

## SEPTEMBER 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>8.2%</b>	<b>16.0%</b>	<b>12.7%</b>	<b>11.3%</b>
<i>Benchmark (90% Lipper Multi-cap Core/10% Lipper General Bond Fund)</i>	2.3%	8.9%	10.6%	8.7%
<b>Growth &amp; Income</b>	<b>6.7%</b>	<b>13.6%</b>	<b>11.3%</b>	<b>9.9%</b>
<i>Benchmark (75% Lipper Multi-cap Core/25% Lipper General Bond Fund)</i>	1.9%	7.5%	9.5%	7.9%
<b>Conservative Balanced</b>	<b>5.1%</b>	<b>10.4%</b>	<b>9.4%</b>	<b>8.1%</b>
<b>Closed-End Income</b>	<b>2.4%</b>	<b>3.7%</b>	<b>11.4%</b>	<b>N/A</b>
<b>ETF Option Income</b>	<b>3.9%</b>	<b>7.6%</b>	<b>N/A</b>	<b>N/A</b>
<i>Benchmark (60% Lipper Multi-cap Core/40% Lipper General Bond Fund)</i>	1.5%	6.1%	8.3%	7.0%
<b>Retirement Income</b>	<b>3.6%</b>	<b>8.3%</b>	<b>8.5%</b>	<b>6.9%</b>
<i>Benchmark (50% Lipper Multi-cap Core/50% Lipper General Bond Fund)</i>	1.3%	5.1%	7.5%	6.4%
<b>Index</b>				
S&P 500	9.9%	19.7%	16.1%	14.5%
Russell 3000 &&	10.4%	20.3%	15.9%	14.3%
Russell 2000 ##	14.3%	25.5%	16.1%	13.0%
MSCI EAFE @@	-4.3%	1.6%	4.2%	2.9%
MSCI Emerging Markets	-8.9%	-2.9%	8.9%	2.6%
Barclays Aggregate Bond	-1.0%	-1.1%	1.8%	2.5%
<b>Mutual Fund/ETF Comparisons</b>				
Vanguard LifeStrategy Growth &	3.8%	10.4%	10.7%	9.5%
Vanguard LifeStrategy Moderate Growth #	2.8%	7.7%	8.6%	7.9%
Vanguard LifeStrategy Conservative Gr @	1.7%	5.0%	6.4%	6.2%
Vanguard LifeStrategy Income ^	0.6%	2.3%	4.2%	4.5%

YTD through 8/31/2018. PLEASE SEE IMPORTANT DISCLAIMER ON BACK. Note: &&A good measure of the broad market, ##Small-cap stocks. @@Developed market foreign stocks. Style Comparisons: & A comparison for Salzinger Sheaff Brock, LLC (SSB) Growth. # A comparison for SSB Growth & Income. @ A comparison for Conservative Balanced. ^A comparison for SSB Retirement Income. Composites include all fully discretionary accounts including those accounts no longer with the firm. Returns are presented net of management fees and all trading expenses, and the reinvestment of all income. Net returns are net of model fees and are derived by deducting the highest applicable fee rate of 0.96% from the gross returns each quarter. 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 SBA. **Past performance is not indicative of a guarantee of future results and investors may experience a loss.** (continued on back)

Our recent performance versus reasonable benchmarks continues to be strong. In fact, our composites expanded their leads over their benchmarks in August. As I have written previously in these monthly letters, a main reason for our advantage so far this year has been that within our equity allocations, we are devoting more to U.S. stocks and less to foreign ones than the bulk of our globally diversified peers.

Having been through an MBA program at a leading university a quarter century ago, I'm familiar with the academic arguments and models in favor of geographic diversification. I even subscribe to them to some extent, which is surely one of the two main reasons (the presence of our management fee being the other) the performance of our SSB Growth composite—as good as it has been—trails that of the S&P 500 over various periods. While many of the companies in the S&P 500 generate some sales and even profits abroad, all of them are U.S.-based. Our equity portions, on the other hand, include foreign- and global-stock funds and ETFs (and even closed-end funds here and there) to the extent that international equities usually account for a range of 12% to 16% of an SSB Growth account, though a lower percentage of our lower-risk offerings.

If I thought international equities looked better versus their counterparts in the U.S., I wouldn't hesitate to allocate higher percentages to them within many accounts. Right now, I don't. The U.S. market offers a better combination of growth prospects and financial stability than anywhere else.

However, the main point I want to make now is I am shocked at the faith most of the asset-allocation establishment throughout the investment world continues to have toward the wisdom of very large weightings in international stocks, including emerging markets, after a 10-year period during which such investments struggled to make any gains at all. Consider: during the 10-year period ended Aug. 31, 2018, the broad market Russell 3000 Index of U.S. stocks rose 10.9%. The MSCI EAFE (foreign developed nation equities) and MSCI Emerging Markets indexes rose just 0.8% and 1.0% per year, respectively.

Instead of reconsidering their faith, the asset-allocation establishment continues to throw more investor money at it, through the process of rebalancing, usually quarterly or annually. U.S. equity holdings are sold to create the cash to buy more foreign stocks, and therefore raise their allocation back to the predetermined weighting.

*Continued on back*

Not only has this hurt gross returns, it has hurt after-tax returns even more. These funds have been selling shares of appreciated U.S. stocks or funds to rebalance toward equities that haven't appreciated. Therefore, even globally diversified products that use index funds, which themselves should be extremely tax efficient, become tax inefficient! I note that one such major global-allocation product, which for various reasons I do not feel I can identify, lost a full percentage point a year in after-tax return over the past five years through rebalancing to maintain a fixed allocation to foreign equities over time, even though it only includes underlying index funds that themselves have made virtually no distributions of taxable gains.

It's not uncommon at all to see global allocation products that dedicate more than 30% of assets to foreign holdings. As a percentage of total equity in the portfolio, international sometimes account for almost half. Just the other day, I noticed that an osten-

sibly conservative global allocation product, from a distinguished provider, dedicated 30% of the portfolio to foreign equities, a whopping 60% of the entire equity allocation. At least for a U.S.-based investor base, I think that's insane.

By contrast, we try to be rational. We use our experience. Instead of sticking, come what may, to predetermined asset allocations, I shade investment accounts toward countries and investment styles that appear most attractive to me, and I rebalance only when I believe it's essential for the risk profile of the client (especially if the account is taxable). I do all of this while maintaining significant diversification.

Does this approach seem rational to you, too? To get started in any of our strategies (all reasonably priced), 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 MSCI EAFE Index is an equity index which captures large and mid cap representation across Developed Markets countries\* around the world, excluding the US and Canada. With 928 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The MSCI Emerging Markets Index captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 835 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. 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 of 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.