

## NOVEMBER 2018 UPDATE

We provide composite returns for Growth, Growth & Income (a combination of “Growth & Income” and “Moderate Balanced” accounts), Conservative Balanced, Retirement Income (a combination of “Retirement Income” and “High Monthly Payout” accounts), Closed-End Income and ETF Options Income. We present net-of-fee results in the following table. (SSB composites are in boldface.) For the sake of comparison, we also include returns for various indexes and blended benchmarks that we believe are commensurate in risk to our strategies, as well as passively managed funds-of-funds from Vanguard.

Salzinger Sheaff Brock	YTD 2018	1 Yr	Three Yrs	Five Yrs
<b>Growth</b>	<b>-1.3%</b>	<b>2.0%</b>	<b>8.2%</b>	<b>7.6%</b>
<i>Benchmark (90% Lipper Multi-cap Core/10% Lipper General Bond Fund)</i>	-4.6%	-2.0%	6.9%	5.6%
<b>Growth &amp; Income</b>	<b>-1.2%</b>	<b>1.9%</b>	<b>7.4%</b>	<b>6.8%</b>
<i>Benchmark (75% Lipper Multi-cap Core/25% Lipper General Bond Fund)</i>	-4.0%	-1.8%	6.3%	5.2%
<b>Conservative Balanced</b>	<b>-1.5%</b>	<b>1.1%</b>	<b>6.2%</b>	<b>5.6%</b>
<b>Closed-End Income</b>	<b>-4.1%</b>	<b>-2.9%</b>	<b>7.3%</b>	<b>N/A</b>
<b>ETF Option Income</b>	<b>-0.5%</b>	<b>1.8%</b>	<b>N/A</b>	<b>N/A</b>
<i>Benchmark (60% Lipper Multi-cap Core/40% Lipper General Bond Fund)</i>	-3.5%	-1.6%	5.6%	4.7%
<b>Retirement Income</b>	<b>-2.0%</b>	<b>0.3%</b>	<b>5.6%</b>	<b>4.8%</b>
<i>Benchmark (50% Lipper Multi-cap Core/50% Lipper General Bond Fund)</i>	-3.2%	-1.5%	5.1%	4.3%
<b>Index</b>				
S&P 500	3.0%	7.4%	11.5%	11.4%
Russell 3000 &&	2.4%	6.6%	11.3%	10.8%
Russell 2000 ##	-0.6%	1.9%	10.7%	8.0%
FTSE Global All Cap X-US@@	-11.1%	-8.0%	4.9%	2.3%
Barclays Aggregate Bond	-2.4%	-2.1%	1.0%	1.8%
<b>Mutual Fund/ETF Comparisons</b>				
Vanguard LifeStrategy Growth &	-2.7%	0.1%	7.2%	6.6%
Vanguard LifeStrategy Moderate Growth #	-2.3%	-0.1%	5.8%	5.6%
Vanguard LifeStrategy Conservative Gr @	-1.9%	-0.3%	4.4%	4.5%
Vanguard LifeStrategy Income ^	-1.6%	-0.6%	2.9%	3.4%

Through October 31, 2018. 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 benchmark for the entire U.S. stock market, ##Small-cap stocks. @@ Foreign stocks, including developed foreign countries and emerging markets. Style Comparisons: &A good comparison for SSB Growth and SSB Growth & Income. #A slightly lower risk comparison for SSB Growth & Income. @A good comparison for Salzinger Sheaff Brock, LLC (SSB) Conservative Balanced. ^A good comparison for SSB Retirement Income. Composites include all fully discretionary, management fee-paying 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 maximum management fees and all trading expenses, and the reinvestment of all income. Net-of-fee performance was calculated using maximum 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 of SSB. Past performance is not indicative or a guarantee of future results (continued on back).

First, we'd like to point out a little change we made in the list of indexes we include in the table for performance comparison purposes. Instead of the MSCI EAFE and Emerging Markets indexes, we have decided to include the FTSE Global All Capitalization X-US index, which is most of the world stock market, minus the U.S. This way, we save a little space by combining performance for developed foreign and emerging market stocks into one index.

Of course, whichever broad index one considers, stocks were slammed in October. The large-cap S&P 500 index fell almost 7% for the month, which seemed almost mild compared to the nearly 11% drop in the Russell 2000 index of small U.S. stocks. As for the FTSE Global All Cap X-US index, it performed between these two U.S. indexes, with a loss during the month of more than 8%. Though the first three weeks of November haven't been as bad, they've still been tumultuous, with a continuing downward mood and a smaller, but still significant, loss in the equity market.

Recent performance has been especially bad among some formerly high-flying investment areas, including the growth investing style and technology, whether the household-name Internet companies or hardware companies. On the flip side, the best recent performers—even with gains in some cases during this turbulent period—are in traditionally defensive sectors, including consumer staples,

household products and pharmaceuticals, and in high quality, dividend-growth type stocks generally. Meanwhile, stocks that one would think would fall during times of rising interest rates, including dividend paying utilities but also real estate investment trusts (REITs), have held their value or done even better.

All this disparate action among various types of stocks suggests the main factor influencing investor behavior lately has not been increases in interest rates, but instead a desire to decrease risk in the expectation of a slowing economy, or even a recession, in the not-too-distant future. That's why, in addition to small caps and growth performing poorly, high-yield corporate bonds also have struggled as compared with more stable performance in the high-quality portion of the fixed-income market.

What to do during times like these? We say stay the course. Much of what has been happening in the markets lately has had to do with changes in investor psychology and shifting expectations about the future, not actual data. For example, according to the Federal Deposit Insurance Corporation, the U.S. banking sector reported \$62 billion in profits in the third quarter, up more than 29% from the third quarter last year. Nevertheless, broad ETFs for financial stocks are still down more than 5% year to date, through November 20. For the entire U.S. market, actual third-quarter per-share earnings for

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the S&P 500 companies have turned out better even than the confident expectations expressed by Wall Street analysts at the end of September. According to Earnings Insight from FactSet, the blended earnings growth rate for the S&P 500 in the third quarter (with 92% of companies having reported) is +25.7%, which if sustained would be the strongest quarterly earnings growth since the third quarter of 2010. As recently as September 30, the expectation for the quarter just finished was 19.3%.

As a result, valuations have become considerably more attractive. The forward 12-month price/earnings ratio of the S&P 500 has fallen to 15.6, which historically has proved to be a sweet spot for performance in the equity market over the succeeding 12 months, especially with inflation continuing in the area of 2% or so.

In fact, many areas of the U.S. market are now somewhat attractive from the standpoint of valuation. One useful tool to check valuation comes from Morningstar, which offers graphs depicting the gaps between its estimates of fair value for various market

segments versus current valuations ([www.morningstar.com/tools/market-fair-value-graph.html](http://www.morningstar.com/tools/market-fair-value-graph.html)).

According to Morningstar, the technology sector, which we noted above has been pummeled lately, now trades at only 89% of Morningstar's estimate of fair value. Alternatively, electric utility stocks, which, as noted, have been ballast against the storm, now trade above Morningstar's estimate of fair value, while healthcare and consumer defensive are not too far behind. More broadly, however, Morningstar calculates that most areas of the market outside the defensive areas are trading significantly below fair value, which might (though Morningstar doesn't come out and say this) suggest significant opportunity currently in riskier investment areas.

Therefore, our inclination would be lean into the winds now and be a little contrarian, not to run away. To get started in any of our strategies, please call us at 866-575-5700, or send an email to [info@salzingersheaffbrock.com](mailto: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,

Mark Salzinger  
Chief Investment Officer and Portfolio Manager

The S&P 500 Index is a market capitalization-weighted index comprised of the 500 stocks with the largest market capitalizations trading in the United States. This is not a managed portfolio and does not reflect the deduction of fees or expenses; The Lipper Global Multi-Cap Index is comprised of the 30 largest funds by asset size investing in a variety of market cap equities without concentrating 75% of their assets in any one market cap over an extended time. 25% to 75% of their assets are in companies both inside and outside of the U.S. The Lipper General Bond Index consists of the 30 largest funds by assets that do not have any quality or maturity restrictions, and keep a bulk of their assets in corporate and government debt issues. The Lipper Emerging Market Index consists of the 30 largest funds by assets that keep a bulk of their assets in emerging market equities. Lipper indices reflect the deduction of fund fees or expenses; returns include dividends. The 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). Russell 3000 and Russell 2000 indices are market capitalization weighted equity indices maintained by the Russell Investment Group. The 3000 seeks to be a benchmark of the entire U.S. stock market, and the 2000 seeks to be a benchmark of the small-cap U.S. stock market. More specifically, they encompass the 3,000 largest, or 2000 smallest U.S.-traded stocks respectively, in which the underlying companies are incorporated in the U.S. The FTSE Global All Cap X-US is an equity index which captures most of the world's stocks ex-US. Indexes are unmanaged and unavailable for direct investment. Benchmark returns include reinvestment of income, but do not reflect taxes, or other fees that would reduce performance. Two general types of benchmarks are provided. The first type is a well-known and widely-recognized index, such as the S&P 500 Index and the Barclays US Aggregate Bond Index (both described above). These types of indices are not selected to represent an appropriate benchmark with which to evaluate a composite's performance, but rather to allow for comparison of a composite's performance to that of a widely recognized index. The second type of index is a more narrowly-focused index selected based on one or more characteristics, such as asset class, style or strategy. A more narrowly-focused index may have characteristics similar to those of a composite, actual composite holdings will differ significantly from the index. Consequently, use of a narrowly-focused index does not indicate that a composite will achieve returns, volatility or other results similar to the index. Clients should NOT expect performance comparable to the narrowly-focused index in an actual account. Securities may be mentioned in a portfolio description, and if so a list of a transactions/recommendations for the trailing 12 months is available upon request. There is the chance that market conditions or portfolio performance may deteriorate in the future, and clients may experience real capital losses in their managed accounts. None of the indices may be an appropriate comparison index as our managed accounts may own companies not represented in the benchmarks. Salzinger Sheaff Brock, LLC (SSB) provides this Newsletter for general informational and educational purposes, and where appropriate, to assist in explaining the portfolios and composites. It is not investment advice for any person. Information is obtained from sources SSB believes are reliable, however, SSB 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. SSB 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 SSB's Form ADV Part 2A or to one or SSB's representatives for individualized information prior to deciding to participate in any portfolio. SSB does not provide tax advice. Clients are strongly urged to consult their tax advisors regarding any potential investment.