



**Sheaff Brock**

Innovative Portfolios for Intelligent Investors®



**Market Update**  
August 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, applied the first month of each quarter. 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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**HEY!**

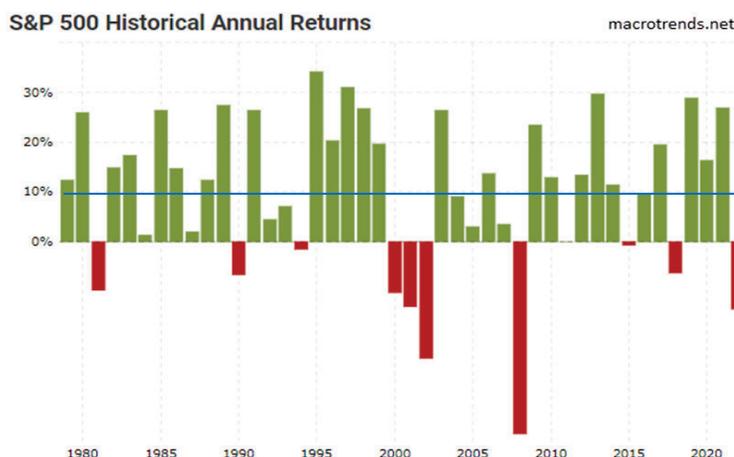
Got your attention. Do you watch our monthly portfolio update Zoom meetings? You should. If not live, watch the recording.

“Simplicity is the ultimate sophistication.” — Leonardo da Vinci

**IN THIS ISSUE:**

- ◆ Keep it simple
- ◆ Portfolio Updates

Intellectually we all know that over time the stock market goes up. This chart shows annual returns for the S&P 500 since about when we started in the business. They’ve been mostly good years mixed with a few scary ones. This year through August 8<sup>th</sup>, is the red bar on the right hand side. Not good, only a few worse, but there is still time for improvement.



A lot of people can stomach returns like that; mostly up, some down, with only a couple of ugly years out of the 44 pictured. And I’m guessing most people would stay-the-course if this is what they saw on their statements...but that would mean looking at their statement only once a year.

Here’s a chart of roughly the same years, only each bar represents one quarter. This chart stops in 2021, so if 2022 was included, there would be two big ‘ole downward bars on the right side. Looking at shorter-term returns this way makes the stock market appear more volatile. Ten, fifteen, and twenty percent swings are common. And this is quarterly. It appears even scarier using monthly returns (which most clients look at), or worse yet, looking at account balances every day, like this guy!



To make it easier on investor’s psyches, the investment industry has concocted all manner of products

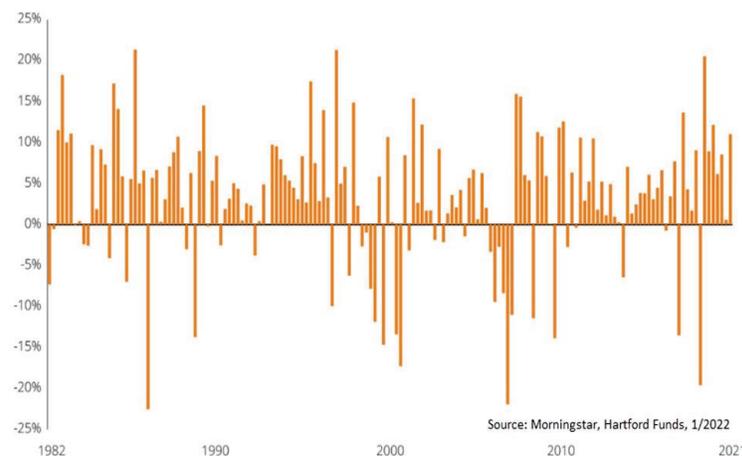
which promise less volatility, lower downside risk, upside guarantees, and maybe even tax benefits. High returns with low risk is the pitch, which sounds appealing. Their sales literature usually has baby boomer couples doing fun stuff. From just the pictures it’s hard to tell if they are selling financial services or ED medicine.



These products might be called “structured notes”, or have the word “buffered” in their name, or be some sort of insurance annuity product. They may have the word “guaranteed”, “defined outcome”, “tactical” or “hedged” prominently displayed. Although different, the products have three things in common; COMPLEXITY, COMPLEXITY, and COMPLEXITY.

With complexity often comes higher internal costs. But the biggest cost is that the tradeoff for lower volatility is nearly always a limited upside return. Examine the green and red bar chart again and notice how many years the stock market

Figure 1: In the Short Term, the Stock Market Appears Really Volatile  
S&P 500 Index Quarterly Returns % (1982-2021)



Past performance does not guarantee future results. For illustrative purposes only. Indices are unmanaged and not available for direct investment.

**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:

#### Roth IRAs aren't just for retirement.

- ◆ For those just starting to build longer-term savings, consider utilizing a Roth IRA to build a backup emergency fund. This is because contributions (not conversions) can be withdrawn at any time without tax penalties. Remember not to invest the funds until ample savings have been accumulated.
- ◆ First time home buyers could also utilize a Roth IRA to help save for their down payment. In addition to being able to withdraw any contributions, you can also withdraw up to \$10,000 of earnings for a first time home purchase without incurring taxes or the 10% early withdrawal penalty.
- ◆ Roth IRAs are a great backup education savings plan, with contributions available tax/penalty free and any earnings used for qualified education expenses will be exempt from the 10% early withdrawal penalty.

gained more than 10% (psst, it's about 25 years). Limiting your upside can subtract a giant amount money from your account balance over a 10 or 20 year timeframe. Usually, it is a stupidly high price to pay for short-term comfort.

We think it's better to keep it simple by investing in direct securities instead of using convoluted products with all kinds of bells and whistles. It's cheaper to own direct securities, you know what you own, and you have your own cost basis. At Sheaff Brock we keep it simple: U.S. based equities, preferreds, REITs, and selling basic options. Simple, or sophisticated?

If complex gizmos like "buffered ETFs" or "structured notes" were so great, wouldn't rich, smart folks like Warren Buffett load up on them instead of messing with "risky" stocks?

In 1974, the Super Stick was another gadget that sounded appealing. Instead of lugging around a whole bag of clubs, just buy one adjustable club which also collapsed to fit in a suitcase! It was pitched as a simple solution to eliminate the weight and cost of a bag of clubs, and to simplify travel for a golfer.

My dad saw an ad for this in the back of *Popular Science* magazine and bought it. In reality, the attractive, seemingly-simple product was very complex to adjust, mostly worked OK, but wasn't the best solution. The best and simplest, turned out to be a set of golf clubs. Dad's Super Stick is now in my office!



#### Portfolio Updates

The stock market in July/August recovered some of 2022's first-half loss. Earnings reports were better than expected, the Fed did what was expected, oil prices started retreating, and volatility—as measured by the VIX—dropped. Historically during mid-term election years, the stock market chops along from now until early October and then roars to life. There could be some rough road until the leaves start to turn.

#### Bulls of the Dow

The 10 lowest "downside risk" stocks from the 30 Dow stocks, mostly "value" stocks, have held up pretty well in the storm.

#### IntelliBuild Growth™

33 growth stocks. Of our fully invested portfolio, 29 have reported Q2 results as of 8/12. According to FactSet, our stocks reported average earnings-per-share (EPS) growth of 28% vs. 7% for the S&P 500, and 25 of the 29 beat estimates.

#### Outlier Growth

33 stocks with very large, institutional buy-side volume, plus growth, strong technicals, and good downside risk scores. As of 8/12, 26 of our stocks have reported Q2 earnings. According to FactSet, our stocks reported average EPS growth of 21% vs. 7% for the S&P 500, and 22 of the 26 beat estimates.

#### Covered Call

With July and August's market recovery, Wally has been able to write, or overwrite, several positions adding to cash-flow.

#### Real Estate Income and Growth

The stock market may be the only place you can buy property cheap these days. REITs are a bargain, in our opinion, if you like income and potential inflation protection.

#### Preferred Income

Preferreds are still on sale and a good buy, if you like income. And if you don't like income...what's wrong with you?

#### Put Income and Index Income Overlay

The strategy objective is to manufacture cash-flow in exchange for the investor accepting some additional volatility. **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 gains over the short-term.

**Put Income** - The 2022 sell-off-induced option rolls continued in July which created positive cash-flow, but also realized losses. As of 8/12 there are substantial (\$20 to \$30 million) unrealized gains embedded over the next 6 months across the book that could become realized with a decent market.

**Index Income** - Goal = manufacture additional cash-flow from volatility over a long period of time. Period. Total return is how that cash is accounted for, or treated for taxes. Same as last month, cash-flow creation was good, but total return still looks ugly. The July/August S&P 500 advance has given some breathing room and could help cash-flow in coming months.

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

Style (as of 7/31/2022)	(Average Annual) (%)	Year to Date	1 Year	3 Year	5 Year	10 Year	
<b>Fixed Income</b>	<b>Preferred Income</b> Gross	(7.89)	(7.32)	2.27	2.60	4.34	
	<b>Preferred Income</b> Net	(8.76)	(8.48)	1.02	1.34	3.06	
<b>Growth &amp; Income</b>	<b>Covered Call Income</b> Gross	(9.28)	(4.01)	9.74	8.16	9.39	
	<b>Covered Call Income</b> Net	(10.12)	(5.20)	8.39	6.83	8.04	
	<b>Dividend Growth &amp; Income</b> Gross	(10.37)	(3.53)	11.19	10.27	11.16	
	<b>Dividend Growth &amp; Income</b> Net	(11.22)	(4.73)	9.83	8.92	9.79	
	<b>Real Estate Income &amp; Growth</b> Gross	(14.72)	(3.22)	7.51	7.73	-	
	<b>Real Estate Income &amp; Growth</b> Net	(15.53)	(4.43)	6.20	6.42	-	
<b>Growth</b>	<b>IntelliBuild® Growth</b> Gross	(15.53)	(5.06)	12.63	13.09	-	
	<b>IntelliBuild® Growth</b> Net	(16.34)	(6.24)	11.26	11.71	-	
	<b>Bulls of the Dow</b> Gross	(5.69)	0.57	10.18	14.13	-	
	<b>Bulls of the Dow</b> Net	(6.57)	(0.67)	8.82	12.73	-	
	<b>Outlier Growth</b> Gross <sup>†</sup>	(24.15)	(19.76)	†11/1/2020 inception. Short-term returns may be unreliable vs. long-term.			
	<b>Outlier Growth</b> Net <sup>†</sup>	(24.91)	(20.79)				
<b>Option Overlay**</b>	<b>Index Income - Cash Flow</b> Gross*	2.77	5.85	6.89	5.95	-	
	<b>Index Income - Cash Flow</b> Net*	1.83	4.60	5.64	4.70	-	
	<b>Index Income Total Return</b> Gross	(2.77)	0.58	4.24	4.14	-	
	<b>Index Income Total Return</b> Net	(3.71)	(0.67)	2.99	2.89	-	

Index Returns	(Average Annual) (%)	Year to Date	1 Year	3 Year	5 Year	10 Year
<b>Large-Cap</b>	S&P 500®	(12.58)	(4.64)	13.36	12.83	13.80
<b>30 Giant Stocks</b>	Dow Jones Industrial Average	(8.60)	(4.14)	9.22	10.86	12.31
<b>Mid-Cap</b>	S&P MidCap 400	(10.81)	(5.70)	10.16	9.06	12.05
<b>Covered Calls</b>	CBOE S&P 500 BuyWrite	(6.69)	0.67	4.31	4.61	6.18
<b>Fixed Income</b>	Bloomberg Barclays US Aggregate Bond	(8.16)	(9.12)	(0.21)	1.28	1.65

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

Style (as of 7/31/2022)	(Annual) (%)	Year to Date	2021	2020	2019	2018
<b>Option Overlay</b>	<b>Put Income - Realized Gain</b> Gross <sup>+</sup>	(7.25)	12.01	0.78	8.50	2.98
	<b>Put Income - Realized Gain</b> Net <sup>+</sup>	(8.18)	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®	(12.58)	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)