LYKE Financial Inc.

Investing Insight

LYKE FINANCIAL, INC.

Recent Market Volatility

After a period of relative calm in the markets, in recent days the increase in volatility in the stock market has resulted in renewed anxiety for many investors. From February 1-5, the US market (as measured by the Russell 3000 Index) fell almost 6%, resulting in many investors wondering what the future holds and if they should make changes to their portfolios. While it may be difficult to remain calm during a substantial market decline, it is important to remember that volatility is a normal part of investing. Additionally, for long-term investors, reacting emotionally to volatile markets may be more detrimental to portfolio performance than the drawdown itself.

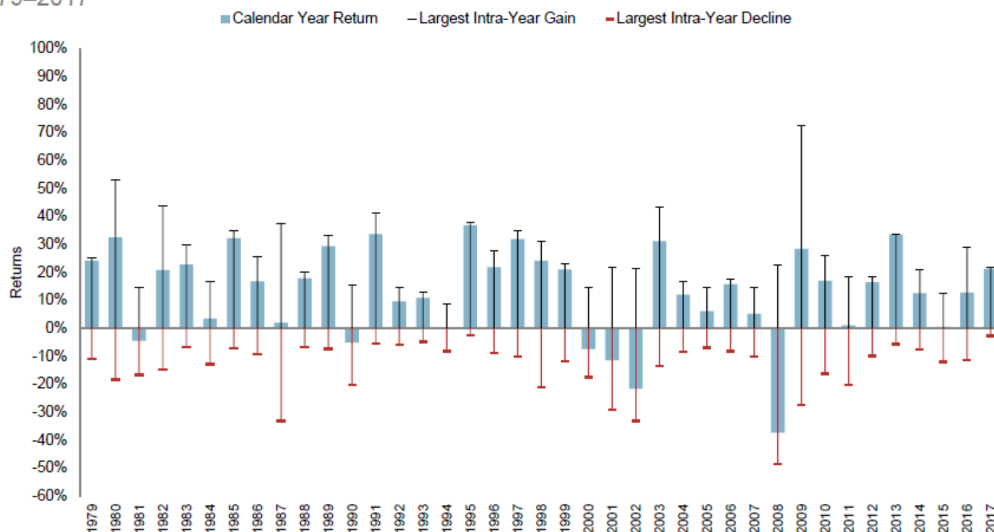
INTRA-YEAR DECLINES

Exhibit 1 shows calendar year returns for the US stock market since 1979, as well as the largest intra-year declines that occurred during a given year. During this period, the average intra-year decline was about 14%. About half of the years observed had declines of more than 15%. Despite substantial intra-year drops, calendar year returns were positive in 33 years out of the 39 examines. This goes to show just how common market declines are and how difficult it is to say whether a large intra-year decline will result in negative returns over the entire year.

REACTING IMPACTS PERFORMANCE

If one was to try and time the market in order to avoid the potential losses associated with periods of increased volatility, would this help or hinder long-term performance? If current market prices aggregate the information and expectations of market participants, stock mispricing cannot be systematically exploited through market timing. In other words, it is unlikely that investors can successfully time the market, and if they do manage it, it may be a result of luck rather than skill. Further complicating the prospect of market timing being additive to portfolio performance is the fact that a substantial proportion of the total return of stocks over long periods comes from just a handful of days. Since investors are unlikely to be able to identify in advance which days will have strong returns and which will not, the prudent course is likely to remain invested during periods of volatility rather than jump in and out of stocks. Otherwise, an investor runs the risk of being on the sidelines on days when returns happen to be strongly positive. (continued on page 3……..)

Exhibit 1:



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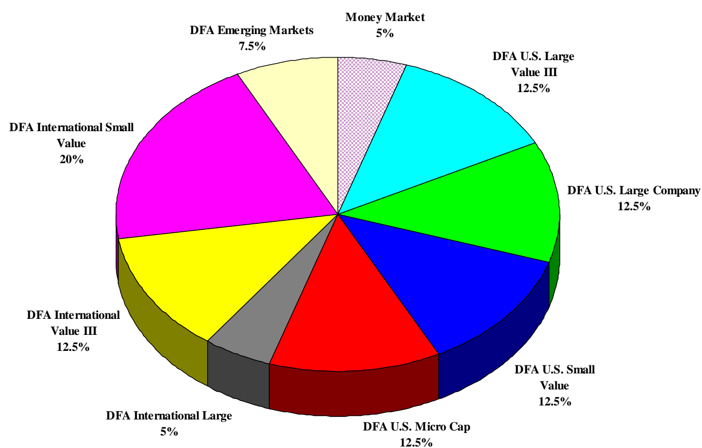
Portfolio Returns:
January 1, 2018—March 31, 2018*

AGGRESSIVE GROWTH

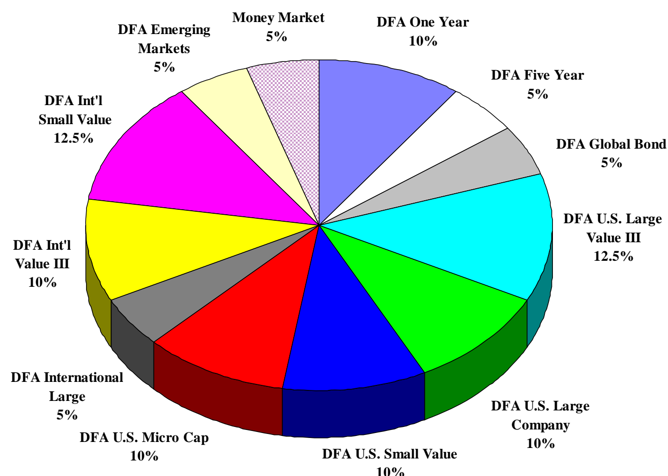
95% Equities/5% Fixed



Rate of Return -1.83%

LONG TERM GROWTH

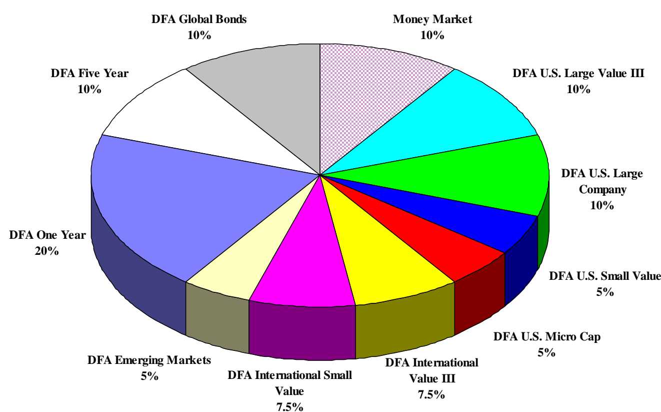
75% Equities/25% Fixed



Rate of Return -1.67%

BALANCED GROWTH

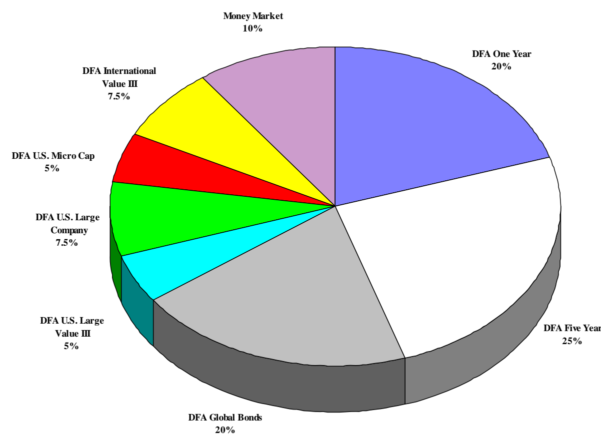
50% Equities/50% Fixed



Rate of Return -1.54%

INCOME & GROWTH

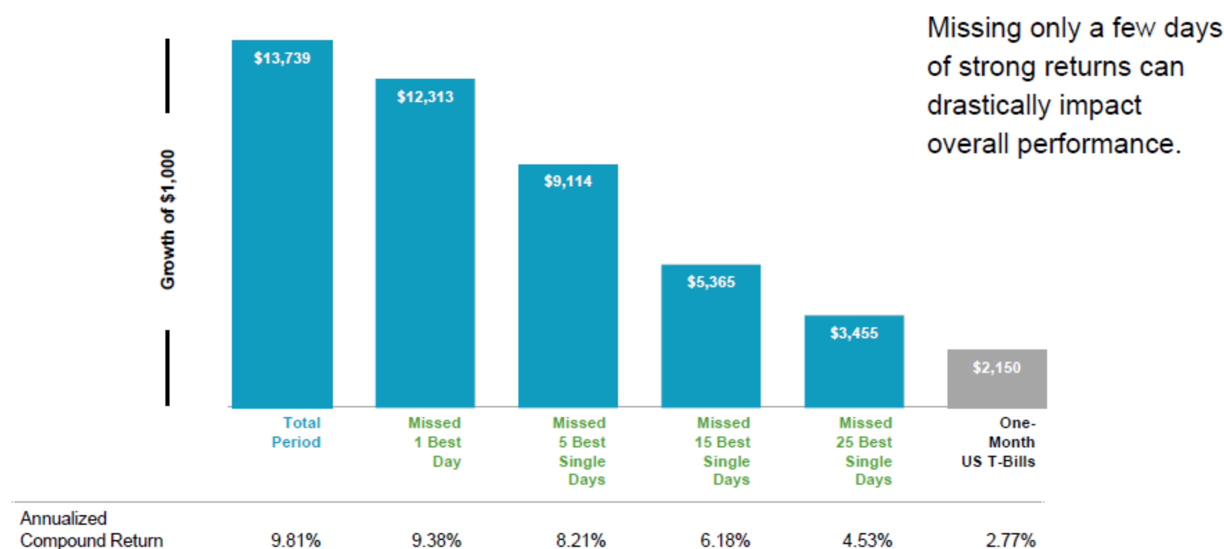
25% Equities/75% Fixed



Rate of Return -1.06%

*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.

Exhibit 2 helps illustrate this point. It shows the annualized compound return of the S&P 500 Index going back to 1990 and illustrates the impact of missing out on just a few days of strong returns. The bars represent the hypothetical growth of $1,000 over the period and this shows what happened if you missed the best single day during the period and what happened if you missed a handful of the best single days. The data shows that being on the sidelines for only a few of the best single days in the market would have resulted in substantially lower returns than the total period had to offer.



CONCLUSION

While market volatility can be nerve-racking for investors, reacting emotionally and changing long-term investment strategies in response to short-term declines could prove more harmful than helpful. By adhering to a well-thought-out investment plan, ideally agreed upon in advance of periods of volatility, investors may be better able to remain calm during periods of short-term uncertainty.

Sailing with the Tides

A mistake many inexperienced sailors make is not having a plan at all. They embark without a clear sense of their destination. And once they do decide, they often find themselves lost at sea in the wrong boat with inadequate provisions.

Likewise, in planning an investment journey, you need to decide on your goal. A first step might be to consider whether the goal is realistic and achievable. For instance, while you may long to retire in the south of France, you may not be prepared to sacrifice our needs today to satisfy that distant desire.

Once you are set on a realistic destination, you need to ensure you have the right portfolio to get your there. Have you planned for multiple contingencies? What degree of "bad weather" can your plan withstand along the way?

Key to a successful voyage is a good navigator. A trusted advisor is like that, regularly taking coordinates and making adjustments, if necessary. If your circumstances change, the advisor may suggest you replot your course.

As with the weather at sea, markets can be unpredictable. A sudden squall can whip up waves of volatility, tides can shift, and strong currents can threaten to blow you off course. Like a seasoned sailor, an experienced advisor will work with the conditions.

Once the storm passes, you can pick up speed again. Just as a sturdy vessel will help you withstand most conditions at sea, a well-diversified portfolio can act as a bulwark against the sometimes tempestuous conditions in markets.

Circumnavigating the globe is not exciting every day. Patience is required with local customs and paperwork as you pull into different ports. Likewise, a lack of attention to costs and taxes is the enemy of many a long-term financial plan. (continues on next page…………)

(continued from page 3)

Distractions can also send investors, like sailors, off course. In the face of "hot" investment trends, it takes discipline not to veer from your chosen plan. Like the sirens of Greek mythology, media pundits can also be diverting, tempting you to change track and act on news that is already priced into the markets.

A lack of flexibility is another impediment to a successful investment journey. If it doesn't look as though you'll make your destination in time, you may have to extend your voyage, take a different route to get there, or even moderate your goal.

The important point is that you become comfortable with the idea that uncertainty is inherent to the investment journey, just as it is with any sea voyage. That is why preparation and planning are so critical. While you can't control every outcome, you can be prepared for the range of possibilities and understand that you have clear choices if things don't go according to plan.

If you can't live with the volatility, you can change your plan. If the goal looks unachievable, you can lower your sights. If it doesn't look as if you'll arrive on time, you can extend your journey.

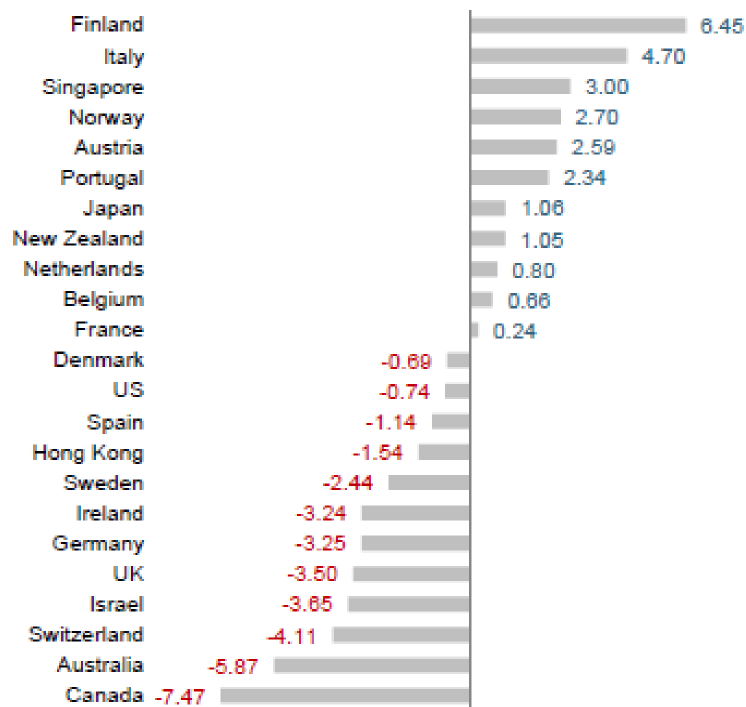
Of course, not everyone's journey is the same. Neither is everyone's destination. We take different routes to different places, and we meet a range of challenges and opportunities along the way.

But for all of us, it's critical that we are prepared for our journeys in the right vessel, keep our destination in mind, stick with the plans and have a trusted navigator to chart our courses and keep us on target.

OUTSIDE THE FLAG, Jim Parker, Vice President, Dimensional Fund Advisors.

Select County Performance

In US dollar terms, Finland and Italy recorded the highest country performance in developed markets, while Canada and Australia posted the lowest returns for the quarter.



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:

	01/01/18 through 03/31/18 Return*
DFA U.S. Large Co.	**-0.78%**
S&P 500 Index	-0.76%
DFA U.S. Large Value	**-2.32%**
S&P 500 Value	-3.57%
DFA U.S. Micro Cap	**-0.69%**
Russell 2000	-0.18%
DFA U.S. Small Value	**-2.34%**
Russell 2000 Value	-2.64%
DFA Emerging Markets	**1.84%**
MSCI Emerging Market Idx	1.42%
DFA Int'l Large Company	**-0.99%**
MSCI EAFE Large Co Idx	-1.53%
DFA Int'l Large Value	**-1.27%**
MSCI EAFE Value	-2.03%
DFA Int'l Small Value	**-2.26%**
MSCI EAFE Small Value	-1.70%
DFA One Yr. Gov't Bond	**0.12%**
BarCap 1-3 Yr. Gov't	-0.15%
DFA Short-Term Gov't Bond	**-0.48%**
BarCap 1-5 Yr. Gov't	-0.39%
DFA 5 Yr. Global Bond	**-0.37%**
Citi WGBI AA 1-5 Yr. USD	0.29%

**Morningstar 03/31/18*

LYKE FINANCIAL, INC.
4017 Whipple Avenue, N.W.
Canton, Ohio 44718

www.lykefinancial.com

Phone: 330-499-4022
Phone: 800-336-0244
Fax: 330-499-4020

A copy of Part 2 Form ADV for Lyke Financial is available upon request.