

Special Edition - "Brexit"

June 24, 2016

COMMENTARY

As we write this, Dow futures are down just over 500 points. So here are a few points of our own:

Markets were expecting a "remain" vote. So the market's reaction to the "Brexit" is as much to the surprise as it is to the reality. That does not mean the reality is a positive ... at least in the near term. There is heightened uncertainty as to what happens next. Besides impact on security prices, there can be near term impacts in the real world until the picture becomes clearer.

Having said that, the picture is not all negative. This is NOT a disaster. There is no reason why Britain can't establish bilateral agreements with the EU. The US is not in the EU and has trade agreements. Our exclusion from the EU is not a problem. Britain's exclusion shouldn't be a problem either. Once a formal exit submission to the EU is made, there is a two year negotiating period. Unless EU negotiators are vindictive, normalization is possible and even likely.

While Britain will face short term risks until terms are negotiated, the longer term risk is to the EU. Ironically, a successful Brexit will make it likelier that others might leave. That we believe is the real concern. Once again, this creates uncertainty. However, decentralization and competition among

nations can be quite positive for long term growth. In case no one has noticed, centralized control of economies has not been particularly successful in recent years. We realize that's a bit contrarian, but we think it should be noted.

Within the U.S., there are a few changes. There is virtually no chance that the Fed will raise interest rates any time soon ... but you already knew that. The dollar should be strong which will help consumers but make things tougher for exporters. This is sort of a repeat of 2015 - it was difficult but not a disaster. We still see economic growth as being positive, but it should be extremely modest at best through the end of the year.

As for markets themselves the road can be bumpy for a while ... probably through the election. Having said all that, **THE WORLD IS NOT COMING TO AN END** (just thought we'd emphasize the point). Risk premiums in the markets are already high. They just got higher, and we can't rule out them getting higher still. So while we're still bullish for the long term (valuations are only better this AM), little would surprise us in the short term. However, since we are starting from low valuations, and we don't expect the economy to plunge into a deep recession, we advise investors not to panic.