LYKE Financial Inc.

Investing Insight

LYKE FINANCIAL, INC.

U.S. –Stock Funds Rose 1.8% in Quarter Despite the Tumult

After all that, U.S.-stock funds are ahead for the year so far. It has been a bumpy ride, from China to oil to the most-recent bump, Brexit. But U.S. stocks, and funds, keep recovering, clinging to modest gains. The average diversified U.S.-stock mutual fund was up 1.8% for the second quarter, and 1.5% for the year so far, according to data from Thomson Reuters. Corp.'s Lipper unit.

"Brexit, Spanish elections, China currency. Markets have shrugged off a lot of that news, and you have OK asset returns to start the year," says Rob Balkema, a senior portfolio manager at Russell Investments who works on multi-asset funds. For fund investors, dealing with the market volatility has been a bigger issue than actual investment returns, he says.

Under the surface, there have been changes in market leadership, says Mr. Balkema. Emerging-markets investments, which had struggled, have bounced back. (As he puts it: "Fundamentals are getting less bad, not good, in emerging markets.") Emerging-markets stock funds are up 6.2% this year. DFA emerging markets is up 10.29%.

Such gains have rewarded investors who keep some money abroad, even though U.S. markets have done better for several years. (See page 4 for additional chart—World Stock Market Performance)
Wall Street Journal

Market Summary

Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
2Q 2016	STOCKS				BONDS	
	2.63%	-1.05%	0.66%	4.48%	2.21%	3.11%
Since Jan. 2001						
Avg. Quarterly Return	1.7%	1.3%	2.9%	2.9%	1.3%	1.2%
Best Quarter	16.8% Q2 2009	25.9% Q2 2009	34.7% Q2 2009	32.3% Q3 2009	4.6% Q3 2001	5.5% Q4 2008
Worst Quarter	-22.8% Q4 2008	-21.2% Q4 2008	-27.6% Q4 2008	-36.1% Q4 2008	-2.4% Q2 2004	-3.2% Q2 2015

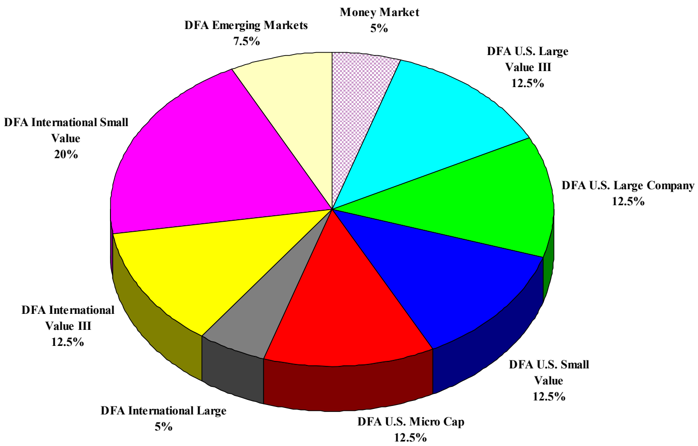
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citigroup WGBI ex USA 1–30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2016, all rights reserved. Barclays data provided by Barclays Bank PLC. Citigroup bond indices © 2016 by Citigroup.

Inside this issue:

Portfolio Returns:
January 1, 2016—June 30, 2016*

AGGRESSIVE GROWTH

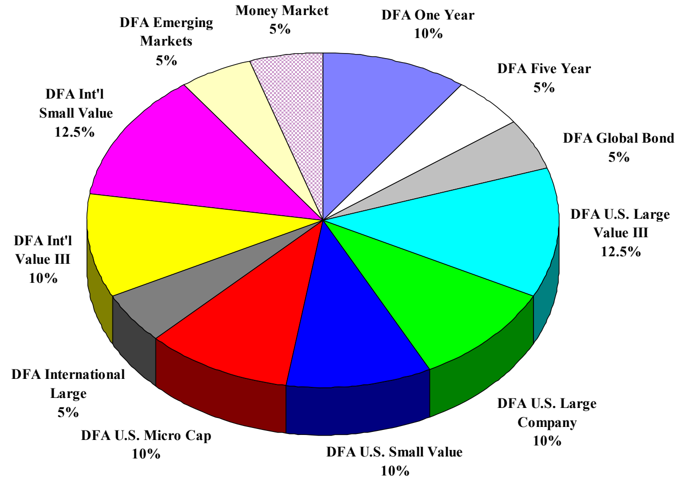
95% Equities/5% Fixed



Rate of Return 0.30%

LONG TERM GROWTH

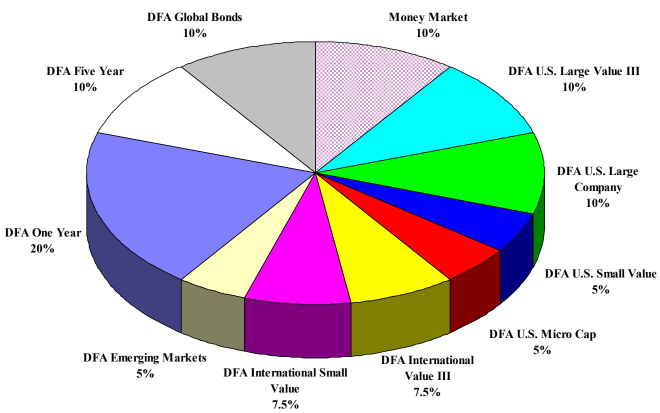
75% Equities/25% Fixed



Rate of Return 0.79%

BALANCED GROWTH

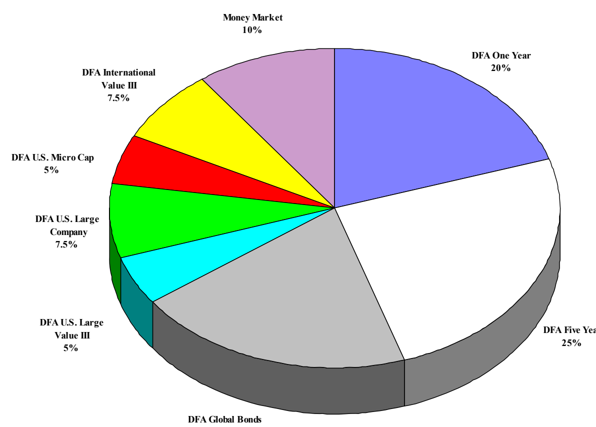
50% Equities/50% Fixed



Rate of Return 0.98%

INCOME & GROWTH

25% Equities/75% Fixed



Rate of Return 1.69%

*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.

Do Presidential Elections Impact Stock Prices?

Throughout history, investors large and small have witnessed the ups and downs of stock and other financial markets. Pundits have long attempted to explain these market cycles with everything from the position of the moon and stars to highly sophisticated econometric models—with uniformly disappointing results. Yet every four years, in sync with the U.S. presidential election cycle, there comes forth a myriad of new analyses and forecasts that offer recommendations about how investors should react in relation to the political landscape of the day.

Rather than relying on soothsayers and marketing departments from the investment industry—whose livelihood depends on appearing to know what the future holds—investors may be better served by a review of more academic literature on the subject.

In a frequently cited paper "The Presidential Puzzle: Political Cycles and the Stock Market" (Santa-Clara and Valkanov, 2003), the authors observe that since 1927 the return of U.S. stocks has been higher under Democratic administrations than when Republicans held the Oval Office. Despite this finding of excess historical returns under Democratic presidencies, they also observe that "If the difference in returns was expected by the market, we should see a large price adjustment around the time when it becomes known which party wins the election. We observe no such move in prices." They conclude that "The difference in returns through the political cycle is therefore a puzzle." In laymen's terms, despite the appearance of a pattern in historical returns, the global financial system is far too complex to infer a direct or predictive relationship between politics and stock returns, and investors should do so at their peril.

Similarly, the paper "Presidential Elections and Market Returns" (Booth 2004) examines the history of stock market returns around 19 presidential elections from 1927-2003—9 elections in which the incumbent was re-elected and 10 in which he was either defeated or was not eligible for re-election. Further, the paper compares pre-election months (June-October) and post-election months (November-March) for pattens of unusual market performance around each election. The paper finds no significant difference in returns across elections, regardless of which election scenario occurred, and no difference between pre– and post–election months. Historically, there has simply been no discernable pattern of returns around presidential elections.

Finally, in 2012 Vanguard published the paper "Forecasting Stock Returns: What Signals Matter and What Do They Say Now?". While not focusing specifically on the impact of presidential elections, the author surveyed a host of variables and forecasting methodologies to try to determine which, if any, offered predictive ability about the direction the stock market would take in the short– and long-term future. The authors found no single or combination of variables that could successfully guide investors in advance about the future direction of the market. In fact, they concluded that many commonly cited signals had very weak and erratic relationships to actual subsequent returns. Their ultimate conclusions stand in strong support of our core investment principles— 1) Predicting the future is essentially an impossible endeavor; 2) maintain a strategic allocation of assets; 3) stay well diversified; and 4) control costs and taxes.

As human beings, we are all hard-wired to find patterns out of randomness. As investors, we are susceptible to that, and other behavioral traits, and will often be swayed by a compelling sounding argument that has seemingly irrefutable data to support it.

But when it comes to the upcoming presidential election, there may be many valid reasons to fret over which candidate is most deserving of your vote in November. But concerns about your investment portfolio should most probably not be one of them. *Efficient Advisors, LLC*

The chart on the following page illustrate the fact since 1952 there has only been two negative time periods and 12 positive.

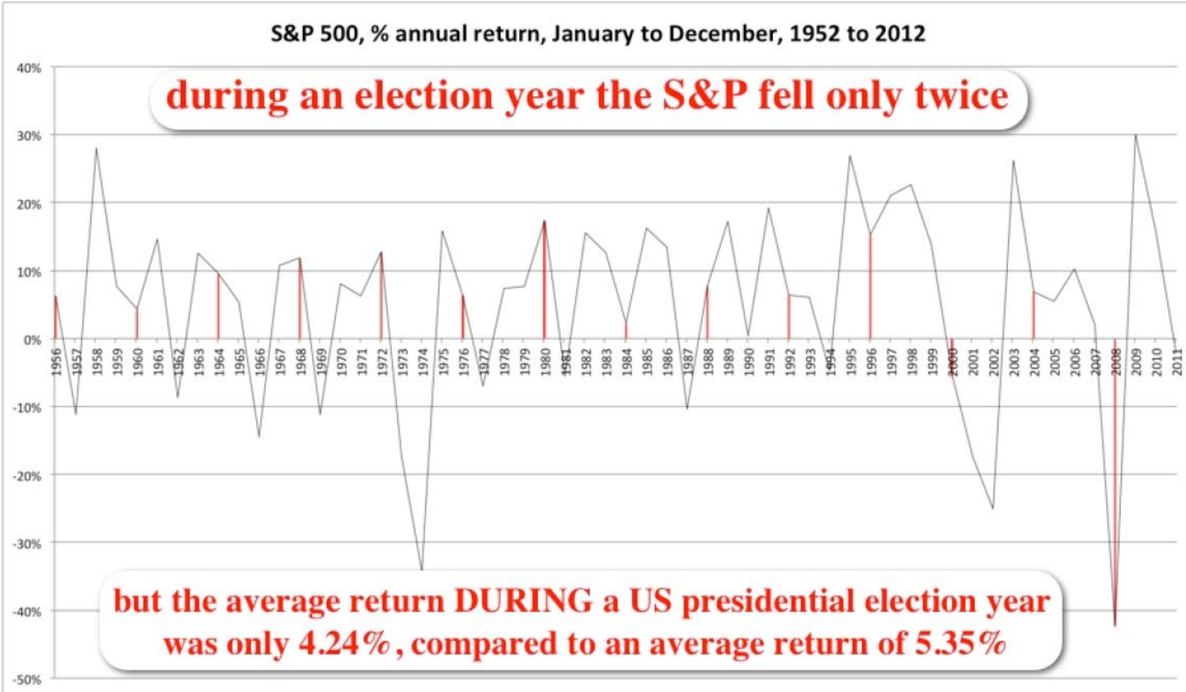
Meeting Expectations

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:

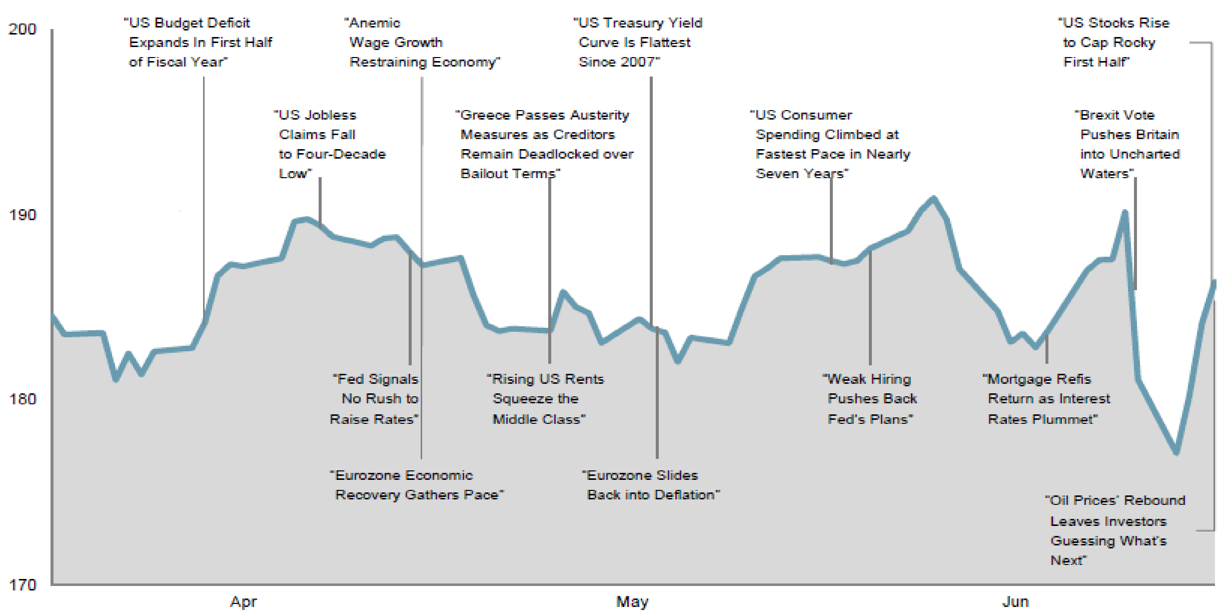
	01/01/16 through 06/30/16 Return*
DFA U.S. Large Co.	**3.77%**
S&P 500 Index	3.84%
DFA U.S. Large Value	**4.16%**
Russell 1000 Value	6.30%
DFA U.S. Micro Cap	**2.89%**
Russell 2000	2.22%
DFA U.S. Small Value	**3.26%**
Russell 2000 Value	6.08%
DFA Emerging Markets	**10.29%**
MSCI Emerging Market Idx	6.41%
DFA Int'l Large Company	**-2.07%**
MSCI EAFE Large Co Idx	-4.42%
DFA Int'l Large Value	**-4.76%**
MSCI EAFE Value	-6.65%
DFA Int'l Small Value	**-3.94%**
MSCI EAFE Sm Cap Index	-4.51%
DFA One Yr. Gov't Bond	**0.82%**
BarCap 1-3 Yr. Gov't	1.42%
DFA Short-Term Gov't Bond	**2.39%**
BarCap 1-5 Yr. Gov't	2.36%
DFA 5 Yr. Global Bond	**3.53%**
Citi World Gov't Bond Index	3.54%

**Morningstar 06/30/16*



World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2016



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

Graph Source: MSCI ACWI Index. MSCI data © MSCI 2016, all rights reserved.
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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