

Is Fear Costing Your Clients Millions?

(Your fear, not their fear)

Innovative Portfolios

Dave Gilreath, CFP®

Co-Founder
Chief Investment Officer



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Who we are...

Sheaff Brock Capital Management, LLC, a holding company:

22-year history | 29 people across all firms



A wholly owned RIA, wealth management firm with assets in separately managed accounts, founded in 2001 with a long-term expertise in options. More than 60% of the AUM is in option-related strategies: credit-spreads, covered calls, and equity puts. Other assets are equity, preferred stock, and REIT strategies.



A wholly owned RIA formed as a GIPS® verified subadvisor* to Sheaff Brock and other RIAs, institutions, and family offices. Founded in 2018 and 100% owned by SBCM. Strategies include equity and option-based SMAs, two exchange-traded funds, and a limited partnership.



A 50% owned RIA, wealth management firm founded in 2009 and 50% owned by SBCM. All the AUM is separate accounts primarily using mutual funds and ETFs.



A 20% owned mutual fund manager founded in 2007 and 20% owned by SBCM. All the AUM is in one growth mutual fund.

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Discussion Objectives

Fear.

Risk...what is it really?

Longevity.

Advisors' fear of volatility can cost clients millions.

Think different.

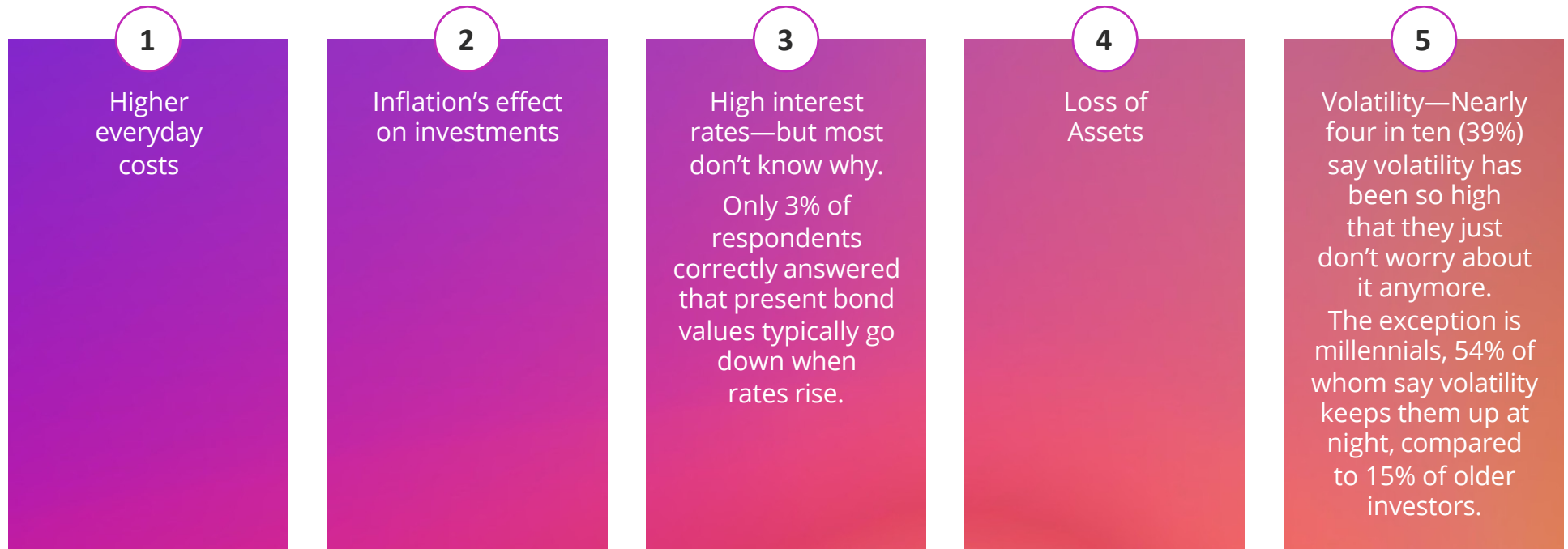
Fear

Most feared:

Public Speaking • Heights • Dentist • Snakes • Flying • Spiders • Confined Space

Source: Wikipedia, <https://radiantdentistry.com/blog/top-10-things-people-fear-most>

Investor fears:



Source: Nataxis Investment Managers, CoreData Research
6/21/2023. <https://www.im.nataxis.com/us/resources/2023-individual-investor-survey-full-report>

Fear

Investment Advisor fears:

1

Market volatility's impact on client portfolios—and the morale and well-being of their clients.

2

Regulatory risk.

3

Fear of losing a client—retaining the next generation as a client; having assets move away from the firm.

4

The potential for reputational risk.

Risk...

There are many potential risks of an investment:

- Volatility of price risk
- Liquidity risk
- Concentration risk
- Credit risk
- Interest rate risk
- Inflation risk
- Horizon risk
- Foreign currency risk



Risk...

There are many potential risks of an investment:

- Volatility of price risk - **In today's short-term oriented world, this risk gets most of the attention.**
- Liquidity risk
- Concentration risk
- Credit risk
- Interest rate risk
- Inflation risk
- Horizon risk
- Foreign currency risk
- Permanent capital loss risk - **Long-term, isn't this risk the most important?**



Risk...

Some smart people don't agree that volatility is risk:

Warren Buffett:

"Risk is not the same as volatility, but that lesson has not customarily been taught in business schools, where volatility is almost universally used as a proxy for risk. Though this assumption makes for easy teaching, it is dead wrong: **Volatility is not synonymous with risk.**"

The Wall Street Journal, April 30, 2018:

"The real risk is believing that volatility is risk."

Howard Marks:

"The risk that matters most is the **risk of permanent loss.**"

Charlie Munger:

"Risk to us is **1) the risk of permanent loss** of capital, or
2) the **risk of inadequate return.**"

Risk...

Some smart people don't agree that volatility is risk:

Bruce Berkowitz:

"I define risk as the chance of permanent capital loss adjusted for inflation. Volatility, I believe to be just price changes based on market perceptions of risk. Risk does not equal volatility."

Chuck Akre:

"When we speak of risk, we are not speaking of share price volatility.
When we speak of risk we are thinking about exposure to permanent loss of capital."

Jim Grant:

"I would say – many value investors would agree – that risk is the likelihood of the permanent impairment of capital."

Longevity— a real risk



Source: Health status
<https://data.oecd.org/healthstat/life-expectancy-at-65.htm>

Life Expectancy at Birth (Men / Total / Women, Years, 2022 or latest available)

Women

Location ▾

▾ Latest

United States	79.30
United Kingdom	82.90
Türkiye	81.30
Switzerland	85.80
Sweden	84.90
Spain	86.20
South Africa	65.00

Life Expectancy at Birth (Men / Total / Women, Years, 2022 or latest available)

Men

Location ▾

▾ Latest

United States	73.50
United Kingdom	79.00
Türkiye	75.90
Switzerland	81.80
Sweden	81.30
Spain	80.40
South Africa	59.50

Longevity—a real risk

Life Expectancy at 65 (Women / Men, Years, 2022 or latest available)

Women	▼ Latest
United States	19.70
United Kingdom	21.00
Türkiye	19.60
Switzerland	23.00
Sweden	22.10
Spain	23.50
Slovenia	21.20
Slovak Republic	17.10
Russia	18.10
Romania	16.40

Life Expectancy at 65 (Women / Men, Years, 2022 or latest available)

Men	▼ Latest
United States	17.00
United Kingdom	18.50
Türkiye	16.30
Switzerland	20.10
Sweden	19.60
Spain	19.20
Slovenia	17.20
Slovak Republic	13.30
Russia	13.80
Romania	12.50



Source: Health status
<https://data.oecd.org/healthstat/life-expectancy-at-65.htm>

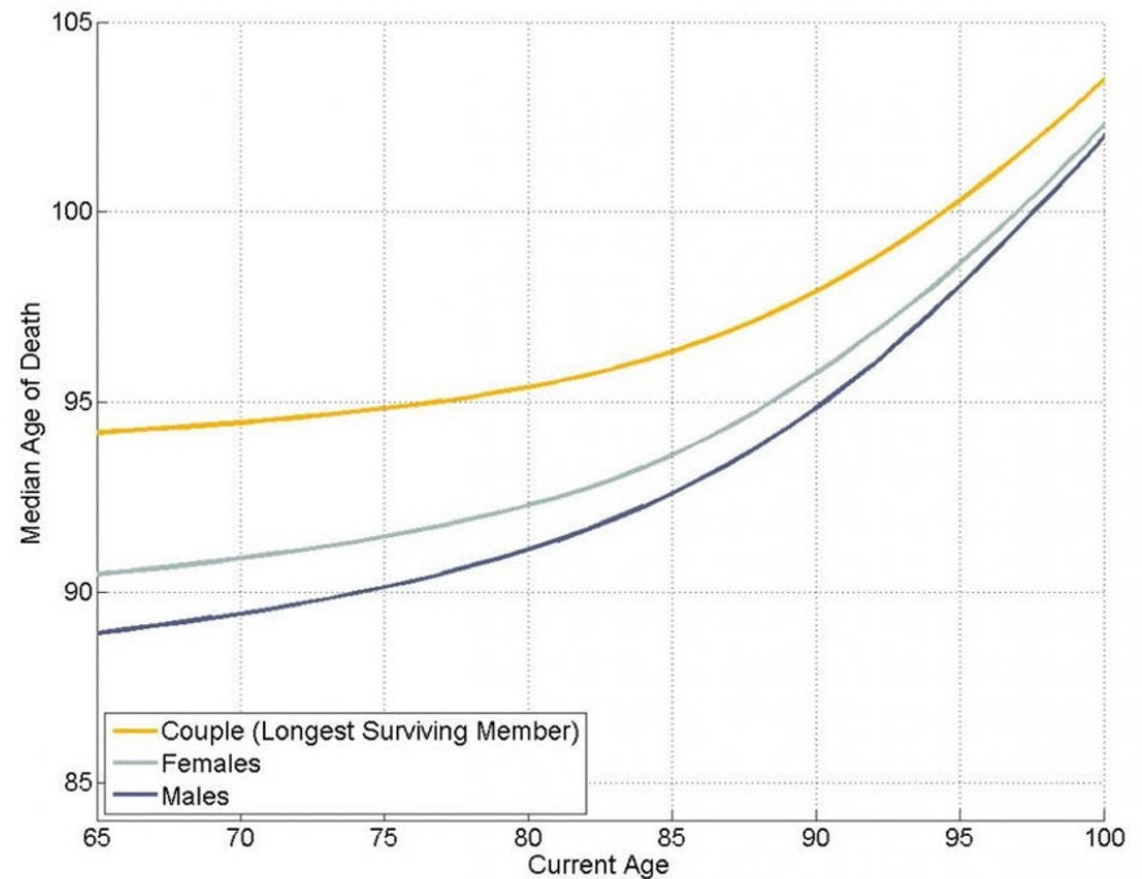


Longevity of a married couple

Longevity evolves with age. For each additional year of life, remaining longevity reduces by a fraction of a year.

Longevity continues to increase as one survives into advanced ages.

Median Age of Death



Longevity of a married couple

Five takeaways:

- Planning to 90 is not conservative.
- One of two people will survive longer than just one.
- It's an average, not a "stressed" scenario.
- Medical advances extend longevity over time.
- Wealthier people have higher life expectancies.

Source: Massimo Young, CFA, Individual Retirement Solutions group at Insight Investment. Erik Pickett, PhD, FIA, CERA, actuary and pension consultant, Club Vita.

Longevity Estimates for a 65-year-old Couple

Probability of survival	Low-end estimate Last survivor of Male-Female household	High-end estimate Last survivor of Male-Female household
90% chance of living beyond...	83	85
75% ...	88	90
50% ...	93	95
25% ...	97	99
10% ...	100	102

What do we do to reduce volatility?

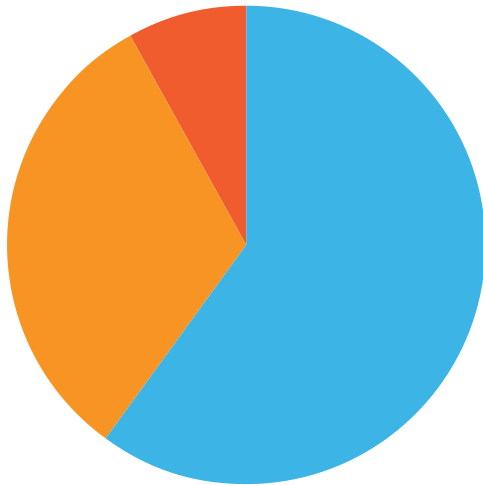
Increase fixed income?

Diversify equity?

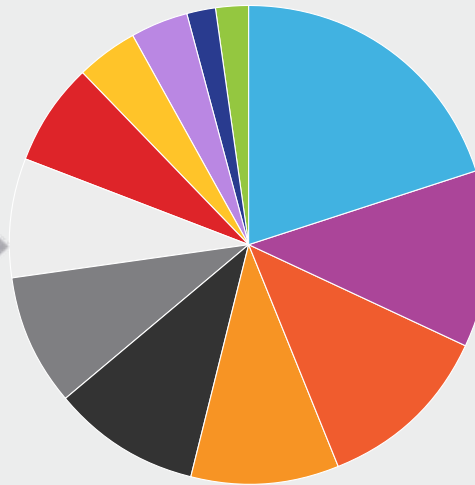
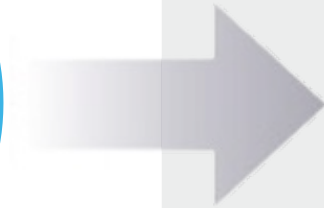
Add alternatives, private equity, private debt?

Structured products, annuities?

Global diversification is better, right?



U.S. Stocks
Fixed Income
Cash



US large value
US large growth
US mid value
US mid growth
US small value
US small growth
Global value
Global growth
Global mid growth
Int'l small value
Emerging value
US large momentum

Int'l large momentum
Emerging momentum
US large low-vol
Emerging large low-vol
Frontier growth
Global real estate
Short Treasury
Long Treasury
Int'l Gov't
Int'l corporate bonds
Emerging bonds
US TIPS
Bank loan funds
Hedge funds
Private Equity
Commodity ETF
Gold
Platinum,
Cash

Global diversification

At last year's market bottom, you may have said, "Yes, the market's down, but we're diversified!"

COUNTRY STOCK INDEXES - TOTAL RETURNS vs DRAWDOWNS (%)

Return: Total Return (%) - DD: Maximum Drawdown (%)

Last Update: 31 October 2022

ETF	3Y		5Y		10Y	
	Return	DD	Return	DD	Return *	DD
United States VTI	+31.91	-24.81	+59.60	-24.81	+222.21	-24.81
Ireland EIRL	+0.31	-39.15	-3.84	-39.15	+116.80	-39.15
Taiwan EWT	+15.17	-37.46	+24.54	-37.46	+110.42	-37.46
Netherlands EWN	+6.23	-41.29	+12.77	-41.29	+106.53	-41.29
Argentina ARGT	+46.49	-38.17	+2.81	-55.87	+103.48	-55.87
Switzerland EWL	+7.12	-27.53	+25.21	-27.53	+92.60	-27.53
New Zealand ENZL	-10.41	-37.29	+10.49	-37.29	+83.77	-37.29
France EWQ	+3.09	-29.04	+8.13	-29.04	+78.91	-29.04
Israel EIS	+13.35	-25.74	+31.27	-25.74	+72.89	-25.74
Belgium EWK	-10.35	-32.34	-15.14	-32.96	+61.86	-32.96
Japan EWJ	-10.09	-28.85	-7.19	-28.85	+61.59	-28.85

ETF	3Y		5Y		10Y	
	Return	DD	Return	DD	Return *	DD
Sweden EWD	+3.87	-40.26	+0.45	-40.26	+53.41	-40.26
Canada EWC	+22.12	-26.90	+27.86	-26.90	+43.76	-34.11
Australia EWA	+4.14	-31.36	+14.44	-31.36	+34.98	-31.36
Austria EWO	-10.81	-37.60	-17.82	-47.58	+34.80	-47.58
Italy EWI	-9.46	-32.87	-8.54	-33.30	+29.05	-35.53
United Kingdom EWU	-4.17	-29.97	-2.80	-29.97	+19.80	-29.97
Germany EWG	-17.31	-41.66	-24.69	-41.66	+19.76	-41.66
Hong Kong EWH	-26.86	-40.35	-24.13	-40.35	+17.02	-40.35
Thailand THD	-18.17	-34.39	-14.73	-39.98	+15.14	-39.98
Spain EWP	-15.59	-32.46	-23.84	-38.72	+9.95	-41.58
South Korea EWY	-7.53	-48.08	-23.92	-48.08	+5.67	-48.08
Mexico EWW	+21.41	-38.18	+12.65	-43.79	-5.92	-56.14
Philippines EPHE	-29.56	-35.06	-32.42	-40.64	-18.21	-43.71
China FXI	-45.89	-56.74	-48.84	-56.74	-28.11	-56.74

Please see additional disclosures at the beginning of this presentation.

Past Performance is no guarantee of future results. For Institutional use only. Source: lazyportfolioetf.com/world-country-indexes-returns/

Global “diworsification”

COUNTRY STOCK INDEXES - TOTAL RETURNS vs DRAWDOWNS (%)

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Ireland EIRL	+0.31	-39.15	-3.84	-39.15	+116.80	-39.15	Canada EWC	4.11
Taiwan EWT	+15.17	-37.46	+24.54	-37.46	+110.42	-37.46	Australia EWA	1.36
Netherlands EWN	+6.23	-41.29	+12.77	-41.29	+106.53	-41.29	Austria EWO	7.58
Argentina ARGT	+46.49	-38.17	+2.81	-55.87	+103.48	-55.87	Italy EWI	5.53
Switzerland EWL	+7.12	-27.53	+25.21	-27.53	+92.60	-27.53	United Kingdom EWU	9.97
New Zealand ENZL	-10.41	-37.29	+10.49	-37.29	+83.77	-37.29	Germany EWG	1.66
France EWQ	+3.09	-29.04	+8.13	-29.04	+78.91	-29.04	Hong Kong EWH	-26.86
Israel EIS	+13.35	-25.74	+31.27	-25.74	+72.89	-25.74	Thailand THD	-18.17
Belgium EWK	-10.35	-32.34	-15.14	-32.96	+61.86	-32.96	Spain EWP	-15.59
Japan EWJ	-10.09	-28.85	-7.19	-28.85	+61.59	-28.85	South Korea EWY	-7.53
							Mexico EWW	+21.41
							Philippines EPHE	-29.56
							China FXI	-45.89

Some interesting observations:

1. Better returns: Over the last 10 years, the U.S. stock market outpaced the rest of the world, by a longshot, at nearly 2X the gain, over 100% more.
2. Better returns: Over the last 5 years the U.S. has been the winner, again gaining nearly twice as much as #2, Israel.
3. Lower volatility: Over every period the U.S. market experienced the smallest drawdown of the 25 countries.

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Global “diworsification”

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Another interesting one is the bottom of the list, China, who booked a negative return over 3, 5, and 10-year periods! This was all during a fantastic period of economic growth. According to the International Monetary Fund (imf.org), China's economy grew an average of 6.4% annually since 2012 vs. the U.S.' growth rate of 2.0%. China's economy nearly doubled in size yet their ETF underperformed by 250% vs. the U.S.' ETF.

ETF	Return	DD	Return	DD	Return	DD
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Thailand THD						
Spain EWP						
South Korea EWY						
Mexico EWW						
Philippines EPHE						
China FXI						

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JOURNAL ARTICLE

International Diversification—Still Not Crazy after All These Years

May 3, 2023 - *Cliff Asness, Antti Ilmanen, Daniel Villalon*



International diversification has hurt US-based investors for over 30 years, but the long-run case for it remains relevant. Both financial theory and common sense favor international diversification, which is buttressed by empirical evidence that is very supportive at longer horizons and for active strategies. Finally, it would be dangerous to extrapolate the post-1990 outperformance of US equities, as it mainly reflects rising relative valuations. If anything, the current richness of US equities may point to prospective underperformance.

Structured notes, buffered CDs, annuities

Features of the 3-Year Growth Opportunity CDs:

- Regardless of the Index performance, depositors will receive at least the Principal Amount at maturity, subject to our credit risk and FDIC insurance limits.
- The CDs do not provide periodic interest payments over the term of the CDs, rather, the CDs will pay the Interest Payment Amount only at maturity.
- The CDs provide a return equal to 100.00% of the Index Return, subject to the Maximum Return provided that the return on the CDs will not be less than zero if the CDs are held to maturity.

3 Year Growth Opportunity Certificates of Deposit Linked to The S&P 500® Index

Preliminary Terms	
Issuer	HSBC Bank USA, National Association
Issue	3 Year Growth Opportunity Certificates of Deposit
Principal Amount	\$1,000 for each CD
Minimum Denomination	\$1,000 and increments of \$1,000 thereafter
Trade Date / Pricing Date	July 26, 2023
Settlement Date	July 31, 2023
Valuation Date	July 28, 2026
Maturity Date	July 31, 2026
Term	3 Years
Reference Asset	The S&P 500® Index (Ticker: SPX) (the "Index" or the "SPX")
Maturity Redemption Amount	The Principal Amount plus the Interest Payment Amount
Index Return	The quotient of (A) the Final Level minus the Initial Level, divided by (B) the Initial Level
Participation Rate	100.00%
Maximum Return	At least 22.00% (to be determined on the Trade Date)
Initial Level	The Closing Level of the Index on the Pricing Date
Final Level	The Closing Level of the Index on the Valuation Date

Buffered CD

Features of the 5-Year Growth Opportunity CDs:

- Regardless of the Index performance, depositors will receive at least the Principal Amount at maturity, subject to our credit risk and FDIC insurance limits.
- The CDs do not provide periodic interest payments over the term of the CDs, rather, the CDs will pay the Interest Payment Amount only at maturity.
- The CDs provide a return equal to 100.00% of the Index Return, subject to the Maximum Return provided that the return on the CDs will not be less than zero if the CDs are held to maturity.

5 Year Growth Opportunity Certificates of Deposit Linked to The S&P 500® Index

Preliminary Terms	
Issuer	HSBC Bank USA, National Association
Issue	5 Year Growth Opportunity Certificates of Deposit
Principal Amount	\$1,000 for each CD
Minimum Denomination	\$1,000 and increments of \$1,000 thereafter
Trade Date / Pricing Date	July 26, 2023
Settlement Date	July 31, 2023
Valuation Date	July 26, 2028
Maturity Date	July 31, 2028
Term	5 Years
Reference Asset	The S&P 500® Index (Ticker: SPX) (the "Index" or the "SPX")
Maturity Redemption Amount	The Principal Amount plus the Interest Payment Amount
Interest Payment Amount	The Principal Amount multiplied by the Interest Rate
Interest Rate	The Index Return multiplied by the Participation Rate, subject to (A) a minimum of 0.00% and (B) the Maximum Return
Index Return	The quotient of (A) the Final Level minus the Initial Level, divided by (B) the Initial Level
Participation Rate	100.00%
Maximum Return	At least 45.50% (to be determined on the Trade Date)

Buffered CD vs. S&P 500

3 Year S&P 500 vs. Structured CD							5 Year S&P 500 vs. Structured CD			
Date	S&P 500 Close	Total Return of S&P 500	S&P 500 TR rolling 3 yr growth 100K	Index Rolling 3 Years	3-year Buffered CD	Buffered CD growth of \$100K	Index Rolling 5 Years	5-Year Buffered CD	S&P 500 TR rolling 5 yr growth 100K	Buffered CD growth of \$100K
12/31/1945	18.02									
12/31/1946	15.21	-8.07%								
12/31/1947	14.83	5.71%								
12/31/1948	15.36	5.50%	102,524	0.852	1.000	100,000				
12/31/1949	16.88	18.79%	132,479	1.110	1.110	110,980				
12/31/1950	21.21	31.71%	165,064	1.430	1.230	123,000	1.177	1.177	160,407	117,703
12/31/1951	24.19	24.02%	194,040	1.575	1.230	123,000	1.590	1.460	216,401	146,000
12/31/1952	26.18	18.37%	193,354	1.551	1.230	123,000	1.765	1.460	242,317	146,000
12/31/1953	25.40	-3.99%	145,349	1.122	1.230	120,038	1.765	1.460	242,317	146,000
12/31/1954	25.40	-3.99%	145,349	1.122	1.230	120,038	1.765	1.460	242,317	146,000
12/31/1955	25.40	-3.99%	145,349	1.122	1.230	120,038	1.765	1.460	242,317	146,000
12/31/1956	25.40	-3.99%	145,349	1.122	1.230	120,038	1.765	1.460	242,317	146,000
12/31/1957	41.12	-10.78%	125,078	1.155	1.155	115,506	1.571	1.460	189,004	146,000
12/31/1958	55.62	43.36%	136,296	1.260	1.230	123,000	2.185	1.460	273,665	146,000
12/31/1959	58.03	11.96%	143,203	1.277	1.230	123,000	1.630	1.460	200,757	146,000
12/31/1960	59.72	0.47%	161,260	1.452	1.230	123,000	1.353	1.353	153,315	135,266
12/31/1961	69.07	26.89%	142,734	1.242	1.230	123,000	1.520	1.460	182,565	146,000
12/31/1962	65.06	-8.73%	116,357	1.121	1.121	112,114	1.582	1.460	186,760	146,000
12/31/1963	76.45	22.80%	142,218	1.280	1.230	123,000	1.375	1.375	159,975	137,451
12/31/1964	86.12	16.48%	130,550	1.247	1.230	123,000	1.484	1.460	166,434	146,000
12/31/1965	93.32	12.45%	160,846	1.434	1.230	123,000	1.563	1.460	186,279	146,000
12/31/1966	84.45	-10.06%	117,805	1.105	1.105	110,464	1.223	1.220	132,035	122,000
12/31/1967	96.47	23.98%	125,390	1.120	1.120	112,018	1.483	1.460	179,355	146,000
12/31/1968	103.86	11.06%	123,840	1.113	1.113	111,294	1.359	1.359	162,208	135,854
12/31/1969	92.06	-8.50%	125,988	1.090	1.090	109,011	1.069	1.069	127,422	106,897
12/31/1970	92.15	4.01%	105,695	0.955	1.000	100,000	0.987	1.000	117,858	100,000
12/31/1971	102.09	14.31%	108,788	0.983	1.000	100,000	1.209	1.209	149,792	120,888
12/29/1972	118.05	18.98%	141,460	1.282	1.282	128,232	1.224	1.224	143,751	122,370
12/31/1973	97.55	-14.66%	116,068	1.059	1.059	105,860	0.939	1.000	110,461	100,000
12/31/1974	68.56	-26.47%	74,661	0.672	1.000	100,000	0.745	1.000	88,767	100,000

Buffered CD vs. S&P 500

3 Year S&P 500 vs. Structured CD							5 Year S&P 500 vs. Structured CD			
Date	S&P 500 Close	Total Return of S&P 500	S&P 500 TR rolling 3 yr growth 100%	Index Rolling 3	3-year Buffered CD	Buffered CD growth of \$100K	Index Rolling 5 Years	5-Year Buffered CD	S&P 500 TR rolling 5 yr growth 100%	Buffered CD growth of \$100K
12/31/2011	1257.6	2.11%	148,513	1.230	1.230	123,000	0.867	1.000	108,579	100,000
12/31/2012	1426.19	16.00%	136,286	1.279	1.230	123,000	0.971	1.000	108,579	100,000
12/31/2013	1848.36	32.39%	156,813	1.470	1.230	123,000	2.046	1.460	228,170	146,000
12/31/2014	2058.90	13.69%	174,596	1.637	1.230	123,000	1.846	1.460	205,129	146,000
12/31/2015	2043.94	1.38%	152,591	1.433	1.230	123,000	1.625	1.460	180,741	146,000
12/30/2016	2238.83	11.96%	129,044	1.211	1.211	121,125	1.780	1.460	198,176	146,000
12/29/2017	2673.61	21.83%	138,283	1.299	1.230	123,000	1.875	1.460	208,136	146,000
12/31/2018	2506.85	-4.38%	130,427	1.226	1.230	123,000	1.356	1.356	150,328	135,626
12/31/2019	3230.78	31.49%	153,178	1.443	1.230	123,000	1.569	1.460	173,864	146,000
12/31/2020	3756.88	18.40%	148,865	1.405	1.230	123,000	1.838	1.460	203,053	146,000
12/31/2021	4766.18	28.71%	200,381	1.901	1.230	123,000	2.129	1.460	233,432	146,000
12/31/2022	3839.50	-18.11%	124,794	1.188	1.188	118,841	1.436	1.436	156,905	143,607
Average since 1945			142,186			117,140			180,033	132,537
Average last 40 years			144,089			118,557			183,809	134,388
Average last 20 years			132,925			117,134			152,781	125,876
			9.9%/yr			5.4%/yr			8.9%/yr	4.7%/yr
						4.5% per yr diff				4.2% per year diff

The cost of (mostly unnecessary) insurance

How is this costing clients millions?

Accumulation Phase

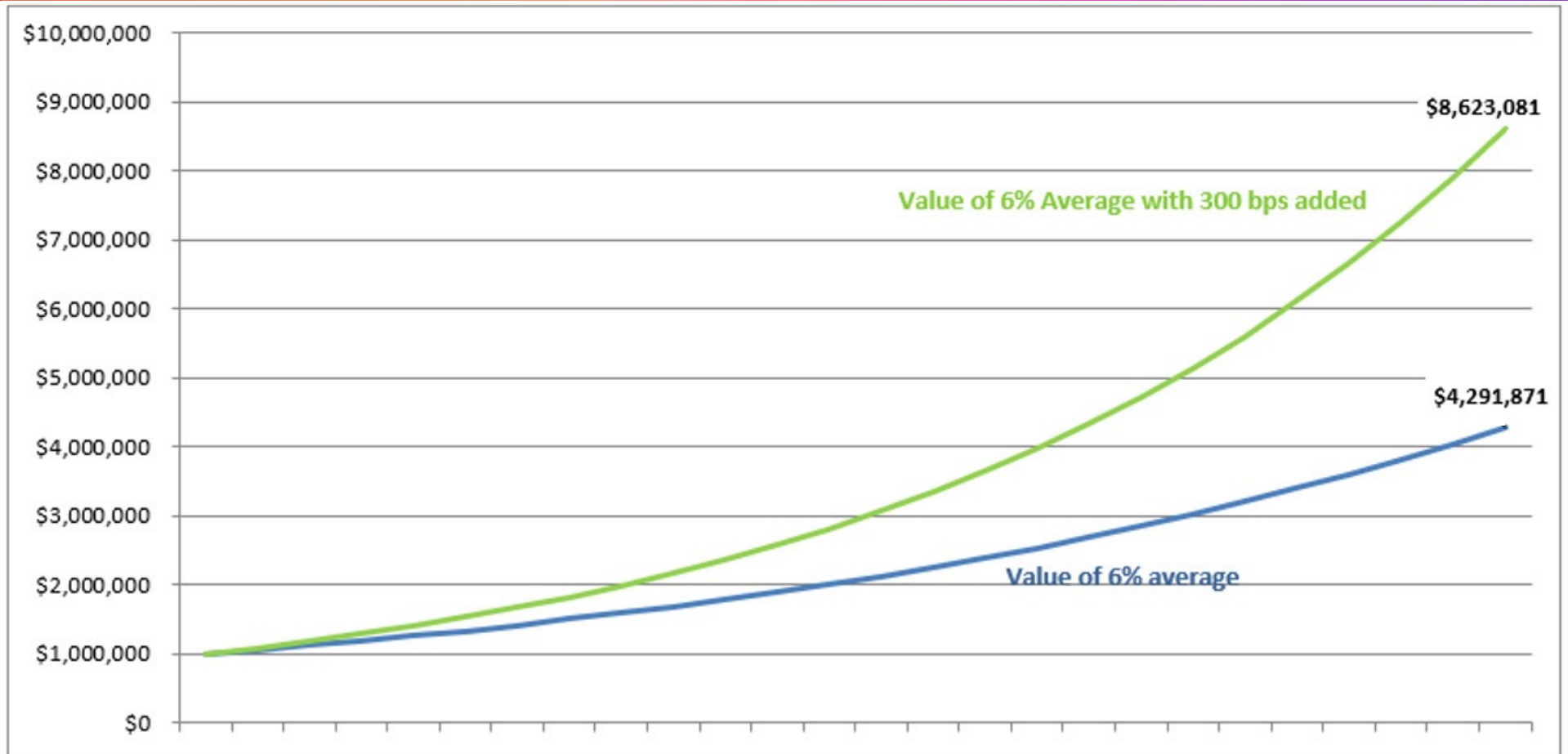
	6% Annual Return	
	Total Return	\$1,000,000
Year 1	6.00	\$1,060,000
Year 2	6.00	\$1,123,600
Year 3	6.00	\$1,191,016
Year 4	6.00	\$1,262,477
Year 5	6.00	\$1,338,226
Year 6	6.00	\$1,418,519
Year 7	6.00	\$1,503,630
Year 8	6.00	\$1,593,848
Year 9	6.00	\$1,689,479
Year 10	6.00	\$1,790,848
Year 11	6.00	\$1,898,299
Year 12	6.00	\$2,012,196
Year 13	6.00	\$2,132,928
Year 14	6.00	\$2,260,904
Year 15	6.00	\$2,396,558
Year 16	6.00	\$2,540,352
Year 17	6.00	\$2,692,773
Year 18	6.00	\$2,854,339
Year 19	6.00	\$3,025,600
Year 20	6.00	\$3,207,135
Year 21	6.00	\$3,399,564
Year 22	6.00	\$3,603,537
Year 23	6.00	\$3,819,750
Year 24	6.00	\$4,048,935
Year 25	6.00	\$4,291,871

6% Annual Return with 300 bps additional	
Return	\$1,000,000
9.00	\$1,090,000
9.00	\$1,188,100
9.00	\$1,295,029
9.00	\$1,411,582
9.00	\$1,538,624
9.00	\$1,677,100
9.00	\$1,828,039
9.00	\$1,992,563
9.00	\$2,171,893
9.00	\$2,367,364
9.00	\$2,580,426
9.00	\$2,812,665
9.00	\$3,065,805
9.00	\$3,341,727
9.00	\$3,642,482
9.00	\$3,970,306
9.00	\$4,327,633
9.00	\$4,717,120
9.00	\$5,141,661
9.00	\$5,604,411
9.00	\$6,108,808
9.00	\$6,658,600
9.00	\$7,257,874
9.00	\$7,911,083
9.00	\$8,623,081

For illustrative use only. Not actual results.

How is this costing clients millions?

Accumulation Phase



For illustrative use only. Not actual results.

How is this costing clients millions?

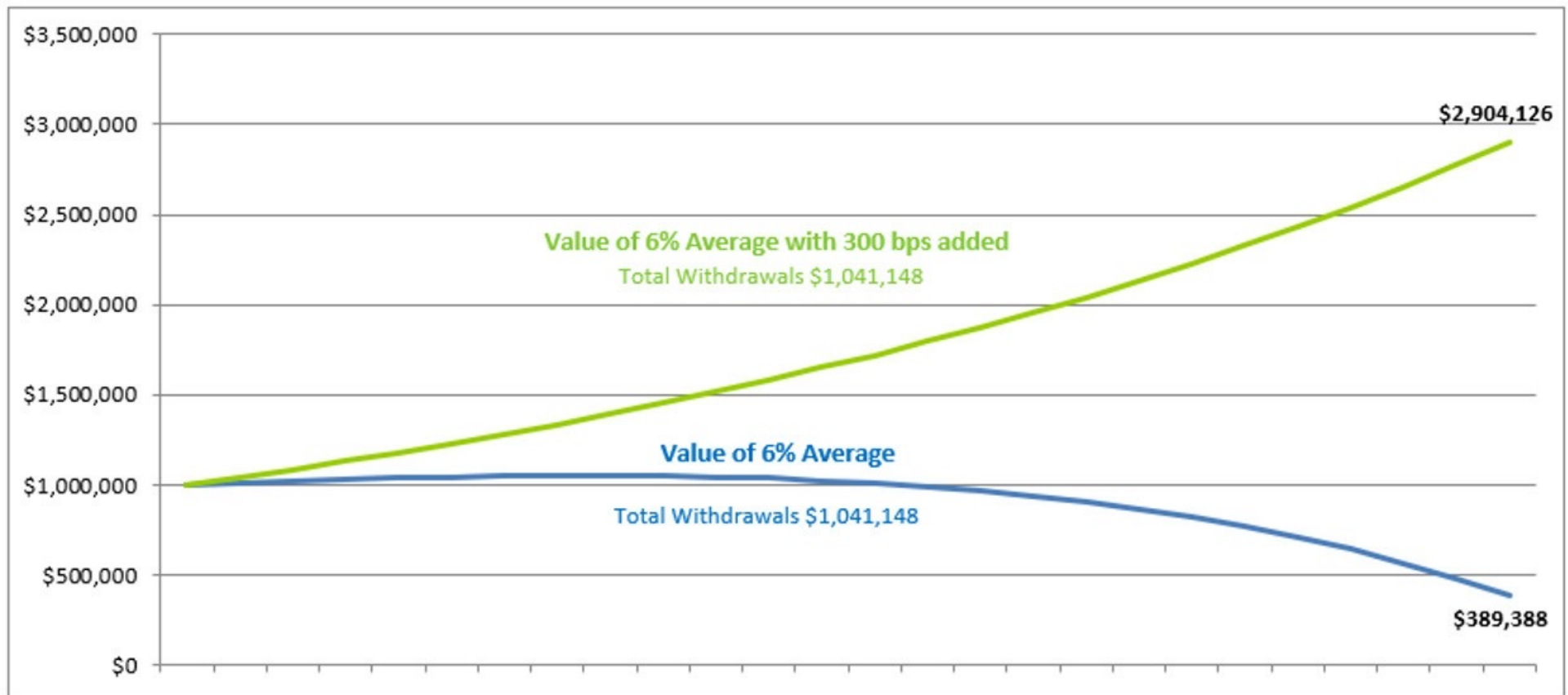
Distribution Phase

	6% Annual Return		Rising Annual Withdrawal	6% Annual Return with 300 bps additional		Rising Annual Withdrawal
	% Return	\$1,000,000		% Return	\$1,000,000	
Year 1	6.00	\$1,012,000	\$48,000	9.00	\$1,042,000	\$48,000
Year 2	6.00	\$1,022,800	\$49,920	9.00	\$1,085,860	\$49,920
Year 3	6.00	\$1,032,251	\$51,917	9.00	\$1,131,671	\$51,917
Year 4	6.00	\$1,040,193	\$53,993	9.00	\$1,179,527	\$53,993
Year 5	6.00	\$1,046,451	\$56,153	9.00	\$1,229,532	\$56,153
Year 6	6.00	\$1,050,839	\$58,399	9.00	\$1,281,790	\$58,399
Year 7	6.00	\$1,053,154	\$60,735	9.00	\$1,336,416	\$60,735
Year 8	6.00	\$1,053,178	\$63,165	9.00	\$1,393,529	\$63,165
Year 9	6.00	\$1,050,678	\$65,691	9.00	\$1,453,255	\$65,691
Year 10	6.00	\$1,045,400	\$68,319	9.00	\$1,515,729	\$68,319
Year 11	6.00	\$1,037,072	\$71,052	9.00	\$1,581,093	\$71,052
Year 12	6.00	\$1,025,402	\$73,894	9.00	\$1,649,498	\$73,894
Year 13	6.00	\$1,010,077	\$76,850	9.00	\$1,721,103	\$76,850
Year 14	6.00	\$990,758	\$79,924	9.00	\$1,796,078	\$79,924
Year 15	6.00	\$967,083	\$83,120	9.00	\$1,874,605	\$83,120
Year 16	6.00	\$938,663	\$86,445	9.00	\$1,956,874	\$86,445
Year 17	6.00	\$905,079	\$89,903	9.00	\$2,043,090	\$89,903
Year 18	6.00	\$865,885	\$93,499	9.00	\$2,133,469	\$93,499
Year 19	6.00	\$820,599	\$97,239	9.00	\$2,228,242	\$97,239
Year 20	6.00	\$768,706	\$101,129	9.00	\$2,327,655	\$101,129
Year 21	6.00	\$709,654	\$105,174	9.00	\$2,431,970	\$105,174
Year 22	6.00	\$642,853	\$109,381	9.00	\$2,541,466	\$109,381
Year 23	6.00	\$567,668	\$113,756	9.00	\$2,656,442	\$113,756
Year 24	6.00	\$483,421	\$118,306	9.00	\$2,777,215	\$118,306
Year 25	6.00	\$389,388	\$123,039	9.00	\$2,904,126	\$123,039

For illustrative use only. Not actual results.

How is this costing clients millions?

Distribution Phase



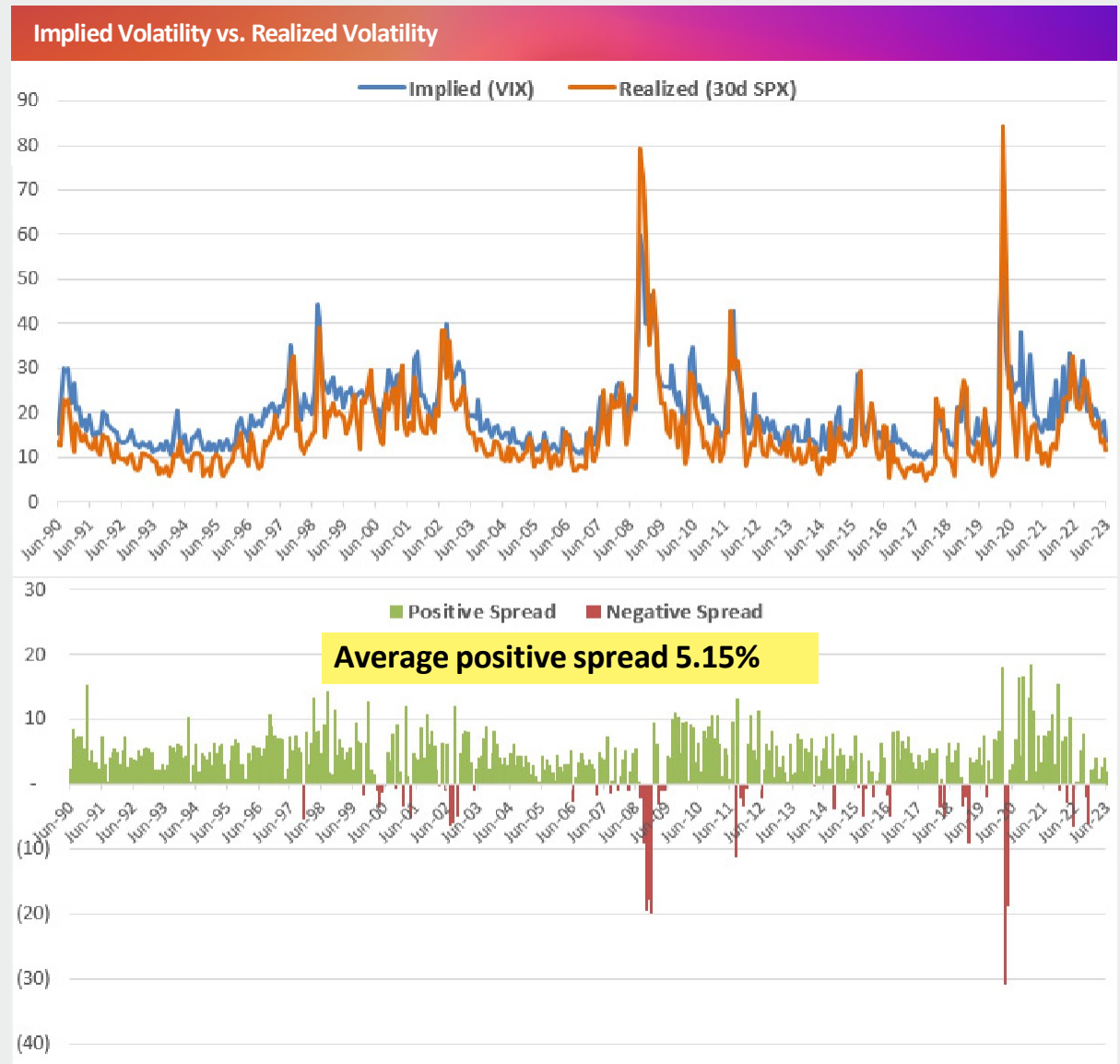
For illustrative use only. Not actual results.

Implied vs. Realized Volatility

Implied volatility can be monetized with index options on the S&P 500. Investor fear generally creates a profitable implied volatility spread which can be exploited over time. Implied volatility is usually higher than the 30-day realized volatility.

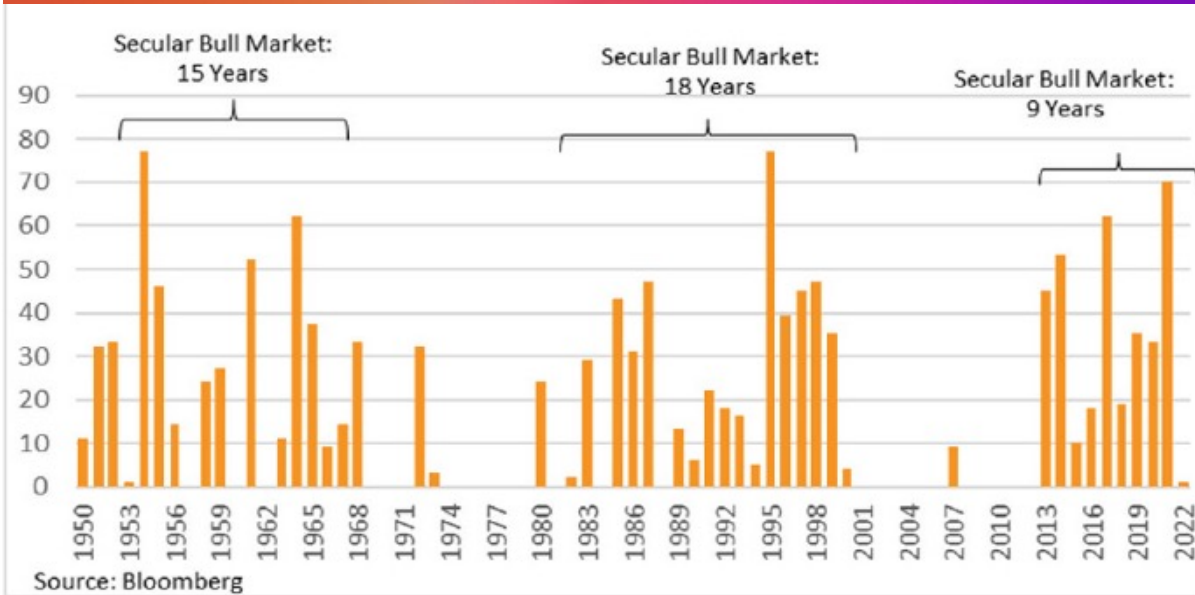
Generally, these periods of positive spread, as shown by the green bars in the chart, the seller of an option contract can profit from the collection of option premium.

Implied volatility is investors' forecast of likely movements in the market. **Realized volatility** is the actual movement that occurred over the prior period. **The spread** is the difference between the two.



S&P 500–Monetizing volatility

Number of New S&P 500 Closing Highs Per Year



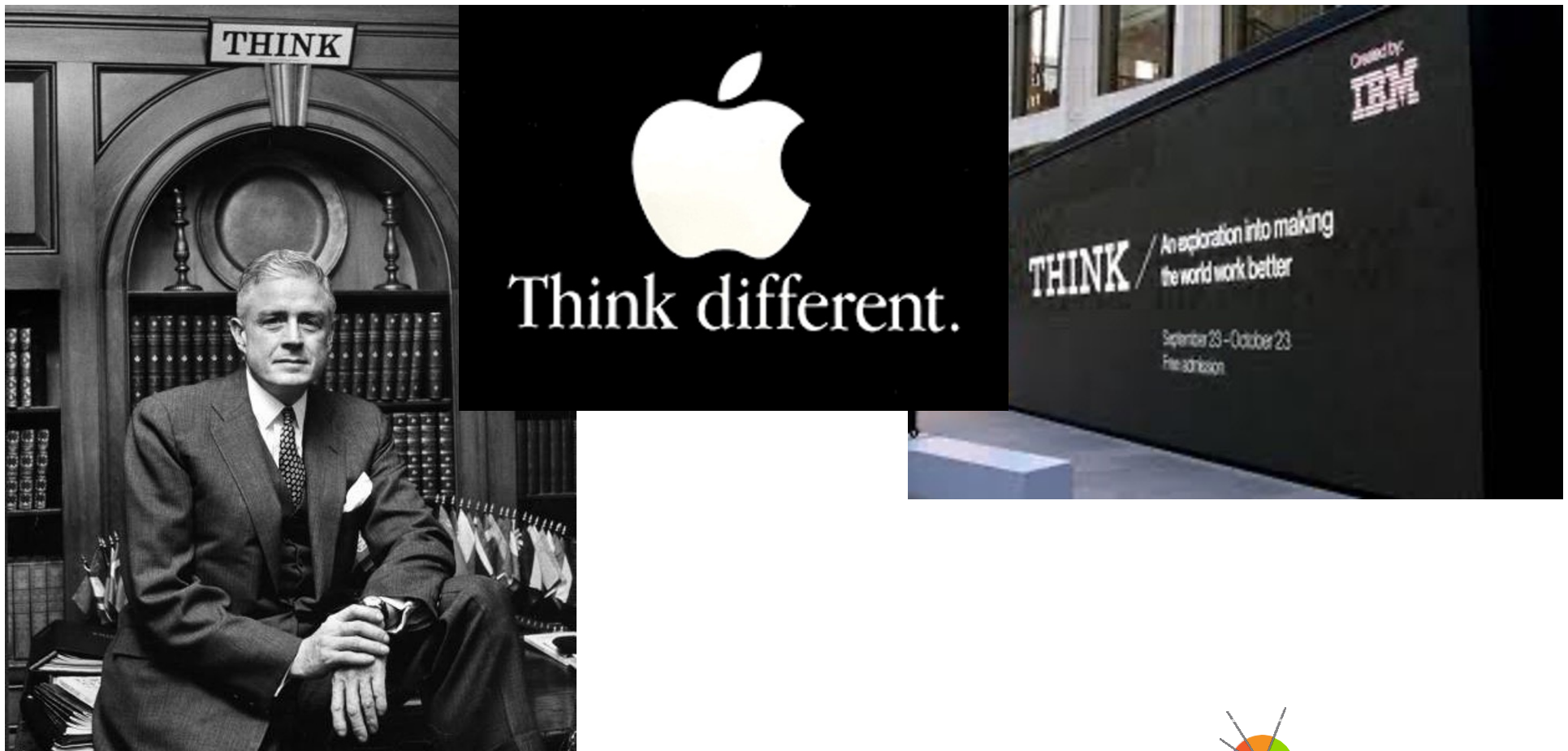
Historical frequency of S&P 500 new highs

Less than 1 Year	47 of 73 periods	64% of the time
2 Years or Less	55 of 71 periods	77%
4 Years	61 of 68 periods	90%
7 Years	66 of 66 periods	100%

Year	# of S&P 500 New Highs	Year	# of S&P 500 New Highs
1950	11	1987	47
1951	32	1988	0
1952	33	1989	13
1953	1	1990	6
1954	77	1991	22
1955	46	1992	18
1956	14	1993	16
1957	0	1994	5
1958	24	1995	77
1959	27	1996	39
1960	0	1997	45
1961	52	1998	47
1962	0	1999	35
1963	11	2000	4
1964	62	2001	0
1965	37	2002	0
1966	9	2003	0
1967	14	2004	0
1968	33	2005	0
1969	0	2006	0
1970	0	2007	9
1971	0	2008	0
1972	32	2009	0
1973	3	2010	0
1974	0	2011	0
1975	0	2012	0
1976	0	2013	45
1977	0	2014	53
1978	0	2015	10
1979	0	2016	18
1980	24	2017	62
1981	0	2018	19
1982	2	2019	35
1983	29	2020	33
1984	0	2021	70
1985	43	2022	1
1986	31		
Average Per Year		18.8	
# of 0 Years		26	
% of New High Years		64%	

Think different

Instead of spending your client's money on insurance they mostly don't need, why not have them collect other people's money who are buying insurance they, over the long term, never collect on?



Think different

We do.

For intelligent advisors (like you).

**Option overlays in SMAs or embedded in ETFs,
a Private Fund,
or a UCIT.**

Index Income Overlay (as of Sept. 30, 2023)

OBJECTIVE

The investment objective of Index Income seeks positive monthly cash-flow from option premiums on top of an otherwise-invested portfolio. The strategy employs a long-term, time-decay, premium-capture put credit spread on the S&P 500 or similarly situated exchange-traded funds (ETFs).

TOTAL RETURN (%)					Inception Date: 7/1/2016
Average (Annual)	2023 YTD	1-Year	3-Year	5-Year	Inception
Index Income, Gross	8.61	10.92	3.68	3.55	3.88
Index Income, Net	7.67	9.67	2.43	2.30	2.63
S&P 500	13.07	21.62	10.15	9.92	12.38

Prior to January 1, 2021 the performance results were from accounts managed at Sheaff Brock Investment Advisors, LLC. The same investment management team has managed the composite since its inception and the investment process has not changed. Data quoted represents past performance, which is no guarantee of future results.

CASH FLOW YIELD (%)					Inception Date: 7/1/2016
Average (Annual)	2023 YTD	1-Year	3-Year	5-Year	Inception
Index Income, Gross	1.26	1.67	5.25	5.21	5.20
Index Income, Net	0.33	0.42	4.00	3.96	3.95
S&P 500	13.07	21.62	10.15	9.92	12.38

Data quoted represents past performance, which is no guarantee of future results.

STRATEGY HIGHLIGHTS

Seeks cash-flow in exchange for additional market volatility in existing portfolio.

Targets additional income alongside dividends and interest.

The purchase of a long put as part of the spread limits downside risk.

Underlying portfolio can be managed by us or the client.

ANNUAL CASH FLOW YIELD (%)								Inception Date: 7/1/2016
Average (Annual)	2016^	2017	2018	2019	2020	2021	2022	2023 YTD
Index Income, Gross	2.90	4.80	3.65	6.54	7.36	7.75	3.43	1.26
Index Income, Net	2.28	3.55	2.40	5.29	6.11	6.50	2.18	0.33
S&P 500	7.83	21.83	(4.38)	31.49	18.40	28.71	(18.11)	13.07

^For the period 7/1/2016-12/31/2016

Index Income Composite Disclosure

The Index Income Composite includes portfolios where a client's marginable collateral (whether managed by IP or the client) is used to invest in three put credit spread trades on the S&P

500. The investment objective of the composite is income. The performance does not include income or appreciation/depreciation from the underlying collateral. The Index Income composite consists of fully discretionary portfolios, including those accounts no longer with the firm. The composite excludes portfolios under \$100,000. Although the put credit spreads are sold against the S&P 500, the intent is not to earn returns similar to the S&P500, but instead attempt to profit from the volatility of the S&P 500. Although there is no applicable benchmark because the composite seeks an absolute return based only upon the volatility of the S&P 500, for comparison purposes the composite is measured against the S&P 500 Index as a market indicator. The Composite was created on January 1, 2021 and the inception date is June 1, 2016.

IP acquired the composite through a subadvisor agreement with Sheaff Brock Investment Advisors, LLC (SBIA), wholly owned by SBCM, in December 2020. 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. Performance prior to January 1, 2021 is linked to performance earned at SBIA. 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, $\frac{1}{4}$ of the highest annual management fee of 1.25%, from the quarterly gross composite return. Actual advisory fees incurred by clients may vary. Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request.

The S&P 500 Index is a market value weighted index comprised of 500 of the largest publicly traded U.S. companies. The material differences between an S&P 500 index and the composite performance are as follows: the total return from an index is derived from price appreciation/depreciation plus the reinvestment of dividends and the performance from the composite is derived from the option premium credit received only, there is not participation in the appreciation/depreciation or dividends of the 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. There can be no assurances that a composite will match or outperform any particular benchmark.

Cash flow yield represents the cash received from the sale of index option premium divided by the average composite value. Cash flow yield is presented gross and net of investment management fees. Net-of-fees is calculated by deducting a model management fee of 0.3125, $\frac{1}{4}$ of the highest annual management fee of 1.25%, from the quarterly gross cash flow yield.

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. Information is obtained from sources IP believes are reliable, however, IP does not audit, verify, or guarantee the accuracy or completeness of any material contained herein.



For the folks checking social media for the last 50 minutes, today we discussed...

Fear.

(You are more afraid of volatility than your client.)

Risk...what is it really?

Not volatility. Permanent loss of capital.

Longevity.

A 65-year-old may live longer than you think.

Advisors' fear of volatility can cost clients millions.

Literally millions.

Think different.

Think innovative investing—with us!

Got a hard question?
Ask her:



Christy Jordan

National Business
Development Director

christy.jordan@innovativeportfolios.com
317.689.6450

innovativeportfolios.com

