I have played competitive tennis since age 15. In fact, I still have my first racquet. A wooden Wilson racquet with a Jack Kramer autograph from 1975. I loved that racquet as it was head-heavy but yet had a deft touch and was sturdy, which was necessary for a young teenage hot-head like me. My first coach repeatedly drilled into my head that 3 out of 5 points in tennis come from unforced errors not winners. Therefore, until you have an opportunity for a winner, keep the ball in play and deep to the baseline. I knew it made perfect sense but it did not suit my nature which was one of attack. I had a serve and volley game and wanted to end the point as quickly as possible.

Well ladies and gentlemen, the Brexit vote which occurred last Friday is an “unforced error” in my view. It is one thing to hold a referendum on potentially joining an organization or perhaps voicing an opinion on a topic, but it’s quite another to unwind four decades of economic agreements and partnerships which have promoted prosperity. Not only does the outcome baffle me but the need for a referendum is highly questionable given that it is not binding.

The end of polling in the UK’s referendum on continued participation in the European Union (EU) at 10pm London time on Thursday proved to be the high point in the expectations that a ‘remain’ vote would prevail. At that moment a renowned organization placed a 90%+ probability on the continuation of the political and economic bloc’s status quo. A little over six hours later these hopes were smashed.

Markets had anticipated a “stay” decision and had rallied in the days prior to the referendum, but then started to cascade down after the 52% to 48% voted in favor of leaving the EU. Given the surprise decision, its natural the British pound fell sharply — briefly to a 30+ year low against the U.S. dollar — and the U.K. equity market followed suit. US equity markets were down about 3% on Friday, while international equity (e.g., Germany and France) and currency markets declined more. Investors, predictably, turned toward what they deem to be more stable investments like U.S. Treasuries and gold.

One of the key tenants of the leave campaign has been unfettered immigration. However, the leave camp did not tell you that 85% of the immigration into England has come from non-EU countries. The open immigration element of EU membership only covers immigration from one EU country to another. I could go on about the lack of supportable data that made up the arguments of the leave camp but that’s not useful! Well I have to mention just one more. The stay camp kept pointing to all the experts such as business people and economists on both sides of the political spectrum, who overwhelmingly agreed that leaving would wreak havoc in the financial markets and the UK economy. The retort from the leavers was “we are tired of hearing from all the experts”. I love this response from Tony Blair, “should having knowledge and information exclude one from a debate”?

So where do we go from here? I think ultimately cooler heads will prevail and it’s not a forgone conclusion that parliament will vote to leave. For instance, nobody is talking about the Scottish contingent in Parliament who are strongly pro-remain. If Brexit does occur, expect Scotland to have another independence vote so they can leave England and join the EU. As time goes on, the stark reality will set in and the mood of parliament and the people will soften. In fact, over the weekend two million signatures were garnered on a petition to take another referendum. On the following page you will see our longer term views and a listing of areas of opportunity.
Deeper Dive on Brexit

Rudyard Kipling was one of the most popular writers in the United Kingdom in the late 19th and early 20th centuries. His famous poem *If* seems appropriate – “If you can keep your head, when all about you are losing theirs, and blaming it on you...Yours is the Earth and everything that’s in it.” That market action last Friday and this Monday brought about instant comments from Wall Street’s gurus about the winners and losers from the Brexit vote, as well as instant opinions as to what it all means. The majority of opinions were overwhelmingly negative.

Raymond James Chief Economist Scott Brown believes the volatility we’ve seen immediately after the vote reflects the fact that financial markets participants, who had largely factored in a “remain victory,” were caught leaning in the wrong direction. This isn’t a Lehman-type event. It’s a response to a surprise, not an outright panic. While the U.K. economy faces the likelihood of slower growth, financial market volatility should begin to settle down soon. While the unthinkable has happened, we do not believe this will result in a financial crisis akin to 2008. The financial crisis of 2008 was driven by a massive and widespread deleveraging process that began with the U.S. consumer and extended to the global banking system. There is simply not enough leverage in the global financial system for that to transpire.

The global economy is now back to where it was in 2010 and 2011, when we were debating the sustainability of the European Union, the Eurozone and its common currency. Ultimately, we believe that much like European Central Bank President Mario Draghi’s response to the 2011 crisis, when he decided to do whatever it would take to save the euro, central banks will do whatever is necessary to limit the fallout from the Brexit referendum and provide support to the global economy.

We are witnessing what appears to be the formation of E.U. 3.0. The first version started in the early 1990s out of the European Economic Community. Version 2.0 started in 1999 with the launch of the E.U.ro. Version 3.0 seems like a return to a version where there is generally a free flow of goods and services, but not people. The Brexit vote will likely help other movements to rewrite the relationships among European countries. This is a rewriting of those relationships, not necessarily throwing them away.

The talking heads and perma bears are making parallels to the Eurozone crises, most recently in 2011. Our view is that’s hyperbole. This is an advisory vote by the people of the U.K., and as such it doesn’t equate to the possibility of a country defaulting on its debt and the ensuing financial stresses from defaults. So what we are witnessing is a painful part of the EU’s evolution. Rather than being a union, Europe is becoming more like a loosely knit confederation. Structurally, Article 50 in the Lisbon Treaty states the EU will negotiate with the withdrawing country over a two-year period. Prime Minister Cameron could have invoked Article 50 immediately, but he did not. I take that as somewhat of a positive sign that a deal may still be able to be worked out.

As for our recommendations, we agreed with our Strategist Jeff Saut that we will probably see a low the following Monday after the vote Friday and we were buyers at the close of quality positions. Our goal was to put cash to work which has been sitting on the sidelines waiting for just such an opportunity. We repeat, “The Brexit is not a ‘Lehman Moment!’”

We also wanted to highlight Jim Paulsen (Wells Capital) - “It’s not like the U.K. is going to remove itself from the world economy and not trade with anyone. Once the emotion of this event fades, investors may get back to the fundamentals, which at least in the U.S. are looking better.” And the fundamental fact is that American companies generate about 70% of their revenues in the US, so they should not be all that impacted if indeed the Brits leave the EU.

We started with tennis and we will end it with tennis to lighten things up a bit. The first casualty of Brexit will be the winner of the Wimbledon tennis tournament. The tournament had recently increased the winner’s share purse. However, given the devaluation of the British pound to levels not seen since 1985, the winner will take home about $300,000 less upon conversion.
Updates from the Team

**WIB Event:**
As part of our involvement with Wrestlers-in-Business, a local non-profit, we attended a dinner with the CEO of Equifax – Rick Smith. Most people know Rick graduated from Purdue University, but it’s a little known secret that he was a member of the varsity wrestling team! Max, the lone Hoosier in the crowd, had to swallow his pride when he was selected to provide the introduction to a Boilermaker! Pictured below (from Left to Right) is Tony Erslund (Purdue Head Coach), Cody Hilbun, Max Dean, Rick Smith (CEO of Equifax), Ron Domanico (WIB Board Member), and Don Milich.

**Friendly Book Signing:**
Cody, Adrianne, Katherine and Max had the chance to attend a book signing this past week with Emily Giffin! Emily is a #1 NYT Best Selling Author who is also an Atlanta resident. She recently released a new book called *First Comes Love* and we secured several copies. Pictured below are Katherine and Max with Emily after the event when she was visiting with fans and signing copies of her book.