

UK Market Disruption

On June 23, voters in the United Kingdom will decide whether to remain part of the European Union or withdraw from it. The possibility of a British E.U. exit—often shortened to “Brexit”—is, according to a survey conducted by Deloitte of 120 chief financial officers at major UK companies, considered a greater risk to their business than any other threat. Investors with international holdings, such as international fund managers and KiwiSaver schemes, will be keeping a close eye on the outcome of this event.

Investors and Investment markets alike prefer stable environments enabling investors to make informed investment decisions and act with confidence. However when potential disruption arises, such as a vote to exit from a long standing arrangement, the markets can enter a period of volatility until the disruption clears. Markets experienced a similar period during the Scottish Independence vote, although that was less disruptive and the Brexit is potentially more harmful to investors. The question is; will the vote cause a short term impact for investors or will there be long term implications?

If the resulting vote is to remain connected to the E.U. all prior concerns will dissipate and investors will return to the markets in a positive mood. However a vote to uncouple from the E.U. will see a period of uncertainty as the legal, financial, and social ramifications are assessed. Re-writing laws and the implementation of those laws could take up to five years.

In our opinion, in the middle of any event, the unknown outcomes are far worse than reality. Investment markets have been through many cycles and disruptions; the Global Financial Crisis, Iraq war, Gulf War, Bird Flu, Technology bubble, Black Monday 1987, Oil Crisis 1973 and so on.

An investor’s focus should be on the long term goals and purpose of the portfolio as a whole. For most investors, the goal is to use their capital in retirement to provide an income during their 60’s, 70’s, 80’s and beyond. While the short term will undoubtedly be volatile, our focus is on the long term where investing in good quality companies with strong businesses will stand the test of time.

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