500 |

Portfolio Updates

We all know just about every investment has been lousy so far in 2022. Historically when indicators have been this bad, forward returns have been very good. I know it is hard, but strap yourself to the mast and hang tight. You have been through worse. Our resident market technician, Seth Hickle, feels support for the S&P 500 is around 3500, or 3200 at worst. My 66-year-old gut feels we are close to a stock market bottom based upon inbound client calls, a persistently high VIX, and the doom-and-gloom in the media. The VIX is at 34 as this is being written. Based upon 32 years of VIX data, there is a 90% chance the stock market will be higher in 12 months with a historical average gain of 23%.

| S&P 500 average forward price returns from 1-1-1990 through 1-31-2022 | 6-Month Return | 1-Year Return | % of 1-yr periods positive |
|---|----------------|---------------|----------------------------|
| The 9% of the trading days the VIX was above 30 | 13.4% | 23.3% | 90% |

Source: Chicago Board of Options Exchange, Innovative Portfolios, LLC

There are A LOT of bargains in many areas, in our opinion. Areas loosely connected to the stock market, REITs and preferreds, are very, very cheap and paying high dividend yields. Many dividend paying stocks with low "downside-risk" attributes are cheap too. Today, June 16th, is my birthday and since I plan on living a while longer and the stock market is down big, I'm buying some dividend paying stocks as my birthday present to myself. Hey, I've already made it 90 seconds.

INNOVATIVE portfolios® Performance[^]

| Style (as of 5/31/2022) | (Average Annual) (%) | Year to Date | 1 Year | 3 Year | 5 Year | 10 Year | |
|----------------------------|--|--------------|---------|---|--------|---------|--|
| Fixed Income | Preferred Income Gross | (9.60) | (7.58) | 2.81 | 2.71 | 4.53 | |
| | Preferred Income Net | (10.19) | (8.75) | 1.54 | 1.44 | 3.25 | |
| Growth & Income | Covered Call Income Gross | (7.25) | (0.21) | 13.23 | 9.16 | 9.99 | |
| | Covered Call Income Net | (7.85) | (1.46) | 11.83 | 7.81 | 8.63 | |
| | Dividend Growth & Income Gross | (8.75) | 1.22 | 14.70 | 11.65 | 12.06 | |
| | Dividend Growth & Income Net | (9.34) | (0.05) | 13.29 | 10.28 | 10.68 | |
| | Real Estate Income & Growth Gross | (15.07) | 3.17 | 8.79 | 8.42 | - | |
| | Real Estate Income & Growth Net | (15.64) | 1.87 | 7.46 | 7.09 | - | |
| Growth | IntelliBuild® Growth Gross | (19.21) | (3.14) | 14.79 | 12.80 | - | |
| | IntelliBuild® Growth Net | (19.76) | (4.37) | 13.38 | 11.42 | - | |
| | Bulls of the Dow Gross | (8.68) | (0.56) | 12.43 | 14.41 | - | |
| | Bulls of the Dow Net | (9.27) | (1.80) | 11.04 | 13.01 | - | |
| | Outlier Growth Gross ¹ | (25.67) | (14.97) | ¹ 11/1/2020 inception. Short-term returns may be unreliable vs. long-term. | | | |
| | Outlier Growth Net ¹ | (26.21) | (16.09) | | | | |
| Option Overlay** | Index Income - Cash Flow Gross* | 2.29 | 6.71 | 7.06 | 5.98 | - | |
| | Index Income - Cash Flow Net* | 1.67 | 5.46 | 5.81 | 4.73 | - | |
| | Index Income Total Return Gross | (2.00) | 2.51 | 5.33 | 4.37 | - | |
| | Index Income Total Return Net | (2.63) | 1.26 | 4.08 | 3.12 | - | |

| Index Returns | (Average Annual) (%) | Year to Date | 1 Year | 3 Year | 5 Year | 10 Year |
|------------------------|--------------------------------------|--------------|--------|--------|--------|---------|
| Large-Cap | S&P 500® | (12.76) | (0.30) | 16.44 | 13.38 | 14.40 |
| 30 Giant Stocks | Dow Jones Industrial Average | (8.43) | (2.65) | 12.30 | 11.87 | 12.91 |
| Mid-Cap | S&P MidCap 400 | (10.98) | (6.52) | 13.28 | 9.56 | 12.24 |
| Covered Calls | CBOE S&P 500 BuyWrite | (7.52) | 2.53 | 6.09 | 4.77 | 6.59 |
| Fixed Income | Bloomberg Barclays US Aggregate Bond | (8.92) | (8.22) | 0.00 | 1.18 | 1.71 |

Sheaff Brock® Performance[^]

| Style (as of 5/31/2022) | (Annual) (%) | Year to Date | 2021 | 2020 | 2019 | 2018 |
|-------------------------|--|--------------|-------|--------|------|------|
| Option Overlay | Put Income - Realized Gain Gross ⁺ | (2.66) | 12.01 | 0.78 | 8.50 | 2.98 |
| | Put Income - Realized Gain Net ⁺ | (3.28) | 10.76 | (0.47) | 7.25 | 1.73 |

⁺ 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 |
|------------------|--------------|--------------|-------|-------|-------|--------|
| Large-Cap | S&P 500® | (12.76) | 28.71 | 18.39 | 31.49 | (4.39) |

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

[^]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.

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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)