LYKE Financial Inc.

Investing Insight

LYKE FINANCIAL, INC.

Why You Want To Own International Stocks, Even Though The US Market Did Far Better

If you've been paying attention to market statistics for calendar year 2014, you're aware that domestic stocks have had a banner year. The U.S. S&P 500 Index enjoyed an annual return of more than 13% and if you're looking at account statements, you're also seeing that the major non-U.S. (international) indexes, such as the MSCI EAFE Index and the MSCI Emerging Markets Indexes, actually ended with negative returns for the same period.

This short-term figure is even more remarkable when you consider the S&P 500 Index was actually down about 5% within the first 22 trading days of 2014! It would be interesting to rewind back to February 3, 2014 and take a survey about how much S&P 500 you think should be in your portfolio then.

As an informed investor whose diversified portfolio includes stocks represented both kinds of indexes, it's only natural for you to wonder why you shouldn't move more of your money into U.S. asset classes for 2015. After all, if the S&P 500 only does half as well this year, you'd come out way ahead. Right?

If only real-life markets were that simple.

Academic studies have demonstrated that actively moving money into sectors or countries because of their recent performance typically results in long-term returns significantly below the performance of the market as a whole.

Since no one can predict which asset classes will move in which direction in a given time period, the smartest thing you can do is own the whole market in weightings that tilt towards implied market premiums and rebalance when the weightings get too far away from their targets.

On the surface, it seems counterintuitive to hold pat while somebody else seems to making a mint. But moving more of your money into asset classes that had a great run last year is wrong for three very concrete reasons.

1. **Your most reliable long-term return will come through diversification**. This means you own, on purpose, investments designed NOT to go the same direction at the same time and velocity. That means, in shorter time periods, some of what you own may actually move in opposite directions to other investments in your portfolio. This is the rationale behind the classic stocks and bonds mix. And why you should own both U.S. and non-U.S. stocks represented by much more than just the 500 largest stocks in America.

Think of them as parts of an engine. At any given moment they all won't be moving in the direction you want to travel, but over time their combined output is what will get you where you want to go.

2. **Your investments will give you a better return when you make decisions based on a longer time frame.** Put another way, **acting on short-term data is most likely to cost you money**. Preachers and philosophers have long said that patience is a virtue. They are now joined by Nobel laureates in Economics. Research continues to confirm that an investor who chooses a prudent plan and doesn't deviate from it will be more likely to capture market rates of return in the long run.

Of course, being prudent isn't always easy. It feels better to act on new information. "Taking action" feeds our psychological need to be "doing something." Perhaps that's why patience is such a prized virtue, and so rare.

Once again, the long run isn't 12 calendar months. Or even 5 years. If your portfolio has more than half of its assets allocated to stocks, you should think about time periods closer to 10 years and beyond.

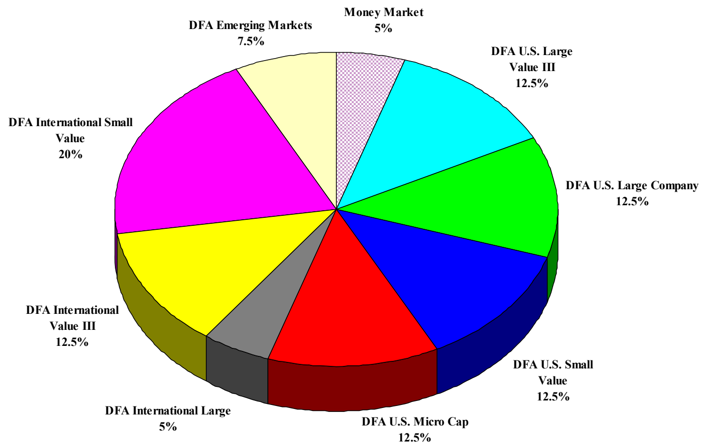
3. **The market is truly unpredictable.** Research has also shown that not just individual stocks but entire asset classes move in mathematically random ways that rival quantum uncertainty. Anybody who correctly picks a stock or sector's short term performance has gotten lucky. There's an entire book industry based on people who claim they can predict when the *(continued on page 3……..)*

Inside this issue:

Portfolio Returns:
January 1, 2014—December 31, 2014*

AGGRESSIVE GROWTH

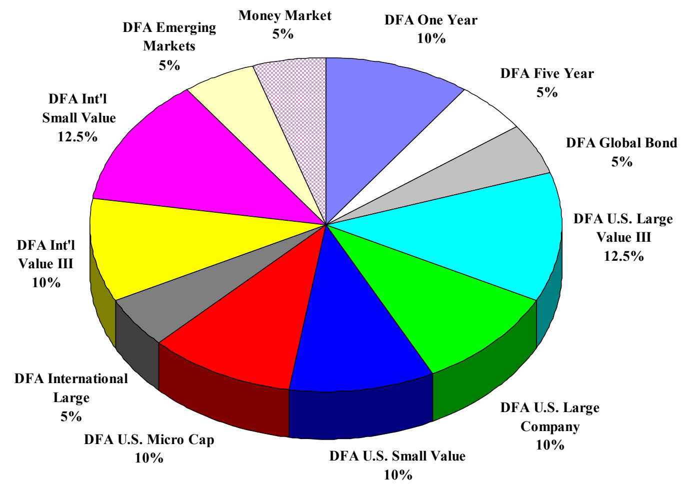
95% Equities/5% Fixed



Rate of Return 0.18%

LONG TERM GROWTH

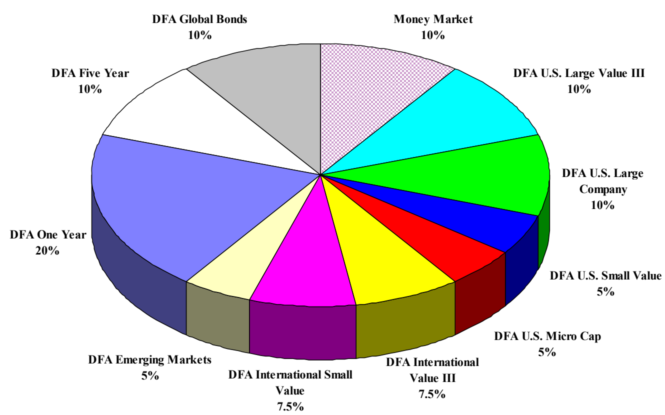
75% Equities/25% Fixed



Rate of Return 0.38%

BALANCED GROWTH

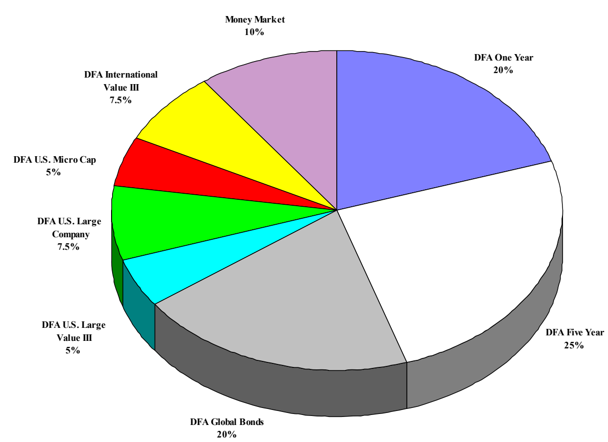
50% Equities/50% Fixed



Rate of Return 0.34%

INCOME & GROWTH

25% Equities/75% Fixed



Rate of Return 0.20%

*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.

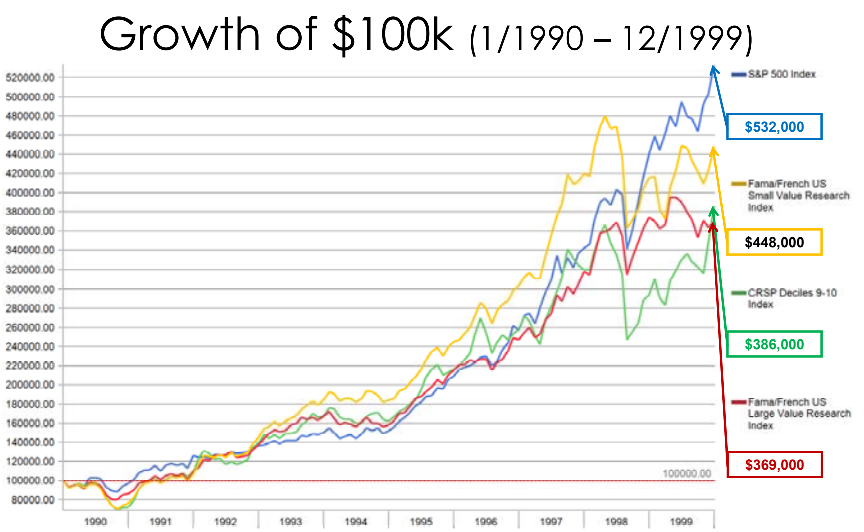
(continued from page 1)

market will crash. At the same time there's an even more lucrative investing segment (lucrative for the pundits) based on people who claim they can predict which financial instruments will soar. **You shouldn't listen to either one**.

Last year's S&P 500 performance is only true for last (calendar) year. Nobody knows what will return this year. **But you can help dampen the risk of this unpredictability by surrounding it with diversification.**

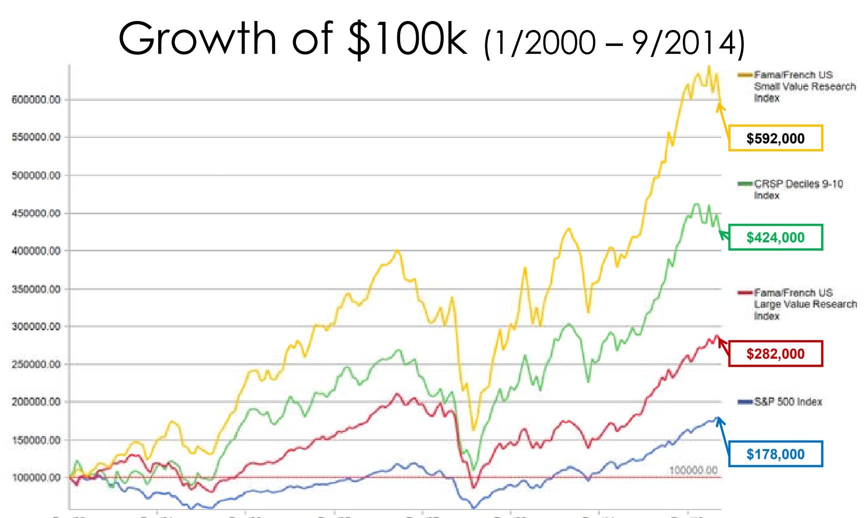
Finally, when we see how well our U.S. markets did versus the rest of the world, we feel a little bit of pride. Perhaps justifiably so. We have a great county. We have hard working people. Our kids are all above average. We have every reason to feel patriotic.

But this bias in favor of the "home team" can lure us away from healthy diversification. Your broad portfolio participated in the gains made by the U.S. indexes. If those indexes don't perform as well in the future, you will be protected by your participation in other indexes around the globe. Looking back you can see this phenomenon clearly in years such as 2004, 2005, 2006, 2007 and 2009.



The indices referenced above are described more fully in the endnotes. This chart is for illustrative purposes only. Indices are unmanaged, cannot be invested in directly and their returns do not represent the performance of any actual fund or transactions and do not include management fees, transaction costs or expenses. Past performance is no guarantee of future success.

Specifically in the 90's (1/1/1990 to 12/31/1999) the S&P 500 Index performed the best.



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Although over the next 14 years the S&P 500 performed near the bottom.

Meeting Expectations

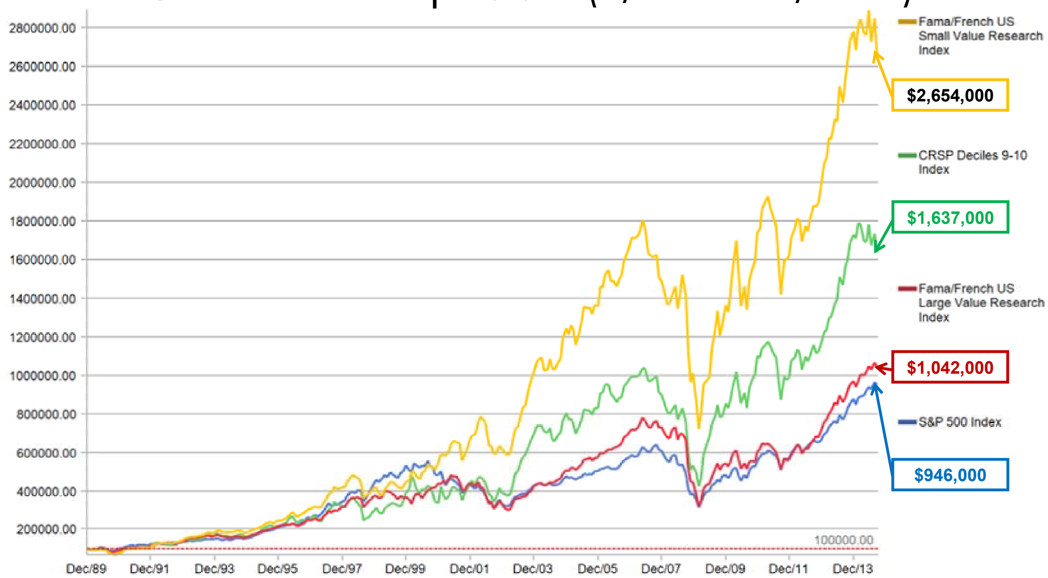
All DFA portfolios are designed to deliver "market rates of return." DFA is not trying to "beat" the market by employing crystal ball type strategies, only working to achieve market returns, historically outpacing 90% of the active managers who attempt to beat the market.

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 12/31/14 Return*
DFA U.S. Large Co.	**13.53%**
S&P 500 Index	13.69%
DFA U.S. Large Value	**10.19%**
Russell 1000 Value	13.45%
DFA U.S. Micro Cap	**2.92%**
Russell 2000	4.89%
DFA U.S. Small Value	**3.48%**
Russell 2000 Value	4.22%
DFA Emerging Markets	**-1.71%**
MSCI Emerging Market Idx	-1.82%
DFA Int'l Large Company	**-5.24%**
MSCI EAFE Large Co Idx	-4.48%
DFA Int'l Large Value	**-6.83%**
MSCI EAFE Value	-4.92%
DFA Int'l Small Value	**-4.99%**
MSCI EAFE Sm Cap Index	-4.63%
DFA One Yr. Gov't Bond	**0.26%**
BarCap 1-3 Yr. Gov't	0.92%
DFA Short-Term Gov't Bond	**1.25%**
BarCap 1-5 Yr. Gov't	1.58%
DFA 5 Yr. Global Bond	**2.87%**
Citi World Bond Index	1.90%

**Morningstar 12/31/14*

Growth of $100k (1/1990 – 9/2014)



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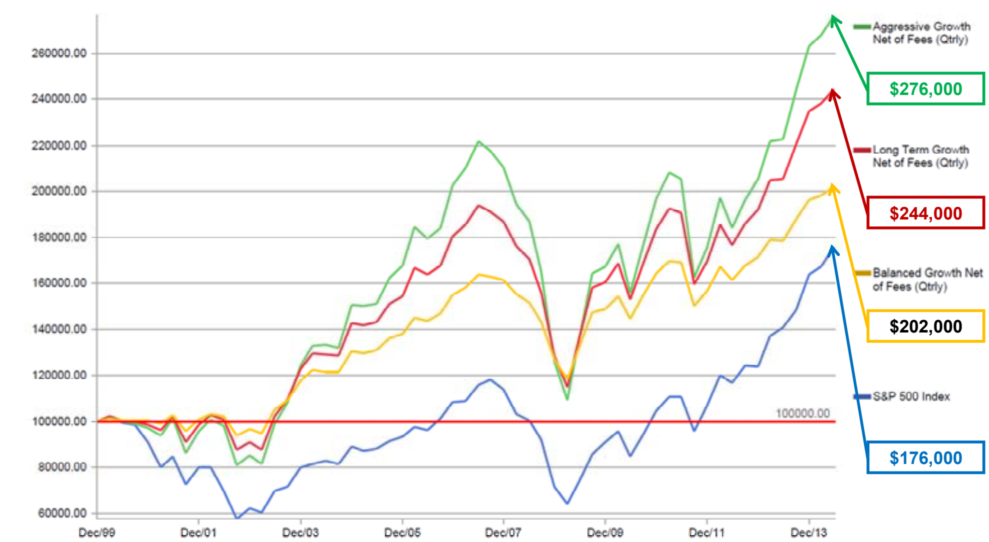
And when we look at the entire 25 year period, the S&P 500 also lagged the other asset classes.

Growth of $100k (1/2000 – 6/2014)



*Past performance is not indicative of future results. The indices referenced above are described more fully in the endnotes. This chart is for illustrative purposes only. Indices are unmanaged, cannot be invested in directly and their returns do not represent the performance of any actual fund or transactions and do not include management fees, transaction costs or expenses. GOW shown from Dimensional Returns Software 2.0. See endnotes for GIPS performance disclosures and additional information.

Diversification has helped the portfolios perform well versus the S&P 500 during the past 14 years, with each portfolio of at least 50% in equities performing better.

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