Ridley Cove Financial Advisors LLC

Fourth Quarter 2017 Review

Dear Clients:

What a year! In 2017, U.S. stocks increased 21.8%, world stocks increased 24.0%, and U.S. bonds increased 3.6%*. Our clients' portfolios captured the vast majority of these benchmark returns even as we remained mindful of risks and adjusted our holdings accordingly.

What do we anticipate in 2018? We note full employment in the U.S., almost no wage growth to suggest inflation, and yields on the 10-year Treasury Note only slightly higher than a year ago. Yes, the Shiller P/E Ratio is twice its historical average, but as we observed in our last quarterly letter, there are several reasons why the price-to-earnings ratio may be a poor indicator of valuation.

Chief Allocation Strategist Steve Bobo and I suspect that the new tax law will propel market performance in the short-term with expectations of increased corporate spending. Mainstream economists like Mark Zandi of Moody's Analytics think that the tax law is a costly way to temporarily boost growth, and many are concerned that the ballooning federal deficit will endanger our future prosperity. We urge our clients to consult with their tax preparers and us to ensure that they benefit from the mixed bag of tax changes.

We will continue to monitor trends and methodically implement portfolio changes as necessary to manage risk. Most recently, we completed a shift from passively managed US stocks to actively managed foreign stocks. We will keep your portfolios positioned for another year of healthy returns while we protect you from more challenging circumstances.

Please refer to the following quarterly summary, and please contact us if you have concerns about your accounts. Our money continues to be invested alongside yours.

Sincerely,

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*As represented by the S&P 500 US Large Company Index, the All Country World Index, and the Barclays Aggregate Bond Index.