BILLEAUD CAPITAL MANAGEMENT

Established 1986

Fourth Quarter 2015

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4th Qtr. and Year-End Review

4th Qtr. 2015 Returns	
Stocks	1.29%
Real Estate	0.69%
Long-Term Govt. Bonds	-1.54%
Interm-Term Govt Bonds	1.27%
Short-Term Govt Bonds	1.40%
Gold	-10.97%

After a very difficult first nine months of the year, the final quarter of 2015 proved to be (ever so slightly) more benign for investors. When all was said and done, the 4th quarter respite from the turmoil of the first nine months of the year added-up to a modestly uneventful full-year performance as virtually all broad asset classes within our financial markets (commodity-oriented companies being the exception) turned in a roughly flat performance for the year.

That, of course, can be both good and bad. Good in the sense that during the stock market correction that ran from May through the end of September (12% peak-to-valley decline), a larger bear market did not materialize (as we surmised at the time). Bad in the sense that having a full year where virtually all asset classes make minimal forward progress can really try your patience, and tempt you to "do something!".

The proper response to a modestly frustrating market(s), such as we've experienced over the last 12 months, is: "Don't just do something, sit there!". As long as our economic and market risk outlook remains benign, patience will most likely be rewarded. Sometimes, of course, that is easier said than done. Our instincts are usually "action" oriented. Unfortunately, the markets could care less about our instincts or how we feel. They do what they do, on their terms and schedule, and that is simply how it is. To repeat, in the absence of evidence of an oncoming recession (which we do not see at this time), our working thesis is that the malaise of the last year will likely be resolved favorable, at some point.

Now rather than drone on with a bevy of financial and economic statistics that become quickly dated and meaningless for long-term investors, we would like to address two points that actually do have meaning for us: 1) How we choose the investments we hold, and 2) The importance of maintaining discipline when following our investment plan.

Choosing Investments – Asset Classes vs. Individual Securities

Here at BCM, we believe that **Markets are efficient (enough for our purposes)** - Academic research shows that, in large efficient markets, such as U.S. large company stocks and high quality bonds, the selection of individual securities does not reliably produce *superior* returns. In fact, empirical evidence demonstrates that, on average, individual security selection cannot "beat the market" in the long run. Markets are simply just too efficient and competitive to consistently leave "found money" lying around. Consequently, on average, we are just not paid enough *potential incremental return* to justify assuming the *specific company risk* that comes with trying to select single stocks that might outperform our bogey, the *entire market index*. For these reasons, our investment process here at BCM has evolved such that we no longer attempt to select individual securities; instead we utilize entire *asset-class* allocation strategies to construct and manage broadly diversified portfolios.

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Asset Class Investing - When we evaluate specific investment vehicles, we look for accurate asset class representation, low cost, tax efficiency, flexibility and liquidity. To meet these criteria, we prefer to use "baskets" of securities that track our preferred asset classes accurately and provide broad diversification. These typically include ETF's (Exchange-Traded Funds) and institutional mutual funds. The use of these investment vehicles goes a long way to help ensure that we have a portfolio that can maintain conformity with its targeted design, since the allocations can be adjusted quickly, easily, and at very low cost when necessary (for rebalancing and adjustments due to changes in the BCM Market Risk Model). Asset Class Investing is, in our opinion, by far the most efficient and cost-effective way to implement the design of BCM investment portfolios.

(Note: For certain clients, at their request, we continue to hold individual positions. If these individual securities are ever sold, our preference will be to redeploy those monies into more broadly diversified mutual funds or ETF's representing the asset classes within our investment philosophy, unless specifically directed to do otherwise).

Philosophy - Strategy - Discipline

In recent quarterly missives, we've discussed strategy and philosophy. And now, the third and possibly most important aspect of the investment process – discipline – warrants comment. Recently the Abiz monthly business paper published an article we wrote addressing the subject of discipline, and we have reproduced it in part here…

Over the course of the last fifty years, how many investment truths, wisdoms, and fads have sucked people in, led them to within sight of the promised land, only to then turn, betray their trust, stab them in the back, drain their bank accounts, run off with their wife and burn their portfolios to the ground? So many! It's a chore just to keep count. Yes, a sucker is born…!

Recall the "nifty-fifty" (must own!) stocks that commanded "no-price-that-was-too-high-to-pay" in the early 1970's (the brutal two year '73-'74 bear market injected a dose of reality into that fad - chomp), the "portfolio insurance" strategies of the mid 1980's (which led to the one day 27% crash of 1987), the internet dot.com IPO's of the late 1990's (which subsequently fell an average of roughly 85% when that party ended), or the no-doc, no-down-payment, flipping real estate game which led up to the front steps of the housing crash in 2008? These plans were all so cool. If only… Not really. They actually weren't cool at all. They all were beautiful theories that ultimately were mugged by gangs of brutal facts.

Chasing rainbows. Why do people do it? Because everyone wants something for nothing. It's human nature to want a short-cut. Instant gratification. It's tough slogging it out with the tried and true in the trenches. And, because it's tough, there is always the temptation to circumvent the investment principles that likely will lead to success.

Who ever said it's supposed to be easy? Successful investing principles may be simple (How do you lose weight? Simple. Eat less, exercise more. Ha!), but they are definitely not easy. To quote Warren Buffet's more philosophical half, Charlie Munger, "It's not supposed to be easy. Anyone who thinks it is, is stupid".

In our opinion, there are three fundamental concepts needed to tilt the odds towards success. They are: 1) Philosophy, 2) Strategy, and 3) Discipline. Like legs of a stool, all three are needed.

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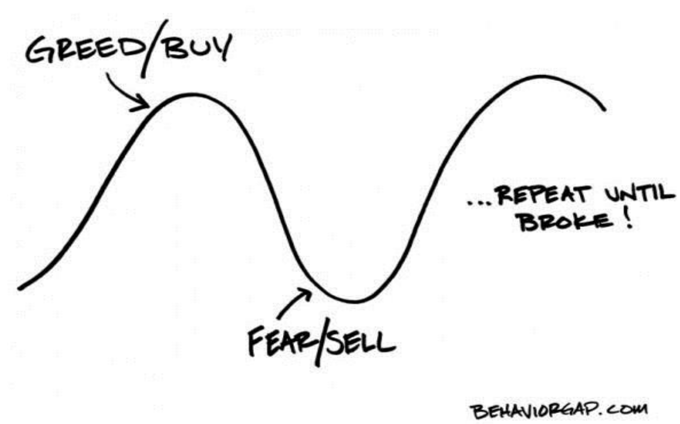
Philosophy is the big picture ideal that holds it all together. Without an underlying philosophy, it's impossible to implement a successful investment strategy, much less stick to it when the markets are in turmoil. Philosophy can be as simple as prudently owning a broadly diversified portfolio. Strategy is how you implement your philosophy. Which leaves us with the third, and by far, the most difficult leg to master – discipline.

It is a well-documented investment fact that we are often our own worst enemy when it comes to investing. For example, every dollar invested in an index fund that mirrored the S&P 500 stock index thirty years ago would have grown 25 fold. Of course, to get that result, you would have had to have been virtually catatonically asleep at the wheel, holding tight through the crash of 1987, the savings and loan crisis of the late 1980's, multiple wars and terrorist attacks and finally the financial collapse of 2008. All possible, but terribly difficult to do. Which explains the "Behavior Gap's" miserable performance shortfall experienced by so many over the last thirty years (Abiz, July 2014, "Saving Us from our Own Bad Selves").

So, in our opinion, outside of dumb luck, discipline makes all the difference. As does a lack of discipline, which looks like this –



It should be more than obvious that the above (bad) behavior, typical as it is, is not the way you want to go.

We can't stress this strongly enough. You've got to be in an investment program that you understand and philosophically embrace. It has to make long-term economic and financial sense so that you can find the courage and discipline to stick with it through thick and thin, which will surely come again, as it always has. To do otherwise, will lead you down the road of perdition – a roller coaster ride of portfolio destruction.

Just to drive the point home, let us recall a news item that received quite a lot of industry buzz last spring. It seems that Fidelity Investments conducted an internal audit to determine what types of investors received the best returns during the ten-year period running from 2003 to 2013. And surprise! There was absolutely one group of investors that consistently beat all others. And they all shared one common characteristic. They were dead! Yep. Dead. It seems that despite any other obvious shortcomings, dead investors at least mastered the art of discipline when it comes to their investment portfolios.

From the December 2015 Issue of Abiz

Well, while we're not dead here just yet, rest assured we will implement our investment plan with the same uncompromising discipline. We're quite serious about that!

CURRENT OUTLOOK

As has been the case for some time now, the economic outlook continues to look stable. With no evidence of an impending recession on the horizon in any of the leading economic indicators we track at BCM, ***our Market Risk Model continues to suggest a benign risk environment and constructive outlook for financial assets, which leads us to maintain a fully-invested position across all asset classes within our portfolios.*** As always, balance and diversification remain paramount.

YEAR-END HOUSEKEEPING

As we do every year at this time, BCM is required to update our U.S. Securities and Exchange form ADV Part II. Let us know if you would like a current copy of this document. It can also be found on our website. Also enclosed with this report is a copy of our Privacy Statement. For clients for whom we manage company retirement plans, we have also included a copy of BCM's Service Provider Disclosure, as required under ERISA Section 408(b)(2).

All our accounts are held at the Charles Schwab & Company brokerage firm, who is required to send monthly account statements. If for any reason you are not receiving your monthly account statements, please let us know.

Also, as we did last year at this time, we are enclosing a copy of our *Investment Principles*. We take our investment charge here most seriously and go to great lengths to successfully implement our investment plan. Our Investment Principles guide and direct us every step of the way.

Finally, please let us know if any personal circumstances have changed that might necessitate a change in your investment strategy, or if you have any specific questions about how your account is managed.

Billeaud Capital Management, Inc. PRIVACY STATEMENT

Billeaud Capital Management, Inc. is committed to maintaining the confidentiality, integrity and security of the personal information that is entrusted to us.

The nonpublic information that we collect from you include all personal and business information in connection with any of the services provided by Billeaud Capital Management, Inc. Examples of such information include: *personal and business financial profiles, identification information, information about your health to the extent that it is needed for the financial planning process, information about transactions between you and third parties,* and *information provided to us by other advisors*. We use nonpublic information solely to perform the services that you request. We do not intend to disclose nonpublic information to nonaffiliated third parties, except as permitted by law or after first advising you of the change in firm policy.

With your permission, we disclose limited information to attorneys, accountants, lenders, and others with whom you have established a relationship. You may **opt out** from our sharing information with nonaffiliated third parties by notifying us at any time by telephone, mail, fax, email, or in person. With your permission, we share a limited amount of information about you with your brokerage firm in order to execute securities transactions on your behalf. We require strict confidentiality in our agreements with unaffiliated third parties that require access to your personal information, including financial service companies, consultants, software vendors, and auditors. Federal and state regulators may review firm and client records as permitted by law.

We limit staff and employee access to information only to those who have a business or professional reason for knowing such information for the purpose of performing their respective duties, and only to nonaffiliated parties as permitted by law.

We maintain a secure office and computer environment to ensure that your information is not placed at unreasonable risk.

We do not provide your personal information to mailing list vendors or solicitors.

Personally identifiable information about you will be maintained while you are a client, and for the required period thereafter that records are required to be maintained by federal and state securities laws. After that time, information may be destroyed.

We will notify you in advance if our privacy policy is expected to change. We are required by law to deliver this *Privacy Statement* to you annually, in writing.