

Investing Wisely

A Newsletter from Mike Wise

Brexit Special Edition June 2016

In a historic development, citizens of the United Kingdom voted last Thursday in favour of their country leaving the European Union (EU). The news has triggered a dramatic reaction on global financial markets, with share prices declining sharply and prices for bonds and gold increasing. In currency markets, the U.S. dollar was up against most currencies, while the euro and British pound dropped.



market participants did not adequately anticipate a Leave victory. (The margin was actually 52-48%. By way of comparison, President Obama won the 2008 US presidential election with 52.9% of the popular vote, and the 2012 election with 51.1%).

What does this mean for investors?

I think the foremost impact will be uncertainty. That uncertainty will last a long time.

First, the ruling Conservatives will have to select a new leader, since Prime Minister David Cameron has said he will resign. Under the British system, the Members of Parliament are the ones who choose their leader, so this could be done relatively quickly. Second, the new government has to send a formal declaration to the European Parliament that the British government will invoke Article 50 of the EU constitution. Article 50 lays out the rules by which a nation may leave the Union. There is likely to be no rush for this to happen.

Third, under Article 50 Britain has 2 years in which to negotiate the terms of their divorce from the European Union.

I therefore expect a period of at least 3 years, maybe more, in which there will be great uncertainty in Europe. You can expect many politician-actors to strut their stuff in front of the TV news cameras.

Given the magnitude of these moves and news coverage that is predicting the end of the world, I am writing to provide you with some perspective on these events and what they might mean for us.

Why did the markets react this way?

First of all, the financial community in general believes that the prospect of the U.K. leaving the EU – or "Brexit" – will be harmful to the British, European and global economies and their financial systems because of the increased uncertainty and impediments to trade and finance. With regard to the market reaction in the days since Thursday, many market participants were simply caught by surprise. The financial wizards were too busy looking at their computer screens to actually go outside and talk to the ordinary British people. Although polling consistently showed that the vote would be close,

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While all of this is going on, however, the real world will be unfolding in a manner entirely divorced from what the headlines might be screaming. The British pound has dropped something like 15% in the past couple of days. Your holiday in Britain just got 15% cheaper! That should be a boon to the UK travel business, and travel is a big business in the UK. If you are more well-heeled, the price of a Jaguar just got 15% cheaper. Why not combine the two: buy the Jag at the Coventry factory, drive it around Europe, then ship it back to Canada at the end of your holiday!

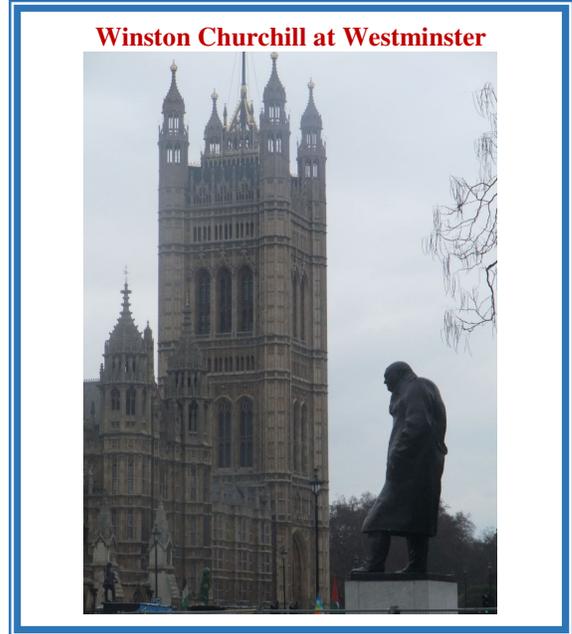
In the very short term, it is quite possible that we get a rebound in the stock, bond and currency markets as more level-headed investors jump in to take advantage of the panic selling. Longer term, markets do not like uncertainty. We can expect a lot of volatility in the financial markets. Volatility in Europe is a certainty. Whether it spreads and impacts North America and Asia is something that no one currently knows. If you read anything about this, it is idle speculation, not informed opinion.

What should I do?

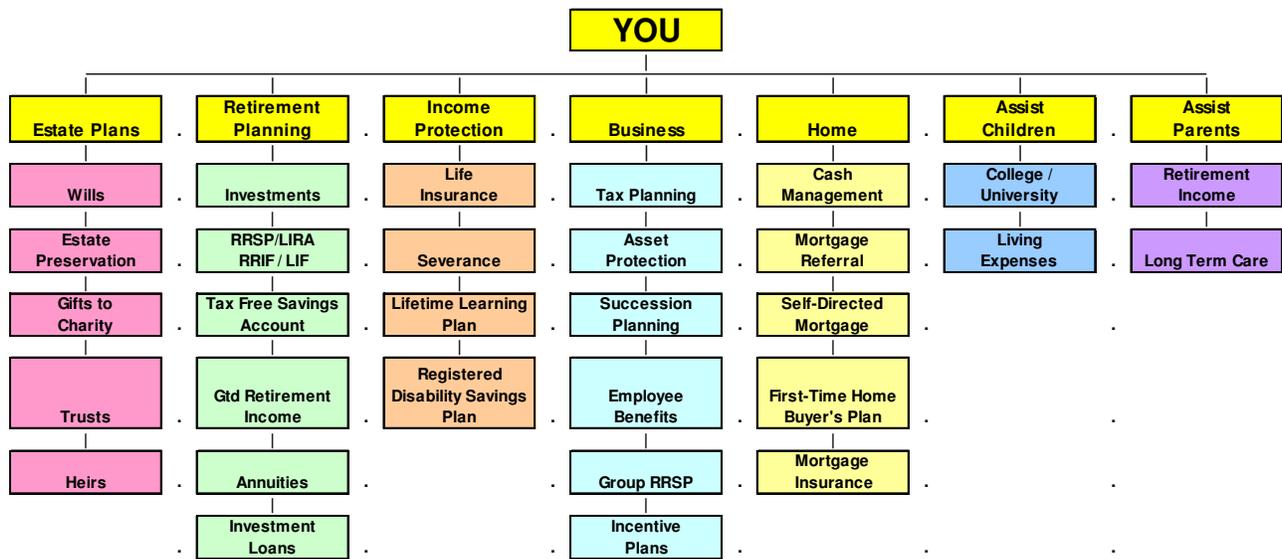
My advice is to simply stick to your investment plan. It was developed and tailored to match your individual objectives and time horizon – criteria that are not affected by Brexit. We also took market

volatility into account by having a well-diversified portfolio.

I am available to answer any questions or concerns that you might have. Please contact me at mikewise@wiseword.ca or 587-329-1659. Once again, I thank you for your business and I hope that you and your family have a safe and happy summer.



WHAT'S IMPORTANT TO YOU?



Perhaps I Can Help!