



Declaration

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“When in the course of human events, it becomes necessary for one people to dissolve the political bands which have connected them with another...”

The Brits did just that. It’s fascinating to think that, just as our founders declared their independence from rulers who had overburdened them, the United Kingdom has declared their independence from Brussels and the European Union. I will now leave laboring that analogy to your fertile minds.

I have to confess that I didn’t think it would happen, but I really don’t mind that it did. In what must be considered a repudiation of overbearing government, the voters in the United Kingdom passed a referendum to leave the European Union. Was it a good choice? Time will tell. Politically, reducing the intrusion of more and more levels of government into the lives of private citizens may be a very healthy development. The sentiment on display there may not be that much different from what has transpired in the Republican Party primaries in our own country.

It also seems likely that the majority voters were not highly influenced by what they thought might happen in financial markets as a result. The pundit class was inclined toward saying that it would be a disaster if it happened, but that it most likely wouldn’t. They were wrong on the second count and it remains to be seen about the first. As I write this, stock markets in Europe are mostly being pummeled by large declines. US stock markets are reacting likewise.

As is almost always the case, this will likely prove to be an overreaction and the markets will settle down in due time. In truth, not that much has really changed. The commerce that has been going on will mostly continue as it was before. The process of leaving the EU will take a number of years to complete and the details are nowhere near decided upon. As an example, the German Finance Minister was quoted shortly after the vote as saying they will negotiate trade terms with Britain that are the same as those in place today. While that may not be exactly how it turns out, the intent is clearly there.

It was back in the 50s when Belgium, Luxembourg, and the Netherlands, small countries sharing common borders decided to eliminate trade restrictions between their countries. It worked well for what became known as the Benelux countries. France and Germany, also sharing borders with them, decided to join in too. This was the origin of the European Common Market, which eventually grew to 28 countries. As we’ve seen in recent years, strains in trying to make everyone the same have become quite evident and increasing control by a giant bureaucracy is unable to solve all the problems. So when the process is completed, the EU will be down to 27, assuming no others decide to leave or are forced out.

The United Kingdom, most specifically London, has long been the financial capitol of Europe. When they joined the EU, they did not convert their currency to the Euro and many “experts” at the time said that London would cease to be a financial center as a result. Didn’t happen. London’s role as a financial center did not diminish. I mention this for two reasons. First, leaving the EU will be simpler for the UK since they don’t have to deal with currency issues and second, we often find that the opinions of experts are not always correct.

Yes, the markets are reacting badly to this news. But the prospects for most companies on the public exchanges are the same as they were last week. A few may suffer from this declaration of independence, but overall not much has really changed. A well diversified, well thought out portfolio will remain the best choice to ride out this perturbation just as has happened many times in the past.

The needs and wants of people everywhere drive the economies of the world. Not much of that has changed overnight.