As 2018 begins, we want to address a few timely and timeless topics. You will see reiterate these at the beginning of each year to help arm you with the fundamentals of being a successful investor.

Part One: Current Observations

A Year of Global Growth
The year 2017 was most noteworthy to me in that for the first time in this century, all the major economic basins of the world were growing simultaneously, albeit at different rates. Before this, at different times, Europe or Japan or the emerging markets dealt with significant headwinds, and growth here at home was plodding and sluggish. I regard the synchronization of global growth as a somewhat underappreciated positive that is continuing.

The U.S. Accelerates – and Feels Better About It
Steady if unspectacular hiring has driven the unemployment rate down to 4.1% for two months at this writing, putting the economy on track for a potential third straight quarter of 3% growth—a breakout of sorts. The consumer, by all-important measures, is feeling better about things than he has since before the Great Recession, and retail sales are quite robust. Household net worth in the fourth quarter may have reached $100 trillion, and consumer balance sheets continue healthy. Business investment is accelerating at long last. These trends, too, are continuing as we enter the new year.

The Federal Reserve Begins Normalizing
I've expressed my opinion to many of you that the Federal Reserve has been behind the curve of this recovery, and that it should be unwinding its bloated balance sheet and letting interest rates follow their normal course in an expanding economy. This it began to do in 2017, so far without ill effect. I've said to you that the economy was accelerating not because of the Fed but in spite of it, and I persist in that belief.

A Genuinely Great Year for Equities – with Muted Volatility

With a total return of 21.83 for the S&P 500, and the deepest intra-year price decline a mere three percent (versus the average, since 1980, of 14%), our philosophy of staying the course was well rewarded in 2017, with a bare minimum of volatility. We are, as you know, long-term equity investors who know that markets cannot be timed. We remain positive on the equity market for the coming year. All of that said, I can't imagine returns in 2018 will match this year, or that volatility will remain this quiescent. Equity investing is not often as easy as it was this past year.

Hysteria about Valuations Remains Overdone

Valuation is not a tool for timing the market (nor is anything else), so as long-term equity investors, we tend to tune it out. That said, we do not buy the idea that equities are importantly "overvalued." Indeed, compared to the yields on competing fixed income investments, equity valuations appear to us pretty reasonable, a view shared on more than one occasion this year by Warren Buffett. We are happy to walk you through the math supporting our conclusion if and when you'd like us too.

Cryptocurrency

A few of my thoughts, with great perspective of history from my contemporaries and teachers.

Cryptocurrency is here, and may become viable in some unpredictable form, but no one knows when or how. When something new like this is in short supply, few people flock to it early and make money based on their luck, with many more trying to follow suit later on and losing money with the opposite luck.

The mania of something like cryptocurrency is unpredictable and untamable.

I am sure some of your friends, or people you know, may have made money. You will likely never hear of the ones that invested and did not make a profit.

For myself, I will continue to let my managers invest in the underlying aspects of the currency and not in the cryptocurrencies themselves.

FINRA and the SEC have issued multiple warnings to investors regarding the risks associated with cryptocurrency. Products and/or technology, such as bitcoin, are typically considered high-risk investment opportunities as they provide the ability to remain anonymous while transferring wealth. Additionally, money launderers and other criminal organizations often use cryptocurrency to launder illicit funds.

Due to the risks, securities associated with cryptocurrency companies are prohibited at Raymond James.

Part Two: Market Corrections

They are swift and visceral.
They come without warning.
Their length of stay is unknown.
They are not pleasant when they are around.
They leave scars on those who react poorly.
They are temporary and necessary.
They are vital to the long-term return.
They are essential to the health of a long-term bull market.

Corrections come upon us from time to time and are vital to the long-term health of the market. No one knows when corrections will come or go, but it's important to know how to respond when they're here. They force us to go against our behavioral nature and endure them. Our gut tells us to do something when they show up, yet the best reaction is to stay patient, stay invested, and possibly invest more money when they occur.

History shows us that, on average, we get a 10% market drawdown once per year, a 15% drawdown once every 3 years, and every 5 years or so we enter a bear market with a 20% drawdown.

FREQUENCY BY SIZE OF DRAWDOWN, 1928–2014
Threshold analyzed independently*

Drawdown Threshold	Historical Frequency	Typical # Per Year	Typical Recovery Time
20%	Once per market cycle	0	20 months
10%	Once per year	1	8 months
5%	Once per quarter	4	2 to 3 months
3%	Once per month	11	2 to 6 weeks
2%	Often	18	1 to 4 weeks

Source: Standard & Poor's, FactSet, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. For illustrative purposes only. *Analysis based on each type (size) of drawdown being independent. For example, the market does not typically see four 5% drawdowns and one 10% drawdown in the same year, but rather those 5% drawdowns may compound into a single 10% drawdown for the year. Data are as of 1/31/15.

This is how it is, has been, and will be.

To the long-term, educated investor these are opportunities that could allow them to achieve superior long-term returns.

Corrections – love them or hate them – do nothing about them!! You will be much better off over the long-term.

Part Three: General Principals

- It will be worth reiterating, in the context of this annual letter, the nature of my/our philosophy of advice. Generally speaking, my experience has been that successful investing is goal-focused and planning-driven, while most of the failed investing I've observed was market-focused and performance- driven.

- Another way of making the same point is to tell you that the really successful investors I've known were acting continuously on a plan—tuning out the fads and fears of the moment—while the failing investors I've encountered were continually (and randomly) reacting to economic and market "news."

- Most of my clients—and I certainly include you in this generalization— are working on multi-decade and even multigenerational plans, for such great goals as education, retirement and legacy. Current events in the economy and the markets are in that sense distractions of one sort or another. For this reason, I make no attempt to infer an investment policy from today's or tomorrow's headlines, but rather align clients' portfolios with their most cherished long-term goals.

- I don't forecast the economy; I make no attempt to time markets; and I cannot—nor, I'm convinced, can anyone else— consistently project future relative performance of specific investments based on past performance. In a nutshell, I'm a planner rather than a prognosticator. I believe my highest-value services are planning and behavioral coaching—helping clients avoid overreacting to market events both negative and positive.

- My essential principles of portfolio management in pursuit of my clients' most important goals are fourfold. (1) The performance of a portfolio relative to a benchmark is largely irrelevant to financial success. (2) The only benchmark we should care about is the one that indicates whether you are on track to accomplish your financial goals. (3) Risk should be measured as the probability that you won't achieve your financial goals. And (4) investing should have the exclusive objective of minimizing that risk to the greatest extent practicable.

- Once a client family and I have put a long-term plan in place—and funded it with the investments that seem historically best suited to its achievement—I very rarely recommend changing the portfolio beyond its regular annual rebalancing. In brief, my principle is: if your goals haven't changed, don't change the portfolio. My unscientific sense is that the more often people change their portfolios, the worse their results become. I agree with the Nobel Prize-winning behavioral economist Daniel Kahneman, when he said, "All of us would be better investors if we just made fewer decisions."

- Going back to 1980, the average annual intra-year decline in the S&P 500 has exceeded fourteen percent. Yet even without counting dividends, annual returns have been positive in 30 of these 39 years, and the Index has gone from 106 at the beginning of 1980 to 2,647.58 at year-end 2017. I believe the great lessons to be drawn from these data are that— historically, at least— temporary market declines have been very different from permanent loss of capital, and that the most effective antidote to volatility has simply been the passage of time. I can't predict that it will always work out this way. I can only fall back on the wisdom of the great investor and philanthropist John Templeton, who said that among the four most dangerous words in investing are ***it's different this time***. (Source: Standard & Poor's, FactSet, J.P. Morgan Asset Management. S&P 500 returns based on price only, and do not include dividends)

- The nature of successful investing, as I see it, is the practice of ***rationality under uncertainty***. We'll never have all the information we want, in terms of what's about to happen, because we invest in and for an essentially unknowable future. Therefore we practice the principles of long-term investing that have most reliably yielded favorable long-term results over time: planning; a rational optimism based on experience; patience and discipline. These will continue to be the fundamental building blocks of my/our investment advice in 2017 and beyond.

We hope everyone had a fantastic New Year and we look forward to seeing you soon!

With Gratitude,

Your Team at Gentian Financial

Chris Doughty
CERTIFIED FINANCIAL PLANNER™ CFP®
Chartered Retirement Planning Counselor CRPC®

Ken Flannery
CERTIFIED FINANCIAL PLANNER™ CFP®

Peter Nordenberg, WMS
Director of Investments
Operations Manager, RJFS

Lisa Sheridan
Director of Client Operations

Ashley Neuworth
Director of Client Experience

Julie Decent
Executive Assistant

Kristin Ellsworth
Assistant

GENTIAN
— FINANCIAL INC. —

www.gentianfinancial.com

12740 N. River Rd
Mequon, WI 53092
Main: 262-518-7575
Toll free: 844-592-9887
Fax: 262-512-9475
Email: gentian@raymondjames.com