

## *Brexit- Another Challenge for Investors to Sort Out*



*June 30, 2016*

Last Thursday, the S&P500 closed within 1% of an all-time high. This was the same day investors expected residents in the United Kingdom (UK) to vote to remain in the European Union (EU). Just as the betting line in the NBA finals favored the Golden State over Cleveland (before LeBron James proved the bookies wrong), investors discovered that the UK would, in fact, be departing from the EU. In an even bigger surprise, the UK voters tolerated the bad weather to vote in favor of exiting.

When the unexpected results came in, investors wrote off the UK as if it was falling into the North Sea. Over the next two trading sessions, the S&P500 dropped almost 6% as investors panicked and engaged in a large sell-off of equity holdings. Over the last two days; however, the stock market recovered over 65% of the losses from last Thursday, and now sits about where it was one week ago. When analysts figured out that US trading with the UK only represents about 3% of our exports, investors realized that their initial reaction was overly dramatic. As the *Naples Daily News* reported earlier this week, “we kept a vigilant eye on the markets during the sell-off but did not make any major moves. In fact, we didn’t sell anything”.



Recently, our client portfolios have held up better than the overall stock market, largely due to Real Estate Investment Trusts and risk adverse holdings including NextEra Energy, Verizon and our largest single holding, Johnson & Johnson with an AAA credit rating. In fact, many of these holdings hit annual highs this week.

The equity market currently offers reasonably attractive returns relative to low-bond yields. The 10-year Treasury Bond is yielding about 1.5% and the 2.1% dividend yield of the S&P500 seems enticing. Digging deeper, we have core holdings that offer

above-market returns in out-of-favor sectors. Due to political concerns, the financial and healthcare sectors are not in high regard among investors. Since the financial crisis, banks are in the best shape and many biotech companies continue to develop new lifesaving drugs. Interestingly, both sectors began trading higher after Senator Bernie Sanders was eliminated from the presidential race. There will be more to come on our core holdings and our fixed income strategies in our 3<sup>rd</sup> Quarter Outlook which will be released shortly after the holiday weekend.



Speaking of holidays, the office will be closed on Monday, July 4, 2016, in observance of Independence Day. Enjoy your holiday weekend.



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**Disclosures**

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