FEBRUARY 2017 UPDATE

Housekeeping note: *We have decided to group our Growth & Income and Moderate Balanced accounts into one composite for the purpose of reporting performance. While Moderate Balanced accounts are now included in the composite performance calculation for Growth & Income, the blended benchmark has been changed to 75% equities, 25% bonds. We have also combined Retirement Income and High Monthly Payout accounts into one composite, which we are comparing to a benchmark of 50/50 between stocks and bonds.*

Nobody's account has been changed due to these reporting changes. *If you signed up for Moderate Balanced, you'll still get a lower risk portfolio than if you signed up for Growth & Income, for example, and I still consider your account to be Moderate Balanced.*

We present these net-of-fee results with SSB composites in boldface. (For the sake of comparison, we also include returns for blended benchmarks, various indexes, and mutual fund/ETFs.)

Salzinger Sheaff Brock	January	One Yr	Three Yrs	Five Yrs
Growth	**2.3%**	**18.1%**	**6.9%**	**10.5%**
Benchmark (90% Lipper Multi-cap Core/10% Lipper General Bond Fund)	*2.4%*	*16.6%*	*5.1%*	*8.9%*
Growth & Income	**2.0%**	**15.9%**	**6.2%**	**9.4%**
Benchmark (75% Lipper Multi-cap Core/25% Lipper General Bond Fund)	*2.1%*	*14.9%*	*4.8%*	*7.9%*
Conservative Balanced	**1.6%**	**12.9%**	**5.4%**	**7.2%**
Closed-End Income*	**2.9%**	**20.8%**	**N/A**	**N/A**
ETF Option Income*	**2.4%**	**N/A**	**N/A**	**N/A**
Benchmark (60% Lipper Multi-cap Core/40% Lipper General Bond Fund)	*1.9%*	*13.1%*	*4.4%*	*7.0%*
Retirement Income	**1.2%**	**12.3%**	**5.1%**	**6.5%**
Benchmark (50% Lipper Multi-cap Core/50% Lipper General Bond Fund)	*1.7%*	*11.9%*	*4.2%*	*6.3%*
Alternative	**3.5%**	**12.6%**	**-0.6%**	**-1.0%**
Benchmark (50% GSCI/50% Lipper Emerging Market Fund)	*2.2%*	*21.1%*	*-9.5%*	*-6.2%*
Index				
S&P 500	1.9%	20.0%	10.9%	14.1%
Russell 3000 &&	1.9%	21.7%	10.3%	14.0%
Russell 2000 ##	0.4%	33.5%	7.9%	13.0%
MSCI EAFE @@	2.9%	12.0%	0.7%	6.0%
MSCI Emerging Markets	5.5%	25.4%	1.4%	0.2%
Barclays Aggregate Bond	0.2%	1.5%	2.6%	2.1%
Mutual Fund/ETF Comparisons				
Vanguard LifeStrategy Growth &	2.2%	15.5%	6.4%	9.2%
Vanguard LifeStrategy Moderate Growth #	1.6%	12.0%	5.6%	7.5%
Vanguard LifeStrategy Conservative Gr @	1.0%	8.5%	4.7%	5.8%
Vanguard LifeStrategy Income ^	0.5%	5.0%	3.8%	4.0%
DB Commodity Index Tracking Fund !	-0.6%	23.2%	-14.1%	-10.8%

PLEASE SEE IMPORTANT DISCLAIMER ON BACK. Note: *Results are from an actual, representative account established and maintained by the portfolio manager with his own money, managed with his own tax situation in mind. Other accounts in this style might have had different results; *&&A good measure of the broad market, ##Small-cap stocks. @@Developed market foreign stocks. Style Comparisons: &A comparison for SSB Growth and SSB Growth & Income. #A comparison for SSB Moderate Balanced. @A comparison for Salzinger Sheaff Brock, LLC (SSB) Conservative Balanced. ^A comparison for SSB Retirement Income. !A comparison for SSB Alternative. Composites include all fully discretionary accounts including those accounts no longer with the firm of reasonable size that are substantially invested in accordance with the composite strategy or style. Returns are presented net of management fees and all trading expenses, and the reinvestment of all income. Net-of-fee performance was calculated using actual management fees,. Actual advisory fees and transaction fees will vary depending on, among other things, the portfolio, account size, and activity. Fees are described in SSB's ADV Part 2A. The securities mentioned in this report can be, and often are, owned by clients and employees SBIA.* ***Past performance is not indicative or a guarantee of future results.*** *(continued on back)*

I have been wrestling lately with whether or not to decrease exposures within some accounts to 'blue chip,' large-cap growth funds and increase them to small-cap value. The performance between these two classifications of the so-called style box is often so binary: when one does relatively well versus the broad equity market, the other tends to perform relatively poorly.

Lazard Asset Management published annual returns of key indices from 1997 through 2016. Though the Russell 1000 Growth Index (large growth stocks) and Russell 2000 Value Index (small value stocks) each performed well in 1997, their paths diverged widely during the final few years of the Internet boom and then its bust, through 2002.

Russell Index	1998	'99	'00	'01	'02
1000 Growth	38.71%	33.16%	-22.42%	-20.42%	-27.88%
2000 Value	-6.45%	-1.49%	22.83%	14.02%	-11.43%
S&P 500	28.58%	21.04%	-9.10%	-11.89%	-22.10%

One often hears that in a bull market, virtually all stocks will go up, and vice versa. This simply isn't true. In 1998, when the S&P was in the middle of a big bull move and rose 28.6%, the Russell 2000 Index fell 6.5% while the Russell 1000 Growth Index rose 38.7%, for a whopping performance difference of about 45%. Similarly, small-cap value stocks fell in 1999 while the Russell 1000 Growth produced another gain in excess of 30%. In 2000, however, when the S&P 500 fell 9.1%, the situation reversed. While the Russell 1000 Growth Index fell 22.4%, the Russell 2000 Value Index gained 22.8%, for an advantage that year of about 45% for small-cap value. Similarly, small value stocks gained in 2001 while large-cap growth stocks continued to produce significant losses.

From 2003 through 2006, both types of stocks produced gains, though small-cap value certainly did much better than large-cap growth. For all of 2007, however, the Russell 2000 Value Index lost 9.8%, as the onset of the financial crisis foreshadowed significant distress among economically sensitive companies;

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the Russell 1000 Growth, the components of which are generally high quality, with little debt and less economic sensitivity, managed a gain of 11.8%.

While small-cap value and large-cap growth were not very far apart from 2009 through 2014, they have been quite far apart the last two years. In 2015, the Russell 1000 Growth Index beat the Russell 2000 Value by about 13 percentage points, as the latter index lost 7.5%. In 2016, the fortunes reversed (to say the least), as the small-cap value index gained 31.74%, while the large-cap growth index gained only 7.1% (and the highest-quality, most 'blue chip' part of the index gained much less even than that).

The style decision would be easier if there was some historical pattern to how long any advantage has lasted. During the Internet mania and its aftermath, the performance cycles lasted several years. More recently, however, the cycles have been shorter. It seems to me that two keys to determine whether the recent trend in favor of small-cap value will continue are valuation and the economy. When large-cap growth stocks are very expensive but small-cap value stocks are not, as was the situation during the Internet mania, it pays to shift toward small-cap value. It also pays to shade toward the small fry when estimates for economic growth pick up. However, if the economy is expected to grow only modestly and growth stocks are not too expensive, it may be time to favor large-cap growth.

Currently, the economy looks poised to grow a little faster, but large growth stocks are not that expensive, at least relative to the rest of the market. That argues for maintaining exposures to both style classifications.

Of course, because performance between them can differ so greatly, it's very risky to avoid either one completely. In fact, doing so could cause your portfolio to lose value even during a year when the broad market is up.

To get started in any of our strategies, please call us at 866-575-5700, or send an email to info@salzingersheaffbrock.com. We look forward to hearing from you!

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Thank you for your continued interest in Salzinger Sheaff Brock (SSB), the only source of actual personalized money management by me,

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