Dear Client:

For months, political and financial analysts on both sides of the Atlantic Ocean had overwhelmingly considered it highly unlikely that British voters would choose to leave the European Union. And yet, as we learned near midnight last night, that's exactly what the voters did.

We have seen plenty of other "first-time-for-everything" events, so you can be confident that we will guide you through this one. This letter will explain what caused Great Britain to leave the EU, the implications of that decision and, most importantly, the implication for your portfolio in the Edelman Managed Asset Program.

The media, as usual, is making a big deal about this news. But from an investment perspective, is it really worthy of all this attention? After all, the United Kingdom represents only 4% of the world's Gross Domestic Product (it ranks a distant fifth behind the United States, China, Japan and Germany), according to the World Bank. The U.S. generates a whopping 22% of the world's GDP – more than the combined GDP of *all 28* members of the EU, only four of whom are in the global top 10!

Furthermore, England's decision to withdraw from the EU doesn't mean its economy will suddenly cease to exist. The British will still drink their tea as they did before, and they'll continue buying umbrellas to stay dry under the infamous London rain.

The British are also certain to experience disruption. British Prime Minister David Cameron already resigned (others are expected, too), which will force the British to select new leaders. Then they must negotiate new trade agreements with more than one hundred countries, including new agreements with its former EU partners. All that will take years. **At present, it appears that the long-term impact on your portfolio will be negligible.** That said, we do expect short-term volatility – more on that later.

First, to understand why the British are leaving the EU, we need to understand why the EU was formed in the first place in 1993.

It's all about competitiveness in the global financial marketplace. Individually, the countries of Europe have been unable to compete against the powerhouses of the United States and Japan (and, in recent years, China and India as well). While Americans travel from state to state with no checkpoints, using a common currency and enjoying a uniform set of laws and regulations governing interstate commerce, companies in Europe struggled with the opposite: They had to juggle dozens of currencies and conflicting sets of rules for doing business.

European leaders realized they needed to emulate the American model – and thus the European Union was born. Most currencies were replaced by the Euro, checkpoints were virtually eliminated, and uniform rules for inter-nation commerce were adopted. Together, the countries of the EU became better able to compete with its foreign counterparts.

But the EU's founders failed to resolve one important element: Although they unified commercial policies across the continent, they failed to resolve political and social disagreements. As a result, financially successful countries like Germany and England found themselves – thanks to commitments they made by joining the EU – responsible for the debts of other member nations.

Not only have the economies of Portugal, Italy, Ireland, Greece and Spain (PIIGS) proven to be disastrous, the citizens – and hence, politicians – of these nations have stubbornly refused to alter their behavior. Their excessive spending, accumulation of massive debt and basic refusal to pay taxes or increase productivity have repeatedly forced Germany and England to come to their rescue.

As yesterday's vote demonstrates, the British are fed up. It's as though they're channeling Howard Beale, who famously exclaimed in the 1976 movie, *Network*, "I'm as mad as hell, and I'm not going to take this anymore!" So, the British are leaving the EU, and will thus no longer be obligated to support the PIIGS.

The vast majority of the world's analysts and pundits – and, for that matter, Las Vegas bookmakers – failed to appreciate the depth of British frustration. On Thursday, convinced that the proposal to exit the EU would be defeated, stock markets around the world rose dramatically. (In the U.S., the Dow Jones Industrial Average rose 230 points.)

But as soon as it became clear that voters defied predictions, global financial markets began to fall. Currency markets are gyrating; prices for gold, bitcoin and government bonds are jumping.

Not only does it seem that no one saw it coming, no one, it seems, knows for sure what the British departure from the EU really means. And this uncertainty will dominate market sentiment for several days at least, and, quite possibly, for several weeks. It wouldn't surprise us if uncertainty lasts for several months. We tell you this so you won't be surprised if that occurs.

And there are two facts we do know: uncertainty means *volatility*. And volatility can create opportunity.

Here's why: Investors love good news, because good news causes prices to rise, and rising prices is everyone's hope and desire. But you might be surprised to know that investors are also okay with bad news, too. The reason: If we know there's bad news, we can adjust as needed. High inflation, for example, leads to high interest rates, which causes bond prices to fall. That's bad. Knowing this, we can adjust our portfolios accordingly. And there are some asset classes that benefit from inflation, so we can adjust in that way, too. Yes, it's possible to do okay in the midst of bad news just as we can when there's good news.

But what investors hate is not knowing whether the news is good or bad. Uncertainty is unsettling. Even scary, some might say. And since the British vote to leave the EU is unprecedented, Wall Street won't know – for a while at least – what it means. And when investors don't know what to do, they tend to act foolishly.

This is why we offer you this important message: Expect volatility for a while, and during this period, *do not change your diversified, long-term investment strategy.*

If anything, volatility can create opportunities that we'll want to capture. It's reasonable to expect that some portions of your portfolio may decline in value and that other portions may rise – and you can be sure that we'll act on such volatility by rebalancing your portfolio. We'll sell a portion of investments that have outperformed others in your portfolio and buy others that have underperformed, and we'll be examining your portfolio <u>every business day</u> for you, to find these rebalance opportunities. You'll receive notification from us whenever we execute rebalance transactions for you.

Second, the lesson from earlier this year, when the stock market fell sharply in the first six weeks of 2016, is that periods of uncertainty can create excellent opportunities. By adding money to your portfolio, you can potentially take advantage of price declines that are brought about by market volatility. Please talk with your advisor, to see if adding to your portfolio, or reducing monthly withdrawals, is appropriate for your given situation.

Aside from rebalancing, adding to your account or reducing withdrawals, the next best thing is to *do nothing*.

You might recall my analogy of the driver approaching an intersection with 4-way stop signs. With traffic coming from all directions, cyclists on the road, pedestrians in the crosswalk and kids tossing a ball near the corner, the best thing for the driver to do is…nothing. Sit tight, wait for the confusion to calm down, and soon enough you'll be able to proceed safely through the intersection, with no adverse impact other than perhaps a slight delay before continuing on toward your destination.

The British vote brings us to such an intersection. There is no question that the vote's biggest impact will be on the British themselves and, secondarily, on the rest of the EU. It is too early to say what the impact will be on the United States (quite frankly, it's arguable that the impact will be favorable; mortgage rates have dropped as a result of the vote, creating a new – and possibly temporary – refinance opportunity). So until clarity emerges, it's best not to do anything rash.

Be assured that we will keep you informed. In the meantime, please feel free to contact me or your advisor if you have questions or concerns. It is during times like this that we can be of greatest value to you, so please take full advantage without hesitation.

Thank you for allowing us to serve you.

Best,

Ric Edelman
Founder and Executive Chairman

P.S. I encourage you to listen to my radio show this weekend, and invite friends and family to tune in as well. I'll be talking about this at the top of the show. Go to RicEdelman.com to check local listings. You can also stream it live on the Internet, or download the podcast which will be available by noon Monday via RicEdelman.com. Also feel free to forward this email as you wish.

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An index is a portfolio of specific securities such as the Dow Jones Industrial Average and the S&P 500 Stock Index performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Indexes are unmanaged portfolios and investors cannot invest directly in an index. Past performance does not guarantee future results.