Jeffrey D. Saut, Chief Investment Strategist, (727) 567-2644, Jeffrey.Saut@RaymondJames.com **March 13, 2017**

Investment Strategy

"Being Wrong and Still Making Money"

The brilliant Peter Bernstein (author, historian, and economist) once wrote:

> After 28 years at this post, and 22 years before this in money management, I can sum up whatever wisdom I have accumulated this way: The trick is not to be the hottest stock-picker, the winningest forecaster, or the developer of the neatest model; such victories are transient. The trick is to survive! Performing that trick requires a strong stomach for being wrong because we are all going to be wrong more often then we expect. The future is not ours to know. But it helps to know that being wrong is inevitable and normal, not some terrible tragedy, not some awful failing in reasoning, not even bad luck in most instances. Being wrong comes with the franchise of an activity whose outcome depends on an unknown future (maybe the real trick is persuading clients of that inexorable truth). Look around at the long-term survivors at this business and think of the much larger number of colorful characters who were once in the headlines, but who have since disappeared from the scene.

I was a mere "pup" in this business when my father would tell me, "Son, if you think the market is going up be bullish. If you think it's going down be bearish, but for gosh sakes make a call. And when you make a 'call' you are going to be wrong at times. The trick, however, is to be wrong quickly for a de minimis loss of capital." Wow, that sounds a lot like Peter Bernstein's "Performing that trick requires a strong stomach for being wrong because we are all going to be wrong more often then we expect."

I came across Bernstein's cogent comments while culling through reams of material, and reexamining my models and investment method, to see if I would have done anything differently given my too cautious stance over the past four weeks. The answer is "not really" because for the past few weeks there have been some pretty noticeable divergences. As Robertson Thomson & Associates' eagle-eyed portfolio manager Mick St. Amour notes, "Small caps, transportation stocks, and financials have been good indicators of risk appetite for equities, as well as leadership groups, but now they are lagging" (see charts on pages 2 and 3). So from Andrew's and my perch, if we have lost anything it has only been "opportunity costs" and not real money. Indeed, better "to lose face and save skin!" I also came across another piece I have written about in the past that divides investors into three categories: Assassins, Hunters, and Rabbits. The article was written by Lee Freeman-Shor and titled "Being Wrong and Still Making Money." The author asks, "The investment ideas of some of the greatest investors on the planet today are wrong most of the time, and yet they still make a lot of money. How can this be? How can the world's best investors get it wrong and still make millions?" The author continues by noting:

> My findings suggest the odds are that an investor's great ideas will lose money. As such, before you invest a cent into an investment idea, it is imperative to have a plan of action as to what you will do if you find yourself in a losing position. When losing, the successful investors I worked with planned to become either Assassins or Hunters. Assassins sold losing investments that fell by a certain percentage or that declined by any amount and showed no signs of recovery after a certain period of time. Hunters invested a lesser amount at the outset and with a plan of buying significantly more shares if the price fell. Hunters were also unafraid to sell if it became clear that they had made a mistake. The bad investors didn't have a plan and consequently turned into Rabbits. When losing money, Rabbits neither bought more shares nor sold their holdings. Once forming an initial perception, Rabbits were achingly slow to change their opinion of a stock. Which tribe will you become a member of?

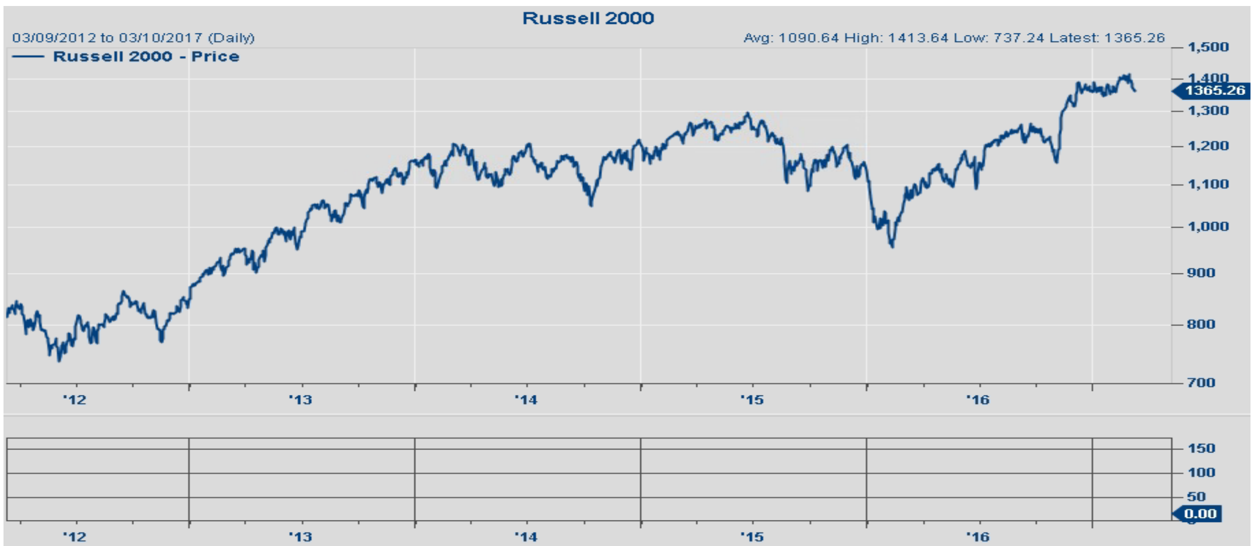
I don't know about y'all, but I tend to be a "Hunter." Case in point; a little over a week ago, when the D-J Industrial Average "popped its top" and leaped some 300 points, that Dow Delight looked a lot like an upside blow-off to me. Therefore, I studied one of my accounts only to find roughly 15 stock positions that really had not performed all that well in the ~13% rally by the S&P 500 (SPX/2372.60) since the presidential election. Subsequently, I sold those positions and said so in these letters. Some took that action to mean that I am out of the market, which is patently untrue. All I did was raise a little cash in one particular account with the strategy of putting that cash back to work in either the pullback my models have been looking for, or in some fresh ideas from last week's Raymond James 38th Annual Institutional Investors Conference.

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

While there were many names at our institutional conference, the ones I saw that I wanted to buy and are also rated positively by our fundamental analysts are: Hilton (HLT/$56.48/Outperform); Flexion Therapeutics (FLXN/$20.73/Strong Buy); Nvidia (NVDA/$99.12/Strong Buy); Iridium (IRDM/$8.45/Strong Buy) and its preferred, which I own; and, Texas Capital Bancshares (TCBI/$86.45/Strong Buy). I offer these names for your consideration for future purchases in any pullback in the major market averages. Please see our fundamental research on these names for more insight.

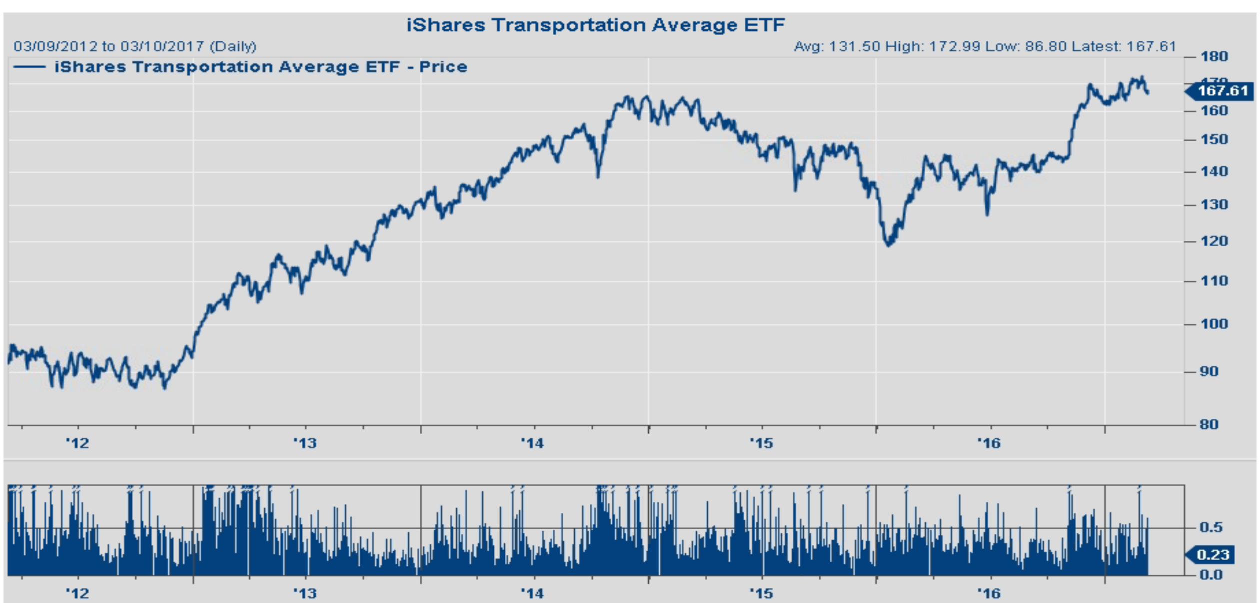
The call for this week: I am in Sun Valley Idaho speaking at an event, and then in Boise, from there I am in Salt Lake City speaking at another conference. My sagacious friend, Mick St. Amour concludes his comments by writing, "Putting it all together, the main and bigger move for equities remains higher given an economy that in general continues to improve and a Fed that remains net accommodative. But in the short term there are some divergences when we look at credit markets, breadth, and perhaps evidence of early rotation out of more cyclical groups into more defensive groups which suggests risk appetite may be waning a bit. The longer this divergence lasts as equities move higher the bigger the correction within the context of our current cyclical and secular bull market. Proceed cautiously for now."

Chart 1



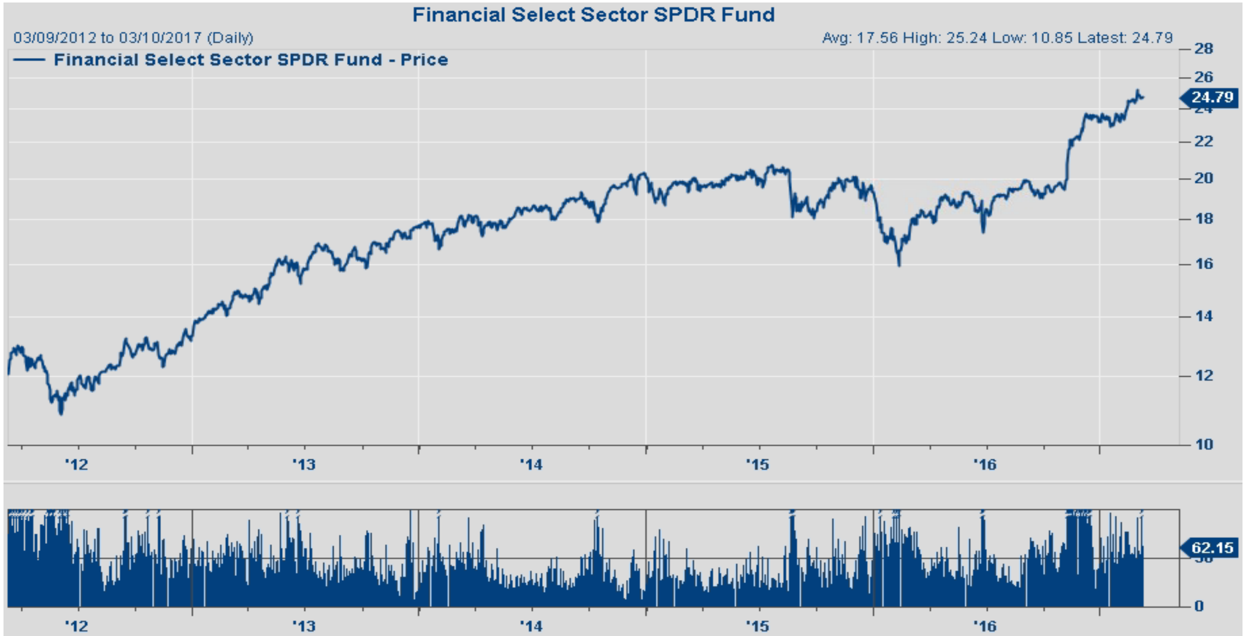
Source: FactSet.

Chart 2



Source: FactSet.

Chart 3



Source: FactSet.

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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.

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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)	51%	72%	53%	21%	48%	0%
Market Perform (Hold)	44%	27%	32%	10%	16%	0%
Underperform (Sell)	5%	1%	14%	2%	0%	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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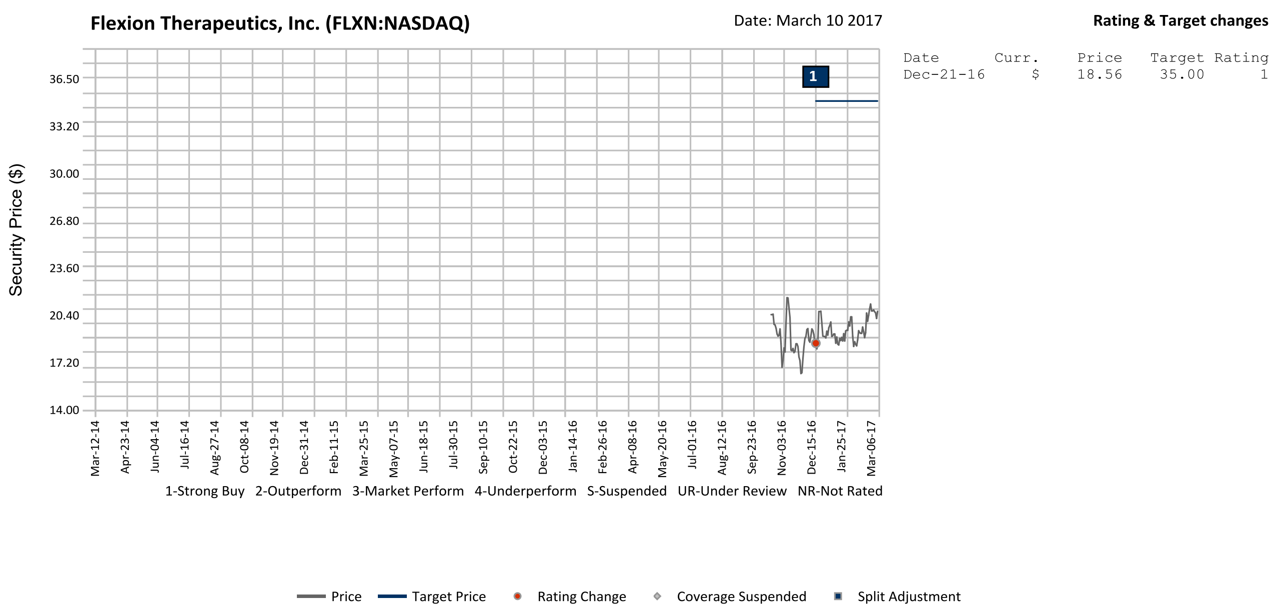
Company Name	Disclosure
Hilton Worldwide Holdings Inc.	Raymond James & Associates makes a market in shares of HLT. Raymond James & Associates received non-securities-related compensation from HLT within the past 12 months.
Iridium Communications Inc.	Raymond James & Associates makes a market in shares of IRDM. Raymond James & Associates received non-investment banking securities-related compensation from IRDM within the past 12 months.
NVIDIA Corporation	Raymond James & Associates makes a market in shares of NVDA.
Texas Capital Bancshares, Inc.	Raymond James & Associates makes a market in shares of TCBI.

Stock Charts, Target Prices, and Valuation Methodologies

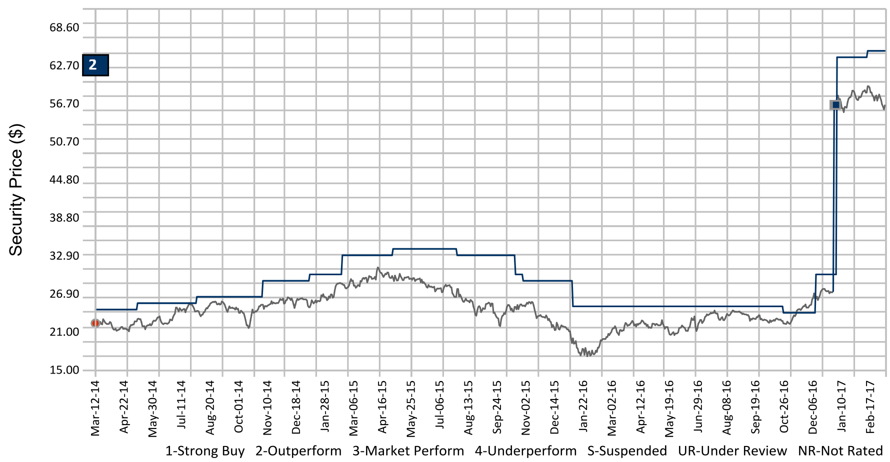
Valuation Methodology: The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial 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. Only stocks rated Strong Buy (SB1) or Outperform (MO2) have target prices and thus valuation methodologies.

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



Valuation Methodology: We value Flexion using an equally-weighted blended discounted P/E, EV/EBIT, and EV/Sales multiple approach.

Hilton Worldwide Holdings Inc. (HLT:NYSE) Date: March 10 2017



Rating & Target changes

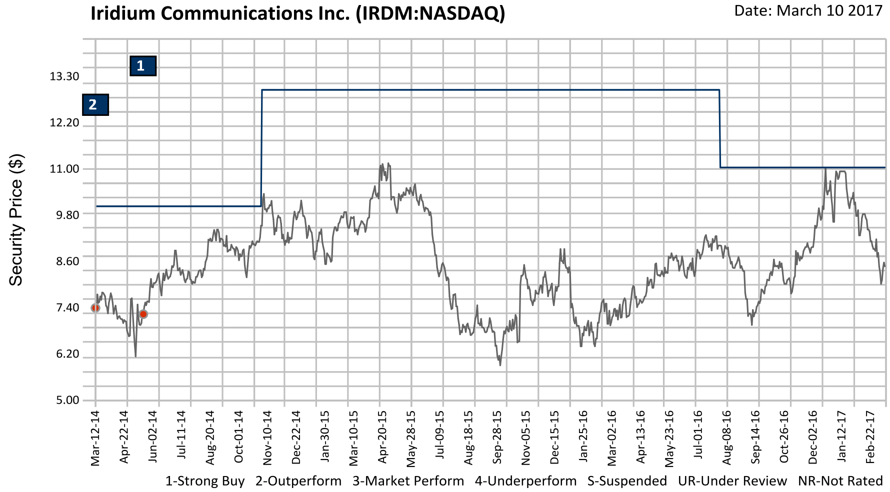
Date	Curr.	Price	Target	Rating
Feb-15-17	$	59.46	65.00	2
Jan-04-17	$	58.00	64.00	2
Dec-09-16	$	26.24	30.00	2
Oct-26-16	$	22.32	24.00	2
Jan-08-16	$	20.00	25.00	2
Oct-29-15	$	25.09	29.00	2
Oct-20-15	$	24.92	30.00	2
Jul-29-15	$	27.71	33.00	2
Apr-30-15	$	29.45	34.00	2
Feb-18-15	$	28.54	33.00	2
Jan-07-15	$	24.87	30.00	2
Nov-04-14	$	25.25	29.00	2
Aug-01-14	$	24.29	26.50	2
May-09-14	$	23.03	25.50	2
Mar-12-14	$	22.35	24.50	2

Not adjusted for Spin-off of Park Hotels & Resorts Inc. (PK) on Jan-04-17
Not adjusted for Spin-off of Hilton Grand Vacations (HGV) on Jan-04-17
Not adjusted for 1:3 Reverse Stock Split on Jan-04-17

Price Target Price Rating Change Coverage Suspended Split Adjustment

Valuation Methodology: Our valuation methodology for Hilton Worldwide includes a P/E multiple analysis applied to core lodging earnings, an EV/EBITDA analysis, and a sum-of-the-parts analysis.

Iridium Communications Inc. (IRDM:NASDAQ) Date: March 10 2017



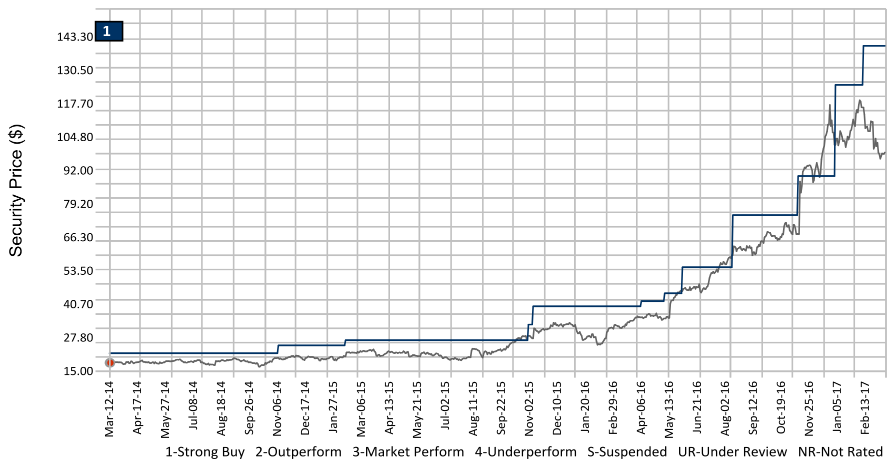
Rating & Target changes

Date	Curr.	Price	Target	Rating
Jul-29-16	$	8.99	11.00	1
Nov-03-14	$	9.50	13.00	1
May-20-14	$	7.22	10.00	1
Mar-12-14	$	7.38	10.00	2

Price Target Price Rating Change Coverage Suspended Split Adjustment

Valuation Methodology: Our valuation methodology for Iridium Communications is based primarily on forward enterprise value/operational EBITDA relative to the stock's historical trading range and current peer group averages. We are basing our 12-month price target on 2017 estimates which better reflect Iridium's core catalyst - a fully deployed NEXT constellation. Our analysis may also take into account company-specific growth initiatives and their impact on Iridium's projected growth rate.

NVIDIA Corporation (NVDA:NASDAQ) Date: March 10 2017

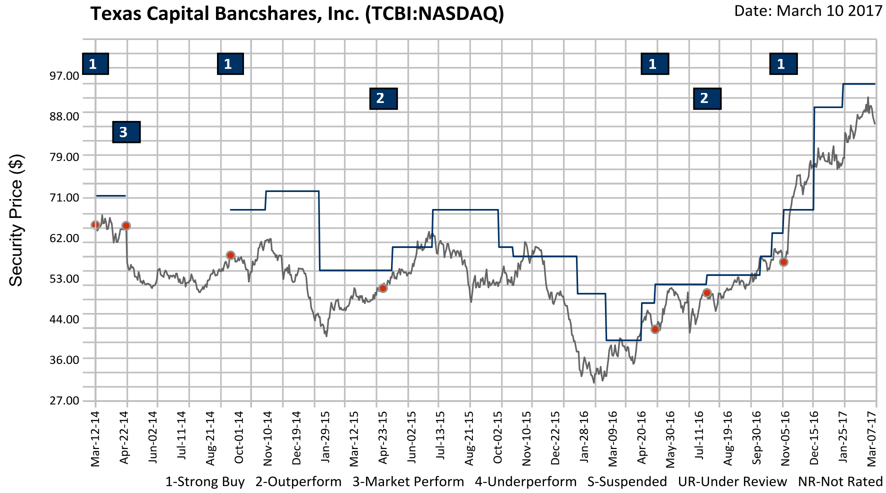


Rating & Target changes

Date	Curr.	Price	Target	Rating
Feb-10-17	$	116.38	140.00	1
Jan-04-17	$	102.01	125.00	1
Nov-10-16	$	67.77	90.00	1
Aug-11-16	$	59.70	75.00	1
May-31-16	$	45.90	55.00	1
May-09-16	$	35.33	45.00	1
Apr-06-16	$	35.75	42.00	1
Nov-06-15	$	27.71	40.00	1
Nov-02-15	$	28.70	33.00	1
Feb-12-15	$	20.81	27.00	1
Nov-07-14	$	20.22	25.00	1
Mar-12-14	$	18.32	22.00	1

Valuation Methodology: We value shares of NVDA by looking at a P/E multiple comparison to peers and the shares' historical P/E multiples.

Texas Capital Bancshares, Inc. (TCBI:NASDAQ) Date: March 10 2017



Rating & Target changes

Date	Curr.	Price	Target	Rating
Jan-25-17	$	79.10	95.00	1
Dec-15-16	$	77.20	90.00	1
Nov-03-16	$	56.80	68.00	1
Oct-20-16	$	57.25	63.00	2
Oct-06-16	$	57.62	58.00	2
Jul-21-16	$	50.18	54.00	2
May-09-16	$	42.36	52.00	1
Apr-20-16	$	43.96	48.00	2
Mar-01-16	$	32.33	40.00	2
Jan-21-16	$	37.58	50.00	2
Oct-22-15	$	51.87	58.00	2
Oct-05-15	$	52.42	60.00	2
Jul-02-15	$	62.87	68.00	2
May-06-15	$	54.61	60.00	2
Apr-23-15	$	51.17	55.00	2
Jan-22-15	$	45.02	55.00	1
Nov-07-14	$	61.35	72.00	1
Sep-19-14	$	58.23	68.00	1
Apr-24-14	$	64.57	NM	3
Mar-12-14	$	64.74	71.00	1

Valuation Methodology: Rows may not add due to rounding. Non-GAAP EPS are operating earnings. UR: Under Review.

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 Hilton Worldwide Holdings Inc.
Hilton's portfolio consists of world-class owned, managed, franchised, and timeshare assets in North America, Latin America, Europe, the Middle East, Africa, and Asia. More broadly, the lodging industry faces risks related to the economy, terrorism and its potential impact on travel, new supply of competing hotels, substitution impact from online meetings and from alternative, non-traditional lodging options, rising interest rates, the health of the airline industry, etc.

Lower Exposure to Luxury and Upper Upscale Hotels Relative to Peers
Relative to peers, Hilton has a lower mix of luxury and upper upscale rooms (combined ~40% of rooms). Upscale and upper midscale make up the bulk of the portfolio’s rooms (~60%). We expect luxury and upper upscale segments to be less impacted from emerging new supply pressures as the cycle extends. Today the most new supply being added in the United States is in the mid-tier segments, driven by brands such as those controlled by Marriott, Hilton, and InterContinental.

Foreign Exchange Risk
Hilton has significantly increased its presence outside the U.S., and at the current time, more than 60% of rooms in Hilton's new room pipeline are outside the U.S. Greater international exposure increases foreign exchange risk and subjects the company’s results to the volatility that can accompany excess new supply (some markets in China, for example), political unease, a slowing Chinese economy, etc. Longer term, we view Hilton’s vast global footprint quite favorably.

Cost Pressures May Limit Margin Expansion
While management has been able to take advantage of relatively low hanging fruit in the past to drive unit growth and margin expansion, we note that the pace of improvement tallied by Hilton during the past few years is going to be increasingly difficult to maintain. Pressure in several cost buckets – wages and benefits, property taxes, as examples – will limit margin improvement over the next few years.

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, there is no guarantee they will be deemed clinically meaningful enough by the FDA to warrant approval. Additionally, Zilretta is effectively the company’s only pipeline asset, presenting heightened risk in the event of a failure to be approved. Furthermore, if Zilretta obtains regulatory approval, the company may not be successful in commercializing the product or generating meaningful revenues.

Company-Specific Risks for NVIDIA Corporation
Increased competition in the company's core GPU business, product delays, end-market weakness, lower-than-expected overall semiconductor growth, and slower than expected transition to next-generation architectures in datacenter and automotive markets are risks that could negatively impact results.

Company-Specific Risks for Iridium Communications Inc.

Satellite Failure
Iridium’s current constellation is projected to provide service through 2017. The satellites, however, have a limited design life and could fail prior to the launch of NEXT, thereby degrading the quality of Iridium’s service. Since 2001, several Iridium operational satellites have failed and were subsequently replaced with in-orbit spares.

Low Gateway Redundancy
Unlike traditional “bent-pipe” networks, Iridium’s satellite constellation is reliant on a single ground station (a.k.a. gateway) located in Tempe, Arizona. While Iridium maintains back-up facilities, in the event of a catastrophic failure, it would likely require a notable lead time, which would have a negative effect on the company’s quality of service.

NEXT Development
Iridium’s future profitability is greatly reliant on the successful development and deployment of Iridium NEXT before its current satellite constellation ceases. During this process it is not uncommon to encounter manufacturing or launch delays, launch failures, in-orbit satellite failures, an inability to achieve and/or maintain orbital placement, delays in receiving regulatory approvals or insufficient funds. Furthermore, Iridium NEXT may not be completed on time and the costs associated with the project may be greater than expected.

Competition
There are currently other satellite operators providing services similar to Iridium on a global or regional basis: Inmarsat, Globalstar, Orbcomm, SkyTerra, Thuraya, and Asia Cellular Satellites. This increased competition could result in excess industry capacity, downward price pressure, and aggressive price discounting.

Company-Specific Risks for Texas Capital Bancshares, Inc.

Interest Rate Risk
Interest rate risk is always an important consideration when investing in bank stocks. Texas Capital continues to limit its risk to changes in interest rates. Based on the company's market risk scenario analysis, Texas Capital is moderately asset sensitive.

Asset Quality Risk

Asset quality risk is another key consideration when investing in bank stocks. An economic slowdown or prolonged recession on a national or regional basis could result in higher non-performing assets and net charge-offs, which could in turn create a shortfall in Texas Capital's net income relative to our EPS estimates. Historically, Texas Capital has maintained excellent asset quality.

Acquisition Risk
Acquisition risk is another factor investors should bear in mind before purchasing shares of Texas Capital. Potential acquisitions could increase the company's operational risk (integration problems and customer attrition) and financial risk (EPS dilution and asset quality problems).

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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.
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