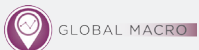




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**STRATEGIES THIS NOTE APPLIES TO:**



# It's Officially a Brexit

## HIGHLIGHTS

- **On June 23rd, British citizens voted roughly 52% to 48% to leave the European Union.**
- **Gold prices jumped 8% in response while oil fell 6%** and the British pound sterling fell nearly 11% as traders fled the currency.
- **Short term, we expect market volatility to pick up** - Asian markets' response and the Dow Jones Industrial Average futures swinging wildly overnight as the results came in may be a bellweather of what's to come.
- **Intermediate term, the U.K. has a lot to work out** - All political accords, treaties, trade agreements and many regulations will have to be reworked, renegotiated and some started from scratch.
- **Long term, the Brexit could have significant geopolitical and economic ramifications for the Eurozone** - All eyes will be on the U.K. to see how they handle the separation both politically and economically.

Global markets were rocked late Thursday evening as the results poured in for the UK's referendum on whether or not to stay in the European Union (EU). The "Brexiters" were victorious, snatching 52% of the vote and setting Britain on an historic path to leave the EU, making it the first country to ever do so.

Stock markets reacted swiftly to the news. Asian exchanges, which were open as the results came in, fell sharply with Japan's Nikkei 225 Average down as much as 8% and China's Shanghai Composite lower by 1.3%. European markets opened the morning off as well. As of this writing, German and French stocks are down 6.8% and 8.5%, respectively. Financial companies and banks, especially those in Europe, have been the hardest hit with some down as much as 25%. Furthermore, our domestic stock markets pointed to a Friday morning open down more than 2.5% as indicated by the Dow Jones Industrial Average and S&P 500 futures.

Investors, fleeing risky assets, poured into government bonds and gold. The German 10-year Bund fell 27 bps to close at a record low yield of -0.18%. Even US 10-year Treasuries felt the buying pressure. US 10-year bonds hit 1.5%, marking the lowest level since late 2012. Gold was also up in response, jumping nearly 5%.

Britain's central bank, the Bank of England, has promised 250 billion pound sterling to ease the markets and create liquidity for the embattled currency. This had a somewhat calming effect and helped bring many off their intraday lows. However, as mentioned above, global equities are still trading sharply lower than their previous close as is the British pound. The pound sterling was off as much as 11% yesterday before rebounding to close down 6%.

In the short-term, we expect volatility to spike as investors reassess the global markets and react to increased uncertainty. The UK is already experiencing political fallout with the Prime Minister, David Cameron, announcing his resignation. However, he will stay in office for a few more months to ensure a smooth transition. We would note that, while the vote is historic and UK politicians have every intention of honoring the vote and going through with the "Brexit", the UK is still technically part of the EU and must abide by its rules and regulations until the separation is finalized.

In the intermediate-term, much work is ahead for the British. Trade agreements, treaties and many regulations must be renegotiated and reworked. The UK economy and markets will likely experience significant volatility as the government seeks to reestablish its global relationships and put the country on the best possible path going forward.

Longer term, the future of the EU is much more in doubt than it was two days ago. Whether the British know it or not, they are being watch very closely by other members of the EU to see how they weather the coming months and years. If they are successful in their separation, they could be paving the way for other countries to leave as well.

Stock markets despise uncertainty and the Brexit results have undoubtedly added a significant amount. We have been watching the markets closely and will continue to do so, providing updates as it relates to the UK's economic future and what this means for investors in general. It is helpful to remember that events such as these are nearly impossible to time and we continue to stress the benefits of a comprehensive wealth plan combined with strategies that have the ability to protect on the downside.

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#### DJIA

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

#### S&P 500 INDEX

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

#### NIKKEI 225 AVERAGE INDEX

The Nikkei 225 Average Index is a Japanese index that tracks the top 225 companies listed on the Tokyo Stock Exchange. It includes the most liquid Japanese stocks listed in the first section of the Tokyo Stock Exchange. It is price-weighted and yen-denominated.

#### SHANGHAI COMPOSITE INDEX

The Shanghai Composite Index is a market index of all stocks (A shares and B shares) that are traded on the Shanghai Stock Exchange. It tracks the largest publicly traded companies in China.

#### Sources:

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