Perspective on Brexit

The UK's decision to exit the EU created all kinds of mayhem in the markets on Friday, which included volatility in stock prices and a decline in interest rates. The financial media reacted as expected, by painting this as the new "end of the world" story. Fortunately, we can simply look at events just in the past decade that give us some good insight on the long-term implications of major global events. The chart below shows how equity markets reacted to historical major global events and how long it took for a recovery:

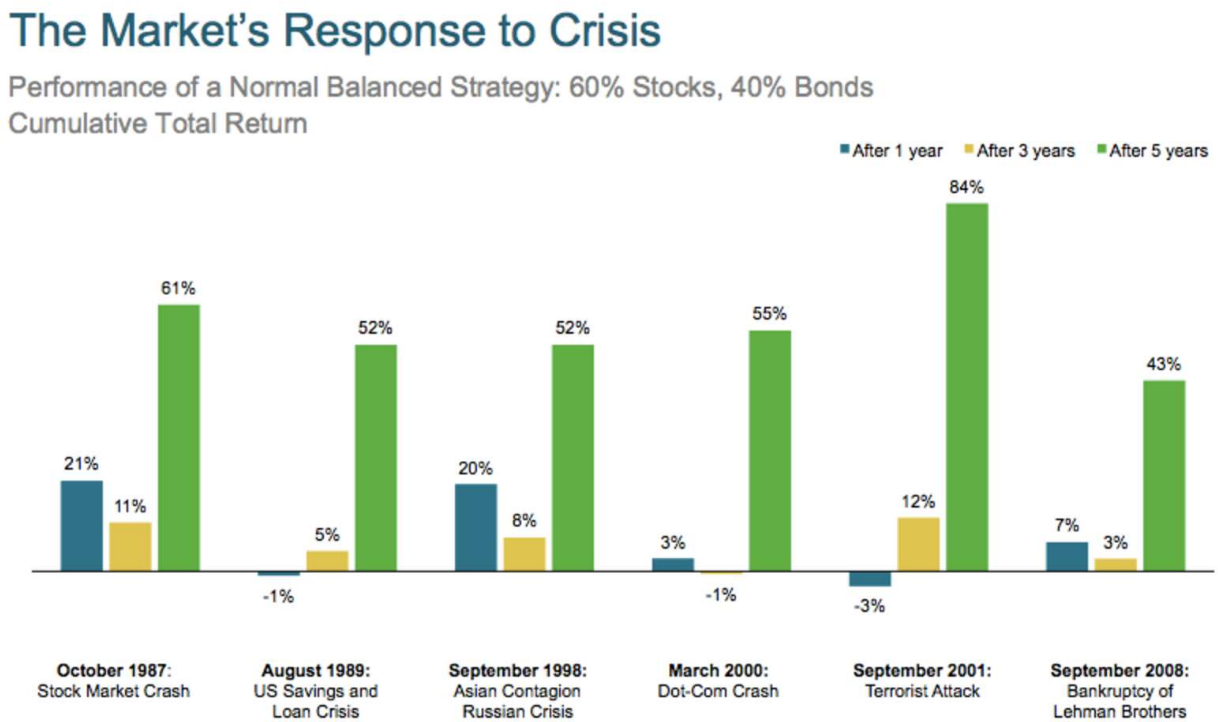
SHOCKS TO THE SYSTEM: Market Declines and Recoveries Since WWII

	Closing Levels			Bottom			Days to
Market Shock Events	Prior Day	Next Day	% Chg.	Level	Days	% Chg.	Recover
Japanese Tsunami: 3/11/11	1304.28	1296.39	(0.6)	1256.88	3	(3.6)	6
Flash Crash: 5/6/10	1165.87	1128.15	(3.2)	1110.88	1	(4.7)	4
Lehman Bankruptcy: 9/15/08	1251.70	1192.7	(4.7)	676.53	121	(46.0)	285
Madrid bombing: 3/10/04	1140.58	1123.89	(1.5)	1093.95	10	(4.1)	18
Terrorist Attacks: 9/11/01	1092.54	1038.77	(4.9)	965.80	5	(11.6)	19
Collapse of LTCM: 9/23/98	1066.09	1042.72	(2.2)	959.44	11	(10.0)	9
Iraq's Invasion of Kuwait: 8/2/90	355.52	351.48	(1.1)	334.43	2	(5.9)	30
Program Trading: 10/19/87	282.70	224.84	(20.5)	223.92	33	(20.8)	223
Reagan shooting: 3/30/81	136.30	134.7	(1.2)	134.70	1	(1.2)	4
Nixon Resignation: 8/8/74	82.65	81.57	(1.3)	62.28	39	(24.6)	143
OPEC oil embargo: 10/17/73	111.30	110.05	(1.1)	109.16	6	(1.9)	10
Kennedy assassination: 11/22/63	71.62	69.61	(2.8)	69.61	1	(2.8)	2
Cuban missile crisis: 10/22/62	54.96	53.49	(2.7)	53.49	1	(2.7)	5
Pearl Harbor Attack: 12/7/41	9.38	8.97	(4.4)	8.37	18	(10.8)	257
Medians			(2.4)		6	(5.3)	14

Source: S&P Capital IQ. Past performance is no guarantee of future results.

Obviously, the Brexit vote will not fit perfectly into any one of these past events, but you can see that a recovery from the initial market decline happened each time without fail. Of course, some of the events were more short-lived than others. For instance, the Flash Crash short-term market decline was extremely short-lived and less impactful than many other events.

Another chart that is relevant to the Brexit event:



This puts things in perspective as far as a major global event and how it might impact future returns. We still don't know the implications, but it's hard to believe that Brexit will be more significant than any of the above examples. The point is that the market is reacting very normally to an unexpected event with volatility and uncertainty being present in the near-term.

As long-term investors, it's important to remember a few things when we are going through these types of events:

1. Your portfolio is designed and positioned for your unique situation, goals, and time horizon assuming your goals and situation have not changed recently. There is no need to take any action based on a global event. Successful investors always *act* on their plan rather than *react* to an event.

2. Your investment plan takes into consideration the uncertainty and periods of negative returns that will happen amid a long-term market cycle. For instance, the bonds in your portfolio (if your situation calls for bonds in your portfolio) dampen the volatility of stocks. On Friday, bond prices went up with interest rates going down.

3. If you're still accumulating in your investment plan, these are the ideal opportunities to add to your long-term investment plan. As prices are going down in the markets, the expected returns are going up. In other words, it is always better to buy low than high.

4. Rebalancing is one of the keys to investment success. We are constantly looking for opportunities to sell more expensive asset classes in your portfolio and buy the least expensive ones. With the uncertainty in Europe and the UK, we are seeing some of these asset classes become cheaper that will present great rebalancing opportunities. These trades will help drive up your long-term returns and reduce your risk of being too exposed to an expensive asset class.

5. Volatility can work in both directions. Often, high volatility in the markets will also mean large daily advances in the markets. This is one of the reasons it is very risky to time the markets. As Warren Buffett said, "The stock market is a device for transferring money from the inpatient to the patient."

We are here to help you have the right perspective and are committed to keeping you focused on your long-term financial goals. Please don't hesitate to reach out to us if you have any questions or concerns. We appreciate your continued trust and confidence in our firm. Our primary goal is always to help you be successful in the long-term.

Best,

Kendall