

Building & Preserving Wealth by Design - Not by Chance

QUALITY FINANCIAL CONCEPTS

Doug's Insights

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Category: Investments

Great Britain Votes for 'Leave' "World Markets React Negatively"

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BREXIT: what does this mean and what actions should be taken? First, investors should understand nothing is different today than yesterday, other than we now know the United Kingdom (U.K.) will no longer be part of the European Union (EU). Companies involved in world trade will continue to deliver their products and be paid. If nothing is different, then why the drop in world markets? The answer is the same as it has always been, "uncertainty".

Please notice, while the outcome of this vote was unexpected, no bank has failed nor has any business closed its doors. Supporters on both sides of this vote were predicting all sorts of economic and political impacts, none of which are a certainty but used as points to sway voters to their side. It is likely the Federal Reserve will not increase interest rates for the balance of this year as they continue to watch the vote's impact on the world's economy and economic data points.

As I am writing this *Insight* the U.S. Markets are indicated to open significantly lower for the day and the drop may remind everyone of the market moves which took place during the *great recession*, but the similarity stops there. If the *Dow Jones 30* drops by 550 points today, it will be trading at a value where it was on June 16, 2016. Just **eight** days ago! During events like this, those invested in the markets always take one of three courses: sell and sit on the sidelines, ride through the turmoil, or look for opportunities. The large moves are most likely driven by *traders*, those who invest on the short term and often trade with borrowed funds. Traders will sell or close a position quickly to avoid short term losses. Due to the large size of many of their positions they are often looking for small moves which equate to large profits because of the size of their position. However, when the moves go against them the potential for large profits turn quickly into potential for large losses thus the reason to sell first and pick up the pieces later.

For investors with a long term time horizon, nothing has really changed. It will take multiple years before it is known whether the United Kingdom's choice proves favorable for them and whether the EU will continue to remain together. There is no reason to sit on the side lines while all of this is worked out. Companies like AT&T, General Mills, Southern Company, Kimberly Clark and hundreds of others will continue to do business as usual. Trade will continue between nations.

As I said earlier, "uncertainty" is the watch word for the day and is impacting traders more than investors. The United Kingdom will have a new Prime Minister as David Cameron resigned today raising the question of who will be his

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replacement and their impact on the economy and relationship with the U.S. While the EU is still comprised of twenty-seven countries, including many economically and politically strong nations like Germany, France, and Belgium, there is a concern whether others may seek to return to an independent status rather than remain a member of the EU. The concern or question, is how this may impact world trade and the strengths of each nation's economy. While these and many other questions will be raised, it is possible most of the losses created during today's trading will be erased within the near future.

Another question and one which may be experienced here in the United States soon, is why did the polls miss the outcome of the 'remain/leave' election by so much? There were times when the odds were as high as 90% remain, only to shift to 90% leave later in the day. Most of the polls prior to the election were indicating the U.K. would remain a part of the EU. It is my thought that since this was such an emotional issue for its citizens, the mix of voter turnout varied from past elections with the turnout returning to past highs at over 70%. The voices of so many who may not have been past voters, swayed the outcome to the unexpected leave decision. Voters here in the U.S. have also felt legislators in D.C. are no longer representing the masses and the impact may be felt in our next Presidential election. Both Trump and Sanders have reach thousands of registered voters who have not always voiced their choice in past elections but that may change this November. As such, we may see as big a surprise this November as British citizens saw yesterday.

We recommend our investors to permit fund managers to take advantage of the moves in the markets and not to sell and sit on the sidelines. For our *Managed Asset* program we will look for opportunities although likely not today, giving a chance for some of the dust to settle. We will also evaluate whether there are benefits of rebalancing. Should you have questions, please do not hesitate to call us at Quality Financial Concepts.