

# FINANCIAL Insights

## Welcome to Brexit

The June 23<sup>rd</sup> vote by the British electorate to end its 43-year membership in the European Union seems to have taken just about everybody by surprise, but the aftermath could not have been more predictable. The uncertainty of how, exactly, Europe and Britain will manage a complex divorce over the coming decade sent global markets reeling. London's blue chip index, the Financial Times Stock Exchange 100, lost 4.4% of its value in one day, while Germany's DAX market lost more than 7%. The British pound sterling fell sharply (down 14% against the yen, 10% against the dollar).

Compared to the global markets, the reaction among traders on U.S. exchanges seemed muted; down roughly 3% on June 24<sup>th</sup> and another 2% on June 27<sup>th</sup> before rebounding sharply on June 28<sup>th</sup> and 29<sup>th</sup>, though nobody knows if that's the extent of the fall or just the beginning.

The important thing to understand is that the market disruptions represent an emotional roller coaster, an immediate panic reaction to what is likely to be a very long-term, drawn out, ultimately graceful accommodation between the UK and Europe. German companies are certainly not 7% less valuable on June 24<sup>th</sup> than they were before the vote, and the pound sterling is certainly not suddenly a second-rate currency. When the dust settles, people will see that this panicky Brexit aftermath was a buying opportunity, rather than a time to sell. People who sell will realize they were suckered once again by panic masquerading as an assessment of real damage to the companies they've invested in.

What happens next for Britain and its former partners on the continent? Let's start with what will NOT happen. Britain will not have to start printing a new currency. Unlike other European nations, when the UK entered the EU, it chose to retain the British pound—that, of course, will continue. Stores and businesses will continue accepting euros.

## JUNE

On the trade and regulatory side, the actual split is still years away. One of the things you might not be hearing in the breathless coverage in the press is that the British electorate's vote is actually not legally binding. It will not be until and unless the British government formally notifies the European Union of its intention to leave under Article 50 of the Treaty of Lisbon—known as the "exit clause." If that happens, Article 50 sets forth a two-year period of negotiations between the exiting country and the remaining union. Since British Prime Minister David Cameron has officially resigned his post and called for a new election, that clock probably won't start ticking until the British people decide on their next leader. For the foreseeable future, despite what you read, the UK is still part of the Eurozone.

After notification, attorneys in Whitehall and Brussels would begin negotiating, piece by piece, a new trade relationship, including tariffs, how open the UK borders will be for travel, and a variety of hot button immigration issues. Estimates vary, but nobody seems to think the process will take less than five years to complete, and current arrangements will stay in place until new ones are agreed upon.

An alternative that is being widely discussed is a temporary acceptance of an established model—similar to Norway's. Norway is not an EU member, but it pays EU dues, and has full access to the single market as if it was a member. However, that would require the British to continue paying EU budget dues and accept free movement of workers—which were exactly the provisions that voters rejected in the referendum.

Meanwhile, since the Brexit vote is not legally binding, it's possible that the new government might decide to delay invoking Article 50. Or Parliament could instruct the prime minister not to invoke Article 50 until the

government has had a chance to further study the implications. There could even be a second referendum to undo the first.

The important thing for everybody to remember is that the quick-twitch traders and speculators on Wall Street are chasing sentiment, not underlying value, and the markets right now are being driven by emotion to what is perceived as an event, but is really a long process that will be managed by reasonable people who aren't interested in damaging their nation's economic fortunes. Nobody knows exactly how the long-term prospects of Britain, the EU or American companies doing business

across the Atlantic will be impacted by Brexit, but it would be unwise to assume the worst so quickly after the vote.

You can bet that, long-term, everybody will find a way to move past this interesting, unexpected event without suffering—or imposing—too much damage. Meanwhile, hang on, because the market roller coaster seems to have entered one of those wild rides that we all experience periodically.

-Bob Veres

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# the market at a glance

## MAY

**U.S. Large Cap**  
(S&P 500)

**2,096.96** (1.53%) ▲

**U.S. Mid/Small**  
(Russell 2000)

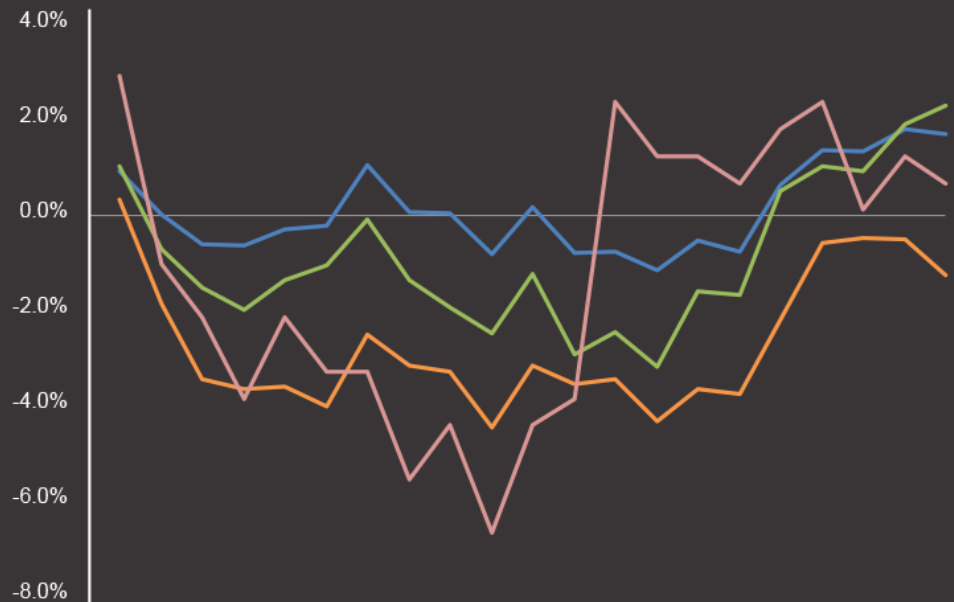
**1,154.79** (2.12%) ▲

**International Large**  
(NYSE International 100)

**4,732.62** (-1.33%) ▼

**U.S. Treasuries**  
(U.S. 10-Year Treasury Yield Rate)

**1.85** (0.55%) ▲



## The market in action

- The Puerto Rican government fails to make over \$420M in bond payments at the beginning of May, a symptom of a severe debt crisis that economists and bond traders have been watching for several months.
- Google-owner Alphabet Inc. announces it will ban ads for payday loan services on its search engine results page. The ban follows months of negative press and public criticism for payday loan companies and fits within Google's well-known practice of blacklisting ads for things it considers unethical.
- Charter Communications Inc. gets final approval for its \$65B acquisition of Time Warner Cable and Bright House Networks LLC. When combined under the Charter brand, the companies will form the second largest internet provider in the United States.
- Australian computer scientist Craig Wright identifies himself as the creator of the digital cryptocurrency Bitcoin. Despite receiving coverage from many news outlets, Wright has yet to provide proof he is the actual creator, who has operated under the pseudonym "Satoshi Nakamoto" since 2008.
- Retail and grocery giant Kroger Company begins a massive hiring campaign to fill more than 14,000 new and existing positions at its various supermarket chains across the country.
- Consumer prices, spending and personal income show strength in their April data reports, rising significantly from the month prior and signaling economic health. Most notably, consumer spending rose 1 percent in April from the previous month—the fastest growth in more than six years.
- Despite already working through a layoff that will terminate 10,000 jobs, Royal Dutch Shell announces it will be cutting an additional 2,200 positions as it attempts to deal with persistently weak oil prices.
- French tax investigators execute a surprise raid of Google's Paris offices, claiming the search giant has avoided paying more than \$1B in taxes to the French government.

# The Importance of Having a Will

According to a 2014 survey, 51 percent of Americans age 55-64 (and 62 percent of Americans age 45-54) don't have a will. The reasons for not maintaining a will can range from a lack of urgency to a paralyzing fear of death. Not only is having a will necessary, the effects of dying without having a will—called dying “intestate”—may be worse than you expect.

## The Dangers of Dying Intestate

### **Estate Shrinkage**

It is normal for estates to lose some of their value to final costs, such as burial/funeral expenses and outstanding debts. However, lengthy court procedures and legal fees attributed to resolving inheritance disbursement can quickly erode a large part of an estate's net worth. Wills are created for the benefit of survivors; not having one reduces the amount that passes to the heirs.

### **Family Disputes and Disagreements**

Disagreements regarding an estate can easily cause rifts in families. Arguments over who deserves specific heirlooms or property can be exacerbated when the wishes of the decedent are not directly known. In extreme circumstances, these kinds of disputes can last for decades, making a will essential—especially when families are large or relationships are strained.

## Benefits of a Will

### **Control over Assets**

The decedent may have specific desires regarding which of their family members get their possessions. Instead of the distribution of assets being decided by another family member or possibly the legal system, having a will allows the decedent to fully control where all assets will be distributed.

### **Choose Executor of Will**

If there is no will, and subsequently no executor named, the individual that is chosen by the probate court may not act according to the decedent's desires. Choosing the executor of a will ensures that the individual that the decedent thinks will best serve his or her wishes will be in charge of key decisions, handling conflicts and proper care of the estate.

### **Custody of Children**

If the decedent has children, but has not named a new guardian in a will, the courts will decide who gets custody of their children. Although judges consider living situations and familial relations while trying to act in the best interest of children, they can't possibly know every detail about each family's unique situation and there is no guarantee that a court-appointed guardian will be the same person the decedent's would have wanted.

## Now is the Time

### **Peace of Mind**

Thinking about death may be frightening, but the thought of leaving confusion, lack of clarity and potential disputes behind can be even more unsettling. Creating a will allows individuals to know that, when they pass away, all of their wishes will be honored and their loved ones will be free from the burden of figuring out the details of an estate.

### **Keep it Updated**

If you already have a will, consider revisiting and, if necessary, updating it. There may have been financial, legal or personal life changes that are not yet reflected by the current version of your will. Not having a will can create confusion, but having an outdated will that gives rights to a former spouse or estranged family members can be disastrous for intended heirs.

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