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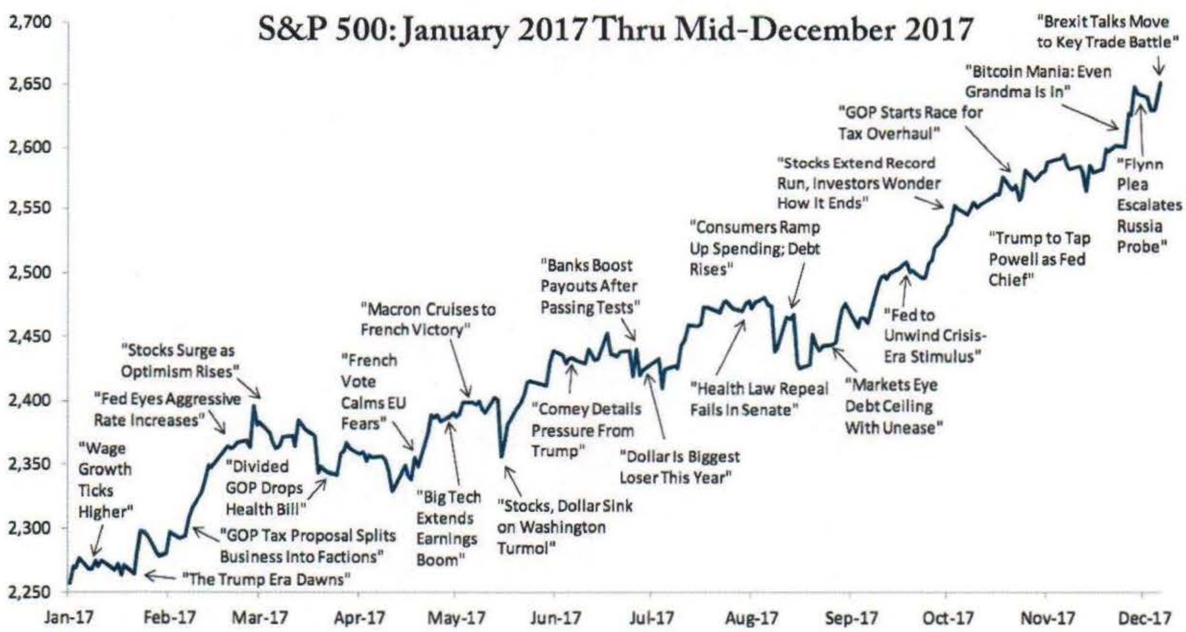
Dear Clients and Friends,

> "In investing, just as in baseball, to put runs on the scoreboard one must watch the playing field, not the scoreboard."
>
> — *Warren Buffett*

It certainly seems that there was a considerable amount of scoreboard watching during 2017. Whether one was looking at their portfolio balances, market indices, the price of Bitcoin or Trump tweets, we were constantly tallying up the score. Depending upon your personal situation or perspective, much of this pleased you or not.

The scoreboard showed us that it was a fantastic year of returns for the markets, as the S&P 500 returned 21.8%, the Dow Jones Industrial Average returned 28.1% and the technology-heavy NASDAQ reached 29.6%. Even bonds had a great return with the Barclays Global Aggregate Bond Index returning an amazing 7.4%. It was difficult not to make money last year unless of course you sat on the sidelines. If you owned some or all of the "FANG" stocks (Facebook, Amazon, Netflix and Google), you were undoubtedly ecstatic earning an average return of about 50% and generating a large percentage of the returns of the S&P 500 and NASDAQ.

What was equally if not more impressive last year, was the consistency of returns and the nearly complete lack of volatility in the markets. For the first time since 1958-1959, the S&P 500 had 12 consecutive months of positive returns. It was pretty amazing to see an entire year of positive monthly returns despite some of the headlines that occurred as illustrated below:



Here at Salvus, we too had very good outcomes for our clients in 2017. Many of our boutique managers outperformed their benchmarks, while some underperformed. Several of those who underperformed carried significant cash balances which weighed down their total returns. Those who held cash did so not out of fear of a market correction, but due to their philosophy and process of only purchasing businesses trading at reasonable prices. These became more difficult to find as the year progressed. Calendar year returns are always good yardsticks to view, but rarely tell a complete story as to how well a manager is doing their job. It is a little bit like looking up at the scoreboard midway through the second inning and determining who will win the game. A good measuring stick, but a lot of ball left to be played.

More so than viewing the returns of managers, we watch over their people, philosophy and processes. In our mind, we can accept a period where managers lag their benchmark as long as we are certain that it is not due to a substantial change in their key personnel, investment philosophy or their process of researching and creating investment portfolios. In other words and as Warren Buffett says, we pay much more attention to what is happening on the "playing field" than the scoreboard.

Regarding another related and somewhat controversial topic, what is an acceptable amount of underperformance? Trust us, this is never an easy topic for an advisor to openly discuss. This is challenging because very few clients are identical in their needs, expectations and tolerance of risk. Therefore, their portfolios might be constructed very differently from one another. Should we apologize to a client who, let's say earned a 12% return in 2017, while many benchmarks had returns well over 20%? It comes down to the fundamental question as to whether or not our job as an advisor is to simply attempt to have our client's portfolios return higher than the major benchmarks year after year. When we reflect upon this question, our answer is a resounding no.

Obviously, we are human and competitive and we too are very aware of the scoreboard. However, we understand that we act as a fiduciary to our clients and therefore by law, we must put their interests above our own. Our belief and duty to our clients is to invest their capital according to their specific needs and tolerance for risk. Many of our clients have already made their capital and are now in the business of keeping it and maintaining a comfortable lifestyle from the hard-earned dollars. Other clients of ours are still accumulating their wealth and will look to it for support later in retirement. Either way, our job is to prudently manage this capital with a goal of preservation first and investment returns second. Never have we had a client (outside of some small play money) ask us to just go for it and make all the return that we can with no worries about losing money!

Factor in withdrawals for lifestyle needs, retirement funding and required distributions from IRA's and retirement plans and many of our clients need cash available and/or bonds to insure steady personal cash flows. Understanding these needs and the desire to protect capital from permanent losses in the market, makes the simple goal of beating an arbitrary benchmark seem to be short-sighted and misguided. Simply stated, our job is to understand our client's needs and create a plan to meet those needs while taking the minimum amount of risk required to get the maximum amount of return, given their parameters.

We are looking forward to the upcoming year as the markets are once again off to the races. Though there is much hand-wringing about a correction, there are also many positives to keep the progress moving forward. The economy appears to be robust as we have finally seen 3.0%+ GDP growth for the first time in over a dozen years. A substantial rolling back of many harmful and expensive regulations across numerous industries coupled with a significant corporate and individual tax reform could give the markets the required fuel to keep the positive returns going. All politics aside, the business and economic climate is quite strong, however, we know that problems can arise from anywhere at any time and we are ever mindful of this as we view the future.

We will talk more about 2018 when we write to you next in the spring. We look forward to seeing many of you over the coming months so that we can review your portfolio and discuss your individual needs. Until then, we thank you for your continued support and wish for a happy, healthy and prosperous new year for us all.

Best regards,

Bob

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