CLEARBRIDGE WEALTH MANAGEMENT
A REGISTERED INVESTMENT COMPANY

www.ClearBridgeWealth.com

"Surprise is the Mother of all Panic"

Update on Brexit

June 29, 2016

Last week we received the unprecedented news that the United Kingdom (U.K.) has voted to leave the European Union (EU), which had led to significant volatility in the global markets. In situations like these, it becomes more important than ever to remain calm, harness our emotions, and stay committed to our long-term plans. Although this result was unexpected, as your advisor, I am here to offer continued support and guidance through these challenging market events.

As we are all aware, on June 23, the United Kingdom (the U.K., comprised of England, Scotland, Northern Ireland, and Wales) undertook an all-country referendum about whether the U.K. should stay in or exit the EU, which it has been a member of since 1975. This vote, referred to as the "Brexit" vote, is done by allowing all citizens to cast their ballot on whether to "remain" or "leave." In a very close vote, "leave" brought in 51.9%.

In the days immediately before the vote—although it was expected to be close—the polls suggested a slight tilt that the U.K. would remain; financial markets reacted positively, with stocks around the globe rising in value, along with most foreign currencies. Early Friday morning overseas, as it became clear that, in fact, the U.K. had voted to leave, these recent gains were reversed and there have been sharp declines in global equity markets, particularly in Europe and Japan. European currencies have also weakened relative to the dollar. Essentially, the markets were expecting a "remain," were surprised by a "leave," and thus reacted negatively. When it comes to the financial markets, "surprise is the mother of all panic".

Though the questions surrounding exactly how and when the U.K. extrication from the EU will happen has caused near-term financial turmoil, the actual "leave" vote does not create an immediate change in the day-to-day functioning of the markets. Rather, it's the beginning of a process that may take two years or more to fully execute. However, in the short term, there is some additional uncertainty politically: U.K. Prime Minister David Cameron has already announced his intention to resign. There are also upcoming elections in other European countries, including Spain, this weekend. All of these just raise more questions than the markets typically like to see, which is causing this near-term turmoil.

However, the S&P 500 gained another 1.7% yesterday, on the heels of gaining 1.8% the day before. This was the best two-day bounce since the February lows; of course, it came on the heels of the worst two-day drop since last August. That streak eventually made it to six in a row. Also, the past four days have all moved at least 1.5%, for the first time since November 2011. With one day to go in the quarter, the S&P 500 is up 0.5% in the second quarter. This could be the third straight quarterly gain.

The rebound in financial markets over the past several days after the post Brexit sell-off on Friday June 24 and Monday June 27 suggest that most market participants now expect "Brexit Light" (the U.K. retains trade relationships with the EU but restricts immigration) to occur, or for the U.K. to remain in the EU even though the vote was to leave

However, as the market gets over the Brexit shock and answers start to come on other fronts, this turmoil should settle some. The global economic system is better prepared to deal with financial panics than it has been historically. Most global banks are in much better shape than they were leading up to the financial crisis in 2008, and central banks are prepared to extend credit to institutions and countries to help them manage short-term liquidity problems if they arise.

The United States is insulated, though not immune, from events overseas. Although there has been a decline in U.S. stocks early today, it is smaller than the declines in foreign markets. The U.S. economy and the U.S. stock market are built on a foundation of domestic consumption of goods and services. Our economy is impacted by events globally, but it is not dependent on them.

In times of financial market stress, we must remember our investments are for the long term. This is a time for caution, but not panic or overreaction. Although our emotions might be telling us to act, we must resist this urge and strive to maintain a patient, long-term focus on the future. Some volatility may persist in the short term, and although we do not know for certain what lies ahead for the markets, the best course of action is to face it with a steadfast commitment to let reason, not emotion, drive our investment plan.

I am here to help you understand these very challenging times and will continue to keep you informed of all developments. As always, if you have any questions, I encourage you to contact me.

Thank you for your continued trust and confidence.

Sincerely,

Preston

J. Preston Byers CPA CFP®
President

pbyers@clearbridgewealth.com

FIVE STAR PROFESSIONAL
2014 Wealth Manager
Multi-Year Winner

7000 Central Parkway Suite 1760 | Atlanta, GA 30328 | 770-350-9605

The Five Star Wealth manager is an award based on client satisfaction. Respondents evaluate criteria such as customer service, expertise, value for fee charged and overall satisfaction. The overall evaluation score is based on an average of all respondents and may not be representative of any one client's evaluation.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Stock investing involves risk including loss of principal.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise and bonds are subject to availability and change in price.