June 24, 2016

From the FLI Investment Committee – Initial Reaction to Brexit

Friday, June 24, 2016, 5pm: Yesterday, the people of Great Britain voted to exit the European Union. That historic vote has triggered a significant amount of global volatility in bond, currency, commodity, and equity markets. However, the declines were less steep in most domestic markets (the S&P 500 fell by 3.6% today). Thus far, the declines in the U.S. stock market have been orderly. The potential for the Brexit vote had been contemplated by Central Banks around the world and Central Banks have indicated they are prepared to provide liquidity if necessary. This is somewhat reassuring to us.

Some of the pundits that we are in contact with believe that this decision could cause a modest slowdown in GDP growth in the United States as well as in Europe as a whole. This needs to be watched carefully, especially given that Britain's exit from the European Union will take time to negotiate. At the same time, there is now speculation that the Federal Reserve will not raise interest rates anytime soon given this volatility.

We have previously stated that this year would witness an increased level of volatility from a number of factors including the pace of interest rate increases; the presidential election; fluctuations in oil prices; and worries about global economic and political conditions. Nothing has changed our opinion as we are witnessing this volatility first hand today.

We continue to believe that our investments are in high quality companies and bonds (or companies deemed to be undervalued), and that our individualized asset allocations are defensively biased for most of our clients. Our past several quarterly reports as well as our webinar at the beginning of the year spoke to the expected volatility that we have seen now and at the beginning of the year. A prudent asset allocation is the answer for these uncertain times.

We invite you to call us with any questions or concerns you might have. Volatility and periodic market declines are not new to any of us. It is what we have to endure to achieve longer term investment returns.