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

1st Quarter 2016 Review

1st Qtr. 2016 Returns	
Stocks	1.3%
Long-Term Govt. Bonds	8.3%
Interm-Term Govt Bonds	4.2%
Short-Term Govt Bonds	1.0%
Gold	16.0%

For anyone who enjoys roller coasters, the first quarter of 2016 was for you. It also turned out to be a perfect environment for our investment strategy of maintaining economically-diversified portfolios guided by our risk-management model. Responding to recession fears, stocks began the year with the worst opening record *ever*. From the get-go, stocks embarked on a steady, near-vertical slide, declining by roughly 12% by mid-February. Those same recessionary fears, however, were just what the doctor ordered for our other assets (bonds and gold) that actually *benefit* from times of economic stress. Specifically, the gains realized from our bond and gold holdings nicely buffered the weakness of stocks.

Then the stock market storm subsided, and, happily, as stocks managed to regain their footing and recoup their losses, by quarter-end our bond and gold holdings were able to hold onto their gains. Win, win.

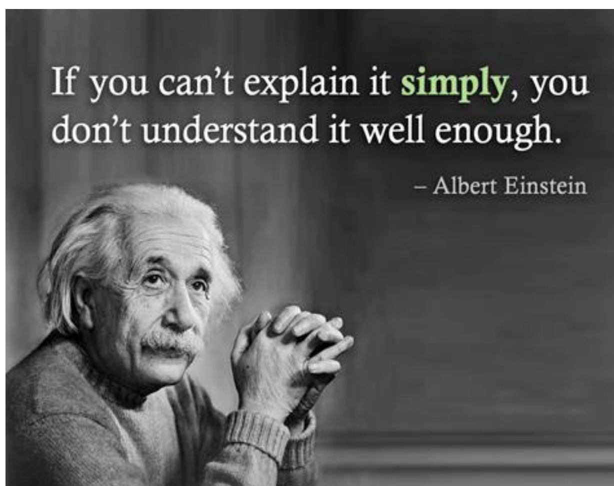
It doesn't get much better than that. Our goal of designing portfolios that offer the potential of a relatively smooth ride, coupled with steady and favorable growth opportunities, was met quite nicely during this most recent market period.

Simple - *but not simplistic!*

"If I were a magician, I'd hand out broken compasses. It's all about misdirection." Anonymous

Recently I was sent an impressive research report published by a well-regarded investment research firm. Included in the report were reams of data, tables, and charts covering all things economic and financial - credit spreads, exchange rates, yield curves, money supply, monetary policy, and on and on…

Wow! By the time I had finished reviewing all 36 pages of the report, my head was spinning. There was so much information packed in those pages (*and never mind that much of it was actually contradictory*!), I thought "Who could possibly make any *actionable* sense out of this?" Was all of that information really relevant? And if it was, for *what*???



Then it hit me. Like so much that comes out of Wall Street, this report was not meant to make actionable sense. It's all about bells and whistles, smoke and mirrors, and yes, at times, even some misdirection.

You see, ultimately most of this complex data gathering really doesn't matter beyond the few moments that you spend reading it.

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And that's how it goes in the magic kingdom of Wall Street. In direct contradiction to Einstein's marvelous quote above, the purpose of so much that comes out of the Wall Street machine is not to illuminate, *but to obfuscate*. Misdirection is rampant.

Why? Successful investing, at its core, is really not so complicated. We like to say that our approach is simple, but not simplistic. Allocate wisely, follow data that really matters (i.e. the benchmark), manage your emotions/ behavior, and have the fortitude to let your program work. Do that and you've got a great head start over those who have not yet learned this.

Security Selection (Part II)

In our 4th Quarter report sent to you three months ago, we offered the following commentary regarding how and why we select our investment securities held in our portfolios:

> 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.*

More evidence is now in. Standard and Poor's (S&P) has recently issued their annual SPIVA report (Standard and Poor's Indexed Versus Active). If a picture is worth a thousand words, then the following chart is indeed quite chatty.

What you are looking at *is the percentage of actively managed mutual funds available that have not outperformed the index (in this case, the S&P 500 stock index) over one, five, and ten year periods.*

You can see that over the five and ten-year time horizons **more than 80% of the available actively managed funds fell short of the benchmark!** Said differently, by owning entire asset classes such as our S&P 500 index fund, an awful lot of embedded performance risk can be eliminated before we even begin (risk that for reasons hard to understand, some are still quite willing to take).

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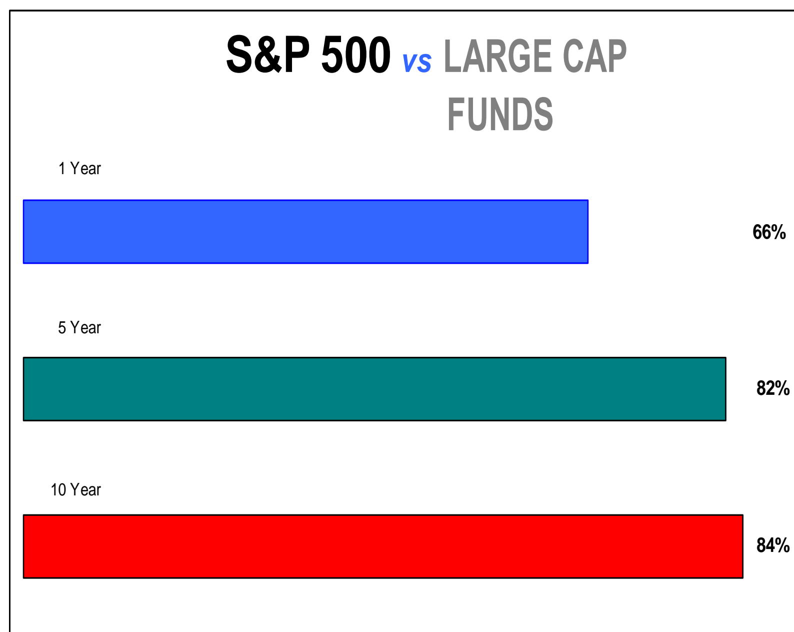
% OF ACTIVELY MANAGED FUNDS THAT HAVE NOT OUTPERFORMED THE INDEX



As always, to understand what really works, follow the money - facts are stubborn things.

The weight of the evidence continues to argue that over the long run an actively-managed investment portfolio (read: buying and selling individual stocks) just cannot consistently overcome the embedded hurdles (human error, group think, high management and administration costs, etc.), and has **great difficulty consistently outperforming the investment benchmark against which it is measured**. That is exactly why we choose to own entire asset classes (institutional index funds and ETF's) for our investment portfolios. They work very well.

CURRENT OUTLOOK

As has been the case for some time now, the economic outlook continues to look stable. ***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.

Our Team Has Grown!

Our business is growing and so is our team of people. We would like to introduce to you, if we have not already done so, two new members of BCM:

MONTGOMERY C. GOSSEN joined us in January as an Investment Advisor Representative and is making great strides in becoming an integral part of our advisory team. After earning a B.S. in Agricultural Business from Louisiana State University in 2011, he worked in Accounts Receivable for Sysco Louisiana Foods in Houston, TX, and as a Client Advocate at Advent Software, a financial reporting software firm based in Jacksonville, FL. During his time with Advent, he assisted financial advisory firms across the country. Montgomery is 29 years old and married to Caitlin Kallenberger Gossen. He is currently pursuing the Certified Financial Planner designation.

MADISON E. BERRIO joined us in September of 2015 and has quickly become an invaluable asset to us in client service and operations. Madison graduated Magna Cum Laude from the University of Louisiana Lafayette in 2014 with a degree in General Studies. During her time at ULL she worked part-time for her dad (George Holland). She and her husband Alex were married last year.

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