RAYMOND JAMES

Investment Strategy
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Investment Strategy

"Do you have the mental fortitude to accept huge gains?"

> This comment usually gets a hearty laugh, which merely goes to show how little most people have determined it actually to be a problem. But consider how many times has the following sequence of events occurred? For a full year, you trade futures contracts, making $1000 here, losing $1500 there, making $3000 here and losing $2000 there. Once again, you enter a trade because your (trading) method told you to do so. Within a week, you're up $4000.
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> Your friend/partner/acquaintance/broker/advisor calls you and, looking out only for your welfare, tells you to take your profit. You have guts, though, and you wait. The following week, your position is up $8000, the best gain you have ever experienced. "Get out!" says your friend. You sweat, still hoping for further gains. The next Monday, your contract opens limit (down) against you. Your friend calls and says, "I told you so." You got greedy. But hey, you're still way up on the trade. "Get out tomorrow." The next day, on the opening, you exit the trade, taking a $5000 profit. It's your biggest profit of the year, and you click your heels, smiling gratefully, proud of yourself. Then, day after day for the next six months, you watch the market continue to go in the direction of your original trade. You try to find another entry point and continue to miss. At the end of six months, your method finally, quietly, calmly says, "Get out." You check the figures and realize that your initial entry, if held, would have netted $450,000.
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> So what was your problem? Simply that you had allowed yourself, unconsciously, to define your "normal" range of profit and loss. When the big trade finally came along, you lacked the self-esteem to take all it promised . . . who were you to shoot for such huge gains? Why should you deserve more than your best trade of the year? Then you abandoned both (trading) method and discipline. To win the game, make sure that you understand why you're in it. The big moves in markets only come once or twice a year. Those are the ones which will pay you for all the work, fear, sweat, and aggravation of the previous years. Don't miss them for reasons other than those required by your objectively defined method. The IRS categorizes capital gains as "unearned income," that's baloney. It's hard to make money in the market. Every time you make, you richly deserve. Don't ever forget that.
>
> ... Robert Prechter – the Elliott Wave Theorist (1992)

"Do you sincerely want to be rich?!"

What a great question! I recently reread the above quote from Bob Prechter. It's an excellent quip and virtually everybody can identify with it. On the surface the question seems laughable; who can't accept huge gains? But in order to set yourself up for such gains you have to possess the courage to take an oversize position and maybe even leverage it. That kind of risk takes stomach and fortitude. Many times I have waited for the right moment, the big move, and decided against it. Maybe it was because I chickened out. While I often rationalized the hesitation away, the real reason I did not act was the emotional strain. Yet, I know myself and have learned that emotional actions are failures most of the time. What one has to do is be able to step outside of themselves in an objective fashion. When you do that, it's kind of like seeing things in slow motion. You are calm, objective, and can see ahead, perceiving the proper sequence of events. You just know you're right and you act.

We first scribed the preceding prose in 2009 when we were telling investors a new secular bull market had begun. Like our long-departed friend Stan Salvigsen (Comstock Partners) wrote at the start of the great secular bull market in 1982 in a reference to surfing, "If you want to catch a wave you need to grab a board and get into the water!" The same can be said given the recent stock market gyrations. As often stated in these missives, the bottoming sequence was "textbook." The decline arrived almost perfectly on schedule. So did the "selling climax low" of Tuesday (2-6-18). We said that the subsequent "throwback rally" would fail leading to either a retest of the selling-climax lows, or if perfect, an undercut of those selling-climax lows, which we would buy. BINGO, the undercut lows came on 2-9-18 and what followed was roughly a 220-point rally by the S&P 500 (SPX/2747.30) carrying it into the overhead resistance zone between 2750 and 2760. That occurred on Friday February 16, when on CNBC we said, "We doubt that the SPX can traverse the 2750 – 2760 resistance zone

Please read domestic and foreign disclosure/risk information beginning on page 4 and Analyst Certification on page 5.

on the first attempt and we would be cautious on a very short-term trading basis." To be sure, a pullback to the 2680 – 2700 support zone would be picture-perfect; and, that is precisely what happened. So what now?

Well, we are now involved in the SPX's second attempt to surmount the 2750 – 2760 overhead resistance level. Of interest is that last Friday's Fling stopped exactly where last Wednesday's attempt petered-out at 2747.76. Also worth mentioning is that on the SPX's first attempt, which was on Friday 2-16-18, the stock market's internal energy was totally used up, which is not the case now. So the equity markets have given participants three chances to buy stocks on the downside. The first was at the selling climax lows of 2-6-18. Then again on the undercut lows of 2-9-18 and once again on the pullback to the 2680 – 2700 level that occurred on 2-20-18 and 2-23-18. Keep in mind that many stocks bottomed before the indices did. So, "Do you have the mental fortitude to accept huge gains?" then you have to grab a board and get into the water! As Bob Prechter states:

> The big moves in markets only come once or twice a year. Those are the ones which will pay you for all the work, fear, sweat, and aggravation of the previous years. Don't miss them for reasons other than those required by your objectively defined method. The IRS categorizes capital gains as "unearned income," that's baloney. It's hard to make money in the market. Every time you make, you richly deserve. Don't ever forget that.

Then you have to have the mental fortitude to stay the course and allow yourself to accept larger gains than you think you are entitled to. Again as Bob Prechter states:

> So what was your problem? Simply that you had allowed yourself, unconsciously, to define your "normal" range of profit and loss. When the big trade finally came along, you lacked the self-esteem to take all it promised . . . who were you to shoot for such huge gains?

Two years ago the best idea we heard at the March Raymond James Annual Institutional conference, which was covered by our fundamental research analysts with a favorable rating, was Shopify (SHOP/$137.00/Outperform). At the time the shares were changing hands around $23. They now trade at $137, talk about huge gains! Over the two year period ending 2-23-18, the S&P returned 17%. Last year the best idea we heard at the conference was Flexion Therapeutics (FLXN/$25.26/Strong Buy) with the shares trading around $20 per share (the S&P 500 returned 18% over the 12 month period ending 2-23-2018). Obviously FLXN has not done nearly as well as Shopify, but we remain hopeful. This year's Raymond James 39th Annual Institutional Investors conference begins on March 4 and we will once again mention the best ideas we hear there in these missives.

The call for this week: Like Bob Prechter, Warren Buffett says, "One or two good ideas a year are all you need." At this year's shareholders meeting Buffett had this quip in Berkshire's shareholder letter (The Letter):

> The bet illuminated another important investment lesson: Though markets are generally rational, they occasionally do crazy things. Seizing the opportunities then offered does not require great intelligence, a degree in economics or a familiarity with Wall Street jargon such as alpha and beta. What investors then need instead is an ability to both disregard mob fears or enthusiasms and to focus on a few simple fundamentals. A willingness to look unimaginative for a sustained period – or even to look foolish – is also essential.

And then there was this from SentimenTrader's Jason Goepfert:

> Good versus bad correction. In these first two weeks following the Dow's drop into a correction, it has followed the path of many "good" corrections. Those are times when the Dow fell 10% from a high, then no more than a further 7% during the next year. "Bad" corrections usually saw immediate further selling pressure and lost an average of another -16% at some point (see Charts 1 and 2).

This morning the S&P 500 preopening futures are better by some 10-points as we write at 5:13 a.m. with participants giddy with Friday's Fling believing that Fed head Powell's speech tomorrow will be Street friendly.

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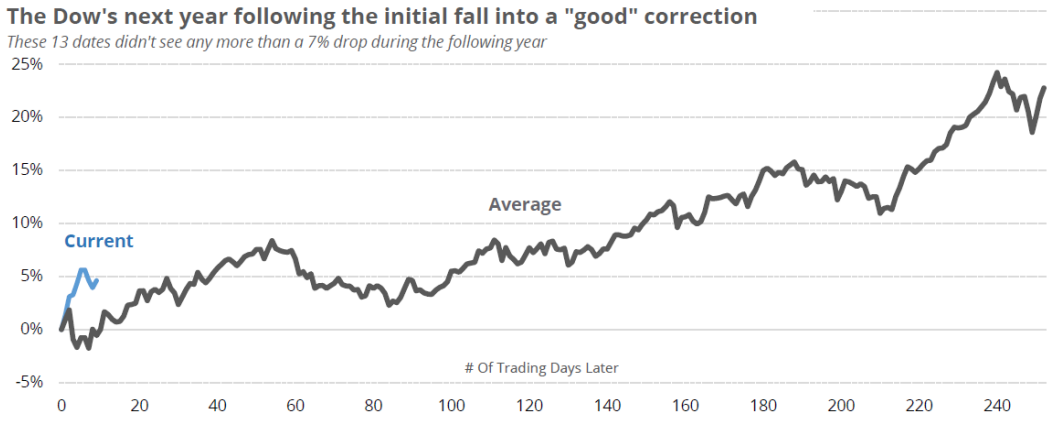
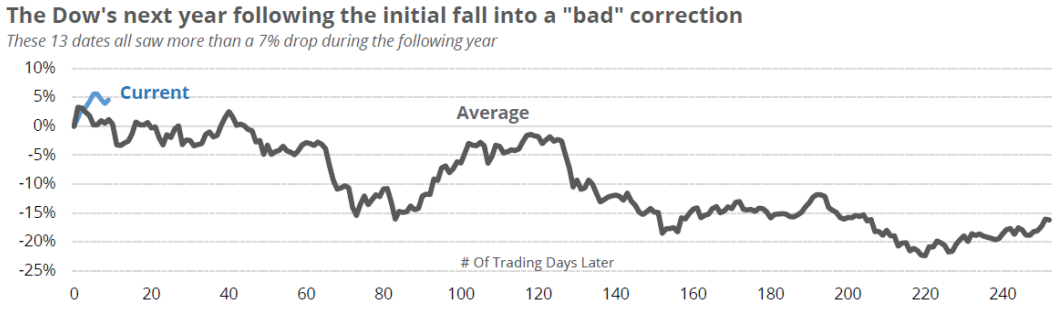
Chart 1



Source: SentimenTrader

Chart 2



Source: SentimenTrader

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Ratings and Definitions

Raymond James & Associates (U.S.) definitions

Strong Buy (SB1) Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.
Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.
Market Perform (MP3) Expected to perform generally in line with the S&P 500 over the next 12 months.
Underperform (MU4) Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.
Suspended (S) The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

Raymond James Ltd. (Canada) definitions

Strong Buy (SB1) The stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months.
Outperform (MO2) The stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months.
Market Perform (MP3) The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.
Underperform (MU4) The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

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Strong Buy (1) Expected to appreciate, produce a total return of at least 15%, and outperform the Stoxx 600 over the next 6 to 12 months.
Outperform (2) Expected to appreciate and outperform the Stoxx 600 over the next 12 months.
Market Perform (3) Expected to perform generally in line with the Stoxx 600 over the next 12 months.
Underperform (4) Expected to underperform the Stoxx 600 or its sector over the next 6 to 12 months.
Suspended (S) The rating and target price have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and target price are no longer in effect for this security and should not be relied upon.

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Rating Distributions

	Coverage Universe Rating Distribution*			Investment Banking Distribution		
	RJA	RJL	RJEE/RJFI	RJA	RJL	RJEE/RJFI
Strong Buy and Outperform (Buy)	53%	67%	53%	24%	43%	0%
Market Perform (Hold)	42%	29%	33%	13%	20%	0%
Underperform (Sell)	5%	4%	15%	6%	25%	0%

* Columns may not add to 100% due to rounding.

Suitability Ratings (SR)

Medium Risk/Income (M/INC) Lower to average risk equities of companies with sound financials, consistent earnings, and dividend yields above that of the S&P 500. Many securities in this category are structured with a focus on providing a consistent dividend or return of capital.

Medium Risk/Growth (M/GRW) Lower to average risk equities of companies with sound financials, consistent earnings growth, the potential for long-term price appreciation, a potential dividend yield, and/or share repurchase program.

High Risk/Income (H/INC) Medium to higher risk equities of companies that are structured with a focus on providing a meaningful dividend but may face less predictable earnings (or losses), more leveraged balance sheets, rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and potential risk of principal. Securities of companies in this category may have a less predictable income stream from dividends or distributions of capital.

High Risk/Growth (H/GRW) Medium to higher risk equities of companies in fast growing and competitive industries, with less predictable earnings (or losses), more leveraged balance sheets, rapidly changing market dynamics, financial or legal issues, higher price volatility (beta), and potential risk of principal.

High Risk/Speculation (H/SPEC) High risk equities of companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, significant financial or legal issues, or a substantial risk/loss of principal.

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Raymond James expects to receive or intends to seek compensation for investment banking services from the subject companies in the next three months.

Company Name	Disclosure
Flexion Therapeutics, Inc.	Raymond James & Associates co-managed a follow-on offering of FLXN shares within the past 12 months.
	Raymond James & Associates co-managed an offering of convertible debt for Flexion Therapeutics, Inc. within the past 12 months.
Shopify Inc.	Raymond James & Associates makes a market in shares of SHOP.

Stock Charts, Target Prices, and Valuation Methodologies

Valuation Methodology: The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences.

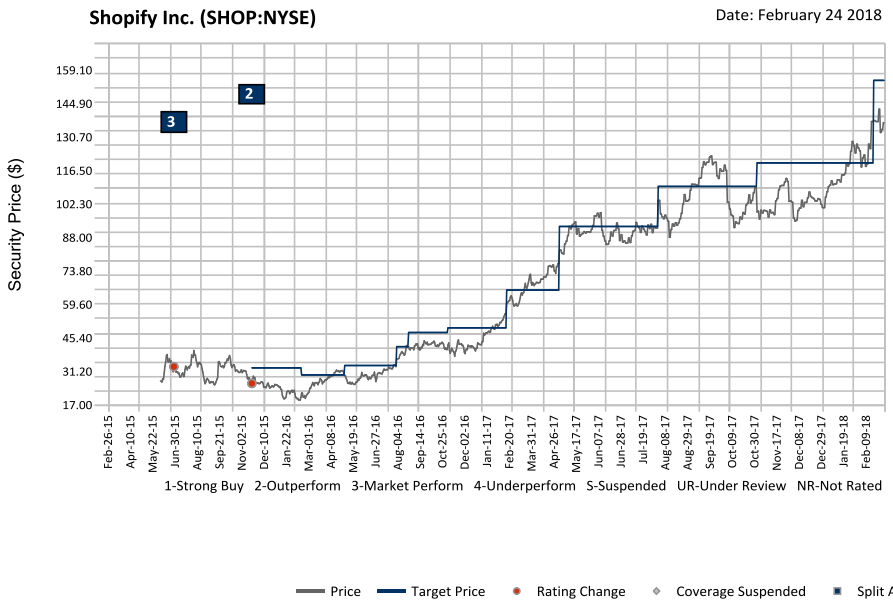
Target Prices: The information below indicates target price and rating changes for the subject companies included in this research.

Flexion Therapeutics, Inc. (FLXN:NASDAQ) Date: February 24 2018

Rating & Target changes

Date	Curr.	Price	Target	Rating
Oct-08-17	$	29.93	37.00	1
Dec-21-16	$	18.56	35.00	1

Valuation Methodology: We value Flexion using an equally-weighted blended discounted P/E, EV/EBIT, and EV/Sales multiple approach incorporating average multiples for each metric across a universe of mature, commercially established Specialty Pharma and BioPharma comparables.



Rating & Target changes

Date	Curr.	Price	Target	Rating
Feb-15-18	$	137.95	155.00	2
Oct-31-17	$	99.13	120.00	2
Aug-01-17	$	104.08	110.00	2
May-02-17	$	82.98	93.00	2
Feb-15-17	$	60.41	66.00	2
Nov-02-16	$	42.69	50.00	2
Aug-24-16	$	41.99	48.00	2
Aug-03-16	$	36.94	42.00	2
May-04-16	$	29.64	34.00	2
Feb-17-16	$	22.32	30.00	2
Nov-18-15	$	26.39	33.00	2
Jun-30-15	$	33.52	NM	3

Valuation Methodology: We believe enterprise value-to-sales (EV/sales) represents a reasonable valuation metric given the immature nature of the company's financial model with significant growth investments being made today to drive future high-margin recurring revenue over a long-term basis. While sentiment has shifted and places a greater emphasis on operating leverage and attainment of long-term model targets for earnings and cash flow, we believe the primary emphasis in small-cap tech investing will remain on maximizing growth. We believe EV/sales remains the most appropriate valuation methodology for many of our SaaS stocks that remain in this high-growth investment mode and still lack scale. This is further supported by an active M&A environment for SaaS companies, which have commonly entailed premium EV/sales takeout multiples. We believe other valuation metrics such as EV/EBITDA, EV/free cash flow (FCF), and price-to-earnings (P/E) will likely remain less relevant in the case of high-growth SaaS stories, in our opinion. Longer term, we believe significant operating leverage could materialize given the high-margin nature of recurring revenue and additional valuation metrics that take into account

Risk Factors

General Risk Factors: Following are some general risk factors that pertain to the businesses of the subject companies and the projected target prices and recommendations included on Raymond James research: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) External factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects. International investments involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability.

Specific Investment Risks Related to the Industry or Issuer

Company-Specific Risks for Flexion Therapeutics, Inc.
As a pre-commercial company, the success of Flexion's product candidates is essential to future company success. Though Zilretta has generated positive Phase III trial results and has been approved by the U.S. FDA, there is no guarantee the product will reach the degree of commercial success embedded in our financial projections. Additionally, Zilretta is effectively the company's primary valuation driver, presenting heightened risk in the event of lower than expected launch trajectory.

Company-Specific Risks for Shopify Inc.

SMB Customers Historically Have Higher Churn
Shopify predominantly services small and medium-sized businesses, which tend to have more volatile results and less financial resources than larger and more established enterprises. While a number of Shopify's smaller customers have scaled to much larger levels over time, many smaller businesses may not have the resources to endure either macroeconomic headwinds or company-specific issues. Therefore, we expect business mortality to remain a consistent headwind in the SMB space. Given this dynamic, we expect Shopify to exhibit higher levels of churn relative to more enterprise-focused SaaS companies. That said, many SMB-oriented SaaS providers have shown the ability to deliver 30%+ revenue growth while managing churn in the SMB customer base. Shopify has also shown the ability to maintain retention rates above 100%.

Model Reflects Ongoing Investments and Losses for Foreseeable Future
As the company expands into adjacent markets and geographies, we expect large ongoing investments in service delivery, sales & marketing, and research & development. Our model currently assumes accelerating operating expense growth in 2016. This drives our profitability and cash flow figures lower year-over-year, and we expect opex spending to continue increasing at least at a ~20% clip going forward. If management cannot effectively monetize growth investments or the size of the market opportunity proves too optimistic, revenue growth could disappoint while operating losses and cash burn could miss both our estimates and consensus.

Shopify Payments Susceptible to Changes in Government Laws and Regulations
Shopify partners with payment service provider Stripe, Inc. for its Shopify Payments product, under an agreement that renews every 12 months. Any disruption or change in this agreement could have a material impact on results. Moreover, Shopify must comply with payment card network operating rules as well as country-specific legislations when providing payment processing services. Any violation of rules could result in suspension from either the processing vendor or the payment network, and could have a material impact on both Shopify and its customers.

International Expansion Creates Incremental Risks
Shopify generates the majority of its revenue in the United States. Other notable geographies include predominantly English speaking nations like the United Kingdom, Canada, and Australia. We believe management's stated intention to expand its products globally also comes with additional operating risk, and likely includes investments to establish go-to-market infrastructure in specific regions as well as to better localize the software solutions for such markets. While Shopify has shown impressive progress on the international front to date with merchants in ~150 countries worldwide, international expansion efforts may distract management from its core operations and put upward pressure on customer acquisition costs.

Risk Associated With Dual Class Common Stock Structure
The company has a dual class common stock structure, with Class B common stock having ten votes per share and Class A common stock having only one vote per share. Note that investors participating in the IPO will receive Class A shares, with executive officers, employees, and directors/affiliates holding an estimated ~88% of the shares outstanding and ~99% of the voting power. With such highly concentrated voting power given to Class B holders, different shareholders may face a conflict of interest in matters such as a potential merger/acquisition. While we assume that Class B shareholders have the company's best interests in mind, we see the potential for complications in a takeout scenario where incentives among various stockholders of Class A and B shares are not similarly aligned.

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Simple Moving Average (SMA) - A simple, or arithmetic, moving average is calculated by adding the closing price of the security for a number of time periods and then dividing this total by the number of time periods.
Exponential Moving Average (EMA) - A type of moving average that is similar to a simple moving average, except that more weight is given to the latest data.
Relative Strength Index (RSI) - The Relative Strength Index is a technical momentum indicator that compares the magnitude of recent gains to recent losses in an attempt to determine overbought and oversold conditions of an asset.

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