

2nd Quarter 2017 Review

The 2nd quarter extended the first quarter gains for all our asset classes except gold, which itself was only slightly negative, helping our year-to-date gains in both our All-Weather and Growth strategies move forward.

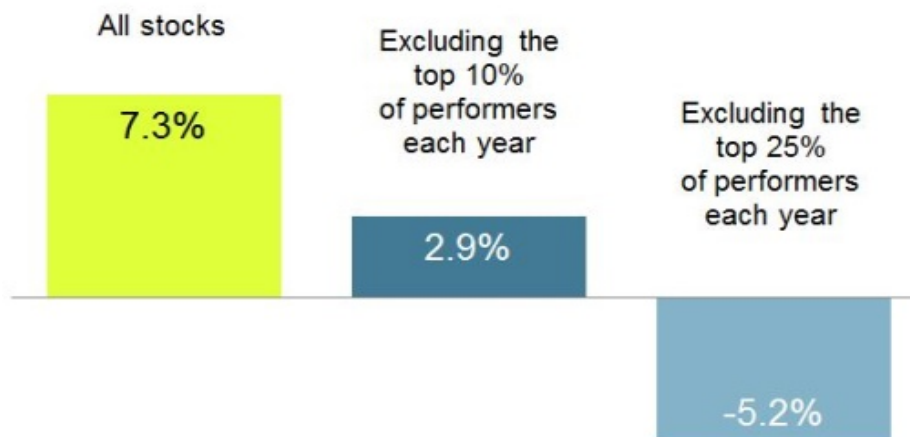
Disclaimer: Extrapolating these short-term gains forward to the third and fourth quarters, etc., is not recommended. We say this only because, while our outlook for the economy and the financial markets remains positive, periodic pullbacks are just the norm. Said another way: Expect periodic pullbacks. They will come. They always have. But, as we point out in our letter this quarter, we believe we are well-positioned for the inevitable swings that will occur. Please, read on...

An Evolution In Investment Thinking

So much has changed in the investment markets over the last thirty years. The internet, which now makes instant access to any and all financial information possible, has opened the door for high-speed institutional investors to buy or sell securities in a matter of (milli)seconds. Doing so allows computerized algorithms to capitalize on informational disclosures in a way that individual investors could never hope to. The old green eyeshade stereotype of pouring through the financial statements looking for overlooked investment gems has been relegated to the dustbin of investment history.

Here's another interesting fact: While we commonly hear the results of the major market indexes, such as the S&P 500, reported in the news, what is not reported is this: Not all companies in the index follow the returns of the overall average. In fact, most of them do not. The return of the index is typically carried by just a handful of individual stocks (and this group tends to change from year to year).

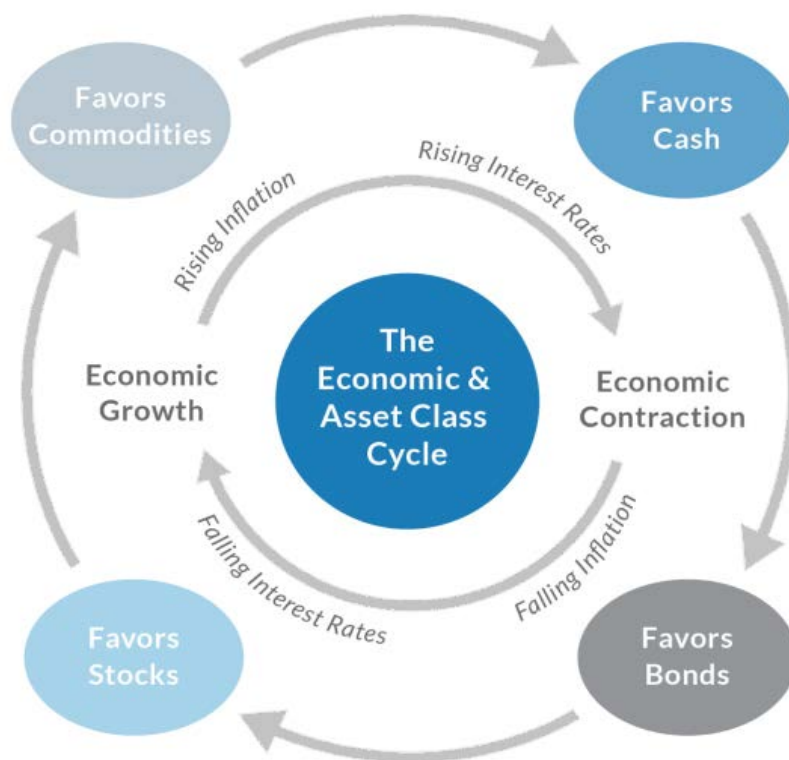
The stats below come from Dimensional Fund Advisors and show how devastating it can be to not own the best stocks each year. To illustrate the point, from 1994-2016, missing just the top 10% of performers each year (which obviously is just as impossible as *picking* the top 10% of performers) takes the annualized performance down from 7.3% down to 2.9%!



All the above has led to the recognition by none other than Warren Buffett that the world of investing has so changed that he has directed (in his will) that funds going to his wife be invested in bonds and an S&P 500 index fund. Buffett's implication - don't bother trying to look for a needle in the investment hay stack. Just buy the whole stack.

We here at BCM both recognized and adjusted to this new reality several years ago by creating what we call our "Tactical All-Weather" portfolio (one of our two offerings*). This strategy, rather than trying to pick individual securities, owns entire asset classes (stocks, bonds, commodities, and cash) through indexed mutual funds or ETF's. As always, the allocation to stocks within this portfolio is guided by the outlook of our **BCM Market Risk Model™**. Please see an update on the Model on the next page.

The theory behind the All-Weather allocation is risk-managed, *economic* diversification. Rather than betting the farm on any single economic outcome, we are attempting to position ourselves for whatever may come our way. That "whatever" is illustrated below in our latest rendition of the Economic & Asset Class Cycle. The outer part shows our four different Asset Classes which are positioned relative to the different phases of the Economic Cycle (the inner part of the illustration). While all four of these asset classes can deliver positive rates of return over time, they do not all move in the same direction at the same time. This results in a smoother ride as we go through the ups and downs of the economy.



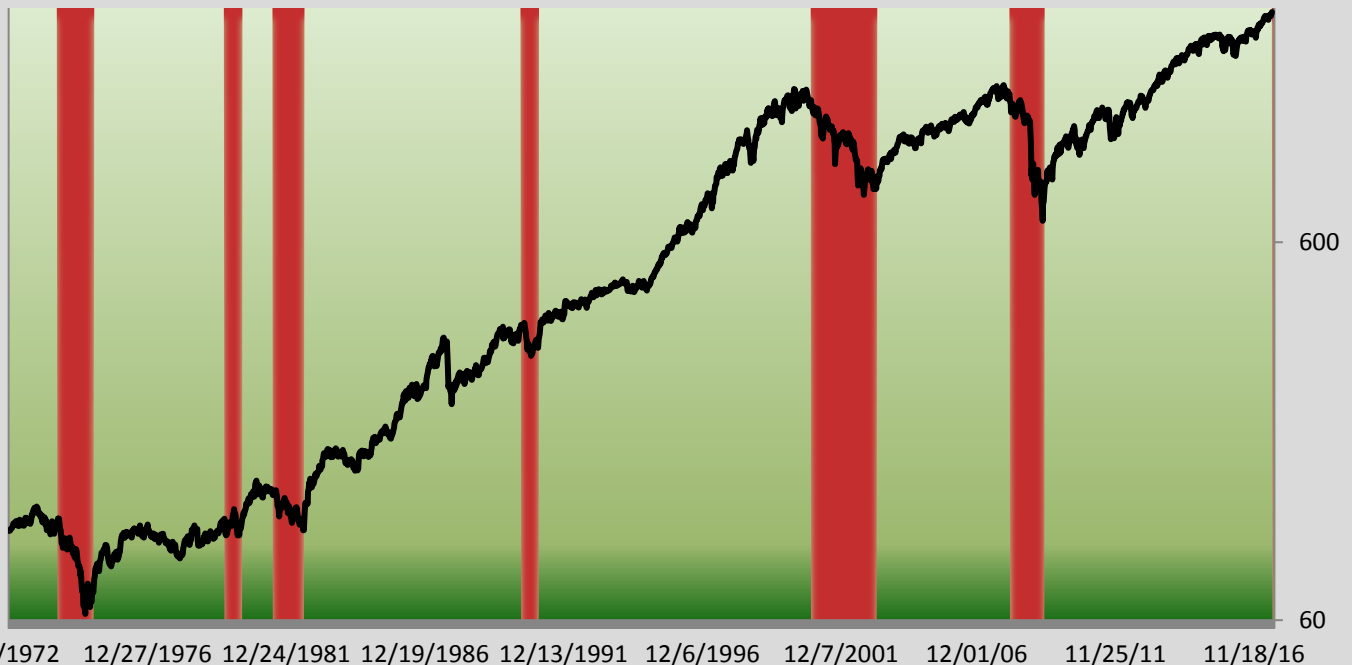
Our investment approach has evolved to adjust to the realities of today's investment markets. We firmly believe that our All-Weather portfolio (low-cost, asset-class oriented and risk-managed) is the very best we can offer clients. If you have any questions or comments, please do not hesitate to give us a call.

*We also offer a Tactical Growth strategy which has a different risk profile than All-Weather due to a higher allocation to stocks.

An Update on the Outlook of our Market Risk Model

Each quarter we provide a status and stoplight graphic of the registered outlook of our BCM Market Risk Model (see bottom of this page). It has been a while, though, since we presented the entire history of the Model's real-time readings, overlaid over the movements of the S&P 500 stock index. Since this outlook is core to our asset allocation process, here is an update of our chart. The green areas are when the Model registers a favorable outlook – green light – during which times we have our full allocation to stocks. The red areas are when the Model registers an unfavorable outlook – red light – at which time we reduce our stock allocation. While they occur less frequently than the green periods, avoiding red periods has proven to be quite beneficial for us.

Real Time BCM Market Risk Model Readings (high-risk and low-risk periods) vs. S&P 500 Index 1972 - 2017



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.



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.

All that and Financial Planning Too?!

Combined with our investment management services as highlighted in the first part of this letter, we also provide Financial Planning. Some of our longer-term clients may say “it has not always been so”, and they are correct. But we have been doing increasingly more planning for clients and have made commitments of personnel and resources to make it a permanent and prominent part of what we offer.

What is Financial Planning?

We say that planning is simply: 1) Taking an inventory of where you are today, 2) Determining your goals and objectives, and 3) Planning to accomplish those goals/objectives. We also make a point of saying that it is not about making “A Plan”, but rather about “Planning” which takes place over a lifetime.

The planning process is also unique to each client. We all have our own set of circumstances that requires special consideration. No “robo-planning” going on here. We want to know what you are trying to accomplish, and then we can help you determine a good plan of how to get from here to there. As life goes on and your circumstances change, then together we make adjustments.

Is there an additional charge for planning?

It depends. For our part, we are certainly offering something in addition to our investment management services that is of great value and which requires additional resources on our end to provide. Having said that, we approach each situation to determine whether an additional charge is appropriate and make that very clear upfront. Among other things, we do consider the length and size of the client relationship and the amount of planning work involved.

How do we begin?

If you think planning could be of benefit to you, then we begin by having a conversation about your situation, how we would go about the planning process, and what, if any, additional cost there would be. If all of that makes sense, then we get organized and proceed from there. While we endeavor to be as thorough as possible, we also try to make the most efficient use of your time throughout the process. Our desired outcome is a clear and concise plan that can be executed, monitored, and adjusted as needed. No need for a 6-inch-thick three-ring binder of charts and graphs and endless detail.

If you are interested in talking about how planning may help you and your family, please contact:

Montgomery Gossen (montgomery@billeaudcapital.com) or George Holland (george@billeaudcapital.com).

NEW PEOPLE AND WEBSITE

We are excited to announce the addition of two new Associate Advisors – Erin Despot McMenemon and Addison R. Henry, Sr. Both Erin and Addison come to us from previous work in the world of finance and are quickly becoming valuable additions to our firm. While they are both originally from Lafayette, Erin now resides and offices in New Orleans. Addison and his family recently moved back home to Lafayette from Houston.

Please check out photos of Erin and Addison (and more!) on our redesigned website at:

www.billeaudcapital.com