



O'KEEFE STEVENS
ADVISORY, INC.

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The Value Connection

Our mission is to be responsible stewards of our clients' financial lives.

2017: Year in Review

It was suggested we do a write-up to let everyone know how our business is doing. We hope you enjoy the status update. Please let us know what you think!

We entered the year with a plan to form O'Keefe Stevens Advisory, Inc. beginning business on April 1, 2017. The plan was executed impeccably, and our business began accepting transfer clients on April 1, 2017. The business transition was mostly smooth and there were no major setbacks. We set a goal of building the business to manage \$100 million of client assets. We finished the year with \$175 million in assets under management. We surpassed our goal because we were conservative in our planning and because 95% of our clients elected to stay with us. We are blessed to have such great relationships and we are thankful for the opportunity to work with so many amazing families.

We benefited from the tailwinds of an upward and unrelenting market. During the year the S&P was up 19% and the Dow Jones finished up 24%. Interestingly, the S&P never had a month that ended lower than the previous month, a feat which has never been replicated in market history. This advancing market contributed to our returns as investors. We continue to be mostly invested. We are exercising caution and continue to search for undervalued stocks as we have concerns that the broad market is becoming overvalued.

Our best performing security in the portfolio was Nvidia for the second year in a row. The shares nearly doubled during the year, and the position continues to be our largest holding despite the sale of nearly half our shares in early October.

On the opposite end of the spectrum, Sears Canada was our worst performance of the year losing nearly all its value due to bankruptcy filing. We sold out of our Sears Holdings and Sears Canada investments in November and detailed our process and where our analysis went wrong in our 3rd Quarter Value Conversation Conference Call.

In October we hosted our 5th Semi-Annual Client Advisory Board meeting at our new office in Downtown Rochester. These sessions have provided us with valuable insights from a group of 20 clients who can ask anything and contribute advice on how to better our service.

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2017: Year in Review Continued

We are thankful to the group of clients who served on this board for the past two years and we look forward to the new group of clients who stepped up to continue this advisory board. Our plan is to keep the semi-annual frequency and rotate new members serving two-year terms. The Client Advisory Board meetings challenge us to improve and create an environment where we are open to feedback and able to respond quickly and make changes when necessary.

One of our best decisions in setting up our new business was to locate our offices in the Legacy Tower in Downtown Rochester. The space is beautiful, convenient, and is a setting that works for our team. We hosted nearly 150 clients, family, and friends for a Grand Opening Party in June which we held in the second-floor restaurant of our building. We look forward to more of these gatherings in the future, and we have plenty of room to grow because the first-floor atrium can accommodate 450 people.

Speaking of growth, we experienced it in several areas that we track throughout the year. Switching from a non-discretionary to a discretionary model has allowed us to build our position size in our highest conviction investment ideas. We eliminated many of our positions in mutual funds to avoid high client costs and repositioned those investments into cash and stock positions where we are highly researched. The investment philosophy of O'Keefe Stevens continues to be contrarian to the industry, which is continuing to become increasingly index oriented. The largest growth aspect of our new business is in the time Peter and Justin have to spend focusing on research and portfolio management. Searching for value investments takes time, patience and discipline, and research will be an area that continues to improve for many years.

The transition provided more control over aspects of the business that used to be delegated to a management team. Carly is now our Chief Compliance Officer and guided us smoothly through our initial Securities and Exchange Commission exam. Thanks to Carly, we satisfactorily proved ourselves as fiduciaries and earned high marks in the key areas the SEC looks at when assessing new firms. Marissa stepped up to the role of Human Resource Manager and has taken on the role of ensuring we comply with all the necessary State and Federal regulations for a privately-owned business with employees. We're thankful to work with such capable and competent people who show up to do good work every day. Being an office of four has brought us even closer together and our team dynamic is strong and productive.

We also enjoy the ability to build our own service platform with technology we select. We launched the O'Keefe Stevens Client Portal and will be continuing to enhance this service with our own mobile application in 2018. Client feedback was generally positive about our new platform at TD Ameritrade and we keep finding new ways to improve our service through technology while deepening the personal aspects of our relationships.

Any concerns we had before setting up our own firm are now behind us and thankfully did not materialize in our transition. One major aspect we planned for, but thankfully did not experience, was legal reactions from our previous employer. In fact, Sage Ruddy lived up to their outstanding character as an organization and were professionals throughout our entire transition. We miss our friends at our former organization, and we appreciate the help and even support we received during this leap of faith.

Our business is healthy, our relationships are strong, and we are thankful for everyone who believed in us as we formed O'Keefe Stevens Advisory. We look forward to another exciting year in 2018.

Bitcoin, Euphoria, & Some History

Last year we witnessed one of the greatest growth episodes of the past several decades. Cryptocurrency became the hot topic as the price of a Bitcoin expanded from about \$1,000 to over \$15,000 within the calendar year. Such unusual growth has the tendency to distract investors, and even more of a tendency to hypnotize non-investors as riches flow to those who got in early. This rare of a phenomenon is not, in fact, unusual from a historical perspective. These episodes have occurred reliably throughout the history of modern finance, and understanding the subject of speculation is critical for those who wish to avoid the financial despair that inevitably follows these periods of intense euphoria.

Bitcoin was born out of the most recent financial crisis, as an alternative to banks for the exchange of funds. The technology gained traction slowly at first with those people who harbored distrust in the financial institutions that caused the Great Recession. While the early years of the technology were experimental and garnered minimal interest from the mainstream consumer, the technology behind Bitcoin (the blockchain) was refined and increased in popularity by those who wanted to avoid the tracking of financial institutions (i.e. the black-market). These seedy beginnings were outlined nicely in a Netflix documentary, which does a good job detailing the evolution of Bitcoin.

Most of the world did not hear of Bitcoin until 2016, when it became an fixture of popular culture. By this time, the cryptocurrency had experienced a hundred-fold increase in price and was showing no signs of slowing down. The owners of Bitcoins had enjoyed a steep upward (albeit bumpy) ride from a one-dollar Bitcoin in 2012 to a several hundred-dollar Bitcoin by 2016. The rampant expansion in price was now attracting a new breed of purchasers. No longer interested in utilizing the currency to avoid financial regulation, Bitcoin became an object for those who wanted to participate in the rise in price. Speculation that price would continue to rise set in, just as it has throughout many other episodes in history.

Coincidentally, I picked up a copy of John Kenneth Galbraith's *A Brief History of Financial Euphoria* in January of 2017. I had no knowledge or perception of Bitcoin becoming the object of speculation it has become when I did, yet my selection proved to be a timely one. Galbraith outlines a dozen episodes of major speculation that grasped the world starting with the first in modern financial history: The Tulip Mania of 1636.

Galbraith's book is a worthy read. The common denominators of a speculative bubble are all visible in the Bitcoin episode. With each upsurge in price, we are seeing new entrants to the market for Bitcoin. This in turn justifies the hopes of those already participating, thereby paving the way for further action and increase, and even more enrichment. Those who were early are praised for their acumen and even wisdom for seeing something so new and valuable before others could appreciate it.

I think Galbraith's description of the end of the hysteria period will apply to Bitcoin at some point in the future. I don't care to predict when, because I don't think it matters. At some point, the wise and the nervous will begin to detach, no one knows for what reason; others will see them go; the rush to sell will become a panic. Like all panics, those who borrowed money to purchase the speculative object will be hurt most. In the aftermath, anger, reproach, and blame will be directed at someone or something. But the real culprit will never be held accountable: the massive group of people who perpetuated the mania.

Our advice is to insulate yourself from this speculation. Fear of missing out is not an acceptable investment policy. We do not think this episode will end well, although it may get much crazier before it comes to a halt.

O'Keefe Stevens Advisory Mobile App

We are excited to introduce the free O'Keefe Stevens Advisory mobile application, which is currently available in the App Store for Apple Products. We expect the app to be available for Androids in the Google Play Store in early February 2018. The "OSA Client App" will allow you to view account information, performance details and account balances. You will also be able to easily navigate to our website through the application.

Our team will send another reminder when the mobile application is officially available for download in February for Androids. If you use Apple products, you can visit the App Store now and download the OSA Client App. If you have any comments or questions, please feel free to reach out to any member of our team.



Upcoming Events

O'Keefe Stevens Advisory Value Connection Quarterly Call

When: Wednesday, March 14th, 2018 at 4:30 PM EST

How to Join: Visit <http://join.me/okeefestevens>

Dial in by phone: 1 (646) 307-1990

Enter conference ID: 734-977-219



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Please be advised that our disclosure document, Form ADV, is available upon request. As a reminder, always let us know if your investment objectives have changed.

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