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On Thursday, June 23, 2016, the people of Great Britain passed a referendum to leave their membership in the European Union. This decision was an unexpected result, and the financial markets around the world reacted swiftly and harshly to the surprise. Brexit has since been the dominant story in the media, with a parade of experts trying to predict what may be in store for the United Kingdom, Europe, and here in America.

The early opinions about the United Kingdom's decision are mixed. The longer term impact will not be known for several years. However, there is a consensus belief the shorter-term impacts of this decision could create some significant challenges for both the United Kingdom and Europe. The eventual exodus could also take two years or longer to complete.

Surprise!

Significant unexpected events often cause panic and fear in the financial markets. This was a prime example of an "unexpected event." US Equity markets experienced a strong rally on Thursday the 23rd, as the polls indicated a high likelihood of the UK remaining a part of the European Union.

On Friday, June 24, things were decidedly different. Equity markets around the world decreased sharply, some by more than 8%. Here at home, the major US stock indexes all declined by more than 3.6%. Perceived safe havens such as US Treasuries and Gold experienced strong rallies.

There are some things each long-term *investor* needs to remember as this situation progresses.

It is more harmful to your longer term results to miss the good days than to participate in the bad ones.

As much as we all would love to be able to perfectly time our decisions to be in or out of the investment markets, it is impossible to do on a consistent basis. History has shown, missing the best investment days has larger negative impact to your real-life returns than being patient and riding through the difficult times. Good days are just as unpredictable as the bad ones, and as investors, we need those good days for our longer term success.

Emotional reactions lead to irrational decisions.

Our brains are programmed to protect what we have. It is an expected and natural reaction to want to *do something* to mitigate further damage to our assets in the short term. Unfortunately, those emotional reactions are rarely rational and are rarely the right decisions to help you achieve your long-term goals.

The emotional reaction is to sell equity positions and move them to something which is perceived to be safer. But when looking at the various asset classes through a rational lens, the perception of safety can be misleading. In longer periods of time, you face far greater financial risks than volatility, and those "safer" assets actually pose far greater peril to your financial future than you may think.

Limiting mistakes lead to better long-term outcomes

Emotional reactions also lead to greater opportunities for multiple mistakes, which can impact your real life returns. Many of the people who are selling their stock positions in

A Tale of Two Investors...

Bob and Joe retire at the same time, each with a $250,000 portfolio.

Bob is unable to keep his fear in check when there are signs of trouble in the financial markets. He continuously repeats common investor mistakes like selling his equity positions after they have decreased and buying them back at a later time and higher price. After 20 years, his errors have lead to a real-life return of 4% per year.

Joe is able to avoid many of those emotional mistakes. Though it makes him uncomfortable, he patiently rides through the difficult times, no matter how severe, and after 20 years, his real-life return is 6% per year.

Over a twenty year period, the difference between the two portfolios is significant. Bob would have accumulated approximately $550,000. On the other hand, Joe would accumulate about $800,000. *That is a difference of $250,000*

These hypothetical examples are meant to illustrate the impact of reducing one's actual real-life returns through common investor mistakes. The returns shown are not representative of an actual investment. The rates shown are not guaranteed. The investment returns shown are also not predictive of future returns.

the wake of the Brexit news will buy those same stocks again in the future, and many will do so at higher prices. When this type of error is repeated often enough, the compounded effect over several years is substantial.

Most of the time, the right thing to do—and most difficult—is to simply do nothing.

Just another dot on the map...

In careers which span two and three decades, we have seen numerous events which have brought turmoil to the investment markets. Some are short lived, others are more prolonged. Some have been minor, others have been far more significant. The magnitude of this one is to be determined.

To this point, all of the events prior to this, have become a dot on the chart which has tracked the historic rise of equity prices. In the coming years, Brexit will join the tech bubble, the failure of Lehman Brothers, the market crash of 1987, wars, the savings and loan crisis, and a host of others.

There will be others. It is an uncomfortable reality we all have to face as investors. And when it happens, we will see an uptick in volatility.

We curse the existence of volatility because it makes us uneasy when the values of our accounts decrease. But as much as we despise volatility, *we need it*. It is volatility which creates the returns we must have to grow our assets over time.

We are grateful for the opportunity to work with you to help you achieve your goals. We are here to help you through these trying times in the investment markets. If you have questions, please do not hesitate to call.

Thank you for your continued business.

A Unique Relationship...

In the wake of the Brexit vote, many traders moved significant amounts of money to US Treasuries. Treasuries are considered to be very "safe" because they are backed by the full faith and credit of the United States to tax its citizens to make principal and interest payments when needed. As a result, the heavy inflows to these government bonds have pushed yields to generational lows.

This has created an interesting relationship between stocks and these so called "safe" investments. How many times, from this day forward do you think you will see this?

- The yield of 30 Year Treasuries below 2.3% (and 10-yYear treasuries under 1.4%)
- The dividend yield of the S&P 500 index at 2.2%.

The yield of a bond is the rate of return you will earn if you hold it until maturity. A new 30-year bond purchased at par with a 2.3% yield, would pay 2.3% in interest each year. (Bonds purchased on the secondary market work differently, but this is a simplified example).

Those 500 great businesses, which make up the S&P 500 index, are paying an annual dividend almost equal to the income you would receive on the "safe" investment.

The income from the newly issued bond will remain the same in year thirty as it did in the first year. Those companies have collectively shown a historical trend of *increasing* the dividend they pay to their shareholders.

Three decades from now the bond will return your original investment. What do you think the collective value of those businesses will be after three decades?

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The S&P 500 is an unmanaged index. An investment cannot be made directly in an index. ***Past performance is not indicative of future results****. Any rates of return illustrated are not guaranteed nor are they representative of a real investment. Your actual results could be better or worse and will most likely be different than what is illustrated. This is not a solicitation to buy or sell any particular investment or security. Careful consideration should be given before making any investment decision. The opinions contained herein are those of Jim and Neal Watson and are not to be considered legal or tax advice. The information herein has been derived from sources believed to be reliable, but this is not a guarantee as to the accuracy and does not purport to be a complete analysis of the security, company, or industry involved. Additional information is available upon request. These are not the opinions of Maplewood Investment Advisors, Inc. its officers or employees.*