



Investing Insight

2013 Investment Overview

U.S. stocks enjoyed strong gains in the third quarter. Gains were strongest in the NASDAQ Composite +10.82% for the third quarter and 24.90% year to date. Small stocks as measured by the Russell 2000 out-performed the Large S&P 500 for the quarter 10.21% versus 5.24% respectively and 27.69% versus 19.79% year to date.

For the bond market in 2013 it depends greatly on the structure to determine if you have negative returns. DFA, in our portfolios, continues to hold high-quality short-term bonds which the Barclays 1-3 year Government Index is +0.29% for the quarter and (-0.30%) for the year. Yet the year to date for the following long term U.S. Treasuries (-9.79%), TIPS (-6.74%), U.S. Corporate Bonds (-2.62%) and Internal Government Bonds (-3.26%), have experienced disappointing results.

Europe's emergence from recession and China's better than expected economic activity boosted markets to strong double digit gains. The only negative component, Emerging Markets, rallied more than 5% in September alone and could continue as currencies continue to stabilize. The EAFE alone posted a quarterly gain of 11.6%. Year-to-date EAFE Value is up 15.71% and EAFE Small Cap is up 19.67%

Do Government Shutdowns IMPACT the Stock Market?

Are you wondering what it means when the government is "shutdown"? [And, perhaps, it would be more accurate to say "slowed down" because the federal government is clearly very much in operation still today.]

Here is a very SIMPLE explanation: the Senate and the House cannot agree on an approved budget. This results in a furlough of civilian government employees until an approved budget is passed.

Do these period government shutdowns [we have endured 17 or so since 1976] impact the U.S. Stock Market negatively?

In light of fear-inspiring headlines, some investors who follow the advice of Wall Street pundits may be tempted to abandon their long-term investment strategies. But, as always, following pundits, gurus and the herd isn't on the list of high probability, informed investor actions to take.

So, here is a history of government shutdowns and the reasoning behind them. I have also included the subsequent, five-year U.S. market returns, as measured by the Dow Jones Industrial Average, that closely follow the dates of the government shutdown dates.

September 30—October 11, 1976 (10 days)

Citing out of control spending, President Gerald Ford vetoed a funding bill for the United States Department of Labor and the United States Department of Health, Education and Welfare (HEW), leading to a partial government shutdown. On October 1, the Democratically-controlled Congress overrode Ford's veto but it took until October 11 for a continuing resolution ending funding gaps for other parts of government to become law.

Dow Jones U.S. Total Stock Market Index Return: **10.81%** (October 1976-September 1981)

September 30—October 13, 1977 (12 days)

The Democratically-controlled House continued to uphold the ban on using Medicaid dollars to pay for abortions, except in cases where the life of the mother was at stake. Meanwhile, the Democratic-controlled Senate pressed to loosen the ban to allow abortion funding in the case of rape or incest. A funding gap was created when disagreement over the issue between the houses had become tied to funding for the Departments of Labor and HEW, leading to a partial government shutdown. A temporary agreement was made to restore funding through October 31, 1977, allowing more time for Congress to resolve its dispute. *(Continued on page 3.....)*

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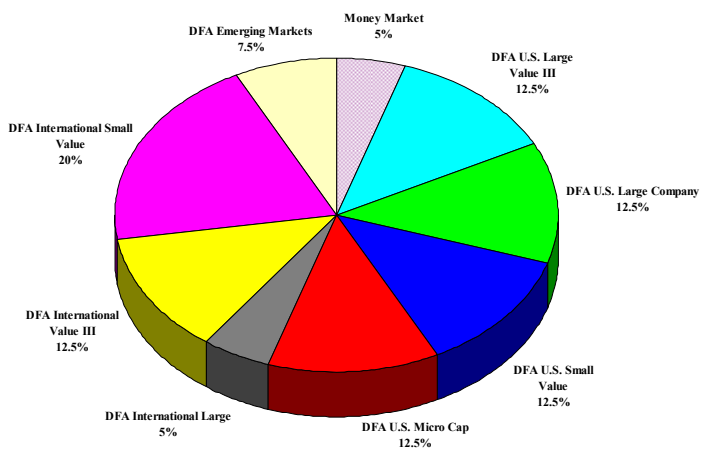
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Portfolio Returns: January 1, 2013—September 30, 2013*

AGGRESSIVE GROWTH

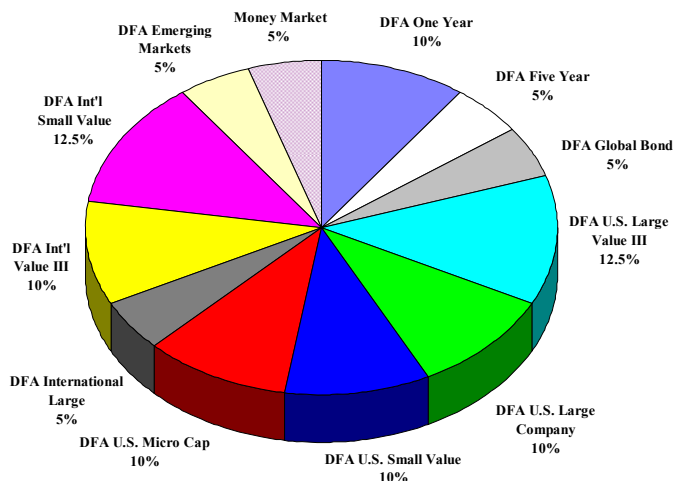
95% Equities/5% Fixed



Rate of Return 18.86%

LONG TERM GROWTH

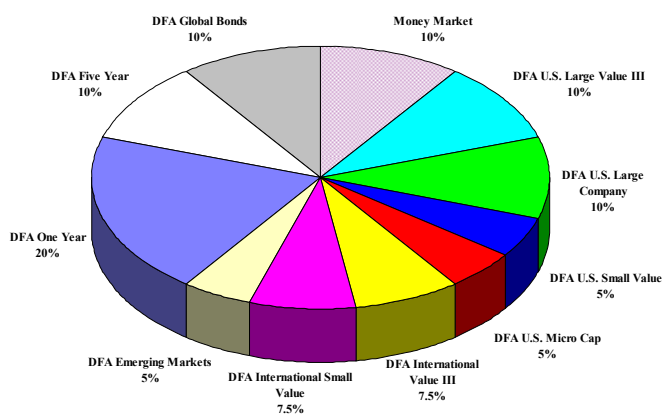
75% Equities/25% Fixed



Rate of Return 14.65%

BALANCED GROWTH

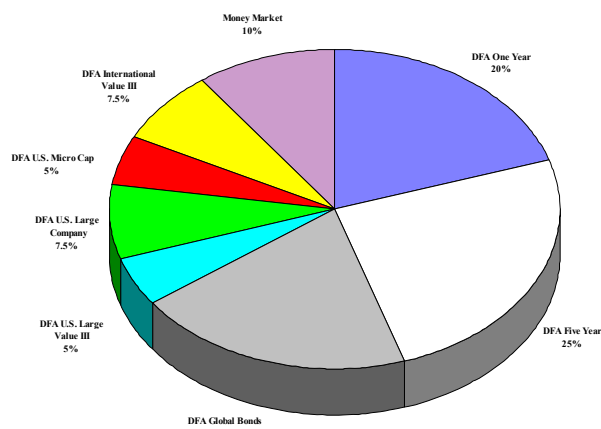
50% Equities/50% Fixed



Rate of Return 8.51%

INCOME & GROWTH

25% Equities/75% Fixed



Rate of Return 3.95%

*Individual returns may vary slightly based upon assets, size and fees charged.

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Dow Jones U.S. Total Stock Market Index Return: **12.32%** (October 1977-September 1982)

October 31—November 9, 1977 (8 days)

The earlier temporary funding agreement expired. President Jimmy Carter signed a second funding agreement to allow for more time for negotiation.

Dow Jones U.S. Total Stock Market Index Return: **15.73%** (November 1977-October 1982)

November 30—December 9, 1977 (8 days)

The second temporary funding agreement expired, The House held firm against the Senate in its effort to ban Medicaid paying for the abortions of victims of statutory rape. A deal was eventually struck which allowed Medicaid to pay for abortions in cases resulting from rape, incest, or in which the mother's health is at risk.

Dow Jones U.S. Total Stock Market Index Return: **15.83%** (December 1977-November 1982)

September 30—October 18, 1978 (18 days)

Deeming them wasteful, President Carter vetoed a public works appropriations bill and a defense bill including funding for a nuclear-powered aircraft carrier. Spending for the Department of HEW was also delayed over additional disputes concerning Medicaid funding for abortion.

Dow Jones U.S. Total Stock Market Index Return: **17.57%** (October 1978-September 1983)

September 30—October 12, 1979 (11 days)

Against the opposition of the Senate, the House pushed for a 5.5% pay increase for congress members and senior civil servants. The House also sought to restrict federal spending on abortion only to cases where the mother's life is in danger, while the Senate wanted to maintain funding for abortions in cases of rape and incest.

Dow Jones U.S. Total Stock Market Index Return: **14.19%** (October 1979-September 1984)

November 20—November 23, 1981 (2 days)

President Ronald Reagan pledged that he would veto any spending bill that failed to

include at least half of the \$8.4 billion in domestic budget cuts that he proposed. Although the Republican-controlled Senate passed a bill that met his specifications, the Democratically-controlled House insisted on large cuts to defense than Reagan wanted and for congressional and civil servant pay raises. A compromise bill fell \$2 billion short of the cuts Reagan wanted, so Reagan vetoed the bill and shut down the federal government. A temporary bill restored spending through December 15 and gave Congress the time to work out a more lasting deal.

Dow Jones U.S. Total Stock Market Index Return: **19.01%** (December 1981-November 1986)

September 30—October 2, 1982 (1 day)

Congress passed the required spending bills a day late.

Dow Jones U.S. Total Stock Market Index Return: **25.32%** (October 1982-September 1987)

December 17—December 21, 1982 (3 days)

The Democratically controlled House and Republican controlled Senate wished to fund jobs, but President Reagan vowed to veto any such legislation. The House also opposed plans to fund the MX missile. The shutdown ended after Congress abandoned their jobs plan, but Reagan was forced to yield on funding for both the MX and Pershing II missiles. He also accepted funding for the Legal Services Corporation, which he wanted abolished, in exchange for higher foreign aid to Israel.

Dow Jones U.S. Total Stock Market Index Return: **13.60%** (December 1982-November 1987)

November 10—November 14, 1983 (3 days)

The Democratically-controlled House increased education funding, but cut defense and foreign aid spending, which led to a dispute with President Reagan. Eventually, the House reduced their proposed education funding, and also accepted funding for the MX missile.

However, the foreign aid and defense cuts remained, and oil and gas leasing was banned in federal wildlife refuges. Abortion was also prohibited for being paid for with government employee health insurance. (continued on page 4.....)

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Meeting Expectations

All DFA portfolios are designed to deliver "market rates of return." DFA is not trying to "beat" the market by employing crystal ball type strategies, only working to achieve market returns, historically outpacing 90% of the active managers who attempt to beat the market.

To evaluate your portfolio, it is helpful to look at the various DFA funds and **compare them** to the specific markets in which they are invested:

	09/30/13 Return*
DFA U.S. Large Co. S&P 500 Index	19.74% 19.79%
DFA U.S. Large Value S&P 500 Value	25.08% 20.18%
DFA U.S. Micro Cap Russell 2000	30.36% 27.69%
DFA U.S. Small Value Russell 2000 Value	27.44% 23.07%
DFA Emerging Markets MSCI Emerging Market Idx	-4.88% -6.42%
DFA Int'l Large Company MSCI EAFE Large Co Idx	14.16% 13.36%
DFA Int'l Large Value MSCI EAFE V value	16.28% 15.71%
DFA Int'l Small Value MSCI EAFE Sm Cap Index	22.79% 19.67%
DFA One Yr. Gov't Bond BarCap 1-3 Yr. Gov't	0.33% 0.30%
DFA Short-Term Gov't Bond BarCap 1-5 Yr. Gov't	-0.42% -0.06%
DFA 5 Yr. Global Bond Citi World Bond Index	-0.33% -2.94%

*Morningstar 09/30/13

Dow Jones U.S. Total Stock Market Index Return: 14.15% (November 1983-October 1988)

September 30—October 3, 1984 (2 days)

The House wished to link the budget to both a crime-fighting package President Reagan supported and a water projects package he did not. The Senate additionally tied the budget to a civil rights measure designed to overturn *Grove City v. Bell*. Reagan proposed a compromise where he abandoned his crime package in exchange for Congress dropping theirs. A deal was not struck, and a three-day spending extension was passed instead.

Dow Jones U.S. Total Stock Market Index Return: 19.29% (October 1984-September 1988)

October 3—October 5, 1984 (1 day)

The three-day spending extension expired forcing a shutdown. Congress dropped their proposed water and civil rights packages, while President Reagan kept his crime package. Funding for aid to the Nicaraguan Contras was also passed.

Dow Jones U.S. Total Stock Market Index Return: 19.29% (October 1984-September 1988)

October 16—October 18, 1986 (1 day)

A dispute over multiple issues between the Democratic-controlled House dropped many of their demands in exchange for a vote on their welfare package, and a concession of the sale of then-government-owned Conrail.

Dow Jones U.S. Total Stock Market Index Return: 13.41% (October 1986-September 1991)

December 18—December 20, 1987 (1 day)

Democrats, who now controlled both the House and the Senate, opposed funding for the Contras and wanted the Federal Communications Commission to begin reinforcing the "Fairness Doctrine." They yielded on the "Fairness Doctrine" in exchange for non-lethal aid to the Contras.

Dow Jones U.S. Total Stock Market Index Return: 15.11% (January 1988-December 1993)

October 5—October 9, 1990 (4 days)

President George H. W. Bush vowed to veto any continuing resolution that was not paired with a deficit reduction package and did so when one reached his desk. The House failed to override his veto before a shutdown occurred. Congress then passed a continuing resolution with a deficit reduction package that Bush signed to end the shutdown.

Dow Jones U.S. Total Stock Market Index Return: 18.13% (October 1990-September 1995)

November 13—November 19, 1995 (5 days)

In the shutdown of 1995 and 1996 President Bill Clinton vetoed a continuing resolution passed by the Republican-controlled Congress. A deal was reached allowing for 75% funding for four weeks, and Clinton agreed to a seven-year timetable for a balanced budget.

Dow Jones U.S. Total Stock Market Index Return: 20.11% (November 1995-October 2000)

December 15, 1995—January 6, 1996 (21 days)

Subsequently the Republicans demanded President Clinton propose a budget with the seven-year timetable using Congressional Budget Office numbers, rather than Clinton's Office of Management and Budget numbers. However, Clinton refused. Eventually, Congress and Clinton agreed to pass a compromise budget.

Dow Jones U.S. Total Stock Market Index Return: 16.65% (December 1995-November 2000)

September 30, 2013—October 16, 2013 (16 days)

Due to disagreement regarding inclusion of language delaying the Affordable Care Act, [11] the Government has not passed a funding bill. Negotiations have come to a stop and the United States federal government shutdown of 2013 is in progress.

What are we to conclude from the above information? Does this indicate markets will always go up following such an incident? Hardly.

But, as the government battles over budgets, staying the course and ignoring the hype may be as important as ever. One thing this history of government shutdowns may predict is that this won't be the last one we will witness. Budget will be bickered about by political parties and investors who systematically rebalance are in the best position to be rewarded when what's going on in Washington D.C. creates temporary price volatility.

Perhaps the good news is: while there was a shutdown, at least they were not spending (as much).

Source: Dow Jones U.S. Total Stock Market Index returns data provided by Morningstar Principia.

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