

The Big Exit

A recent movie, "The Big Short", told the story of people who bet against the mortgage market going into The Great Recession. Perhaps The UK's exit from the European Union (EU) may someday be known as "The Big Exit."

The Driver

The idea behind the European Union was to open borders to permit commerce and resources to flow more easily. This aided the collective economy in many ways. The side effect was increased immigration to countries that were succeeding and creating jobs in the process. The vote last Thursday indicated, as one of its major motivations, a dislike among many of its citizens for the increased immigration and competition for jobs in the UK.

The Experts

Polls and experts predicted the opposite outcome. There seems to be an underestimation of the unhappiness or dissatisfaction that exists in the general public for the status quo in many countries. Our own election this year may also be reflective of these sentiments. To be fair, it is hard to say on any given day what people might do in the voting booth. For many people sitting on fences, that can change from day to day..... and make paupers of the odds makers.

The Reaction

There was more surprise than distress expressed in the market reaction on the 23rd and 27th. These were large moves to be certain, and yet there was a certain orderliness (if that term can be applied) to the downward movement of most markets. Uncertainty and change rarely sit well with the financial markets. This referendum vote in the UK and it's unexpected result certainly reflected that sentiment in the markets.

The Unknown

It has been fascinating pouring over various reports, commentary and analyses about "Brexit." The rest of the EU would like certainty, while the UK would like to take its time, if the country does exit the EU. In the Lisbon Treaty, Article 50 specifies that a member state can withdraw from the EU, but must provide official notice. The UK does not plan to provide that notice for some time. The potential exists that it may not withdraw, as the referendum results are not binding. Parliament, like our Congress, can make different decisions on different days.

The Impact

In the short term, markets have dropped and may drop further on the uncertainty. Yet this will likely delay any rise in interest rates planned by the Federal Reserve in the US, which would act to support the markets. While we may experience a little more of a rollercoaster ride, my sense is that the markets will settle out and we may see some upswing in the second half of the year. There doesn't seem to be anything suggesting a change for longer term investors. The traders and hedge funds will do all they can in the meantime to predict and bet on the timing and direction of various moves in the markets.

Bottom Line

Whether Britain stays or "Brexit" the EU, the fundamental needs of the populace of those countries and the US will not change. Trade will continue, as will the desire for a good and improving standard of living for all. Once the focus dies away from this surprise result and the countries involved determine how to move forward, they will do just that, move forward. The markets will continue to be what they have always been, places of opportunity, uncertain outcomes and risk. Places where a longer term focus often proves valuable.

Your Feedback

I would love feedback on this newsletter. Future issues may include a host of good ideas, insights, specific steps to take financially, life insights and of course "Wit and Wisdom". Most importantly, I'd like it to be of value to you and to encourage an exchange of great ideas and insights. Please send your feedback to:

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