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Britain's Messy Divorce: How Brexit May Affect U.S. Investors

Weekly Update – June 27, 2016

Stocks fell sharply last week in response to Britain's vote to leave the European Union (EU), putting major indices in the red for 2016. Why did markets react so badly?

The vote to leave was a surprise to most, and markets *hate* surprises. It's too soon to know how Britain's exit (Brexit) will play out, but predictions include a British recession, a breakup of the EU as other countries vote to leave, or the introduction of reforms by European leaders who see the writing on the wall. Since the referendum result isn't binding on the government, there's even a very small possibility that the Brexit won't happen at all.ⁱ It's anyone's guess at this point.

To help you understand how the Brexit may affect you as an investor, here are answers to some key questions:

How will Britain's vote affect markets?

In the short and medium term, we're likely to see a lot of volatility in financial markets around the world as investors grapple with the uncertainty of possible Brexit outcomes. In the long term, it's hard to know what the final tally of the Brexit will be.

If we look at similar events such as the Fiscal Cliff standoff in 2011 and the European debt crisis in 2012, we see that though stocks fell significantly in the days and weeks that followed, prices later rebounded as the uncertainty cleared.ⁱⁱ

Is that what will happen this time? Possibly, but we can't predict the future. While political events like this rarely have a long-term effect on markets, we should also keep in mind that 2016 has brought many geopolitical challenges to our door.

How will Britain's vote affect the U.S. economy?

Currently, there's no consensus from economists on what the fallout in the U.S. will be. Trade with Britain accounts for just 0.31% of U.S. Gross Domestic Product (GDP), so British problems with trade won't necessarily affect us.ⁱⁱⁱ However, the dollar is often viewed as a safe haven in times of international turmoil, which is pushing the dollar's value up versus other currencies. A stronger dollar

may weaken demand for U.S. exports, which isn't good for our economy.^{iv}

Globally, Britain accounts for 4.82% of worldwide GDP.^v We don't yet know how negotiations over trade, labor, and finances will affect Britain's economy. If Britain's exit kicks off a mass exodus of EU member countries, we can certainly expect a greater impact on the global economy. However, it's too soon to know if that will come to pass.

Britain's vote will likely affect Federal Reserve policies this year. Post-Brexit, expectations of a rate increase this year have gone down tremendously. Some experts even suggest that rate cuts may be back on the table if economic growth slows.^{vi}

Our View

Though we don't think the Brexit is the end of the world, we want to acknowledge the risks it poses to markets. We believe that bull markets don't die of old age, but we are facing growing headwinds from abroad that may threaten the bulls.

Unfortunately, we can't predict the future. What we can do is focus on long-term financial goals and look for opportunities in the turmoil. ***The emotional reactions of others may create rational opportunities for us.***

We are continually monitoring client portfolios and evaluating economic data and market research as it arrives. We will keep you informed and will contact you personally if we feel changes to your portfolio are necessary.

ECONOMIC CALENDAR:

Monday: International Trade in Goods, Dallas Fed Manufacturing Survey

Tuesday: GDP, S&P Case-Shiller HPI, Consumer Confidence

Wednesday: Personal Income and Outlays, **Janet Yellen Speaks 9:30 AM ET**, Pending Home Sales Index, EIA Petroleum Status Report

Thursday: Jobless Claims, Chicago PMI

Friday: Motor Vehicle Sales, PMI Manufacturing Index, ISM Manufacturing Index, Construction Spending

Data as of 6/24/2016	1-Week	Since 1/1/16	1-Year	5-Year	10-Year
Standard & Poor's 500	-1.63%	-0.32%	-3.38%	12.12%	6.37%
DOW	-1.56%	-0.14%	-3.15%	9.16%	5.83%
NASDAQ	-1.92%	-5.98%	-8.09%	15.49%	12.19%
U.S. Corporate Bond Index	0.20%	6.53%	7.02%	5.44%	7.96%
International	-1.76%	-8.68%	-18.09%	-0.83%	-1.06%
Data as of 6/24/2016	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.24%	0.38%	0.48%	1.08%	1.57%

Notes: All index returns exclude reinvested dividends, and the 5-year and 10-year returns are annualized. Sources: Yahoo! Finance, S&P Dow Jones Indices, and Treasury.gov. International performance is represented by the MSCI EAFE Index. Corporate bond performance is represented by the SPUSCIG. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

HEADLINES:

Consumer sentiment slips in June. Americans were less optimistic about the economy and their financial prospects as concerns over slow economic growth grew. Despite the pessimism, consumers have been opening their wallets, pushing up measures of consumer spending.^{vii}

Durable goods fall more than expected. May orders for long-lasting manufactured goods fell a surprising amount, suggesting that restrained business spending may drag on economic growth this quarter.^{viii}

New home sales fall from eight-year high. May sales of new residential properties fell 6.0% due to weakness in several regions. However, new home sales are extremely volatile and overall housing trends are still strong.^{ix}

Weekly jobless claims drop near 43-year low. Though hiring disappointed in May, weekly claims for new unemployment benefits dropped close to a multi-decade low, indicating that the labor market still has strength.^x

QUOTE OF THE WEEK



"To be a successful investor you must divorce yourself from the fears and greed of the people around you."

– Warren Buffett

Grilled Honey Chicken Skewers



Fire up the grill and enjoy these easy, flavorful skewers.

Ingredients: (serves 4)

1/2 cup ketchup
2 tablespoons honey
1 tablespoon Worcestershire sauce
1 teaspoon crushed red pepper
1-1/2 pounds boneless, skinless chicken breasts
Kosher salt and pepper
20 bamboo or metal skewers

Chef's Tip: If you want moister, more flavorful meat, swap the chicken breasts with boneless chicken thighs.

Directions:

1. If you're using bamboo skewers, soak them in water for at least 20 minutes to prevent burning.
2. Heat your grill to medium-high. If you're using a charcoal grill, build a two-zone fire by piling up the coals on one side of your grill.
3. Combine the ketchup, honey, and Worcestershire sauce in a small bowl to create your basting sauce. Set some aside to pass at the table.
4. Slice the chicken into thin strips and thread them onto your skewers. Season them lightly with a pinch of salt and pepper and the crushed red pepper.
5. Place the skewers on the grill and cook them for 6-8 minutes. Baste them with the ketchup mixture during the last 2 minutes, turning them frequently to keep from burning. Rotate the skewers around the grill as necessary to cook them evenly and prevent burning.
6. Serve immediately with a light salad, passing the reserved sauce for dipping.

Recipe adapted from Sara Quessenberry and Kate Merker | RealSimple.com^{xi}



You May Be Able to Deduct Childcare Expenses

If you pay for summer care for your children so you can work or look for a job, you may be able to deduct those expenses on your federal tax return. Here's what the IRS wants you to know:

- You can only deduct expenses for the care of a qualifying dependent such as a child under age 13.
- You must be paying for care so that you or your spouse can work.
- Qualifying care includes home care, daycare, or a day camp. Overnight camps, summer school tutoring or care by other dependents does not qualify.
- You must have earned income in the year in which you incur childcare expenses and the expense limit is \$3,000 for one qualifying dependent or \$6,000 for two or more.

For more information about deductions for dependent care, visit [IRS.gov](https://www.irs.gov) or consult a qualified tax advisor.

Tip courtesy of [IRS.gov](https://www.irs.gov)^{xii}



Is Your Clubface Alignment Out of Whack?

A common mistake that amateur golfers make is failing to correctly align the clubface when setting up a shot. Should you point your feet at the target? Get your shoulders parallel? How about aligning your whole body with the target? Nope.

PGA pros are trained to assess the target from behind the ball, giving them a good view of the entire terrain, lie, and any hazards they need to avoid. Once they have a line, they align the face of the club directly toward the target before setting up the stance.

The next time you're setting up for a shot, try to get your clubface aligned before you set up the rest of your stance. You might see it make a difference.

Tip courtesy of Barry Goldstein | [Golf Tips Mag](#)^{xiii}



Travel Safely This Summer

Getting sick or injured while traveling can be annoying, expensive, and possibly dangerous. Tilt the odds in your favor with these travel tips:

- Get a pre-travel checkup with your doctor to make sure that you're on top of any health issues before you leave. Update any prescriptions or health routines before you leave. Tell your doctor where you're going and make sure you have updated vaccinations for your destination.
- Make sure that you have enough prescription and over-the-counter medication to last the trip. Common medicines can have different formulations in other countries, and you don't want to risk unwanted side effects.
- Print out your medical history, including conditions, prescriptions, allergies and contact numbers and bring it with you on your trip. Bring a backup copy on a small flash drive or in your email.
- If you're worried about needing hospital care overseas, consider purchasing travel insurance that covers medical care abroad.
- Educate yourself about health advisories and other safety issues in your destination.

Tip courtesy of AARP^{xiv}



Eliminate Junk Mail

According to Forest Ethics, junk mail creates 51.5 million metric tons of greenhouse gases every year—equivalent to heating 13 million homes throughout the winter. To cut down on the environmental footprint created by junk mail, unsubscribe from unsolicited catalogs, mailers, and other junk. Try using one of these online services: catalogchoice.org, 41pounds.org, or DMAchoice.org

Tip courtesy of Prevention & NY Times^{xv}

Share the Wealth of Knowledge!

Please share this market update with family, friends, or colleagues. If you would like us to add them to our list, simply click on the "Forward email" link below. We love being introduced!

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Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

Diversification does not guarantee profit nor is it guaranteed to protect assets.

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

The Dow Jones Corporate Bond Index is a 96-bond index designed to represent the market performance, on a total-return basis, of investment-grade bonds issued by leading U.S. companies. Bonds are equally weighted by maturity cell, industry sector, and the overall index.

The S&P/Case-Shiller Home Price Indices are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate. The index is made up of measures of real estate prices in 20 cities and weighted to produce the index.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

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ⁱ <http://www.vox.com/2016/6/25/12031254/no-brexit-article-50>

ⁱⁱ <http://www.kiplinger.com/article/investing/T038-C008-S003-what-brexit-means-for-u-s-investors.html#dEJKo24ck2r6SyFY.99>

ⁱⁱⁱ (2014 dollars) <http://data.worldbank.org/country/united-states>

<https://www.census.gov/foreign-trade/balance/c4120.html>

^{iv} <http://money.cnn.com/2016/06/24/investing/brexit-impact-on-american-global-economy/>

^v <http://www.tradingeconomics.com/united-kingdom/gdp>

^{vi} <http://www.marketwatch.com/story/post-brexit-odds-are-up-for-fed-interest-rate-cut-2016-06-24?siteid=yhoof2&yptr=yahoo>

^{vii} <http://www.foxbusiness.com/markets/2016/06/24/consumer-sentiment-slips-slightly-in-june.html>

^{viii} <http://www.foxbusiness.com/markets/2016/06/24/may-durable-goods-orders-fall-more-than-expected.html>

^{ix} <http://www.foxbusiness.com/markets/2016/06/23/may-new-home-sales-drop-6.html>

^x <http://www.foxbusiness.com/markets/2016/06/23/weekly-jobless-claims-fall-by-18000.html>

^{xi} <http://www.realsimple.com/food-recipes/browse-all-recipes/honey-chicken-skewers>

^{xii} <https://www.irs.gov/uac/keep-in-mind-the-child-and-dependent-care-credit-this-summer>

^{xiii} <http://www.golftipsmag.com/instruction/shotmaking/quick-tips/8-tricks-to-become-a-better-player.html>

^{xiv} <http://blog.aarp.org/2015/06/19/planning-a-trip-6-tips-to-avoid-health-problems/>

^{xv} <http://www.prevention.com/health/healthy-living/70-easy-ways-green-your-life/cut-down-junk-mail>

<http://green.blogs.nytimes.com//2009/03/16/reducing-the-junk-mail-footprint/>