

INVESTMENT *INSIGHT*

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LEGACY WEALTH
MANAGEMENT*

**AN EARLY EDITION
OF THIS QUARTER'S
INVESTMENT INSIGHT**

Last Thursday (June 23rd), the British went to the polls and determined that they wanted to end their formal membership in the European Union (E.U.). Since those results became clear on Friday, investors around the world have reacted by selling shares resulting in lower markets. Interestingly, the international markets and even the British Pound had rallied significantly through last Thursday in the belief that UK voters would choose to stay in the E.U.

As we have said many times, markets don't like uncertainty and uncertainty is exactly what resulted from the British vote last week. Having read many articles from not only the Wall Street Journal and Barron's, but also from many other respected investment firms and investors around the country, the only conclusion is that no one knows exactly how things will proceed from here. One thing does appear to be certain, however – whatever does happen going forward will develop over a long period of time and nothing is likely to happen quickly. Many things have to happen in order for the U.K. to actually leave the E.U. The stock market is reacting very quickly to an event that is almost certainly going to take years to unfold. The more experience I get in this business, the more I believe that quick reactions are generally the wrong reactions, though this one is hard to judge since it is such a complex issue that will take much time to develop. The end of the tunnel (or Chunnel?) is a long way away. A

typical “moderately aggressive” portfolio allocation has approximately 11% invested in Europe (U.K. plus continental Europe). We will continue to monitor the markets and our exposure and will make any adjustments we deem appropriate.

While we typically write our own *Investment Insights*, we thought we would end our comments here and present the following letter from Bob Veres who does a great job of reviewing the issues surrounding last week's vote in the U.K. Bob is a well-respected author and commentator in the investment advisory world and we have permission to use his comments. What follows is the letter that Bob sent to us last Friday.

This Second Quarter
Investment Insight Intro
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WELCOME TO BREXIT — BY BOB VERES

Yesterday's vote by the British electorate to end its 43-year membership in the European Union seems to have taken just about everybody by surprise, but the aftermath could not have been more predictable. The uncertainty of how, exactly, Europe and Britain will manage a complex divorce over the coming decade sent global markets reeling. London's blue chip index, the Financial Times Stock Exchange 100, lost 4.4% of its value in one day, while Germany's DAX market lost more than 7%. The British pound sterling is getting crushed (down 14% against the yen, 10% against the dollar).

Compared to the global markets, the reaction among traders on U.S. exchanges seems muted; down roughly 3% as you read this, though nobody knows if that's the extent of the fall or just the beginning.

The important thing to understand is that the current market disruptions represent an emotional roller coaster, an immediate panic reaction to what is likely to be a very long-term, drawn out, ultimately graceful accommodation between the UK and Europe. German companies are certainly not 7% less valuable today than they were before the vote, and the pound sterling is certainly not suddenly a second-rate currency. When the dust settles, people will see that this panicky Brexit aftermath was a buying opportunity, rather than a time to sell. People who sell will realize they were suckered once again by panic masquerading as an assessment of real damage to the companies they've invested in.

What happens next for Britain and its former partners on the continent? Let's start with what will NOT happen. Unlike other European nations, Britain will not have to start printing a new currency. When the UK entered the EU, it chose to retain the British pound—that, of course, will continue. Stores and businesses will continue accepting euros.

On the trade and regulatory side, the actual split is still years away. One of the things you might not be hearing in the breathless coverage in the press is that the British electorate's vote is actually not legally binding. It will not be until and unless the British government formally notifies the European Union of its intention to leave under Article 50 of the Treaty of Lisbon—known as the "exit clause." If that happens, Article 50 sets forth a two-year period of negotiations between the exiting country and the remaining

union. Since British Prime Minister David Cameron has officially resigned his post and called for a new election, that clock probably won't start ticking until the British people decide on their next leader. For the foreseeable future, despite what you read, the UK is still part of the Eurozone.

After notification, attorneys in Whitehall and Brussels would begin negotiating, piece by piece, a new trade relationship, including tariffs, how open the UK borders will be for travel, and a variety of hot button immigration issues. Estimates vary, but nobody seems to think the process will take less than five years to complete, and current arrangements will stay in place until new ones are agreed upon.

An alternative that is being widely discussed is a temporary acceptance of an established model—similar to Norway's. Norway is not an EU member, but it pays EU dues, and has full access to the single market as if it was a member. However, that would require the British to continue paying EU budget dues and accept free movement of workers—which were exactly the provisions that voters rejected in the referendum.

Meanwhile, since the Brexit vote is not legally binding, it's possible that the new government might decide to delay invoking Article 50. Or Parliament could instruct the prime minister not to invoke Article 50 until the government has had a chance to study further the implications. There could even be a second referendum to undo the first.

The important thing for everybody to remember is that the quick-twitch traders and speculators on Wall Street are chasing sentiment, not underlying value, and the markets right now are being driven by emotion to what is perceived as an event, but is really a long process that will be managed by reasonable people who aren't interested in damaging their nation's economic fortunes. Nobody knows exactly how the long-term prospects of Britain, the EU or American companies doing business across the Atlantic will be impacted by Brexit, but it would be unwise to assume the worst so quickly after the vote.

But you can bet that, long-term, everybody will find a way to move past this interesting, unexpected event without suffering—or imposing—too much damage. Meanwhile, hang on, because the market roller coaster seems to have entered one of those wild rides that we all experience periodically.

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