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Our Views on the Impact of the EU Referendum

The 'vote to leave' result has left investors feeling understandably nervous, and we will watch closely to see how the investment community, Bank of England and European Central Bank deal with the immediate aftermath. We have moved into uncharted territory, and it may take some time before investors at home and abroad fully understand the impact of this result on UK businesses and the economy as a whole. Any investment should be viewed as a long term strategy therefore, it is important to let the dust settle and not over react. Its early days and lots of decisions are yet to be made.

The EU could start negotiating aggressively, both in order to secure its position, and to send a clear message to the remaining 27 member states. However, there is also the possibility that Parliament delays initiating negotiations for up to two years. Either way, we believe this will create a challenging new environment that will impact the UK and the EU for the foreseeable future. In the cold night of day the importance of Independent Financial Advice and investing in a diversified portfolio becomes more important. A truly diversified portfolio which is actively managed will smooth out the effect market volatility.

For shorter-term focussed financial markets however, the hard maths of the decision is unambiguously negative. It has immediate unqualifiable costs, unknown unintended consequences and uncertain further benefits. From a narrowly British perspective the costs are likely to include a prolonged period of reduced investment and consequently lower growth until the new relationship with the EU is agreed, progressive loss of the benefits of being a member of a large trade bloc and lastly, political upheaval as the Conservative mandate for government has been undermined.

But this is not just a UK issue. Our decision leads to significantly heightened political uncertainty across Europe, which may even bring the sustainability of the Euro-Zone (as opposed to the European Union) back into question. This risk is a very unwelcome additional dampener on the already depressed spirits of global businesses, potentially impacting growth even beyond Europe's border.

In summary, the referendum result raises many more questions than it answers and investors dislike uncertainty. The immediate impact will be seen today in lower share prices and weaker sterling as global investors adjust to the UK's decision. The moves are likely to be particularly sharp as markets have recently risen in anticipation that the result would be different.

However, in the midst of the maelstrom, two factors suggest that the turbulence may pass sooner rather than later. First, growth fears should not be overblown. The UK will suffer a hit, but with governments and central banks standing by to provide support, the immediate impact in Europe should be relatively small. With the US economy still delivering solid performance and the developing world stabilising, the picture for global growth should not change very much. More crucially, since its weaknesses were exposed in 2007, the world's financial system has built-up its capital reserves and it is now well braced for trouble. The suppliers of capital (banks) are not overextended, the users of capital (investors) are not complacent and the world's financial firefighters (the central banks) are fully engaged in ensuring any sparks of fear are rapidly doused with liquidity. In this context, the potential for a single adverse event (such as Brexit) to have a domino effect is low.

Now is not the time for knee-jerk reactions. Investment portfolios will certainly not be immune from some impact. We now expect a period of heightened volatility until the politics of the separation process become clearer. We act as your financial advisers and have always placed investments with fund managers opting to actively manage portfolios on a daily basis. I believe that they will be best placed to deal with the situation we find ourselves in today.

Once again it is a time for cool heads and steady hands. By ensuring that investment decisions are made by highly experienced investment managers with good research departments and proven investment experience – common sense always prevails. We will of course be keeping the situation under close review.

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