LYKE
Financial Inc.

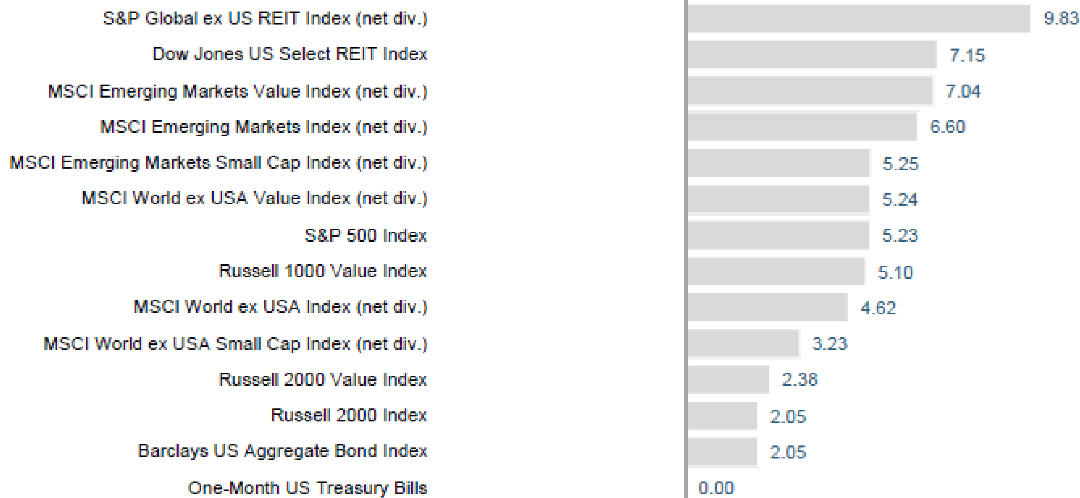
Investing Insight

LYKE FINANCIAL, INC.

World Asset Classes

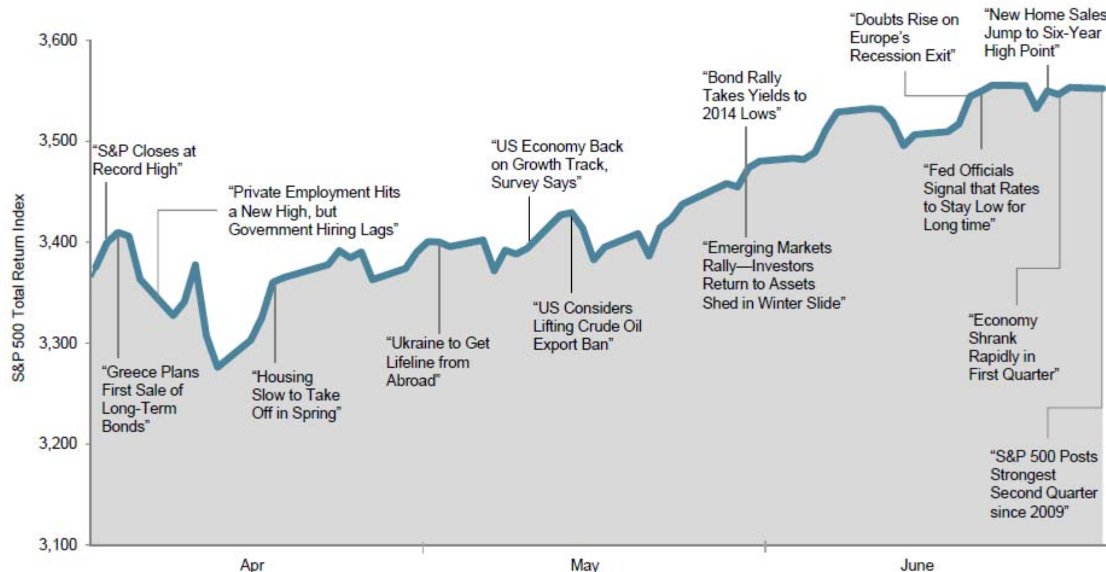
Second Quarter 2014 Index Returns

Equity markets posted positive performance for the quarter-led by emerging markets. This was the first quarterly period in which emerging markets had outperformed developed markets since the third quarter of 2012. REITs both in the US and in developed non-US markets outperformed equities. Large cap indices outperformed small cap indices in the developed and emerging markets, including the US. In general, value outperformed growth indices, though performance was mixed within size ranges and regions.



US Stock Market Performance

S&P 500 Index with Selected Headlines from Q2 2014



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a longer-term perspective and avoid making investment decisions based solely on the news.

Returns in US dollars. Graph Source: The S&P data are provided by Standard & Poor's Index Services Group.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

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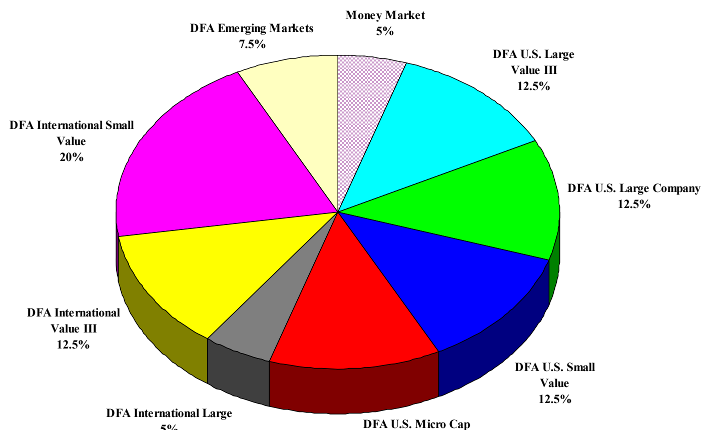
Portfolio Returns:
January 1, 2014—June 30, 2014*

AGGRESSIVE GROWTH

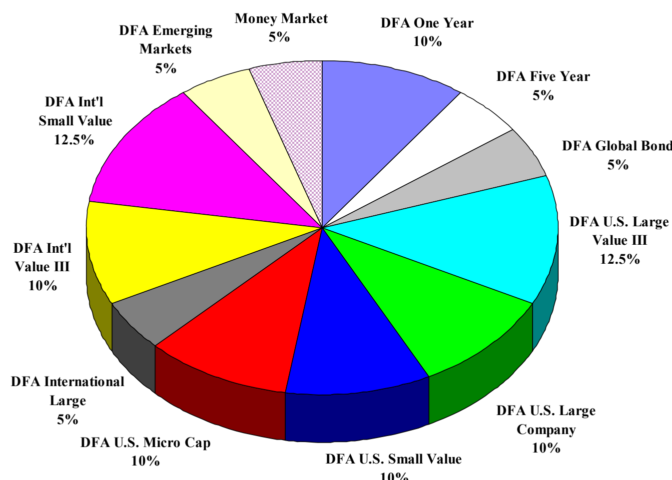
95% Equities/5% Fixed



Rate of Return 4.94%

LONG TERM GROWTH

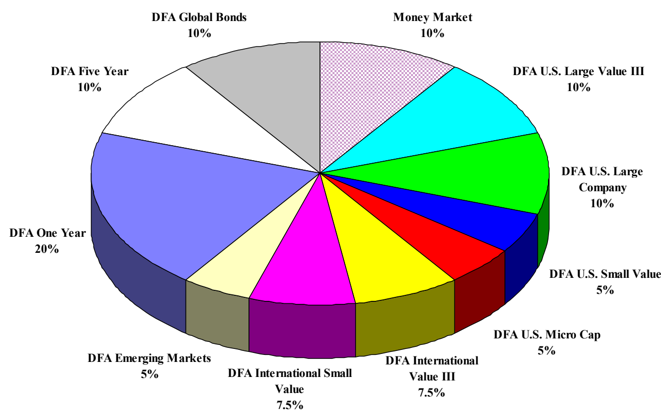
75% Equities/25% Fixed



Rate of Return 4.04%

BALANCED GROWTH

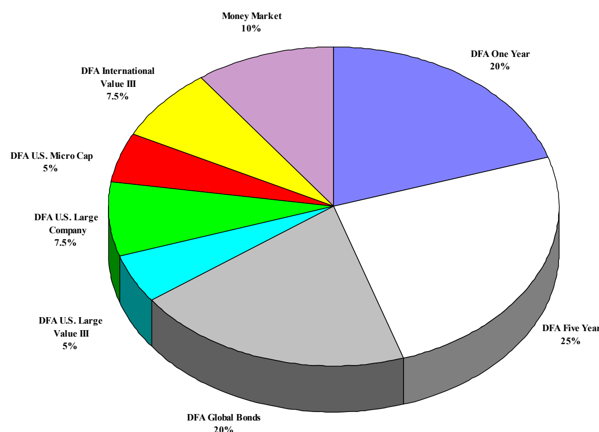
50% Equities/50% Fixed



Rate of Return 2.50%

INCOME & GROWTH

25% Equities/75% Fixed



Rate of Return 1.61%

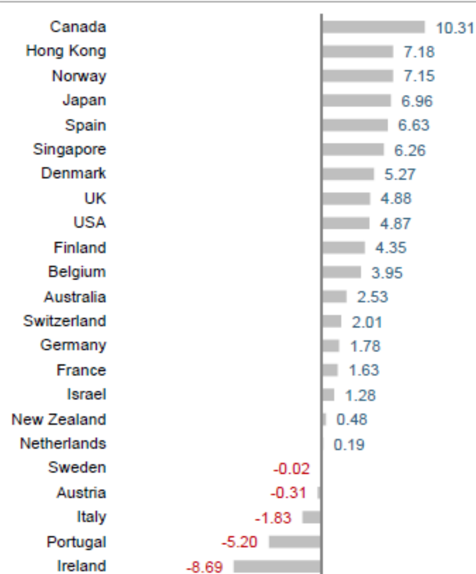
*Individual returns may vary slightly based upon assets, size and fees charged, performance shown is net of fees. Performance shown reflects the reinvestment of dividends and other earnings. The returns shown represent past performance and are not indicators of future results.

Select Country Performance

Second Quarter 2014 Index Returns

Canada recorded the highest performance in developed markets, followed by Hong Kong. In a reversal from the previous quarter, Italy and Ireland recorded some of the lowest returns in developed markets.

Developed Markets Returns (%)



The Certainty Principle

A frequent complaint from would-be investors is that "uncertainty" is what keeps them out of the financial markets. "I'll stay in cash until the direction becomes clearer," they will say. So when has there ever been total clarity?

Alternatively, people who are already in the market after a strong rally, as well have been in recent years, nervously eye media commentary about possible pullbacks and say, "Maybe now is a good time to move to the sidelines."

While these kneejerk, emotion-driven swings in asset allocation based on market and media commentary are understandable, they are also unnecessary. Strategic rebalancing provides a solution, which we will explain in a moment.

But first, think back to March 2009. With equity markets deep into an 18-month bear phase, the Associated Press provided its readers with five signs the stock market had bottomed out and followed that up with five signs that it hadn't.[1]

The case for a turn was convincing. Volumes were up, the slide in the US economy appeared to be slowing, banks were returning to profitability, commodity prices had bounced, and many retail investors had capitulated and gone to cash.

But there also was a case for more pain. Toxic assets still weighed on banks' balance sheets, economic signals were patchy, short-covering was driving rallies, the Madoff scandal had knocked confidence, and fear was still widespread.

Of course, with the benefit of hindsight, that month did mark the bottom of the bear market. In the intervening period of just over five years, major equity indices have rebounded to all-time or multi-year highs.

Exhibit 1 on page 4 shows the cumulative performance of major indices in the 18 months or so of the bear market from November 2007 and then the cumulative performance in the subsequent recovery period.

You can see there have been substantial gains across the board since the market

Continued on back…………

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:

	01/01/14 through 06/30/14 Return*
DFA U.S. Large Co.	**7.04%**
S&P 500 Index	7.14%
DFA U.S. Large Value	**7.39%**
S&P 500 Value	6.96%
DFA U.S. Micro Cap	**1.46%**
Russell 2000	3.19%
DFA U.S. Small Value	**4.53%**
Russell 2000 Value	4.20%
DFA Emerging Markets	**6.55%**
MSCI Emerging Market Idx	6.14%
DFA Int'l Large Company	**5.39%**
MSCI EAFE Large Co Idx	4.78%
DFA Int'l Large Value	**5.28%**
MSCI EAFE Value	6.01%
DFA Int'l Small Value	**8.16%**
MSCI EAFE Sm Cap Index	4.16%
DFA One Yr. Gov't Bond	**0.21%**
BarCap 1-3 Yr. Gov't	0.42%
DFA Short-Term Gov't Bond	**0.85%**
BarCap 1-5 Yr. Gov't	0.77%
DFA 5 Yr. Global Bond	**1.97%**
Citi World Bond Index	5.00%

**Morningstar 06/30/14*

Exhibit 1 MARKET PERFORMANCE: FINANCIAL CRISIS AND POST-CRISIS
Returns (USD %)

	11/2007–02/2009	03/2009–05/2014	11/2007–05/2014	11/2007–05/2014
	Cumulative	Cumulative	Cumulative	Annualized
MSCI World Value	-54.38%	157.24%	17.34%	2.49%
Russell 2000 Index	-48.34%	213.33%	61.87%	7.69%
MSCI World Small Cap	-52.80%	217.93%	50.07%	6.44%
MSCI World IMI	-52.03%	163.11%	26.22%	3.65%

Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

bottom. And while annualized performance over the six-and-a-half years from November 2007 is not impressive, there has been a lot less pain for those who did not bail out in March 2009.

So those who got out of the market at the peak of the crisis and waited for "certainty" may have realized substantial losses.

But keep in mind that these past five years of recovery in equity markets have also been marked by period of major uncertainty.

In 2011, Europe was gripped by a sovereign debt crisis. Across the Atlantic, Washington has been hit by periodic brinksmanship over the US debt ceiling. In Asia, China has grappled with the transition from export-led to domestic-driven growth.

Around any of these events, there was a broad range of views about likely outcomes and how these possible scenarios might impact financial markets. The big question for the rest of us is what to do with all this commentary.

The fact is, even the professionals struggle to consistently add value using analysis of macroeconomic events, as we see repeatedly in surveys of fund-versus-index returns. And history suggests that those looking for "certainty" around such events before investing could be setting themselves up for a long wait.

There is always something to fret about. Recently, the focus has been on low volatility, particularly when compared to 2008-09. Sage articles muse over whether risk is being appropriately priced and whether volatility is being unnaturally suppressed by central banks' explicit forward guidance about policy.[2]

Just as in March 2009, one does not have to look far to find well-reasoned discussion in support of why the market has topped out, alongside equally compelling reasons of why the rally might continue for some time.

What is the average investor supposed to make of all this conjecture? One way is to debate the market implications of news and to try to anticipate what might happen next. But whom do you believe? We've seen there are always cogent-sounding arguments for multiple scenarios.

An alternative approach is much simpler. **It begins by accepting the market price as a fair reflection of the collective opinions of millions of market participants.** So rather than betting against the market, you work with the market.

That means building a diversified portfolio around the known dimensions of expected returns according to your own needs and risk appetite, not according to the opinions of media and market pundits about what will happen next month or next week.

It also means staying disciplined within that chosen asset allocation and regularly rebalancing your portfolio. Under this approach, shares are typically sold after a solid run-up in the market. The trigger for rebalancing is not media speculation but the need to retain your desired asset allocation.

Say you have chosen an allocation of 60% of your portfolio in equities and 40% in fixed income. A year goes by and your equity allocation has rallied strongly so that the balance between the two has shifted to 70%/30%. In this case, it makes absolute sense to take some money out of shares and move it to bonds or cash.

It works the other way, too, so that if shares have fallen in relation to bonds, you can take some money out of fixed income cash and buy shares. **Essentially, this means buying low and selling high.** But you are doing so based on your own needs, rather than on what the armies of pundits say will happen in the market next.

Of course, this doesn't mean you can't take an interest in global events. But it does spare you from basing your long-term investment strategy on the illusion that somewhere, at some time, "certainty" will return.

Dimensional Fund Advisors, Inc. Outside the Flags, Jim Parker, Vice President

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[1] "Five Signs the Stock Market Has Bottomed Out and Five Signs It Hasn't." Associated Press, March 15, 2009.

[2] "When Moderation is No Virtue," *Economists*, May 22, 2009.

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