DOUCET ASSET MANAGEMENT, LLC

Quarterly Newsletter
Q3 2012
Doucet Value Momentum Portfolio
Doucet Value Income Portfolio
Bienville Model

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Waiting for that €ureka Moment

"No problem can be solved from the same level of consciousness that created it." - Albert Einstein

While nearly every major stock market in the world is comfortably in negative territory on the year, the S&P 500 is up a respectable 8.43%[1], U.S. bond yields remain at all-time lows and the volatility index (which measures the level of investor fear in the market) has been remarkably, well, non-volatile. The economy of the U.S. is one of the few in the world still showing a pulse, and in fact, it has been the main benefactor of all the economic turmoil in the world, particularly in Europe. Even so, the relatively strong foundation of the U.S. economy can now be seen as cracking under the weight of the euro problems, which have been and continue to be the dominate theme of the world markets. If history is any indication, volatility will likely return, markets will likely move in reminiscent patterns, and patient investors will likely experience values they never thought possible.

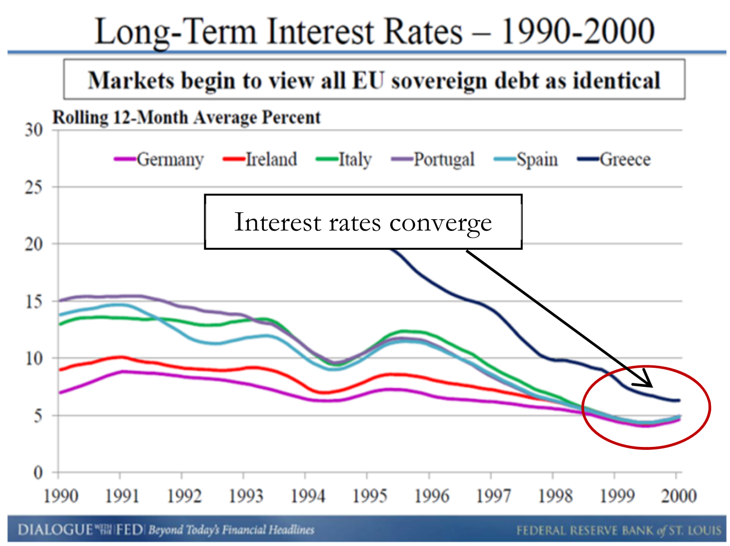
New Age of Monopoly Money

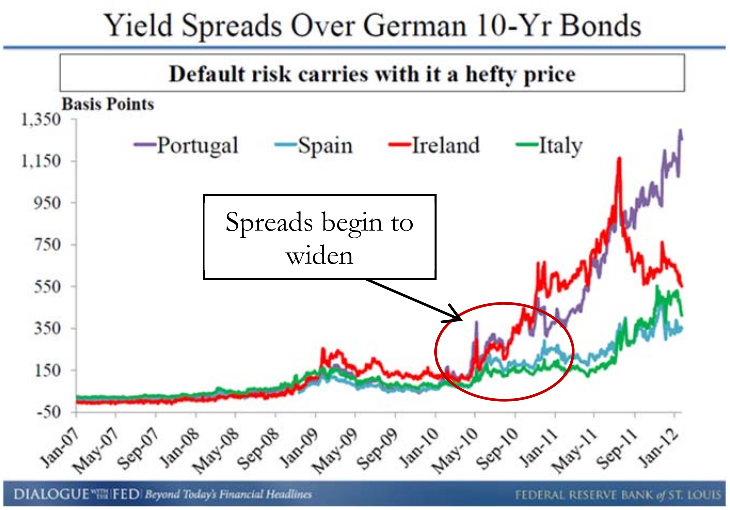
The euro is not the first currency to have a crisis of confidence, nor will it be the last – it is just the latest. A primary purpose of any currency is to simplify dealings between two parties by creating a common measurement in transactions. Despite this primary purpose, the concept and definition of money remains enigmatic. In colonial America, for example, tobacco, beaver pelts and wampum shells were just a few of the early currencies used. These early currencies, however, failed to provide the confidence needed to be stable stores of value. Realizing this, early Americans traded in their cigarettes, fur coats and snail shells over time for coins that were based on the Spanish dollar, also known as the "pieces of eight". Paper money backed by gold, in varying degrees, would ensue, and in 1971, it could be argued that the U.S. permanently exited the gold standard[2] and that the current era of "monopoly" money was born. In essence, America effectively went from the gold standard to the *perception standard*, where the commodity backing its currency (and most currencies around the world today) is information and the perceived strength of the country. While the adoption of this fiat currency allowed our central bankers more flexibility and increased trade efficiency, it also opened a Pandora's box, of sorts, in that it can be a very dangerous game should perception change.

Source: "U.S. Monopoly Money" imgace.com

End of an Era or Beginning of an Error?

Blinded to these dangers by their motivation to avoid future wars, create ease in transactions across borders and break the hegemonic stranglehold of the U.S. dollar, 12 Eurozone countries initially signed the Maastricht Treaty in 1992, thus creating the European Union and the singular fiat currency of the euro.[3] The euro went into circulation in 2002. What followed was an illusion of safety and equality that saw debt spreads between lower quality and higher quality sovereigns dissipate.[4] This illusion, however, was short-lived as the world came to the realization that nothing could be further from the truth and spreads returned to levels not seen since World War II.[4]

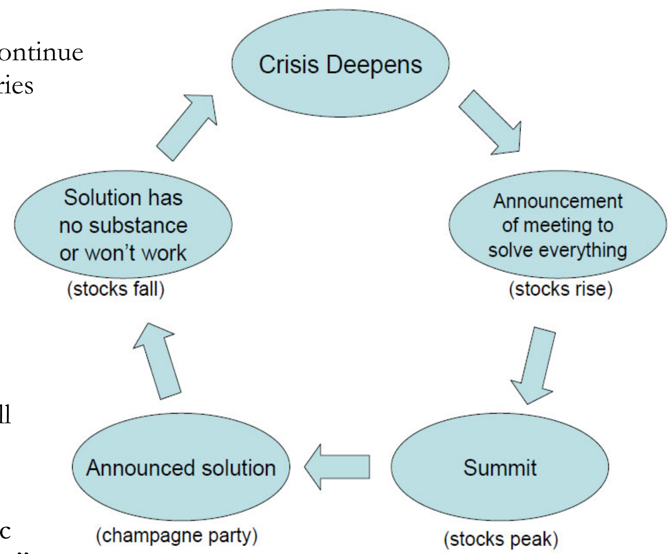




While the ingredients of desire to have a common currency remain in place for much of Europe, the recipe for successful implementation has proven elusive. In some ways, the development of a common currency in the U.S. was just as difficult as uniting the Eurozone nations. Although there was a strong economic will to formalize the relationship among the 13 colonies from the outset, there was a lack of political and legal will to make it work until the Constitution was ratified in 1789, thus creating a centralized federal government. Over the long-term, the EU, too, must have both the political AND economic will for the euro to survive in its current form. This would similarly require a central taxing authority for participant countries and the ability to collectively issue debt on their behalf in order to restructure their obligations. Without this combination of both political and economic will, confidence cannot be restored, perception cannot be changed and the euro simply cannot function as an effective fiat currency.

A Vicious Cycle

If left unchanged, it is likely that bailouts for weaker EU countries will continue to be reluctantly funded by stronger ones, defaults among weaker countries will ultimately follow, economic weakness will spread to stronger EU economies and the world economic recovery will continue to stall. Europe, and now the rest of the world, will likely continue to be caught in a negative feedback loop. Bailouts to profligate countries are given, world markets rally for a time, those countries cannot or will not live up to the strings attached to the loans and bank runs occur where massive transfers of savings go from banks in weaker economic countries to those that are perceived to be stronger. To date, there have been 19 crisis summits attempting to resolve the inherent problems of the euro, each unsuccessful. Hopefully, the 20th summit will be the charm and produce the long awaited *€ureka moment* the markets have been craving.

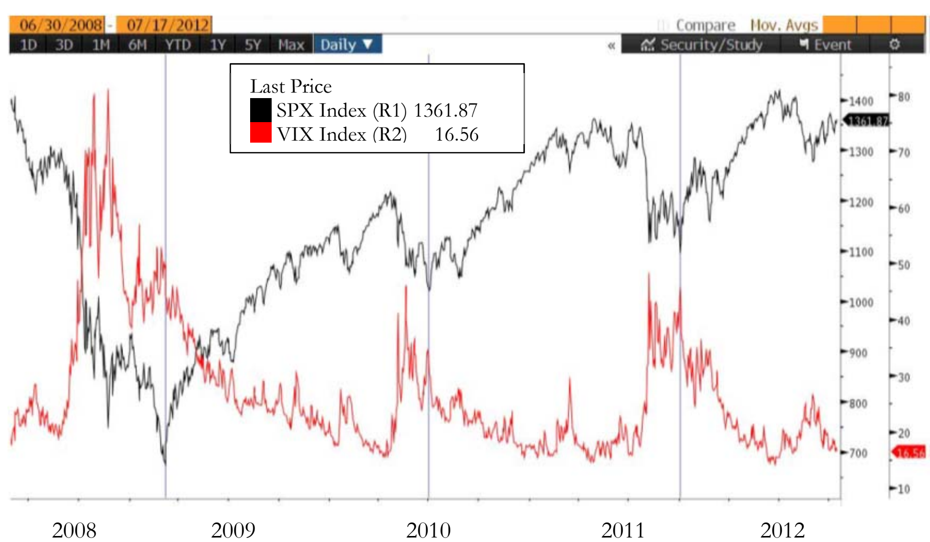


Source: David Einhorn via Valueline.com

In addition to the long-term necessity of finding a political and economic common ground among Eurozone countries, the "path of least resistance" and short-term reality is likely to be a significant devaluation of the euro through printing by the European Central Bank. If and when this does occur, it could be the buying opportunity of a lifetime. While European stocks are already the cheapest they've been, relative to U.S. shares, in 40 years, a devaluation of this magnitude could make cheap European markets, as well as domestic markets, even cheaper.

Is 2012 Déjà Vu All Over Again?

Despite the seeming gloom and doom in Europe and many other parts of the world, domestic investment patterns over the past three years have been much like "déjà vu all over again", as the great Yogi Berra once said. So far, 2012 has been a sequel to 2010 and 2011. The old adage "sell in May and go away" (or the Halloween Effect) has proven itself to be good investment advice over the past three years. Deteriorating fundamentals domestically and abroad coupled with uncertainty regarding the resolution of the euro crisis have combined to dampen spirits in the markets. The chart displaying the performance of the S&P 500 index (SPX) and



Source: Bloomberg

the volatility index (VIX) gives the appearance that investors are complacent and somehow the U.S. is insulated from world events. We believe this perception may be short-lived. Ultimately, at the end of the day, what markets crave most is certainty. In its absence, they soften.

We, at Doucet Asset Management, have managed to avoid the slipperiest of investor slopes where investors and managers trade because they feel like they have to and not because of any conviction. For this reason, the cash position in our portfolios has grown to levels we have not experienced in years. Light trading volume, low volatility and anemic market performance support the thesis that sometimes the best course of action when investing is to do nothing. While the list of stocks coming into our buy ranges based on fundamentals is increasing daily, especially in sectors like energy, mining, and consumer cyclical stocks, investing en masse today would be tantamount to paddling against the surf. While there may very well not be a single catastrophic event to push the markets over the cliff, death by a thousand cuts leads to the same outcome, only slower. Just because something is cheap does not mean it will not be cheaper tomorrow. Opportunity cost is as real as cost-cost. Patience is a virtue in all walks of life, and investing is no exception. Cash, after all, is an investment too, although we'd rather have ours in dollars than in euros for the time being.

Sincerely,

Chris L. Doucet
Chief Executive Officer

Footnotes

[1] S&P 500 Price Return for 2012 YTD period as of 07/17/2012 (http://www.standardandpoors.com/indices/sp-500/en/us/?indexId=spusa-500-usduf--p-us-l--)

[2] Nathan K. Lewis, *Gold: The Once and Future Money* (Wiley, May 4, 2007)

[3] Clive Crook, "Who Lost the Euro?,"Bloomberg Businessweek, May 24, 2012 (http://www.businessweek.com/articles/2012-05-24/who-lost-the-euro)

[4] Dr. Christopher Waller, *Sovereign Debt: A Modern Greek Tragedy* (Dialogue with the Fed Presentation, 05/08/2012) http://www.stlouisfed.org/banking/pdf/DWTF-5-8-2012.pdf

Admin Notes

- Form ADV: Please contact our office at (205) 414-9788 if you would like to receive a current copy of our Form ADV II or the Schedule H Brochure.
- Proxy Solicitations: If you receive calls regarding proxy voting, we suggest that you inform the caller that you have delegated Doucet Asset Management full authority to vote the proxy on your behalf. Please note that we are not able to prevent these calls from being placed to you directly.

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