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Our Perspective on Brexit...

What a momentous turn of events across the pond, as the United Kingdom voted on Thursday to leave the European Union after 43 years--setting off investment market gyrations around the world. This outcome, to a large extent, rejects the status quo in world economic relations and may



elevate market uncertainty over the near term investment horizon. It is important to note that while this transition will not be resolved quickly, as policymakers will need time to negotiate new agreements and regulations, we do not view it as a global crisis event. It does however, put the British economy in "uncharted waters," and markets HATE uncertainty.

In our estimation, the vote was caused by a combination of factors, some unique to Britain and some broader, including an anti-globalization sentiment that has taken hold in many parts of the developed world. Growing income inequality in developed countries may be a possible root cause of this, leading to a backlash against current policies and politicians. The trend has undeniably played some role in the rather interesting U.S. presidential primaries as well.

From an investment market perspective, pre-vote polling had been close, causing equities to move up in the early part of the week as a "leave" result seemed less likely. However, after the exit vote a "risk-off" sentiment took hold, causing a still modest selloff in equities, while traditional safe haven assets such as gold and government bonds have traded higher after the vote. In situations like this, we are often reminded that while the equity markets may be volatile in periods of uncertainty, they tend to recover over time as the focus returns to fundamentals.

As the UK may take up to 2 years to negotiate the terms of their exit from the EU, I would expect political turmoil to be the main focus over the next year in Europe. It is still a highly integrated economic world, one in which technology has obliterated most economic boundaries--in the end this vote is more about the uncertainty of how the terms of Britain's relations with other countries will be developed.

Implementing a structure for your investments that is a reflection of your financial plan allows us to withstand short-term volatility. This includes linking your asset allocation with your comfort for risk, and implementing exposure to less correlated & alternative asset classes. It is also why we continue to stress adequate cash positions, so we are not "ransom" to a volatile market in the event you have a liquidity need.

The Brexit news is still evolving as investors determine the short-term and long-term impacts to the global economy and world financial markets. You can expect additional updates from us as the ramifications become clearer. If you have any questions or concerns, please feel free to contact me.

Sincerely,

Jason

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Investing involves risks including the potential loss of principal. No strategy can assure success or protect against loss. Past performance is no guarantee of future results. Research from Tower Square Investment Management contributed to this commentary.



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