The Big UK Departure

Your guide to all things Brexit

28th June 2016

The UK took the world by surprise last week when its citizens voted to leave the European Union (EU). This unprecedented move has left everyone wondering what's next (and Google searching if the sharp uptick reported by the search engine is anything to go by).

So what happens next...?

The UK government is expected to ratify the referendum decision and invoke article 50 of the Lisbon Treaty to inform the EU it would like to leave. Then it has a two year timeframe to negotiate its terms for exit including, importantly, trade arrangements and immigration. It will also need to negotiate with countries like the US and China which currently have trade agreements with the EU (but not the UK).

There will also be political uncertainty in the UK, as the Prime Minister, David Cameron, has announced his resignation.

The bottom-line for the UK

Brexit will cause financial and political disruption for the UK and some of this is outlined below.

- Trade with the UK is likely to be negatively affected while the UK renegotiates terms.
- Northern Ireland and Scotland voted to remain with the EU – will they now vote to leave the UK?
- International and domestic investment will be impacted by uncertainty and many international investors may move elsewhere to access a gateway to Europe.

What about the rest of the EU?

There are fears other countries, like Spain or France, might also try to leave the EU. There's also uncertainty over how the EU will react – will they try to punish the UK in the negotiation? And will they implement more stimulus into Europe to help support it through the transition?

There's a lot we don't know yet – so it's hard to work out the whole picture in terms of consequences.

Markets don't like uncertainty

Sharemarkets tend to be volatile when there's uncertainty – and this time is no exception. Even though UK and European shares have suffered an immediate impact, there has been volatility globally. This is likely to continue until there is more clarity on Brexit and the next steps. Countries like the US are considering how this might impact their economies.

This may feel worlds away from Australia but we are still affected by this. Banking, tourism and resources in Australia may all see a negative impact and there is likely to be market volatility.

It doesn't all have to be negative though. There is likely to be increased interest in asset classes like bonds due to the volatility in sharemarkets because they are typically seen as safer.

Managing your investments during Brexit volatility

The key is to remain calm and stick to your investment strategy when sharemarkets are volatile.

There are a few things to keep in mind when markets are volatile.

- **Hold the course**
  If you react to short-term conditions like Brexit volatility by selling your investments, any losses become permanent and you may miss the potential for recovery down the track.
- **Diversification**
  That is, spreading your investment across a range of assets like shares, bonds, property and cash can help protect your money when there is volatility in one asset class.
- **Know your risk appetite and your financial plan**
  You need to understand what your objectives for your investments are and what your appetite for risk is (your willingness and ability to accept losses or gains). This can change over time so you need to regularly review this.

If you need help with these, our office can work with you to find the approach that suits you.

The not so distant future

The impact regarding the Brexit referendum is still in its early days – and the UK government has not ratified it yet. So we can expect market volatility to continue – at least in the short term. The key is to make sure your investments are right for you and be prepared for some movement in the meantime.