

## *Financially Speaking*

With Trisha Arndt

### **While a Surprise, Brexit Vote is Not Cause for Panic**

The world woke up to a surprise last Friday morning, learning that the British public had voted to leave the European Union (EU). The “Brexit” as it has been dubbed had appeared unlikely as poll results over the last few days leading up to the vote had indicated a growing strength in the “remain” vote. Clearly the polls were wrong.

Global financial markets instantly reacted to the news, with European equity markets dropping several percent and the rest of the world following suit. At one point in the overnight markets the futures for our own Dow Jones Industrial Average were pointing to a decline of almost 800 points, or about 4.5%, the day after the vote.

What does this mean for long term investors? Should we panic? Pull the plug and go to cash? In a word, no.

While the Brexit certainly will have an impact on global trade, and therefore economic growth or lack thereof, the process of Britain leaving the EU will actually take a couple of years as it will involve renegotiating multiple individual trade deals and other covenants. We don’t know yet how significant the impact will be but we do know that life will continue throughout the process. People don’t stop driving cars, eating cereal or going to work because of political events like this.

The financial markets are reacted so strongly because of the uncertainty the Brexit creates and concerns that other EU countries will want to follow suit and leave. While a possibility, it would be more difficult for other countries to leave as Britain was a very unique member to begin with. Unlike almost all of the EU members, Britain never participated in the common currency (the Euro) and has maintained its own central bank and monetary policy.

Let’s put the market movements in perspective. Yes, stocks sold off sharply, but they had also risen dramatically over the prior couple of weeks under the expectation that the “remain” side would win. For example, the DAX Index, which tracks 30 of Germany’s largest stocks, fell almost 7%, or 700 points, to around 9550 the day after the vote. The chart looked terrible – unless you expanded it out to a couple of weeks, instead of just one day. On June 14<sup>th</sup> the DAX closed at 9519. Yes, you read that right. The DAX closed higher the day after the Brexit vote than it did just 10 days earlier.

While US stocks have not had the same run up as European stocks in recent weeks, similar things can be said about the US indexes if you expand the time horizon a little farther. The S&P 500 Index traded down about 75 points or just over 3.5% the day after

the Brexit vote. That brought it back to where it closed one month earlier, yet it was still over 200 points and 10% higher than it was in February of this year.

For fixed income investors the market reaction to the Brexit vote had quite a different feel as money that fled out of stocks largely flocked into bonds, pushing their values up. For investors with diversified portfolios the gains on the bond side helped to buffer the declines on the equity side – one of the core reasons that I recommend increasing allocations to fixed income as retirement draws near.

The bottom line is that market volatility is a part of investing. Sometimes the movements are more pronounced and sometimes the headlines are more worrisome but eventually every headline drops to the back pages. Just as we shouldn't chase stocks to the upside, we shouldn't panic and sell when the seas get rough. Instead we should stick to our investing discipline, stay patient and focus on the important things in life like friends and family.

*All indices are unmanaged and investors cannot invest directly into an index. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties which are difficult to predict. Past performance is not indicative of future results. Diversification does not ensure against market risk.*

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