BILLEAUD
CAPITAL MANAGEMENT

Established 1986

Third Quarter 2015

1018 Harding Street, Suite 104, Lafayette, LA 70503 *www.billeaudcapital.com, 337-233-7758*

Managing Risk As Well As Returns

3RD Qtr. 2015 Returns	
Stocks	-6.45%
Real Estate	0.00%
Long-Term Govt. Bonds	5.44%
Interm-Term Mortgage Bonds	1.14%
Short-Term Govt. Bonds	0.50%
Inflation-Protected Bonds	-0.78%
Gold	-4.90%

It was a rather eventful quarter for the financial markets. Reacting to slowing global economies, the last three months were virtually the mirror image of the first half of the year. Stocks took a tumble and declined some 12% peak to valley from the mid-summer high. On the other hand, bonds performed nicely, enjoying the flight to quality of the fearful money. While the daily barrage of financial news could lead us to believe the end is near, we really do not think it is. We believe the stock market is going through a routine correction that will likely run its course sooner rather than later.

Routine or not, periods such as this can be stressful. That is why we hold diversified portfolios and never put all of our eggs in any one basket. Since stock market corrections (as opposed to recession-induced full-scale bear markets) are a normal and regular occurrence, we are convinced that they are best dealt with by holding a balanced and diversified portfolio.

The title for this letter could well serve as our corporate motto, as it describes exactly what we hope to do with our investment portfolios. Of course we want our portfolios to increase in value, but we need to do it in a way that allows us to maintain our discipline even when the markets and news headlines get temporarily rough and scary. After all, the best plan in the world is worthless if you can’t stick with it during stressful times.

Is it possible to realize stock-like returns while assuming only bond-like volatility?

We think it might be. Our unique approach to managing money endeavors to do this by approaching the idea of diversification a little different than other firms. We use the term *economically diversified portfolios* to describe the part of our strategy of holding specific non-correlated asset classes that respond to the changing (and recurring) seasons of the economy. They are:

- **Stocks** (for economic growth)
- **Bonds (**for economic recession)
- **Commodities** (for rising inflation)
- **Cash** or cash equivalents (for rising interest rates)

Historical research on these specific asset classes, going back almost a hundred years, provides us with a deep deposit of data to work with in constructing portfolios. As we have plowed through this research we have found that there are combinations that, over time, have indeed been able to produce stock-market-like returns with the smoother ride often associated with bond-market-like volatility. While we can offer no absolutes, we do believe that a rigorous and disciplined implementation has the potential to do this over the course of complete market cycles.

Regarding your personal accounts, if you have any questions regarding the portfolio and risk allocation you hold, please do not hesitate to ask us about it. It is a conversation that is always appropriate and one that we welcome.

For more detailed explanations of our approach, please see our past quarterly letters posted on our website.

Philosophy - Strategy - Discipline

We believe three fundamental concepts are needed to tilt the odds toward investment success. In order they are: 1) Philosophy, 2) Strategy, and 3) Discipline. Like legs of a stool, all three are needed.

In our last report we covered Philosophy. We said: *Philosophy is what holds it all together. Without an underlying philosophy, it is impossible to implement a successful investment strategy, much less stick to it when the markets are in turmoil.* ***Our investment philosophy is this: We believe successful investing can be achieved by applying thoughtful risk management within portfolios that are broadly diversified across different non-correlated asset classes.*** *A sound underlying philosophy (along with an effective strategy and the proper discipline) should lead to success no matter what the circumstances.*

Now we will cover Strategy, or how we implement our philosophy within client portfolios. We will do this succinctly according to the three parts of our philosophy: Broad Diversification, Non-Correlated Asset Classes, and Applying Thoughtful Risk Management.

Recall that we desire **broad diversification** so as to capture the return/risk characteristics of each asset class and avoid the element of risk that can come with owning stocks or bonds of individual companies. While we could attempt to do this by owning many individual stocks and bonds, we have found that, in most cases, we are better off using funds. Furthermore, we have come to believe that passive (index) funds are preferred over actively managed funds. While there are actively managed funds that have performed well in the past, it is statistically very likely that at some point they will not meet our criteria, as stated above, to fully capture the return/risk characteristics of their particular asset class. That is another risk we want to avoid.

The second part of our strategy is to determine an optimal mix of **non-correlated asset classes**, meaning the components/funds that have different risk and return characteristics (i.e., stocks, bonds, precious metals, cash, etc.). While each component, on its own, is expected to produce positive returns over time, there are benefits to having a thoughtful mix wherein, as we like to say, when one zigs the other zags. This helps to dampen the short-term ups and downs of the market. A smoother ride. This mix is determined through extensive and ongoing research.

The third part of the strategy, **applying thoughtful risk management**, already occurs in the first two parts of the strategy. Broad diversification is all about managing risk, as is the design of the mix of the individual non-correlated components. Additionally, we use the readings/outlook of our proprietary BCM Market Risk Model to make adjustments to the mix of our components. Actually, we seek to apply thoughtful risk management for our clients from the beginning to the end. It is part and parcel of who we are and how we approach the financial markets.

This strategic process we undertake for clients, while philosophically unchanging, is not static. Innovations in financial products and advances in technology provide us with an ongoing supply of opportunities to enhance our service to clients. While we are never on the "bleeding edge", we do continually look for ways to improve.

Finally, strategically speaking, *here's what we do not do*: We do not chase fads. We do not get caught up in the latest products that are more sizzle than substance. We do not invest in IPO's or the latest hot tip. We do not abandon an asset class (i.e., stocks, bonds, gold, etc.) due to short-term negative performance. We do not make changes because our approach may currently appear to not be "working".

And, as we said last quarter: *We do not make decisions based on emotions. The school of hard knocks (great school, high tuition) has convinced us that this type of activity is not only unproductive, but can be detrimental to our bottom line. We never want to confuse activity with progress.*

Next quarter we will talk about discipline.

We work and earn, spend and save, and invest. We provide for our needs and those of our family, and we plan for the future. This section of our quarterly letter will cover non-investment topics related to retirement and other areas of personal finance.

Social Security – A Primer

Social Security is a "many-splendored thing". Complicated and perhaps precarious, but also an essential part of most Americans' retirement income. While we will cover some elements of SS in our quarterly letters, there are so many possible scenarios that everyone should look into optimizing their own personal scenarios.

The first step is to go online (www.socialsecurity.gov) and create a "my Social Security" account. You can print your statement, verify your earnings, and manage other aspects of your benefits. Next, if you and/or your spouse are within a year or so of possibly claiming your SS benefits, please touch base with us first. We have some software to help you look at different claiming strategies that could make a big difference in the total benefits you receive.

How does one become eligible to receive retirement benefits?

To be eligible to claim Social Security Retirement benefits you need to have earned 40 credits during your working lifetime. While the definition of how you earn those credits has changed some over the years, you still can only earn a maximum of 4 credits each year. Before 1978, credits were earned on a quarterly basis. If you earned at least $50 in a quarter, then you got a credit. Since 1978, credits have been earned on an annual basis. The amount of annual earnings your must have has changed over the years, but for 2015 you must earn $1,220 to receive one credit. Therefore, you must earn $4,880 to get your maximum of 4 credits for the year.

How are retirement benefits calculated?

Earning credits is one thing; the amount of your benefits is another. Simply put, SS uses your highest 35 years of earnings to calculate your basic benefit, or what they call your "primary insurance amount" or PIA. This is the amount, in today's dollars, that you are expected to receive at your full retirement age – somewhere around 66 to 67 depending on your date of birth. Your PIA is what you see when you get your benefits estimate statement. Your PIA will change over time as your earnings history changes and as other factors change that go into the formula used. But it does give you a good estimate for planning purposes. Again, best to go online and sign up and then you can retrieve your personal PIA estimate. If anything in your account looks suspicious, you should look into it and contact SS immediately to see about correcting.

Again, there are a multitude of different scenarios for claiming SS retirement benefits. If you are getting close to "that" age, you owe it to yourself to take a close look at your options before you file your initial claim. After you have filed to start benefits, chances are you will not be able to change if you find out later that another strategy would have been more beneficial. Please let us know if we can help.

The facts and statements herein have been obtained or derived from original or recognized statistical sources which we believe to be reliable. Past performance does not guarantee future results. This letter is intended as an informational update for BCM clients. It is not intended to offer specific investment advice to anyone. Current BCM opinions as stated in the above text are subject to change at any time. Information included herein should not be construed as the receipt of, or a substitute for, personalized investment advice. A copy of our current written disclosure statement discussing our business operations, services, and fees is available upon written request.