

3rd Quarter 2017 Review

And the beat goes on... Anticipating both continued economic growth and muted inflation, the U.S. financial markets have extended their favorable response to this benign scenario. Both our Tactical All-Weather and Tactical Growth portfolios have added to their year-to-date gains through the end of September.

Keep in mind, as we have mentioned before, even in a healthy market trend, short-term corrections are to be expected. Not only are they a normal occurrence, they are necessary to maintain the proper psychology for rising prices to continue, as bull markets typically climb a wall of worry (unlike bear markets which often slide down a "slope of hope").

Quite frankly, it has been nearly 18 months since stock prices experienced any sort of a corrective pullback. While we do not know when the next pullback will occur, we do know that it most assuredly will. This is as normal of an occurrence as a summer rainstorm. We continue to believe our portfolios are well-positioned for the inevitable swings that will occur.

The Best Investment Strategy...*Is one you will stick with!*

Much of what follows is a compilation of the thoughts of many investment writers we have read over the years. We believe it to be timeless advice.

What is the best investment strategy? Admittedly, many strategies have the chance of working. Buy and hold can work. Value investing can work. Momentum can work. There are others, as well, such as the BCM way of an evidence-based, empirically-proven approach – our favorite!

But the best strategy, we would suggest, is ultimately one that meets your objectives AND that you can stick with over time. For example, take a typical buy-and-hold approach, which can absolutely work over the long run. However, if you cannot tolerate a potential 50-60% drawdown during a difficult market and not bail at what is often precisely the wrong time, then buy-and-hold may turn into buy-and-freak-out. That usually does not work out so well.

We illustrate this point to make the argument that a casual approach to investing will likely result in a terribly expensive teachable moment(s). It is critical to match your investment approach to your constitution. Know thyself! What you want is an approach that offers the potential for acceptable returns, but won't have you reaching for the sick bag when turbulence hits.

The investment writer Morgan Housel summarizes his investment council with the following:

- Most investing success boils down to avoiding catastrophic mistakes. Mistakes and frustrations come from trying to run a marathon in an hour.
- "Don't do anything" is the best advice for most people most of the time, but it's not intellectually stimulating enough for many people to take seriously.

Continued next page...

- No one is smarter than the collective intelligence of millions of other investors. Some, however, are a little more patient and less emotional. That's where the potential for "edge" is found.

Thirty years ago, investing was mostly an analytical game, because information was scarce and computers were not scouring the world for mispriced assets. That has all changed. Most analytical opportunities have now been fully exploited. *But there's still huge opportunity to gain an edge over most investors through patience and good behavior.*

Speaking of Good Behavior - How best to handle the day-to-day movements and psychology of the markets

"Prices will fluctuate". So said J.P. Morgan more than a hundred years ago when he was asked for his market outlook.

Since 1926, if you break down the daily price changes of the S&P 500 into gains and losses, the numbers show that it is basically a coin flip between up and down days, with 54 percent of all days showing positive performance and 46 percent with negative returns.

The reason this statistic matters is that human nature makes it difficult for people to process losses in the same way they deal with gains. Behavioral psychologist Daniel Kahneman calls this phenomena Loss Aversion. His research shows that *we regret losses twice as much as gains make us feel good*. Since the daily performance in the stock market is more or less a 50-50 proposition, loss aversion means that checking the value of your investments on a daily basis will likely make you feel terrible at least half the time. All those warm feelings you get from the winning days in the markets will be completely wiped out by the double dose of pain of the down days. This could all potentially lead to some bad behavior.

A simple solution to this potential dilemma is to avoid looking at your portfolio on a daily basis. Of course, it is also important to have a strategy you can stick with, but the more you look, the more likely it is you will see losses and potentially experience what Dr. Kahneman has observed. Conversely, if you lengthen your time horizon and review your accounts on a less frequent basis, let us suggest quarterly, then the probabilities you will see positive returns in your portfolio are much higher.

Using the same data on the S&P 500 referenced above, all one-year periods showed gains roughly three out of every four years. Extend the time horizon to 10 years, and it was close to 95 percent of all periods with gains. Moral of this story: Less frequent portfolio evaluations make it more likely that you will see gains, and, in effect, reduce the pain experienced through loss aversion. It likely will also help prevent you from behaving badly and doing something counter to the best interest of your long-term financial health.

Another suggestion: Turn off CNBC. Turn off the internet. Live your life and enjoy it. We got this!

Introducing...

BCM Advisor

Insights

We are pleased to introduce BCM Advisor Insights events. As part of our ongoing effort to add value to client relationships, these events will offer clients insight into relevant topics in the areas of financial planning, investments, estate planning, and others.

Our first event will be held **November 7th, from 6:30pm to 8:00pm**, at the City Club in River Ranch. The topic will be Estate Planning: Planning for Long-Term Care.

The main presenter will be Steven M. Jankower. Steve has practiced law in the Lafayette area for over 35 years, and he is also the father of a child with special needs. Steve's law practice is focused on estate planning for families with loved ones who are elderly or who may have disabilities or special needs. Steve will focus his presentation on the importance of estate planning for the long-term care needs of family members with disabilities or special needs, and he will offer sensible guidance and recommendations for families faced with the costs and complexities of meeting the long-term care needs of their loved ones.

The format for the evening will be heavy hors d'oeuvres and drinks from 6:30-7:00pm, with the presentation beginning at 7:00pm and ending by 8:00pm. There will also be time afterwards for talking informally with Steve and the BCM Team.

While this event is primarily for clients, we would gladly have clients bring friends or family members who may have an interest in this topic (or any topics of future events).

Because seating is limited, we do ask that you **RSVP to us as soon as possible but no later than the Friday prior, November 3rd**, so we can plan accordingly. You may RSVP the names of who will be attending to Madison Berrio at madison@billeaudcapital.com, or by calling her at 337-233-7758. We will also be sending out email notices as we get closer to the event as a reminder and with additional information on the exact location within City Club.

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.

FINANCIAL PLANNING

What areas does Financial Planning cover and how does the process work?

In our last newsletter ([BCM 2nd Quarter 2017 Newsletter](#)), we introduced financial planning. This quarter we will go into more detail on the areas that planning covers and how the process works.

Areas Covered

Financial Planning evaluates where you are today, establishes your financial goals for the future, and creates a plan to achieve those goals. Below are the areas we may cover depending upon your situation.

- Cash Flow Management - Involves analyzing your mix of personal assets and liabilities and how to better maximize your net worth.
- Insurance Analysis - Involves helping you determine the proper amounts of life, disability, property and casualty, and long-term care coverages for you and your family.
- Investment Management - Evaluates all your investments to see if you are properly allocated in accordance with your financial planning goals.
- Retirement Planning - Determines how to realize your retirement goals. We also evaluate Social Security and pension claiming strategies, Medicare, and retirement withdrawal strategies.
- Education Planning - If you have children or grandchildren, we help determine college costs, savings amounts and the best vehicles for funding education goals.
- Estate Planning - This involves planning for the distribution of your estate as well as how to be prepared for situations that may require the help of others during a temporary incapacity.



Our Process

- Introductory Planning Meeting - The process begins by discovering your financial goals and concerns. We then help you organize your information and review for accuracy.
- Establish Current Financial Status - Next, we evaluate your current financial standing and develop a detailed plan for meeting your short-term goals.
- Create Financial Plan - Once the short-term goals are addressed, we then develop scenarios for reaching your longer-term goals.
- Plan Implementation - After reviewing and considering your financial plan, we will deliver a step-by-step checklist to put the plan in motion.
- Monitor, Review and Adjust - As time goes on, we update your plan for the inevitable changes that will occur so you stay on track.

For more information on how planning may benefit you and yours, please contact either Montgomery Gossen (montgomery@billeaudcapital.com) or George Holland (george@billeaudcapital.com).