



HERITAGE CAPITAL LLC

Invest for Tomorrow. Live for Today.™

Like Y2K, the second war in Iraq and other date certain events, the United Kingdom will vote on Thursday whether it wants to remain in the European Union (EU), otherwise known as BREXIT (BRitain EXIT). Unlike most geopolitical events which just happen, the BREXIT vote has been known about for some time as UK Prime Minister Cameron promised to hold this referendum if he won reelection in 2015.

What is the BREXIT & Why

Depending on who you ask, the reasons for staying or leaving are all over the place. However, I would speculate that less than half the people voting actually understand what they are voting for or against. And those with very strong convictions are the ones who probably have an axe to grind.

Personally, I don't care what the British people decide. It's their country and they should do whatever they want. I just laugh when people like Hillary Clinton, Barack Obama, Warren Buffet, Jamie Dimon and other Americans make these forceful arguments for staying. Or those like Donald Trump and Paul Ryan on the other side. When politicians and others from other nations opine on our affairs, we tell them to mind their own business. We should take our own advice and shut up.

Anyway, over the years, I have written about the flaws with the EU and euro currency. Flaws that some day would need to be addressed. It's the "haves" and the "have nots". Unlike the U.S. where the playing field among states is generally level, it is definitely not in Europe, especially on the fiscal front as we have seen over the past 7 years. If the EU and euro are to remain viable long-term, they have a lot of work to do.

Getting back to the BREXIT vote, nationalistic political parties throughout Europe have been surging as a result of the terrorist attacks and immigrant crisis and the UK is no different. Each side of the vote cites immigration as one reason to stay or leave with either closing the borders again or leaving them open.

Cost of EU membership is another black/white issue. In 2015, the UK paid north of \$18 billion to be part of the EU and some argue that they received a fraction back in revenue. Trade is another huge issue as all EU members' agreement are in accordance with EU law. Some argue that leaving the EU will allow the UK to

renegotiate better deals while others don't think it will get any better. Those in favor of exiting also cite loss of sovereignty as a reason to leave. They want the UK to make their own laws and regulations without having to answer to a high power.

The bottom line is that both sides are equally right to some extent.

Polls & Opinions

BREXIT has been a financial media obsession for months. More recently, it seems like any and every time stocks pull back, the media has "Breaking News" about the markets collapsing on an outcome to leave. Yet the few large rallies are attributed to opinion polls swinging back the other way. In the internet age, polls have definitely lost some of the value from the good ole telephone calls. We saw that really happen during the early primaries. I would put much more stake in how the bookmakers are viewing the vote as there is real money on the line.

While I don't have a stake in this vote nor a strong opinion on what's best, if I had to predict the outcome, I would go with the UK remaining in the EU, which flies directly in the face of my hatred of following the herd. It seems like more and more being interviewed are forecasting a BREXIT failure. HmMMMMM...

Does a BREXIT really matter?

If this was a one shot deal for one country, I don't think it would matter at all. The problem is that it could have a domino effect around Europe as well as in the UK itself. If the UK votes to leave, it very well could bring up the issue of Scottish independence yet again, not to mention the potential for Northern Ireland to leave the UK. And those pale in comparison to potential exits by Greece, Portugal, Italy, Spain and France, in which case, the whole EU and euro begin to implode.

Let's say there is a BREXIT. It doesn't happen overnight. Rather, the EU and UK spend AT LEAST the next two years negotiating agreements on how an exit would take place. If the exit terms are too onerous or UK citizens have a change of heart, the UK could hold yet another referendum to overturn the one on the 23rd. Nothing is absolutely certain after this vote.

Markets Not Worried Which is Worrying

Global markets have been fairly calm and some would argue, complacent, about the vote. There doesn't seem to be a high degree of stress in the system. I think the central banks and financial powers around the world have learned their lessons from previous missteps. There is an ocean of liquidity in the system now and my sense is that bankers are not going to let that change this month.

The doom and gloom has been very vocal lately with that quack, George Soros, forecasting a global meltdown and calamity on a vote to leave. He is not alone in "selling his book". Markets have been on the comfortable side which puts me on guard for at least a short-term bout of weakness regardless of the outcome.

As I have stated hundreds of times over the years, I don't care as much about what the news actually is as much as I do about how the markets react.

If It's Obvious, It's Obviously Wrong

Early in the my career, the late Joe Granville taught me that if it's obvious, it's obviously wrong. Majority opinion regarding the BREXIT and market outcome is likely to be incorrect. As I discussed in this [Media Interview](http://www.moneycontrol.com/news/fii-view/mkts-will-continue-to-sell-going-into-brexite-week-heritage-cap_6879701.html) (http://www.moneycontrol.com/news/fii-view/mkts-will-continue-to-sell-going-into-brexite-week-heritage-cap_6879701.html)

last week, my thought process has been to go opposite whatever the markets did into the vote. If they rallied strongly, I thought we would see a decline after the vote. If they sold off into the vote, I thought they would bottom next week. Unfortunately, they haven't done much on balance over the past week with a decline and then rally right back. Perhaps the best move right now is no move.

Regardless of the BREXIT vote, the naysaying pundits and doom and gloom crowd will get back to worrying about Donald Trump, the Fed, poor earnings, negative interest rates in Europe, China and the employment data before long. My investing theme remains unchanged. Until proven otherwise, weakness is a buying opportunity and new highs will be seen this year with Dow 20,000 on the way. The bull market ain't over!

To Your Financial Success,



**Paul Schatz
President
Heritage Capital LLC**

**1 Bradley Road Suite 202
Woodbridge CT 06525**

**203.389.3553 Phone
203.389.3550 Fax**

www.InvestForTomorrow.com

Published by Paul Schatz. Copyright (C) 2008 Heritage Capital, LLC. All rights reserved.
Street\$marks is produced and distributed regularly via email by Paul Schatz of Heritage Capital, LLC
1 Bradley Road, Suite 202 Woodbridge CT 06525 Phone (203) 389-3553 Fax (203) 389-3550 - www.InvestForTomorrow.com
Heritage Capital, LLC is an independent RIA not associated with any financial institution. Data used in this publication is gathered from reliable sources, although completeness and accuracy cannot be guaranteed. Performance results do not take into account any tax consequences and are not predictive of future results. This publication does not give any specific investment advice, does not provide financial planning services, or consider any individual's financial situation, needs or goals. This publication may not be reproduced or retransmitted in whole or in part without the consent of the author, Paul Schatz.

Important Disclosure Information

Heritage Capital LLC ("Heritage") composite performance results represent time-weighted actual performance results for continuously managed Heritage accounts, which individual accounts Heritage believes to be representative of its investment management process (i.e. mutual funds and exchange traded funds) for each specific strategy during the corresponding time period. The composite performance results reflect the reinvestment of dividends and other account earnings, and are net of applicable account transaction and custodial charges, and the separate fees assessed directly by each unaffiliated mutual fund and exchange traded fund holding that comprised each account, and the maximum investment advisory fee that the accounts would have incurred (by applying the Heritage's current investment advisory fee of 2.00% as set forth in its current written disclosure statement) during the corresponding time periods.

Please Note: Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that future performance will be profitable, equal the performance results reflected, or equal any corresponding historical benchmark index. The historical index performance results for all historical benchmark indices do not reflect the deduction of transaction and custodial charges, or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing indicated historical performance results. The historical performance results for all indices are provided exclusively for comparison purposes only, so as to provide general comparative information to assist an individual client or prospective client in determining whether the performance of a Heritage program meets, or continues to meet, his/her investment objective(s). A corresponding description of each index is available from Heritage upon request. It should not be assumed that Heritage account holdings will correspond directly to any such comparative benchmark index. The Heritage performance results do not reflect the impact of taxes.

For reasons including variances in the investment management fee incurred, market fluctuation, the date on which a client engaged Heritage's investment management services, and any account contributions or withdrawals, the performance of a specific Heritage client's account may have varied substantially from the indicated portfolio performance results.

In the event that there has been a change in a client's investment objectives or financial situation, he/she/it is encouraged to advise Heritage immediately. Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy (including the investments purchased and/or investment strategies devised or undertaken by Heritage) will be profitable.

Information pertaining to Heritage's advisory operations, services, and fees is set forth in Heritage's current disclosure statement, a copy of which is available from Heritage upon request. Performance results have been compiled solely by Heritage, are unaudited, and have not been independently verified. Heritage maintains all information supporting the performance results in accordance with regulatory requirements.

