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

3rd Quarter 2016 Review

3rd Qtr. 2016 Returns	
Stocks	3.8%
Long-Term Govt. Bonds	-0.3%
Interm-Term Govt Bonds	0.3%
Short-Term Govt Bonds	0.2%
Gold	-0.7%

This 3rd quarter of 2016 has ended, and in spite of the (*almost forgotten*) Brexit vote in Britain late this past June, life goes on. Yes, there are political anxieties associated with the upcoming election (*which happens every four years*), as well as the seemingly never-ending game of guessing, "When will the Fed move to raise interest rates?" But still, life goes on…

All of these nail-biting events are, in the long run, simply noise. Distractions. But for those who live and breathe based on the volume of this noise, their emotional reactions contributed to the generally tepid third quarter performance across most asset classes, shown just above. For the rest of us who most certainly do not live by such things, we'll continue to simply keep our focus on what's really important – our philosophy, strategy and discipline.

Since we've brought them up, let us offer our thoughts on the above concerns. Regarding politics, one of the worst mistakes you can make is to let your politics drive your investing. The markets simply do not care. They have done well under all manner of political environments here in this country, and we suspect they will continue to do so.

Regarding when the Fed might (meaningfully) raise rates, it is not going to happen anytime soon. It cannot. We simply have too weak of an economy, accompanied by the deflationary headwinds of global debt deleveraging. With such a fragile recovery as we have had, a sustained policy of raising rates would likely have ***severe*** economic consequences. (Oh, and do not forget our nearly $20 trillion national debt. Yes, we do pay interest on that. There is no way the federal budget could handle the interest costs if rates were to rise meaningfully). *Soooo…*, as previously stated, it may be a while (think years) before we see the Fed move to normalize interest rates higher.

The Cruel Arithmetic of Portfolio Losses

Far and away the best way to make money is, first, don't lose it. Go ahead and file that under "duh…".

But many do not really understand the "cruel arithmetic of portfolio losses". Simply put, the gain required to make up a loss is always higher than the percentage of the loss. For example, in 2008, many investors saw their accounts fall by as much as 50%. Getting back to even did not require a 50% gain, but rather it required a 100% gain. Ouch! This is illustrated in the following table:

(Continued on next page…)

Losses	Portfolio Value Following Decline ($100,000 base)		Return required to break even
0%	$	100,000	0%
-10%	$	90,000	11%
-20%	$	80,000	25%
-30%	$	70,000	43%
-40%	$	60,000	67%
-50%	$	50,000	100%
-60%	$	40,000	150%
-70%	$	30,000	233%
-80%	$	20,000	400%
-90%	$	10,000	900%

This chart above is used to illustrate an obvious but important point: Avoiding serious losses can go a long way towards maximizing long-term portfolio gains.

In fact, let's take it one step further. For an individual to insure that his portfolio realizes the full potential that the markets offer, generally they have to be invested at their full risk allocation all times. Do that and you stand to reap the full gains offered by our financial markets for your specific portfolio. But for most investors, remaining in a fully invested risk allocation at all times can really tax both your wallet and your emotions (*said differently, major bear markets can really be a drag*).

The Pleasant Arithmetic of Managing Risk and Minimizing Losses

But portfolio math can also work in our favor. Rather than allowing significant portfolio losses to influence our long-term results, we here at BCM try to substitute the more pleasant arithmetic of managing and minimizing those losses.

You see, experiencing the full brunt of market difficulties requires recovery periods and percentages as illustrated above to get back to even. But for those whose portfolios sidestep a portion (if not most) of the difficult periods, their recovery experience is much easier and shorter. In fact, here's a real bonus that accompanies successful risk management – you don't have to be perfect at it. If you can eliminate a portion of the market's average decline during unfavorable economic periods, you only have to capture a *portion* of the market's future gains to be well ahead over the long run. That really takes the pressure off for long-term investors.

So, in our current economic environment of unusually low interest rates, excessive government debt, extraordinarily weak monetary policies, low global economic growth rates and rising geopolitical tensions, we strongly believe that investment portfolios need protection from a variety of unexpected events.

In our opinion, the conventional investment portfolio is prone to frequent and potentially devastating losses because it is *not* balanced properly to different economic outcomes. In contrast, a truly risk-

(Continued on next page…)

managed, economically-balanced portfolio can go a long way towards helping investors more reliably achieve their objectives.

We believe that our All-Weather portfolio structure, coupled with our discipline of tactical allocation (portfolio adjustments guided by the outlook of our Market Risk Model), meets the challenge. Specifically, we have designed our portfolios in an attempt to deliver the two widely sought-after P's: Protection in unfavorable market risk climate, and Participation in favorable market risk climate. That's a very congenial pattern of returns for a lot of investors.

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.

Extra! Extra! Read all about it!

As BCM has evolved over the years, we have been providing financial planning services to more and more of our investment advisory clients. While investment management remains the core focus of our firm, we recognize the great need for helping clients to sort through the many complexities of their financial lives and plan for the future. We also see planning as a means to help provide continuity and stability to a client's family over time as the inevitable cycle of life unfolds.

Financial Planning brings clarity to where you are today and develops a roadmap to help you get where you want to go. Specifically, planning can include retirement projections, social security analysis, and education funding. Additionally, while we are not tax, estate planning, or insurance experts, our experience allows us to help clients make good decisions in these areas as well.

To further expand our planning services, we have developed formal processes and implemented an infrastructure to provide planning to our investment advisory clients at no additional charge. We have also started to add staff and other resources to do this and are making planning topics a part of our ongoing conversations with clients. You will see this in our blog posts, our website, and other events that we plan to conduct.

So, stayed tuned, and let us know if we can help you in this area. And remember what Old Ben said:

"If you fail to plan, you are planning to fail!"

Benjamin Franklin

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.