BILLEAUD
CAPITAL MANAGEMENT

Established 1986

Fourth Quarter 2016

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

4th Quarter 2016 Review

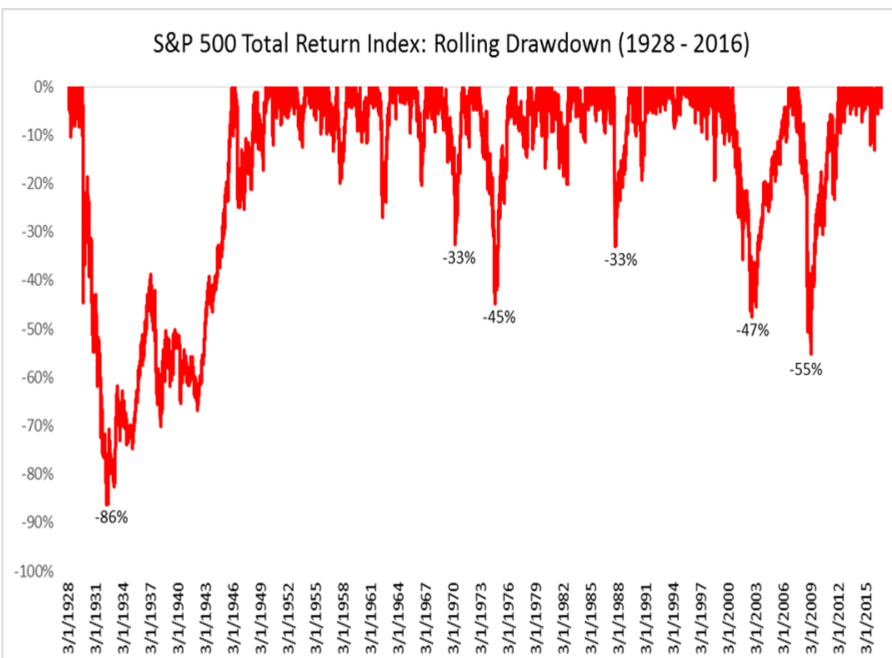
4th Qtr. 2016 Returns	
Stocks	3.79
Long-Term Govt. Bonds	-12.07
Interm-Term Govt Bonds	-4.15
Short-Term Govt Bonds	-1.19
Gold	-12.79

Politics controlled everything during the recently completed fourth quarter of 2016. At one point on election night, global stock markets were down 5% as it became clear the expected outcome (a Clinton win) would in fact not happen. Concurrent with that very sharp sell-off in stocks, gold and bonds soared in value. However, by early next morning, a semblance of sanity returned to the collective investment conscience, and everything completely reversed. Stocks increased in value, while both bonds and gold sold off. That trend continued through the end of the year. Because our portfolios hold all these asset classes, we have been both buffeted (bonds and gold holdings) and helped (stock holdings) by recent price movements.

Economically-Balanced Portfolios

The absolute worst way to invest (except for all others).

As you know, we invest in what we call a set of Economically-Balanced asset classes. We do this because, while each of them will deliver positive rates of return over time, they each respond differently at different points in the business/economic cycle. For example, when the economy is healthy and inflation is low, stocks generally do well. In times of rising inflationary pressures (often accompanied by rising interest rates), commodities (gold) often do well. During periods of economic difficulty, high quality bonds are usually beneficiaries of scared money, so they tend to act as a portfolio stabilizer. That is exactly what happened during the severe recession of 2008. During that downturn, while stocks fell by 55%, bonds and gold soared. The chart below is a stark reminder of not only that period but other major stock market declines over the last 100 years.

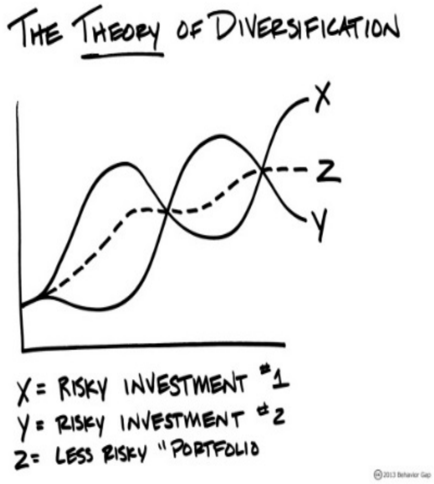


While we do have our Market Risk Model to help us navigate through difficult times, frankly, sometimes unexpected things happen (think 9-11). That is why we stay economically balanced.

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

Our All-Weather Approach – Now, there's a real problem!

Our philosophy towards successful long-term investing rests on the concept of "non-correlated" asset class movements as simply illustrated here:

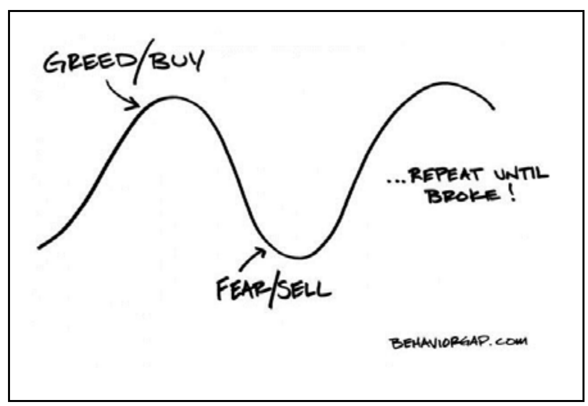


While we want to have both X and Y, which are non-correlated, in pursuit of the smooth return of Z, a diversified (economically-balanced) portfolio like this can sometimes be a problem.

Why? Simply put, by definition <u>our total portfolio performance will always be worse than the best performing asset class in the portfolio</u>. For this reason, our portfolio performance can sometimes seem mediocre as compared to the asset class which is currently performing the best. Likewise, we may lose faith in those asset classes that are currently underperforming. This really played out in the fourth quarter this year. Right now, we all love stocks (X) – not so much bonds and gold (Y's).

But here's the thing: That part of our portfolio we love today can turn on us in a flash. Then, not only will we dislike it, we may not even remember loving it. In many ways, we (people) are hard-wired to be poor investors. We tend to be fickle and almost never satisfied. We expect non-stop good performance and we don't want to be around for the bad times, as if we can precisely predict or control what happens in the markets. For these reasons, there is always the urge to tinker, to second guess our allocation because it seems to be wrong. We often feel the pull to chase performance because clearly our strategy is "not working."

Of course, we know that such tinkering is not a good thing, as most certainly it will lead to the adjacent results. It is far better to establish a logical plan and implement it with rigor and discipline. There are many things that are out of our control in the financial markets, but establishing a thoughtful plan and sticking to it is not one of them.



As the title of the last section noted, an economically balanced approach is absolutely the worst approach to investing - *except for all other approaches* (yes, we are stealing from Winston Churchill here).

A Final Thought…

Most of what we have been talking about in this issue relates to our **Tactical All-Weather Strategy**. However, we do offer two portfolio strategies at Billeaud Capital Management. Our other strategy is what we call **Tactical Growth**. This strategy has a higher weighting towards stocks and is, therefore, a more aggressive allocation. Please feel free to contact us if you would like to have a deeper discussion on either of our two strategies.

CURRENT OUTLOOK

As has been the case for some time now, the economic outlook continues to look stable. ***<u>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</u>.*** As always, balance and diversification remain essential.

LET'S MAKE A (*financial*) PLAN!

"Someone's sitting in the shade today because someone planted a tree a long time ago."

Warren Buffet

2016 was somewhat of a typical rollercoaster ride, generating uncertainty and speculation, with issues such as the Presidential Election, local oil crisis, rising debt, Brexit, and the usual dose of volatility in the financial markets. As we move into 2017, investors seem to be switching gears. People (and the financial markets) are focusing more on prosperity and leaving behind the potential threats that were looming in recent past. Emotions do swing with the markets - don't they? - shifting from bad to good and back again at a blink of an eye.

In much the same way as these issues can affect our investment decisions, they can also impact our actions in other areas of our financial life. As such, we must be as deliberate in our financial planning decisions as we are with our investment management decisions.

That is why we apply the same systematic and repeatable approach to financial planning as we do in managing our investment portfolios. Laying out clear goals and objectives now, developing and implementing a strategy, and monitoring progress over time can help lay our path to success while avoiding emotional volatility, both optimistic and ominous. Just as our portfolios are economically-balanced to withstand different phases of the economy, a sound financial plan will help us weather the cycles of life stay focused.

If you are interested in learning more about financial planning, please contact our office and have a conversation with Montgomery Gossen. We look forward to helping you "plant that tree".

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 will also be posted 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.

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.