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BREXIT- WHAT'S THE BIG DEAL?

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As I am sure you've heard: Great Britain (UK) has voted to leave the European Union (EU). So, why is it such a big deal and what does it mean to us? For starters; because of it, the UK is expected to go into a recession. According to S&P: S&P 500 companies only depend on Europe for 8% of revenues and Great Britain is only 1.9% of revenues. Therefore, the effects of it going into a recession should have a minimal effect on our economy. What is important is that Brexit is a sign of rising "populism" around the world. There is talk of: Czechout, Oustria, Italeave, Departugal, Bygium, and Finish, meaning there are strong movements in: Czechoslovakia, Austria, Italy, Portugal, Belgium and Finland to leave the EU. What about the US? Let me be the first to coin a phrase: could we have "USexit"? People around the world are fed up with a government that doesn't understand their situation telling them what to do. Elitist Politician's making politically correct laws governing our every move. I think that if Donald Trump is elected president that would be our USexit, meaning that we want to exit our current government and try something new. People around the world are unhappy with their government and out of touch politicians. The good news is that "Brexit" served as a wake-up call and the politicians in Europe have

responded by saying that countries have different ambitions and the EU needs to change to accommodate differences between countries. I don't know if this will work, but it is certainly a step in the right direction. What does all this mean to you? For one: interest rates have fallen and appear to continue to do so. The 10 year U.S. Treasury is at 1.5% and falling. Half of government bonds worldwide have negative interest rates. Ben Bernanke, the former head of the U.S. Federal Reserve once said that interest rates couldn't go negative because people would just hold cash. He has since changed his tune. How do you hold a billion dollars in cash? There is speculation that a bank could build a huge vault and charge to store cash in it. How crazy is that? How could we possibly have negative interest rates? Interest rates are based on expected inflation plus, hopefully, a profit over the inflation rate. So, if you expect 10% inflation on something you want to buy in one year and you charge 12% interest, then you have really only made 2%. Similarly, if you expect 10% deflation, (a drop in prices on something you want to buy in a year), and you charge (pay) -8% interest, you actually made 2%. Can deflation really happen? It happened during the Great Depression. If you need money, you might have to sell something for less than you paid for it, i.e. deflation. Remember Real

Estate prices dropping in 2008? What about electronics now? Are you in a hurry to buy a new computer before prices go up? In reality we are only talking about some countries that are charging a fraction of a percent in negative interest rates, so, it is not worth building a vault over. But, how low can you go? Anyway, it appears that interest rates are heading lower and may even be negative. I don't recommend speculating on where interest rates are going. You should take the best rate you can get at the time and structure your maturities to match your needs. We should always have our money working for us whether it is by investing in Stocks, Bonds, CD's, Real Estate or Alternate Investments. As always I am here for you, call me if you need any ideas or even a complete financial plan. So how's the stock market doing? Well, we are reaching new highs, but we are still about flat over the last 12 months. For the first half of the year we are up 8.6% and for the last 12 months we are down 0.49%. For the last 5 years we are up 57.65%/9.64% annualized. I like stocks for the long haul: we all need automobiles, McDonalds, prescriptions, food, housing, etc. and businesses can adjust to the economy to make money supplying us the things we need. You're Friend

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