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

1st Quarter 2017 Review

As has been the case in recent years, politics in Washington continued to dominate the daily news cycle in the first quarter. Also, equally as common, the financial markets shrugged off this noise, looking ahead to economic realities that might exist in the not too distant future.

Interestingly, the two largest financial markets - stocks and bonds – seem to be expecting very different economic outcomes. Stocks climbed in value over the last three months suggesting that stock investors are expecting a good economy ahead. Bond yields, however, declined (meaning that bond prices increased). That usually happens when bond investors are of the opinion that future economic growth is likely to disappoint. Gold also climbed in price, something that often happens when investors also are looking to hedge against difficult times.

Which market will be right? We don't know, and it is not material for us as our economically-balanced portfolios are designed to handle a wide array of economic outcomes. We are as prepared for a wide array of future outcomes as one can be.

EXPENSIVE MARKETS AND THE BUSINESS CYCLE

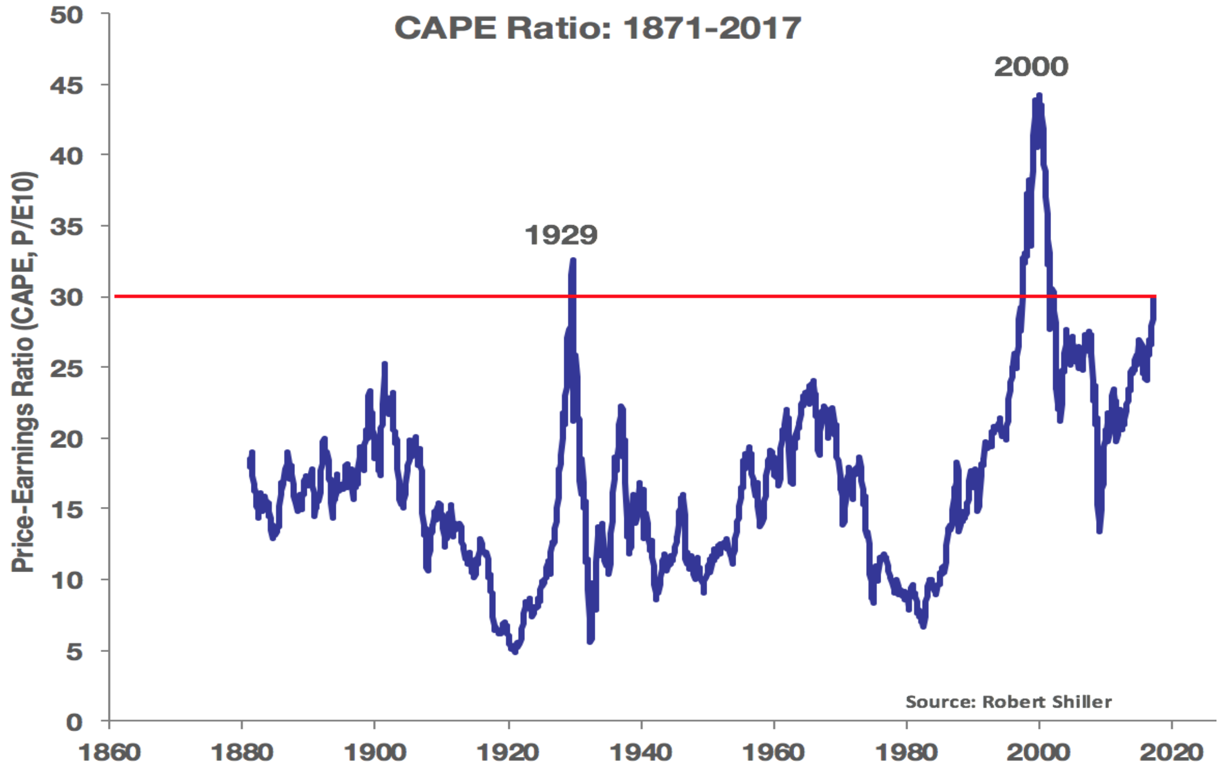
Sleeping with One Eye Open

Major market declines (bear markets) are a natural outcome of a system such as the stock market, which in the short-term is *driven by emotions* that can often take things to the extremes. While it is no fun worrying about what can go wrong, when we are close to all-time highs, we should always be prepared.

Everyone is familiar with the addage of buy low, sell high. Well, what exactly defines "low" and "high"? While there are many measures that can be used to quantify the valuation of stocks, one of the most respected is shown on the next page. It is known as the CAPE Ratio and was created by Nobel Laureate Robert Schiller.

Schiller's CAPE is a measure of current stock prices against ten years of average corporate earnings, adjusted for inflation. While not a perfect valuation measure, it does provide a consistant framework to estimate value (or lack of) reflected in current stock prices, in addition to providing a reference for current measures as compared to historical values.

Here is a chart of Schiller's CAPE Ratio dating from 1871 to present.



Recently, something happened in the world of stocks that has only happened twice in the last hundred years. The run-up in stock prices has now pushed the CAPE Ratio above 30. The other two times this has happened were 1929 and 2000 (2007 came awfully close).

Here is what has happened historically when an unusually expensive market <u>has met a business cycle downturn (recession)</u>:

Year	Cape Ratio	Did a Subsequent Recession Occur?	Subsequent Stock Market Decline
1929	**34**	**YES**	**-89%**
2000	**46**	**YES**	**-50%**
2007	**27**	**YES**	**-58%**
2017	**30**	**Not in Sight Yet**	**?**

So, what does today's valuation level mean for the outlook for stocks?

Actually, nothing in a vacuum. But couple today's valuation level with the business cycle, and it can mean a lot. Which brings us to the following two points:

1) Valuation **CANNOT** be used to call market tops, and IN NO WAY are we doing that now. An overvalued market in a good economy can certainly keep rising. That is exactly what happened from 1998 to 2000. Actually, what generally (meaningfully) stops a rising market is a recession. At the moment, there are no signs of one on the horizon anywhere in sight.

2) Valuation **CAN** be used to indicate the potential for downside damage when a recession does occur. To make a simple analogy, it is much more painful to fall off the top rung of a ladder than the bottom.

So again, *this is not a forecast of eminent trouble*. We have our disciplined portfolio structure and, importantly, our Market Risk Model to guide us just as it did in 2000 and 2007. What this is, however, is a comment on maintaining a discipline. Despite the buzz and headlines about stocks, particularly post-election, **this is NOT the time to throw caution to the wind and abandon a plan that is both thoughtful and time-tested**.

While most investors mistakenly assume that you make your money during bull markets, that is only part of the story. Successful investors understand that you make real money by surviving bear markets. The best way to prepare for severe market disruptions is to have a solid plan and follow that plan rigorously and faithfully. At BCM, that is our focus each and every single day.

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 essential.

HOUSEKEEPING

Our Form ADV Firm Brochure has been updated to reflect our new name, Billeaud Capital Management, LLC, resulting from a change in the form of our business to a Limited Liability Company ("LLC"). The change in the form of the business did not result in a change of actual control or management of the Firm. A copy of the updated Form ADV Firm Brochure can be found on our website at www.billeaudcapital.com, or, if you request a copy, we will mail one to you.

POP QUIZ!

"The secret to getting ahead is starting."
- Mark Twain

As we move into the spring, parents and students alike begin to focus on high school graduation and what comes after. With that in mind, we like to remind our clients how important it is to plan for your child's college education. Planning for college is complicated. While parents consider tuition, room and boards costs, other factors such as standardized testing, application essays, and internships make preparing for the college experience much more challenging.

In a day where the cost of college is outpacing inflation (currently at 8% compared to the 3% average), families are being relied upon more to help shoulder the burden. As more and more people enroll in college, demand rises, which has inflated the price tag of the college experience to approximately $24,000 per year for public in-state universities and $47,000 per year for private institutions.

On top of estimating static figures such as "how much will I have come graduation? or how much should I save each year?" a large portion of the process is subjective. What if your child doesn't want to go to college? Or, what if your child gets accepted into Harvard? What if they don't finish on the standard four-year track? Incorporating these aspects is crucial to preventing as many surprises as possible along the way.

So how do we address this? Just as when we feel inundated juggling tasks at home or at work, we *slow down*, strategize what must get done now and anticipate what needs to happen down the road. We suggest taking the same approach, evaluating the total picture step-by-step.

First, where do you want to go? We always like starting the conversation by defining the finish line. Second, where are you now and what resources are available to you? Third, what is the most effective way to get there over time? After determining point A and point B, we then put the wheels in motion and coach you through the process to make sure you stay on track over time.

Planning for college can be a time consuming and emotional process. Having the peace of mind that the financial component has been carefully considered leaves room to focus on the important things.

If pictures like the one above haunt you in your sleep…or if you would simply like to have a discussion on your education planning goals and how to get there, please feel free to give us a call. We look forward to helping you get ahead of the learning curve.