Registered Investment Advisor Firm

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"BREXIT"

The immediate aftermath of Britain's exit from the European Union (EU)- known as "Brexit" – had all the hallmarks of a major financial crisis. The narrow victory of United Kingdom (UK) citizens that wanted to leave (51.9%) versus those who wanted to stay (48.0%) on added to the suspense. There have been calls for a rerun of the referendum. Once the results became official, global financial markets, led by a collapse in the Eurozone assets, went into a tailspin.

A key reason in the economic argument for remaining was a belief that the uncertainty after a vote to leave would cause such havoc in the financial markets as to have a lasting impact on the UK economy. Reports published that the Sterling Pound would plunge, interest cost would soar, equity markets would crash and a 1% cut in their GDP in perpetuity.

Three weeks after the vote the results are the Pound depreciated, but only by half of the prediction; other market indicators have hardly budged or improved; government borrowing costs have not risen but fallen, keeping a lid on the household and corporate borrowing costs, which were also predicted to rise; the FTSE 100 (the British equivalent of the US Dow Jones Industrials) is 12% higher and the FTSE 250 (the US equivalent of the S&P Mid Cap 400) is 2.5% higher than before the vote.

Markets plunged in the immediate aftermath, but also had quick reversals. Balanced portfolios are the best way to profit in an uncertain world. Information surrounding the vote's impact on global growth remains very limited. The International Monetary Fund (IMF) has cut the 2017 growth forecast for the UK and the global economy, but expects the UK's economy will perform better than both Germany and France. The cut is due mostly to the drag of increased uncertainty on consumption and investment.

What should an investor do? DO NOT PANIC. Remain invested and keep focused on your long term goals. You may lighten the allocation of global assets, but I would not eliminate them altogether. A little higher liquidity

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would not hurt, but ignore the noise. Separate extreme reactions that follow unexpected dramatic events from the useful information about prospects for different types of assets in the future.

Once Britain invokes Article 50 withdrawal from the EU, a negotiation period starts from the invoking date, not the referendum date, and begins the process that can last up to a maximum of 2 years and can be stretched further if both parties agree.

The “leave” victory is not a controlled experiment in that it remains unspecified where the nation is leaving to. The incentive of EU governments to take a cooperative stance in negotiations will be limited as they worry about the precedent of voluntary exit. This uncertainty stands as a deadweight loss for risk-taking, both in financial markets and decisions about capital investment.

The FED, which showed itself sensitive to the global economic and financial risk earlier this year, will delay again its anticipated policy tightening until later this year. Our economy may suffer, but not to the degree of the rest of the world.

It was wise to ignore the “Brexit” doomsters. The short term is definitely negative and filled with uncertainty. This will be good news/bad news depending on your point of view. For US government, agency and high quality corporate bonds, there will be a strong demand. For large global companies, lower current growth and earnings. Oil should continue its slow upward price movement and gold should continue its volatility.

For the world as a whole, “Brexit” will act to delay the overall economic upswing, keeping growth and inflation more subdued than it would otherwise have been, but its impact will be much greater in the UK and the Eurozone,

FED Watch

The FED left interest rates unchanged while saying risks to the US economy have subsided and the labor market is getting tighter, suggesting conditions are getting more favorable for an increase in borrowing costs.

The next meeting is September 20th and 21st, and chance of a rate hike is very slim.

Davis Investment Group

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If you have questions or would like further information on this month’s topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me by phone or through my email address at: bob@davisinvestmentgroup.biz

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