June 29, 2016

Market Volatility and "BREXIT"

During the last month, the market has been moving forward. Last week there was a national vote in England. The proposal was to move out of the European Union (called the "Brexit" proposal) and become an independent country. Most analysts felt that the people of England would vote to stay in the European Union, so the market kept moving upward. Thursday, the English voted and the result were not what analysts predicted. This was not the anticipated result and the uncertainty is the main reason for the current market volatility. In addition to the natural uncertainty, high frequency traders were betting that the UK would vote to stay and as a result, they were on the wrong side of the market after the vote. It is also the last week of the second quarter and many mutual funds sell to make profit or to claim losses. Both of these have caused extra volatility.

Sam Stovall, Managing Director, US Equity Strategy for S&P Global wrote in the June 27th Outlook for S&P Global. He summed the situation with the UK up by saying, "I don't see a recession ensuing. Trade agreements remain in force until Parliament votes to leave the EU. In addition, the Bank of England has pledged £250 billion to support capital markets. Global demand will not dry up and the U.K. will not be denied access to foreign markets. Granted, the EU will make it tough on the U.K. to discourage other EU countries from getting the same idea. In the short term, markets will trade on emotion, so make sure you don't end up becoming your portfolio's worst enemy. In other words, stay calm and carry on."

We still believe the market will be positive during the second half of the year. We feel that corporate earnings for the last two quarters of 2016 should increase, which in turn, should raise the market. As we look forward to 2016 and review client portfolios, we may begin to make adjustments, which may include increasing the fixed income allocation.

In the latest edition of Schwab's Market Perspective: British Shock—What's Next, they displayed a chart that illustrated how quickly the market returns to normal after a crisis.

Shock	First Day Decline	Full Decline	Time to Recover Losses
Japan earthquake 3/11/11	-6%	-16%	4 months
U.S. debt ceiling debacle 8/1/11	-3%	-14%	3 months
European debt crisis 3/27/12	-3%	-11%	3 months

Source: Charles Schwab, Bloomberg data as of 6/23/2016. Past performance is no guarantee of future results.

We are available to discuss any questions or concerns about the market or your portfolio. Please do not hesitate to contact us. We are here to help.

Regards,

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