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Brexit and Market Volatility

Last Friday, the Dow Jones Industrial Average dropped a little over 600 points, or approximately 3½ % in one day. The reason, as everyone knows by now, was the surprise vote by Britain to leave the European Union. The US received that news in the early morning hours Friday. Wall Street has never liked surprises, and the first impulse of many money managers is to sell stocks, any stocks, as fast as they can to raise money. This does not mean that these determinations to dump stocks were well-thought out or carefully deliberated decisions. I believe we can all agree on that point. Immediately, in the first 5 minutes of trading, the Dow was down more than 500 points. This means that the institutions raced to the market at 9:30 with their sell guns loaded. The rest of the day it bounced around both up and down, and in the last 5 minutes of trading dropped the final 100 points, closing down 610.

Finance and bank stocks suffered the most, but it was a pervasive drop with 83% of stocks declining. The price of Apple dropped 3% in one day. Does the British exit, or Brexit as it is called, mean that Apple's earnings will suddenly deteriorate? Of course not, and I believe this is another point on which we would concur.

While there appear to be valid pro and con arguments for Brexit, we are not convinced that anyone knows at this point how the positive or the negative ramifications of this exit will eventually play out. Also, there are the time considerations. We have seen estimates of between two and seven years for the details of the United Kingdom and the EU separation to be worked out. We contend it is not, nor should it be a major concern for our stock markets, and certainly not a reason to sell equities.

As you have guessed by now, our outlook remains very bullish for a number of reasons. To reiterate some of these reasons:

- With interest rates at historically low levels, the costs to borrow for growing and qualified companies, is hugely favorable.

- There are enormous amount of money on the sidelines, earning little or no interest. Does anyone believe a ten-year U S Treasury Bond paying 1.6 % or a same duration German Government with a negative interest rate represents a good long-term investment plan?
- A stream of new developments in medical as well as technological fields is improving both our health and the ease of doing business.
- Energy prices are at lows we have not seen for many years.

Remember that the best opportunities occur when business and GDP growth still appear to be slow. In our client letter sent in January of this year, we discussed corrections and drawdowns. They occur in all markets, but especially as strong bull markets are just beginning to emerge. We have seen many drawdowns in our years in this business. They virtually all lead to opportunities, <u>but especially in bull markets</u>.

THIS IS IMPORTANT: In December, 2012, we were convinced that we were about to enter a new secular (or very long-term) bull market. We had not seen a meaningful new high in the S&P 500 Index for almost 13 years. We sent a client letter saying ***"watch for this (new high in the S&P) to happen!"*** In April, 2013 it happened! The S&P broke through 1590, a new all-time high. As we write this, the Index stands at 2037, and that is <u>after</u> Friday's fall. We believe that we are looking at a ten to fifteen year continued growth in overall stock prices and that the S&P Index will continue to gather momentum as it rises. Emotional declines like Friday's Brexit offer serious opportunity. While drops like Friday's are rarely over in one day, they are generally short-lived.

We accept the fact that the majority of investors will not concur with our beliefs; that they will focus on fear and negativity . . . but, we hope to help our customers manage their investments in a sensible and pragmatic manner, and avoid the super-contagious emotions that continually swirl through the market.

Sincerely,

Mike Ben

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