



The Brits' surprise decision to end a 43-year membership in the EU is a historic event that some are saying represents the biggest shock to European politics since the fall of the Berlin Wall. This "leave" vote will have far reaching, but still unclear, implications beyond the borders of the United Kingdom.

We recognize that this type of market-moving event can be unsettling and we wanted to get out a brief summary of our thoughts to help answer questions you may have.

What are the implications for financial markets?

The word of the day is uncertainty – and this is always a very unpopular word on Wall Street. Global stock markets and other risk assets like oil are selling off sharply today as the future is much more uncertain today than it was yesterday. There is no historical precedent to a Brexit and that leaves political and economic pundits without a clear playbook on how to handicap the future. Nearly all outcomes, besides the vote itself, are unknown and left to be determined over not just the next few days but over the next several years. Will other members of the EU follow Britain's path with exit referendum votes? What will England's trade relationship with the rest of the world look like afterwards? How will the EU and the European Central Bank (ECB) respond? Right now, there just is not a knowable answer to any of these important questions.

What are the implications for global economics?

Again, the eventual result of yesterday's vote, economic or otherwise, is unclear. One thing, however, is certain - there will be no shortage of speculation about the future of a divided EU. Look for outlandishly pessimistic views on the future of the global economy and you will be able to find plenty of them. Look for more optimistic takes on a muted impact and you will also be able to find them. When considering how much weight to put on predictions of the future, it may help to reread [our 2015 article about the historical evidence of expert predictions](#) and to remember that the overwhelming majority of "experts" predicted a stay vote by the UK in the months and days leading up the vote.

One thing that plenty of historical evidence has taught is that global protectionism and closed borders are negative for global economics. If the Brexit vote eventually leads to a global protectionism movement where nations in the EU or outside seek to close borders from global trade, then the global economy will suffer. The key European parties will require years to determine how trade operates in a world where the UK is not part of the EU but some of the key players, like Germany's Angela Merkel, have already indicated they will take a hard line on Britain to deter other EU members from following the same course.

The greatest immediate economic impact will be felt by the British economy as the pound sterling plummeted overnight to a 31-year low against the dollar. This historic collapse in the home currency greatly diminishes British purchasing power means that imports into the UK will



likely see a dramatic decline over the coming quarters. It is important to keep in mind that British trade represents less than 1% of US GDP.

What does this mean for my financial plan?

If we were a UK-based advisor and you were a UK-citizen, we would likely have a need to update your financial plan with new assumptions, discuss tax planning ahead of an EU-departure, and cover a range of other uncertain issues. However, for our clients, there really is no lasting impact on financial plans.

What does this mean for my portfolio?

Stock markets are selling off sharply today based on the unexpected outcome and the uncertainty it now presents. Alternatively, bonds are posting strong gains as investors flee to the safe haven status of high grade fixed income. Globally diversified portfolios, such as those employed by RPG, will incur modest losses today as a result of the stock market sell-off but this event provides an excellent example of why we place such an important focus on risk management. Our investment strategy is to remain exposed to a diversified array of uncorrelated risk factors that are intended to reward you fairly over the long term.

We say over and over again that we do not know what the immediate future has in store and that holds today as much as ever. We are not making any portfolio changes as the result of the vote and do not believe that any allocation changes are appropriate. Your portfolio, with positions that provide ballast in times of market stress, is intentionally allocated in anticipation of events like this.

Closing Thoughts

There is a common behavioral tendency for investors to respond irrationally and overreact to events such as the Brexit. Today's market response is in keeping with this tendency. These periods of overreaction provide 'market dislocations' (or mispricing's) that can be taken advantage of by astute investors. This is a fancy way of saying that investors blindly sell assets without rational thought as to what they're selling and why. We would expect your portfolio to benefit from this over the long-term.

We welcome any questions you may have and encourage you to call us or email us if you wish to discuss.

With warm regards,

Resource Planning Group