



**ALTIUS**  
Financial

# Empowered Future Report

Short term thoughts about long term matters

June 20, 2016

## Quote of the Day:

*"Remember, democracy never lasts long. It soon wastes, exhausts, and murders itself. There never was a democracy yet that did not commit suicide." --John Adams*

## Thoughts on Brexit....Should they stay or should they go?

It was a hot topic when I was in the Balkans and this week the people of Great Britain will finally vote to determine if the UK will stay in the European Union. A month ago, the "stay vote" seemed to be winning but now it looks like there is significant momentum the other way. Tragically, a pro-EU politician was assassinated by a nutcase just a few days ago and many thought that would give sympathy toward remaining in the EU but it still looks to be very tight.

I think it's questionable as to whether this issue should be put to a popular referendum, hence my Adams quote above. (I wrote an article for MoneyWeek and the Austrian Economics Center about the dangers of democracy – if you're interested, I'll send it to you.) But if I were voting on it, I'd be inclined to vote for exiting. While it's been said many times before, I believe the monetary union without more fiscal clarity and discipline along with the cultural differences made the idea flawed from the start. And while I'm very concerned about the trend toward nationalism in Europe and the US, if I were a Brit, I'd not want my future tied so closely to the central planners in Brussels.

Here are some potential consequences a "leave vote" may entail:

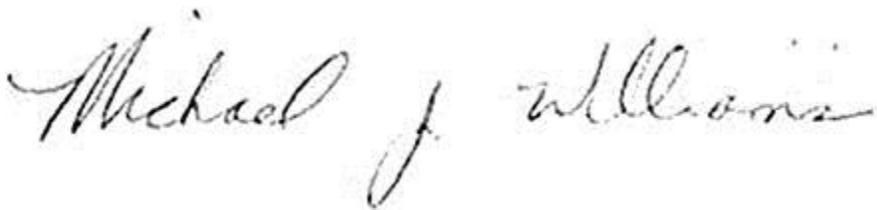
1. London's reputation as a world financial center on par with New York could be diminished.
2. Copycat referendums in other EU states, and within a few years, the EU disintegrates.
3. Disruptions to trades/investments, since UK's relationship with Europe and the rest of the world, will have to be renegotiated.
4. Pound Sterling, London stocks, and property prices might deteriorate. Potential capital flight from the UK.
5. More volatility in global stock/bond markets.

As an investor, what should we do?

While I think it's possible the effects are being exaggerated, and certainly either way the vote goes will not solve the UK or the continent's problems, I do think it's important to focus on valuations of whatever you own – be it stocks, bonds, real estate, precious metals, etc. All of the above consequences are possible but they are not exactly actionable intelligence in and of themselves. When it comes to investing, we should not base our decisions on speculation about future events.

That said, the Brexit vote like so many other headline risks could be a catalyst for market participants to reassess their risk tolerance and/or valuations. We can never know which grain of sand or flake of snow might cause an avalanche but we can look at the latent risk that exists for some time prior to such an event. Likewise, we don't have any clear crystal ball that tells us how markets might react to any particular event but we can look into the historical, risk adjusted valuations for various asset classes and decide how to allocate from there. This is precisely what we're trying to do as it relates to all client portfolios.

We look at specific businesses or managers and ask, "do we want to own this stock or follow this person based on underlying value, regardless of the economic winds or headline risks?" We also try to be objective when it comes to all asset classes whether we are compensated for having them in a portfolio or not. If we don't see the value, we don't commit your capital.

A handwritten signature in black ink that reads "Michael J. Williams". The signature is written in a cursive, flowing style.

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Michael J. Williams, CFP

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