LYKE Financial Inc.

Investing Insight

LYKE FINANCIAL, INC.

Could The Sky Really Fall and Does It Really Matter?

Psychology can be pretty weird sometimes. Mostly, the weird stuff really comes out when stressful times are upon us. Think 2000—2002 or 2008 or financial stress. If one were to revisit the financial headlines we would find them pretty funny if not stupid—with the benefit of hindsight. Negative news, constantly repeating, has a compounding effect that causes investors to panic and do exactly the wrong thing at exactly the wrong time. Back in the early 70's, I can remember Walter Cronkite saying just about every night: "well the stock market went down again today…." If it wasn't the market, then it was oil prices heading heavenward. Planners and the clients who followed them created financial plans that assumed inflation growing at double digit rates till retirement. Home mortgages and interest rates? You don't even want to go there. Headlines from supposedly responsible outlets blaring "The Death of Equities," buy gold, hoard food. How did those scenarios and advice work out. Recently we heard all of the ads for gold. Go back and see what the rate of return has been for gold from the 70's to today. They yammered then, as they do today about inflation, but gold hasn't even kept pace with the rate of inflation—which hasn't come near the doomsday forecast. Anybody still have those cans of dried beans, milk and other commodities sitting around in their basements?

Everyone knows, logically, what they are supposed to do to make money investing: buy "low" and sell "high." Easy to say but very difficult to do as exhibited by investor behavior over the years and multiple market cycles. Most investors do exactly the opposite when the stressful times are upon us: selling (out) low. Interestingly, they do the opposite in manic times (think the mid-late nineties) and buy "high!" Thus, the emotions swing from manic to depressive and the investors actions mimic these times, buying when things are wonderful and selling when the world appears its most dismal when it is the exact opposite what they should be doing. The human mind is truly a wondrous thing to behold!

There is an evolutionary explanation for how the mind works in this regard—which explains how we have managed to survive as a species. Unfortunately, while it enables us to survive, when it comes to investing, these emotional and instinctual responses work to our detriment.

So, with the media headlines now featuring how bad things could get (take your pick, ISIS, Iran's nuclear ambitions, Chinese economy, age of the current U.S. bull market, EU's QE response, Russia and the Ukraine, the President, Congress….) investors are poised, as they always are, like a heard of stampeding cattle, or maybe a more appropriate metaphor, lemmings, to take themselves over the financial cliff at the first indication of any real or imagined danger. Numerous academic studies have shown this to be the case in the past and, no doubt, this will be the case again in the future.

To help to lessen any fears that you might have, since I no longer have my "mother-in-law" index to rely upon as a predictive market indicator, I've since come upon another foolproof way of forecasting the future with great accuracy. This comes by way of a visit to my local Chinese restaurant and everyone knows how unfailingly accurate those fortune cookies can be!

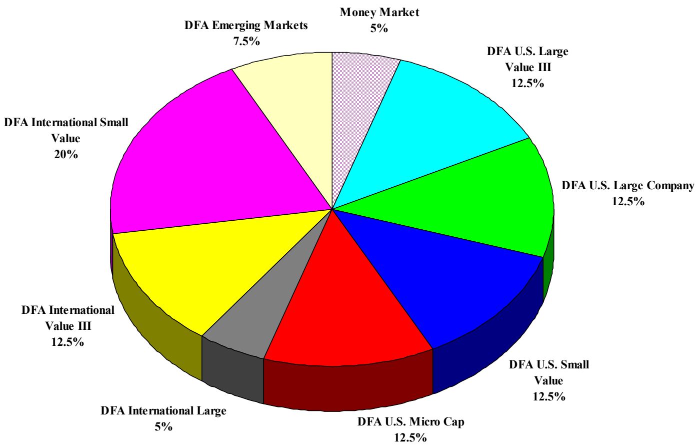
In point of fact, the above "fortune" is truly psychic. For, if you have a globally, well diversified asset class portfolio and a time horizon somewhat longer than a dragon fly's lifespan, then I believe that you can consider that your investment will really be "good."

Inside this issue:

Portfolio Returns:
January 1, 2015—March 31, 2015*

AGGRESSIVE GROWTH

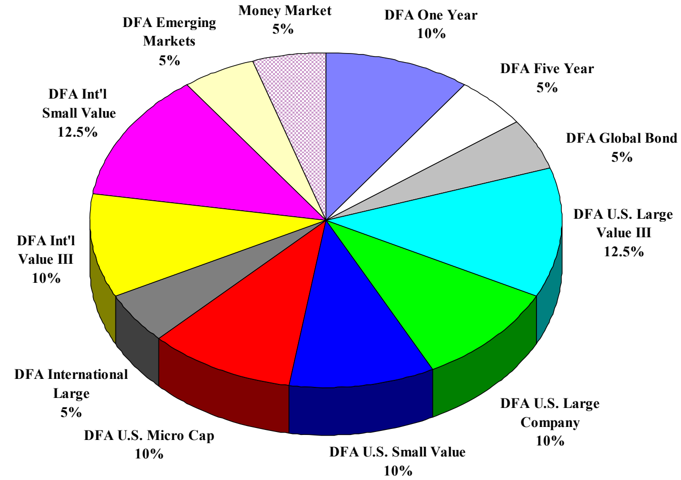
95% Equities/5% Fixed



Rate of Return 2.08%

LONG TERM GROWTH

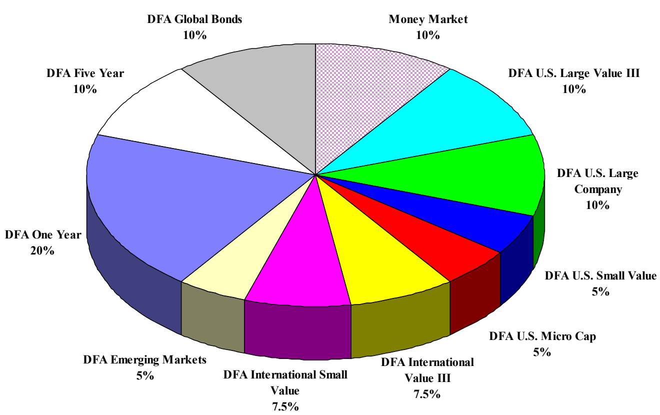
75% Equities/25% Fixed



Rate of Return 1.76%

BALANCED GROWTH

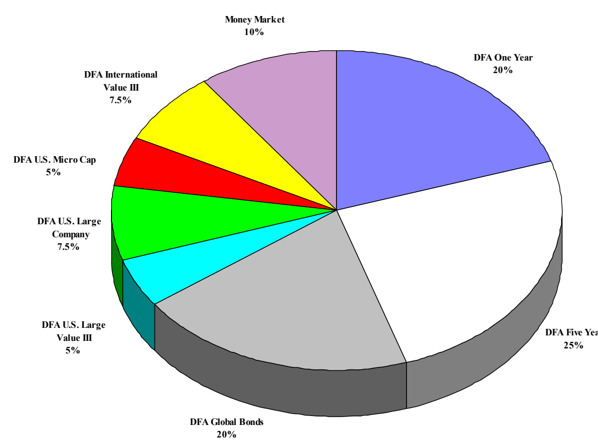
50% Equities/50% Fixed



Rate of Return 1.15%

INCOME & GROWTH

25% Equities/75% Fixed



Rate of Return 0.86%

*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.

Weather vs. Climate

Notice how TV news bulletins put finance next to the weather report? In each, talking heads point at charts and intone about intraday events that are quickly forgotten. Meanwhile, the long-term wealth building story gets overlooked.

Many investors feel that they are not properly informed about the financial world unless they have checked daily, or even hourly, on how the Dow, FTSE, or Nikkei have moved in the intervening period.

In most cases, it's a pretty harmless activity. It at least provides a bland conversation starter in fleeting social encounters, just as keeping up to date with tomorrow's weather forecasts can fill an awkward silence.

But our very human focus on the day-to-day can often encourage us to make bad decisions that affect our long-term interests.

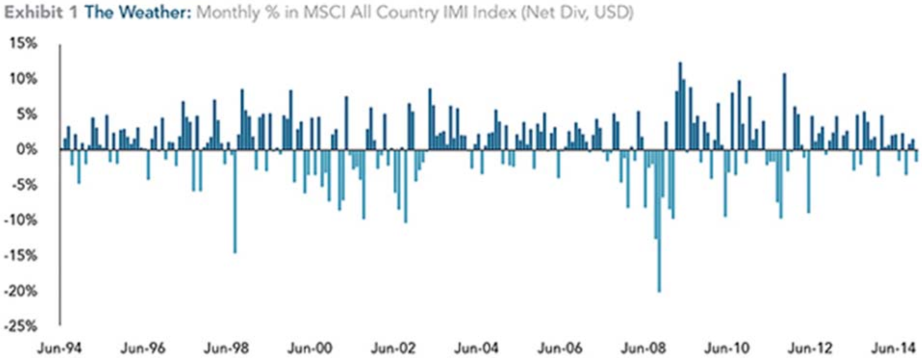
That's because while we live moment-to-moment, what often affects us most are imperceptible, gradual changes that occur over many years.

Look at the way markets have begun in 2015, as reflected in daily news headlines from Reuters:

- **January 6**: Wall St. in Longest Losing Streak in 13 Months
- **January 8**: Wall St. Jumps for Second Day, Helped by Economic Optimism
- **January 14**: US Stocks Fall Heavily on Growth Concerns
- **January 20**: China Sees Posting Weakest Growth in 24 Years
- **January 20**: UK Stocks Gain on China's Growth

Trying to keep up with market sentiment based on news headlines is challenging.

Exhibit 1 The Weather: Monthly % in MSCI All Country IMI Index (Net Div, USD)



Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. MSCI data © MSCI 2014, all rights reserved.

The China GDP Story is a good example. The curtain-raisers announced it would be the weakest economic growth number for nearly a quarter century. And, sure enough, it was. But because the result was a fraction higher than what the market had priced, Asian stocks rallied.

As always, markets price expectations for events like this and then move if the outcome varies with what is in the price. It is hard enough for professional investors to keep track, never mind a layperson.

So, from minute to minute, market sentiment shifts in reaction to news—news about the economy, companies, governments and politics, and the wider world. Prices rise and fall in response to this news, which by definition is unpredictable.

To use an analogy, the market news is like the weather. One day it's sunny. The next (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.

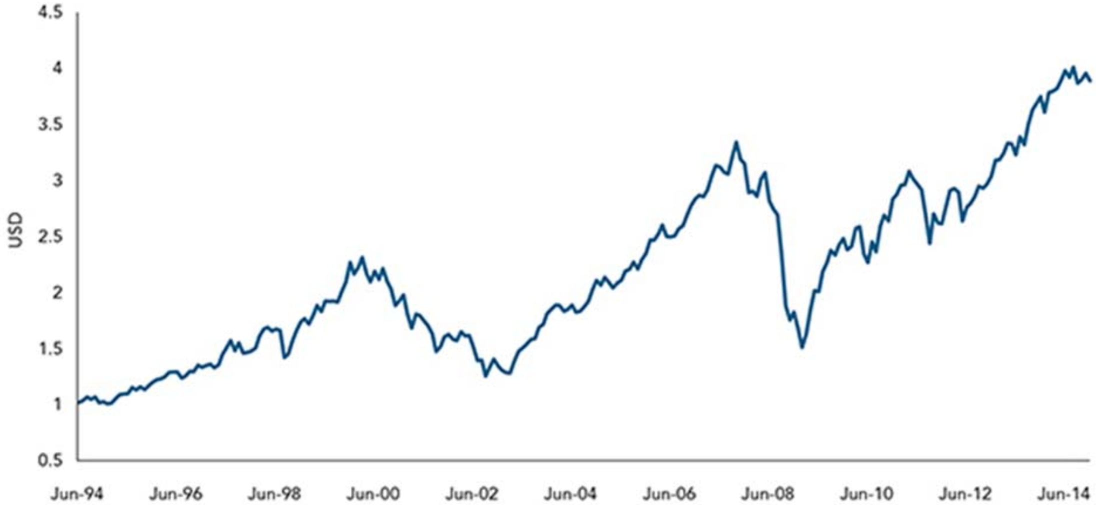
To evaluate your portfolio, it is helpful to look at the various DFA funds and **compare them** to the specific markets in which they are invested:

	01/01/15 through 03/31/15 Return*
DFA U.S. Large Co.	**0.96%**
S&P 500 Index	0.95%
DFA U.S. Large Value	**-0.15%**
Russell 1000 Value	-0.72%
DFA U.S. Micro Cap	**3.13%**
Russell 2000	4.32%
DFA U.S. Small Value	**2.44%**
Russell 2000 Value	1.98%
DFA Emerging Markets	**1.48%**
MSCI Emerging Market Idx	1.91%
DFA Int'l Large Company	**4.22%**
MSCI EAFE Large Co Idx	4.19%
DFA Int'l Large Value	**4.26%**
MSCI EAFE Value	3.89%
DFA Int'l Small Value	**4.68%**
MSCI EAFE Sm Cap Index	5.06%
DFA One Yr. Gov't Bond	**0.25%**
BarCap 1-3 Yr. Gov't	0.54%
DFA Short-Term Gov't Bond	**0.98%**
BarCap 1-5 Yr. Gov't	0.88%
DFA 5 Yr. Global Bond	**1.37%**
Citi World Bond Index	-2.51%

**Morningstar 03/31/15*

day it rains. It's unseasonably warm one day but cool the next. The narrower is your frame of reference, the greater is the apparent variability.

Exhibit 2 The Climate: Growth of Wealth: MSCI All Country IMI Index (Net Div, USD)



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Look at Exhibit 1 on page 3 (in USD terms), showing monthly moves in a common barometer of the global share market. All you see are the monthly ups and downs—the regular changes in "the weather."

Another way to look at this movement (see Exhibit 2 above) is to measure the growth of wealth. This way we are less focused on the day-to-day or month-to-month movements and more on how wealth accumulates through time.

For a long-term investor, this is the more important measure because it takes into account cumulative gains. The media, by virtue of its publication schedule, must focus on the short-term. They need a different story every day.

These two ways of looking at the market are like the difference between the weather and the climate. The former changes constantly, the latter more gradually. With long-term investment, it's the climate you need to think about.

Outside The Flags, by Jim Park, Vice President, DFA Australia Limited, February 2015.

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