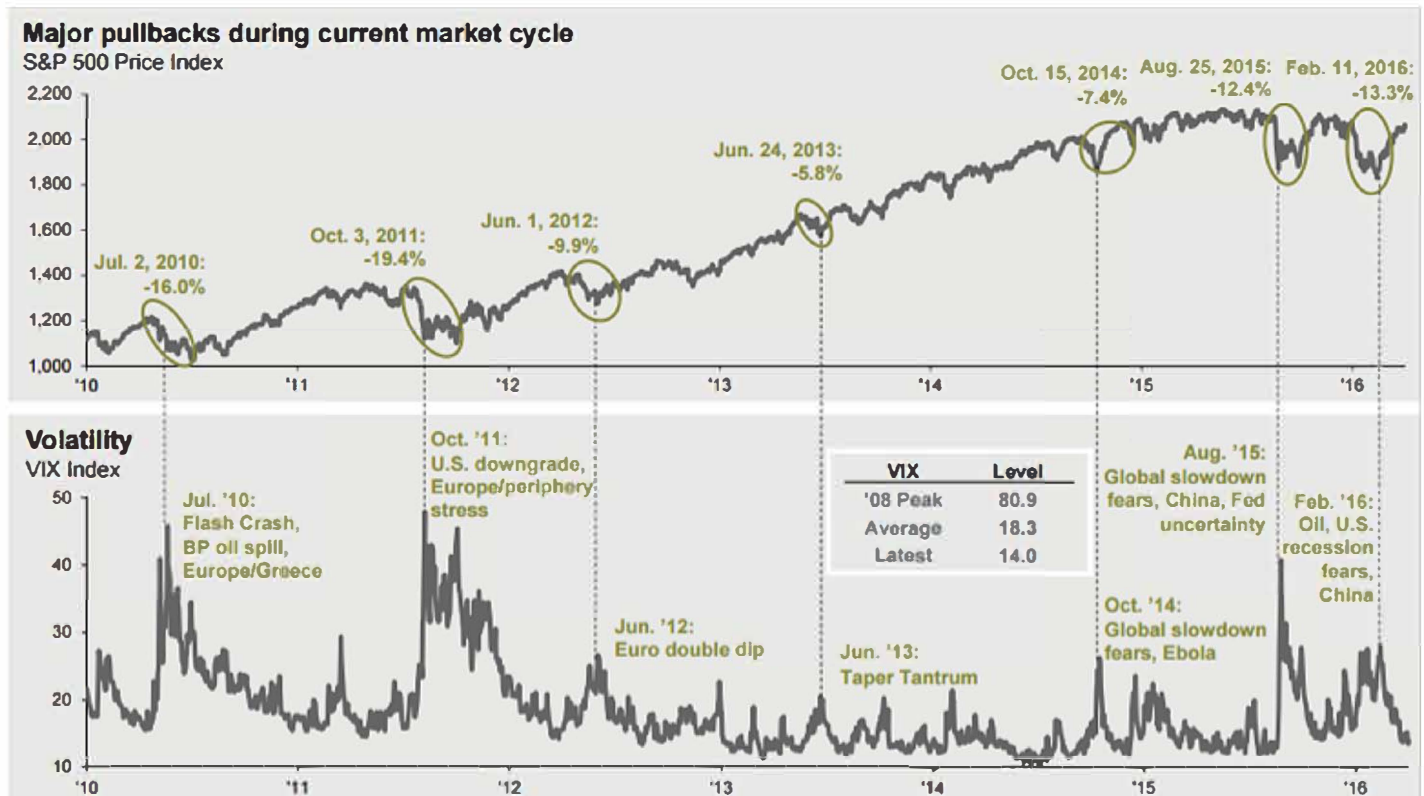


Britain to Leave the European Union

The British have voted to leave the European Union (EU). This has come as a bit of a surprise because prior to the vote most polls were showing that the British would elect to stay in the EU, albeit by a narrow margin. Obviously the polls were wrong and the world's reaction has been undoubtably negative. The British pound has dropped 8.28% and the Euro has dropped 2.29% against the U.S. dollar over night. The world's broad-based (stock market) indexes have also been dropping: the Japanese Nikkei index down 7.92%, the Chinese Hang Seng down 2.92%, the British FTSE 100 down 3.15%, the German DAX down 6.82%, the French CAC 40 down 8.04%, and the Spanish IBEX 35 down 12.35%. As I write this mid-morning on Friday, June 24th, the S&P 500 is down approximately 3%.

Crisis Events Are Typically Short-Lived

As I've said many times before, the markets don't like uncertainty. Brexit opens up all sorts of questions with no clear answers at this moment. Anyone claiming that they know the impact of the British decision to leave the EU is simply speculating. This uncertainty has spooked the markets. Nonetheless, as you can see from the graph below, the markets have been very resilient to pull backs in the market, typically recovering within a few weeks.



Another study that I often quote evaluates fifty-one crisis events that have occurred since 1907 and their impact on the Dow Jones Industrial Average. These crises range from war and terrorist attacks to market crashes and financial crises. As you can see below, the initial reaction is negative. Within a few weeks, however, the Dow Jones has typically recovered most if not all of the initial losses incurred.

		DJIA % Gain/Loss			
Reaction Date		Days after Reaction Dates			
% Gain / Loss		22	63	126	253
Mean	-6.7%	3.7%	5.2%	8.9%	13.9%
Median	-2.9%	4.6%	6.1%	9.3%	16.9%

Source: Ned Davis Research

What's Going to Happen from Here?

There is no easy answer to give because we are in uncharted waters. Many fear that Brexit will push the British economy and the EU economy into a recession. If this were to happen, the additional fear is that their recessions would pull the rest of the global economies down. Others fear that this will lead to more countries leaving the EU, a domino effect that could further destabilize the region. The reality is that no one knows for certain what the political or economic impact will be as a result of the Brexit decision. Be assured that Polaris Wealth is closely monitoring the situation.

Some of the impacts are already being felt. British Prime Minister David Cameron was strongly opposed to leaving the EU. As a result of the vote he is stepping down as Prime Minister (by October). While not legally binding, Cameron will most likely invoke Article 50 of the Lisbon Treaty, which will begin the legal process for leaving the EU. Cameron's wishes are to turn over this process to the Brexit leadership to carry out the unwinding process.

Leaving the EU will not be an easy process, as Britain will have to disentangle itself from the EU structures to which it belongs. It's estimated that it will take the British at least two years to officially leave the EU. During this time they will have to renegotiate trade agreements, immigration agreements, and 80,000 pages of other EU agreements. Even if the British want to move quickly to find their complete sovereignty, it is going to be a long, drawn out process.

What is Polaris Wealth Doing?

As I have written about so many times in the past, we are a tactical investment management company. This means that we increase and decrease our exposure to the markets as risk changes. One thing that I don't often mention is the preparation that we do in advance of major announcements that might impact the markets. No one has tomorrow's newspaper. We have to prepare for major events and then clinically act upon them once announced. Our portfolio management team maps out "if/then" scenarios in advance of such events so we are prepared to make our moves in a clinical and thoughtful manner. For example, in advance of every Federal Reserve meeting we discuss "if" the Federal Reserve raises rates, "then" we will shift our portfolio into XYZ investments. We did the same thing with the Brexit vote. "If" the British leave the EU, "then" Polaris Wealth will reduce our exposure to the stock market, especially in companies that will be negatively impacted by the vote. "If" the reaction continues to be negative, "then" PWAG will continue to lower our stock market exposure to mitigate risk to our clients' portfolios (which is happening right now).



The Polaris Perspective

For more information or to schedule an introductory consultation contact us at: info@polariswealth.com | (800) 268-9046 | www.polariswealth.com

On paper, Brexit should not materially impact the global economy. What I have learned over the past twenty-three years of working in the financial industry is that things rarely work out as they should on paper. We will be closely monitoring indicators like consumer confidence indexes, purchasing manager indexes, and investor sentiment readings (to name a few). All are leading indicators which may give us signals to the direction the markets may head. Regardless, Polaris Wealth will be actively managing your portfolio to help manage the risks that may arise given our current environment.

Uncertainty brews volatility in the markets. Volatility breeds fear. My greatest piece of advice is to not let fear get the best of you. Keep your long-term goals and objectives in mind when reacting to the market's volatility. Most investors base their decisions based upon their emotions, namely fear and greed. This leads to buying when you feel comfortable (at highs) and selling when you don't feel comfortable (at lows). Our investment team is diligently watching your investments and assessing the risk in the markets. We will continue to make clinical, well-informed investment decisions for you during these uncertain times. And if history is any indication of what to expect, soon the markets will shake off this news and return to normal.

As always, I welcome your questions or comments.



Sincerely,

Jeffrey J. Powell
Managing Partner