Prepared Comments from 6/27/2016 Conference Call

BrExit—Britain's population on Thursday voted on a referendum and by 51.9% to 48.1% requested that Great Britain leave the European Union, which it has belonged to for over forty years. What does this mean for investors?

Let's begin with an overarching theme to this call. There is more that we don't know than what we do know, and this will remain the case for months, if not years. Let's begin by focusing on what we do know.

Great Britain contains the UK, Wales, Northern Ireland, and Scotland. The first two territories voted to exit, and the last two voted to remain.

There are 28 member states of the European Union (EU, a politico-economic union), and 19 use the Euro as their currency (making up the Eurozone). Great Britain does not (it uses the British pound), nor does Bulgaria, Croatia, Czech Republic, Denmark, Hungary, Poland, Romania, Sweden, and a small municipality in Switzerland near Italy. Two small countries use the Euro as their currency, but are not member states of the EU.

Thursday's vote is not binding on the British government, however it is expected that around November 1st the government will file the papers to begin the exit process, a process which will take no less than two years.

The EU has regulations binding their member states, on issues such as trade (tariffs on goods and services), on capital, and on immigration. The EU has joint institutions (including a central bank, the ECB) and common legislation.

Exiting the EU requires Britain to renegotiate the terms of trade, and the movement of capital and people. Britain can also decide whether to seek to join other trading blocks, some of which are 'Euro-lite.'

The markets have fallen. We don't participate directly in currency markets, but the pound and Euro have fallen, while the dollar and yen have risen. Quality bond yields have fallen and prices have risen. Through Friday's close, the S&P 500 had a total return of about ¾%, while large foreign stocks were down almost 5% and European stocks were down about 6½%. Financial stocks are down 5½%.

Precious metals stock funds are up almost 88% year-to-date. Today Asian stocks are up, but European stocks are down about 3%, and US stocks are down about 2%.

We have had the limit orders fire for sixteen of our 40 clients who participate in our **Drop and Give Me Five™** program in the past two days. This program is designed to 'buy the dips,' and was last active in January/February.

Let's discuss what we might know.

The BrExit vote introduces much uncertainty, and this brings volatility. This likely brings lower investor confidence, which is expected to lead to slower global growth, with the impact being greatest in Great Britain, and the impact lessening the further you stray.

Overall the British economy makes up 4% of the global economy. It is not disappearing, but its economic growth rate of around 1½% could evaporate in the coming quarters as companies and consumers take time to digest the implications of the BrExit.

The European economy should slow down, but by a lesser amount. The US economy could slow a small amount, but is healthier to start than Europe or Great Britain.

Globally, interest rates should stay even lower for even longer. The US Fed will likely not act to raise rates in July, regardless of new positive economic data.

Markets move based on emotions and on economics. The S&P is down about 4½% since Thursday's close, which is not justified, based on US economics. Furthermore, interest rates are so low that stocks, in relation to bonds, offer quite attractive expected returns. The unknown, protracted path of BrExit is not severe enough to place the current global economic recovery at risk.

The BrExit path will produce winners and losers. London may lose financial sector jobs. New York, or Frankfurt will likely gain some. Some services from British firms will become more affordable, which can lower prices for companies and individuals.

We recommend focusing on the long term, and looking for opportunities.

Questions?