LYKE Financial Inc.

Investing Insight

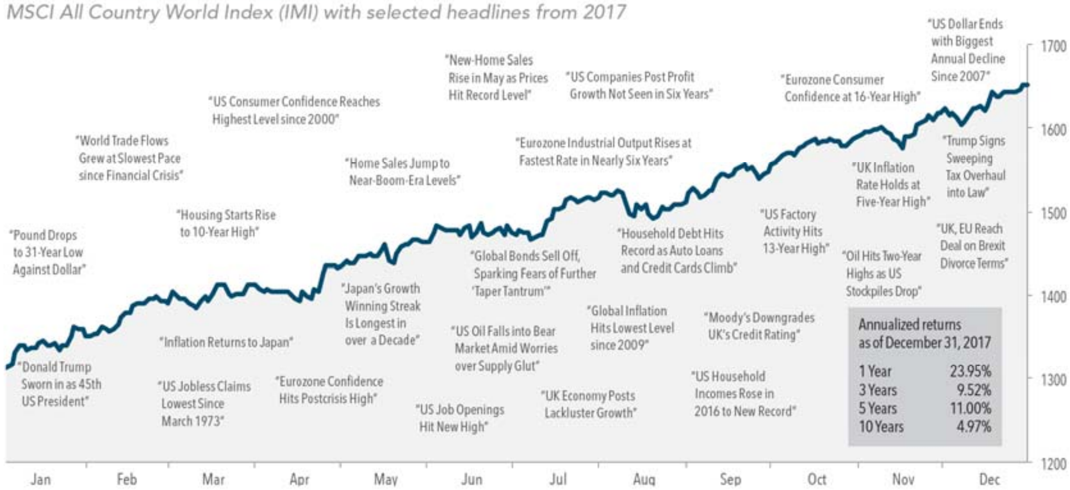
LYKE FINANCIAL, INC.

2017 Market Review

At the beginning of 2017, a common view among money managers and analysts was that the financial markets would not repeat their strong returns from 2016. Many cited the uncertain global economy, political turmoil in the U.S., implementation of Brexit, conflicts in the Middle East, North Korea's weapons buildup, and other factors. The global equity markets defied their predictions, with major equity indices in the U.S., developed ex-U.S. and emerging markets posting strong returns for the year.

World Stock Market Performance

MSCI All Country World Index (IMI) with selected headlines from 2017



Source: MSCI.
Past performance is not a guarantee of future results. In US dollars, net dividends. Index is not available for direct investment. Performance does not reflect the expenses associated with management of an actual portfolio.

The chart above highlights some of the year's prominent headlines in the context of global stock market performance as measured by the MSCI All Country World Index-Investable Market Index (MSCI ASWI IMI). 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.

WORLD ECONOMY

In 2017, the global economy showed signs of stronger growth, with 45 countries tracked by the Organization for Economic Cooperation and Development (OECD) all on pace to expand. Economic outlook and the expected impact on future cash flows are among the many variables markets consider when setting prices. Therefore, investors should remember that growth in the economy is not always linked to stock market performance.

2017 MARKET PERSPECTIVE
EQUITY MARKET HIGHLIGHTS

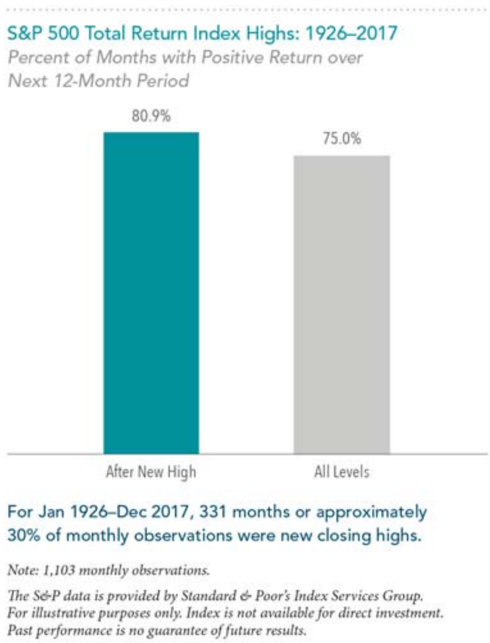
Global equity markets posted another positive year of returns in 2017. The S&P 500 Index recorded a 21.83% total return and small cap stocks, as measured by the Russell 2000 Index, returned 14.65%, both above their long-term average return of 11.96% and 11.73% respectively, since 1979.

Returns among non-U.S. equity markets were even higher. The MSCI World ex USA Index, which reflects non-U.S. developed markets, logged a 24.21% return and the MSCI Emerging Markets Index a 34.35% return, making this the fifth highest return in the index history.

Inside this issue:

As the S&P 500 and other indices reached all-time highs during the year, a common media question was whether markets were poised for a downturn. History tells us that a market index being at an all-time high generally does not provide actionable information for investors.

For evidence, we can look at the S&P 500 Index for the better part of the last century. From 1926 through 2017, the frequency of positive 12-month returns following a new index high was similar to what is observed following months of any level. In fact, over this time period, almost a third of the monthly observations were new closing highs from the index.



Source: Advisor Byline, Bryan Harris, Senior Writer, Dimensional Fund Advisors

To Bit or Not to Bit: What Should Investors Make of Bitcoin Mania?

Bitcoin and other cryptocurrencies are receiving intense media coverage, prompting many investors to wonder whether these new types of electronic money deserve a place in their portfolios.

Cryptocurrencies such as bitcoin emerged only in the past decade. Unlike traditional money, no paper notes or metal coins are involved. No central bank issues the currency, and no regulator or nation state stands behind it.

Instead, cryptocurrencies are a form of code made by computers and stored in a digital wallet. In the case of bitcoin, there is a finite supply of 21 million, of which more than 16 million are in circulation. Transactions are recorded on a public ledger called blockchain.

People can earn bitcoins in several ways, including buying them using traditional flat currencies or by "mining" them—receiving newly created bitcoins for the service of using powerful computers to compile recent transactions into new blocks of the transaction chain through solving a highly complex mathematical puzzle.

For much of the past decade, cryptocurrencies were the preserve of digital enthusiasts and people who believe the age of fiat currencies is coming to an end. This niche appeal is reflected in their market value. For example, at a market value of $16,000 per bitcoin, the total value of bitcoin in circulation is less than one tenth of 1% of the aggregate value of global stocks and bonds. Despite this, the sharp rise in the market value of bitcoins over the past weeks and months have contributed to intense media attention.

What are investors to make of all this media attention? What place, if any, should bitcoin play in a diversified portfolio? Recently, the value of bitcoin has risen sharply, but that is the past. What about its future value?

You can approach these questions in several ways. A good place to begin is by examining the roles that stocks, bonds and cash play in your portfolio.

EXPECTED RETURNS

Companies often seek external sources of capital to finance projects they believe will generate profits in the future. When a company issues stock, it offers investors a residual claim on its future profits. When a company issues a bond, it offers investors a promised stream of future cash flows, including the repayment of principal when the bond matures. The price of a stock or bond reflects the return investors demand to exchange their cash today for an uncertain but greater amount of expected cash in the future. One important role these securities play in a portfolio is to provide positive expected cash in the future. One important role these securities play in a portfolio is to provide positive expected returns by allowing investors to share in future profits earned by corporations globally. By investing in stocks and bonds today, you expect to grow your wealth and enable greater consumption tomorrow.

Government bonds often provide a more certain repayment of promised cash flows than corporate bonds. Thus, besides the potential for providing positive expected returns, another reason to hold government bonds is to reduce the uncertainty of future wealth. And inflation-linked government bonds reduce the uncertainty of future inflation-adjusted wealth.

Holding cash does not provide an expected stream of future cash flow. One US dollar in your wallet today does not entitle you to more dollars in the future. The same logic applies to holding other fiat currencies—and holding bitcoins in a digital wallet. So we should not expect a positive return from holding cash in one or more currencies unless we can predict when one currency will appreciate or depreciate relative to others.

The academic literature overwhelmingly suggests that short-term currency movements are unpredictable, implying there is no reliable and systematic way to earn a positive return just by holding cash, regardless of its currency. So why should investors hold cash in one or more currencies? One reason is because it provides a store of value that can be used to manage near-term known expenditures in those currencies.

With this framework in mind, it might be argued that holding bitcoins is like holding cash; it can be used to pay for some goods and services. However, most goods and services are not priced in bitcoins.

A lot of volatility has occurred in the exchange rates between bitcoins and traditional currencies. That volatility implies uncertainty, even in the near term, in the amount of future goods and services your bitcoins can purchase. This uncertainty, combined with possibly high transaction costs to convert bitcoins into usable currency, suggests that the cryptocurrency currently falls short as a store of value to manage near-term known expenses. Of course, that may change in the future if it becomes common practice to pay for all goods and services using bitcoins.

If bitcoin is not currently practical as a substitute for cash, should we expect its value to appreciate?

SUPPLY AND DEMAND

The price of a bitcoin is tied to supply and demand. Although the supply of bitcoins is slowly rising, it may reach an upper limit, which might imply limited future supply. The future supply of cryptocurrencies, however, may be very flexible as new types are developed and innovation in technology makes many cryptocurrencies close substitutes for one another, implying the quantity of future supply might be unlimited.

Regarding future demand for bitcoins, there is a non-zero probability that nothing will come of it (no future demand) and a non-zero probability that it will be widely adopted (high future demand).

Future regulation adds to this uncertainty. While recent media attention has ensured bitcoin is more widely discussed today than in years past, it is still largely unused by most financial institutions. It has also been the subject of scrutiny by regulators. For example, in a note to investors in 2014, the US Securities and Exchange Commission warned that any new investment appearing to be exiting and cutting-edge has the potential to give rise to fraud and false "guarantees" of high investment returns. Other entities around the world have issued similar warnings. It is unclear what impact laws and regulations may have on bitcoin's future supply and demand (or even its existence). This uncertainty is common with young investments.

All of these factors suggest that future supply and demand are highly uncertain. But the probabilities of high or low future supply or demand are an input in the price of bitcoins today. That price is fair, in that investors willingly transact at that price. Onc investor does not have an unfair advantage over another in determining if the true probability of future demand will be different form what is reflected in bitcoin's price today.

WHAT TO EXPECT

So, should we expect the value of bitcoins to appreciate? Maybe. But just as with traditional currencies, there is no reliable way to predict by how much and when that appreciation will occur. We know, however, that we should not expect to receive more bitcoins in the future just by holding one bitcoin today. They don't entitle holders to an expected stream of future bitcoins, and they don't entitle the holder to a residual claim on the future profits of global corporations.

None of this is to deny the exciting potential of the underlying blockchain technology that enables the trading of bitcoins. It is an open, distributed ledger that can record transactions efficiently and in a verifiable and permanent way, which has significant implications for banking and other industries, although these effects may take some years to emerge.

When it comes to designing a portfolio, a good place to begin is with one's goals. This approach combined with an understanding of the characteristics of each eligible security type, provides a good framework to decide which securities deserve a place in a portfolio. For the securities that make the cut, their weight in the total market of all investable securities provides a baseline for deciding how much of a portfolio should be allocated to that security.

Unlike stocks or corporate bonds, it is not clear that bitcoins offer investors positive expected returns.

Unlike government bonds, they don't provide clarity about future wealth. And, unlike holding cash in fiat currencies, they don't provide the means to plan for a wide range of near-term known expenditures. Because bitcoin does not help achieve these investment goals, we believe that it does not warrant a place in a portfolio designed to meet one or more of such goals.

If, however, one has a goal not contemplated herein, and you believe bitcoin is well suited to meet that goal, keep in mind the final piece of our asset allocation framework: What percentage of all eligible investments do the value of all bitcoins represent? When compared to global stocks, bonds, and traditional currency, their market value is tiny. So, if for some reason an investor decides bitcoins are a good investment, we believe their weight in a well-diversified portfolio should generally be tiny.

Because bitcoin is being sold in some quarters as a paradigm shift in financial markets, this does not mean investors should rush to include it in their portfolios. When digesting the latest article on bitcoin, keep in mind that a goals-based approach based on stocks, bonds and traditional currencies, as well as sensible and robust dimensions of expected returns, has been helping investors effectively pursue their goals for decades.

Source: Dimensional Fund Advisors

As Goes January, So Goes the Year?

As investors ring in the new year, some may see the occasional headline about the "January Indicator" or "January Barometer." This theory suggests that the price movement of the S&P 500 during the month of January may signal whether that index will rise or fall during the remainder of the year. In other words, if the return of the S&P 500 in January is negative, this would supposedly foreshadow a fall for the stock market for the remainder of the year, and vice versa if returns in January are positive.

So have past Januarys' S&P 500 returns been a reliable indicator for what the rest of the year has in store? If returns in January are negative, should investors sell stocks? Exhibit 1 on page 4 shows the monthly returns of the S&P 500 Index for each January since 1926, compared to the subsequent 11-month return (i.e., the return from February through December). A negative return in January was followed by a positive 11-month return about 60% of the time, with an average return during those 11 months of around 7%.

This data suggests there may be an opportunity cost for abandoning equity markets after a disappointing January. Take 2016, for example: The return of the S&P 500 during the first two weeks was the worst on record for that period, at –7.93%. Even with positive returns toward the end of the month, the S&P 500 returned –4.96% in January 2016, the ninth-worst January return observed from 1926 to 2017. But a subsequent rebound of 18% from February to December resulted in a total calendar year return of almost 13%. An investor reacting to January's performance by selling out of stocks would have missed out on the gains experienced by investors who stuck with equities for the whole year.

This is a good example of the potential negative outcomes that can result form following investment recommendations based on an "indicator."

CONCLUSION

Over the long term, the financial markets have rewarded investors. People expect a postivie return on the capital they supply, and historically, the equity and bond markets have provided meaningful growth of wealth. As investors prepare for 2018 and what the year may bring, we should remember that frequent changes to an investment strategy can hurt performance. Rather than trying to beat the market based on hunches, headlines or indicators, investors who remain disciplined can let markets work for them over time.

Source: Dimension al Fund Advisors

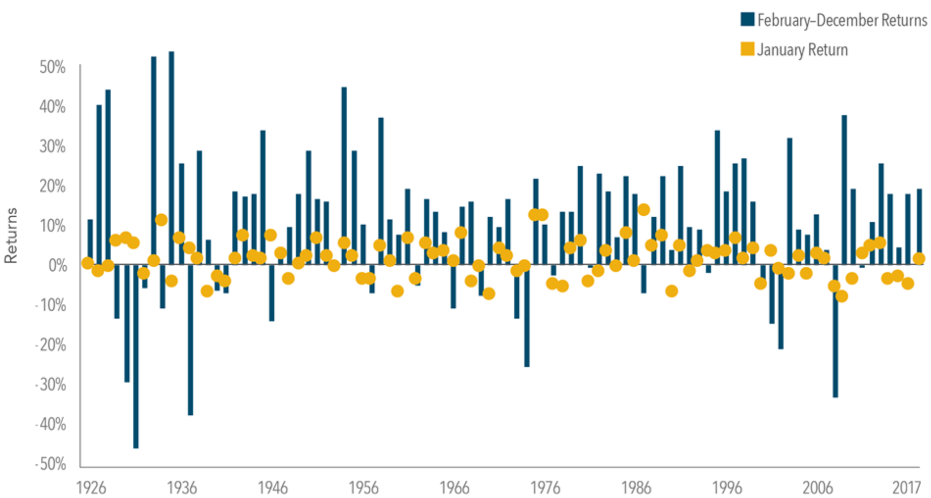


Exhibit 1: January Returns vs. Subsequent 11-Month Return of the S&P 500 Index 1926—2017

In US dollars. S&P 500 Index data provided by Standard & Poor's Index Services Group.

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.

Reminders for 2018

The market has been kind to all of us recently so let's revisit our risk. Please call to schedule your annual meeting.

The tax law change has enough moving parts that it is worth reviewing.

Make sure to get your IRA and Roth IRA contributions in early. We should receive your contribution by April 10 to count for 2017. If you have IRA minimum distributions, we can set these up to go automatically.

We look forward to seeing you in '18.

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:

	01/01/17 through 12/31/17 Return*
DFA U.S. Large Co.	**21.73%**
S&P 500 Index	21.83%
DFA U.S. Large Value	**19.11%**
S&P 500 Value	15.36%
DFA U.S. Micro Cap	**11.18%**
Russell 2000	14.21%
DFA U.S. Small Value	**7.21%**
Russell 2000 Value	7.84%
DFA Emerging Markets	**36.57%**
MSCI Emerging Market Idx	34.35%
DFA Int'l Large Company	**25.37%**
MSCI EAFE Large Co Idx	21.78%
DFA Int'l Large Value	**26.23%**
MSCI EAFE Value	21.44%
DFA Int'l Small Value	**27.98%**
MSCI EAFE Small Value	26.92%
DFA One Yr. Gov't Bond	**0.94%**
BarCap 1-3 Yr. Gov't	0.45%
DFA Short-Term Gov't Bond	**0.51%**
BarCap 1-5 Yr. Gov't	0.69%
DFA 5 Yr. Global Bond	**1.97%**
Citi WGBI AA 1-5 Yr. USD	3.10%

**Morningstar 12/31/17*

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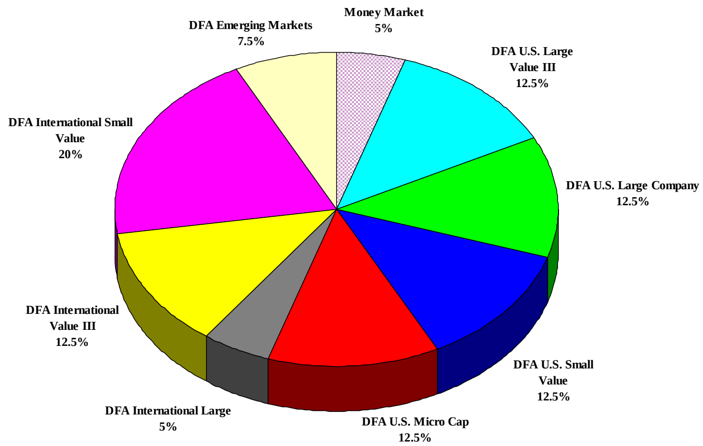
Portfolio Returns:
January 1, 2017—December 31, 2017*

AGGRESSIVE GROWTH

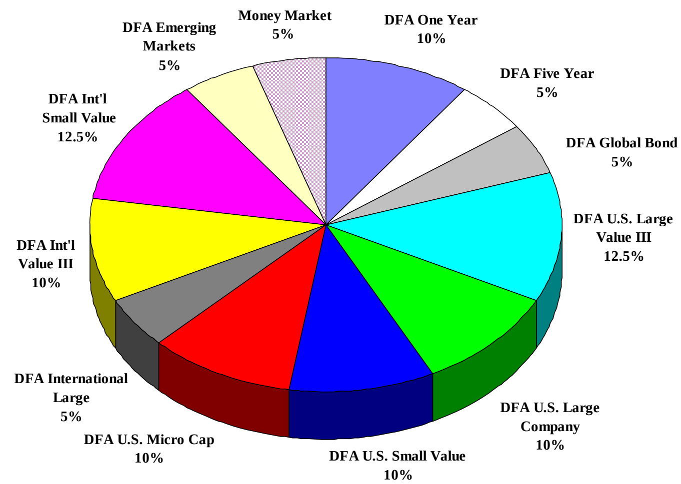
95% Equities/5% Fixed



Rate of Return 19.01%

LONG TERM GROWTH

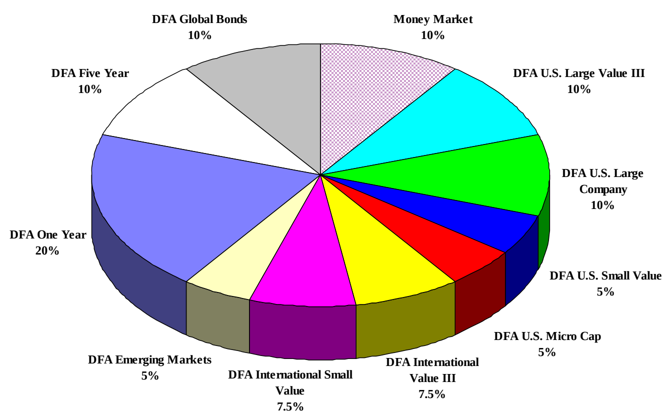
75% Equities/25% Fixed



Rate of Return 13.96%

BALANCED GROWTH

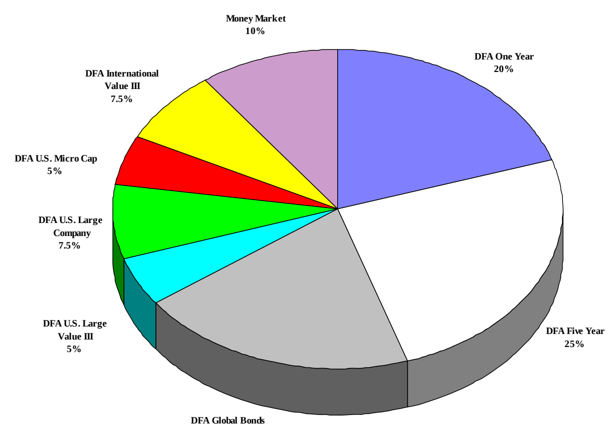
50% Equities/50% Fixed



Rate of Return 9.30%

INCOME & GROWTH

25% Equities/75% Fixed



Rate of Return 3.42%

*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.