Introduction: Welcome to the Paragon Financial Partners podcast, where we discuss the markets, our strategies, and how to live better today while planning for tomorrow.

Elean: Hello, and welcome to the Paragon podcast. I'm here with Evan Shorten, the firm's founder and principal.

Evan: Hello, this Evan Shorten, and I want to thank everyone for tuning in to this episode. If you would like to listen to our previous episodes, you can do so at paragonfinancialpartners.com/media. To subscribe to our podcast, you can find us on iTunes or Stitcher Radio.

So, it's been a few crazy days and with some global historic events going on regarding the UK and European Union.

Elean: Yes it has. As all of you probably know by now, last Thursday, June 23rd, the United Kingdom held a referendum, also known as public vote, to decide whether it wanted to continue its membership in the European Union. This is a historic event, as no European Union member has left the EU; then Friday morning, June 24, brought the resignation speech of David Cameron with his plans to resign his position by October; the British Pound falling to 1980s levels; and steep market declines in the European and Asian markets, and also somewhat the U.S. markets. So, given the significance of last Thursday's outcome, this will probably be a longer episode than usual as there are a lot of moving parts and there is a lot for us to discuss.

Evan: Yes, there is a lot to discuss. But first, I wanted to start off by telling everyone patience is a virtue. Right now, it's not the time to make any rash changes in your portfolio based on emotion. The market drop we saw on Friday following the Thursday vote was simply a reaction to uncertainty or a flight to quality. As of now, nothing's changed. Britain is still a member of the European Union and will continue to be part of the EU until a new English prime minister takes office. In other words, the UK's exit from the EU probably will not be initiated until sometime in October or soon thereafter. Additionally, the UK will have a two year period to renegotiate how it will do business with the rest of the European Union.

Elean: Also, for some tips on how to weather market volatility, we recommend listening to our February 19 episode, "How to cope with market volatility." With that, it may be best to discuss some of the factors that led up to the UK's referendum.

Evan: Okay, so let's have a short history lesson for those who are unfamiliar. The UK joined the European Economic Community in 1973, which predates the European Union, and included far fewer countries at that time. The European Economic Union was formed to move on from the world wars that occurred prior. Its original goals were intended to create a common market for goods, workers, services, and the flow of capital within the members of the economic union. The idea being that nations who regularly trade and support travel with one another, are less likely to go to war with one another.

In 1973, the year I was born, the United Kingdom joined the European Economic Community after two previous failed attempts. From the beginning, there was always some apprehension from the UK about joining. At the time, the European Economic Community was comprised of Belgium, France, Italy, Luxembourg, the Netherlands and West Germany. The same year the UK joined, Denmark and Ireland joined as well; nine nations in total. Since the beginning, there has always been a sense of Euro skepticism with the UK, with individuals like Margaret Thatcher being very vocal with her displeasure of the UK-EU relations.

Fast forward to 2008, the European Economic Community had now morphed into the European Union, with 28 member nations, and a standardized currency, adopted by most of its members. During 2008, we had the world's financial crisis and the negative economic impacts it brought throughout Europe. England fell into a recession and began experiencing high unemployment and cuts in social services. Meanwhile, smaller nations like Greece, Italy, Ireland and Spain went into deep recessions and needed financial assistance from the European Union. The 2008 financial crisis really started bringing more attention to the political leaders in the UK who were always skeptical of integration with the rest of the European Union. England is the second largest nation who contributes financially to the European Union. Combine this with a recession, high unemployment, and cuts in social services within the UK, and this added fuel to the fire. UK citizens started feeling uncomfortable that so much of what they considered to be their money is going to help other countries, while they potentially experience a lower standard of living.

Elean: And we can recall seeing a big part of this frustration come through in the UK during the 2010 student protests, and the 2011 English riots that occurred through several areas of England.

Evan: Right. Additionally, the EU allows its citizens to travel freely, and easily obtain work throughout its member nations. England, being a world destination for travel and employment, attracts a lot of immigration from other European Union members. When you combine this with high unemployment, there begins to develop a greater animosity towards the European Union liberal work and travel policies. Essentially, UK citizens began to feel that some foreign immigrants were taking their jobs.

Elean: We also want to point out that we're trying to be as objective as possible. We're neither in agreement or criticism of some of these sentiments with respect to the UK. To be fair, we have the same debates here in America as well. Evan, now that we're more clear on the economic picture that fueled the fire if you will, the immigration component, as you stated also goes beyond foreign workers and the notion they may be taking English jobs. Correct?

Evan: Yes. The ability to move freely within the EU member nations has historically been a point of skepticism within the UK. The heightened level of awareness and fear against terrorism really exasperated the UK's skepticism toward the EU's easy travel.

Elean: And again, we want to mention that we're neither expressing agreement nor disagreement regarding UK sentiment. This can be a touchy political subject for many. We don't want to express an opinion for or against.

Evan: Yes, I completely agree Elean, thank you.

Elean: Okay. So I think you've given us a good a background of the historical events that led up to the Brexit vote, at least as much as we can fit into a single podcast episode. So Thursday, June 23, we know the sentiments that pushed for the vote. But why was there even a vote to begin with? If so many UK leaders were opposed to the UK leaving the European Union, why even risk having a vote?

Evan: Well, all of the increasing tension and Euro skepticism post 2008 started to gain a strong vocal following. In fact, it's not correct to assume so many UK leaders were opposed to leaving the European Union. By 2012, David Cameron was feeling significant pressure from within his own party to vote on whether the UK should stay, and in 2013, with elections looming in the future, Cameron promised the public to hold a referendum if his conservative party won the 2015 general election. He further added his party would stand by whatever outcome was voted for.

Elean: And here we are.

Evan: Yes, here we are.

Elean: So what happens next? We know UK citizens voted, the UK is out, and David Cameron's declaration to resign seems to show the UK leaders will in fact stand behind the outcome.

Evan: Well as of right now, nothing. In order to begin the process of leaving the EU, the acting UK prime minister must invoke article 50 of the Lisbon Treaty. For clarification, that is a law dictating how a member nation of the EU can remove itself from membership. David Cameron does not plan to leave until October, when a new prime minister can succeed him. It will then be up to the incoming prime minister to begin the process. Once the process begins, there will be a period that could last for up to two years where the EU and the UK will have to renegotiate trade agreements, international treaties, immigration policy between the nations, and a whole lot of other details with regards to how they will conduct business moving forward.

Elean: So we saw a lot of social media activity by pundits freaking out and stating that this is the end of the UK as a major economic power that it will lose its position as being one of the world's primary financial sectors, and that it's pretty much the end of the world for them. What's your opinion, Evan?

Evan: Well it's definitely not that dire. I sent out an email to our clients last Friday stating my current position. I will reiterate what I told our clients. My personal view, this is a shock to the system, but it should not push global economies into a recession. As we mentioned earlier in the podcast, right now, nothing has changed. The markets will absorb this news and they will eventually resume their long-term trends. The Brexit referendum is unlikely to be disruptive to the U.S. economy as a whole. The UK will likely also be fine in long run. Brexit has more political ramifications than financial ramifications.

Elean: It's also important to keep in mind that we don't know how international negotiations will end between the UK and the EU. They may agree upon favorable terms, with little to no impact on economic activity. Also, let's not forget, you don't need to be part of the EU to have vibrant, flourishing economy. Lichtenstein, Norway, and Switzerland are wealthier and have lower unemployment than most of the EU, and are not members. Odds are, the UK will not be punished, or suffer any serious economic impact in the long run.

Evan: Lastly, I also want to mention two historic world market shocks. In 1997, U.S. markets fell 13% when Asian countries devalued their currency, only to recover and make new highs within two months. In 1998, the S&P fell 15% on the Russian devaluation, only to fully recover and make new within two months as well. Again, Thursday's referendum was a shock to the financial community, and the financial community does not like shocks. As of now, everything is okay.

Elean: Okay, great. Thanks, Evan.

Evan: If you would like to download a transcript of this podcast, please visit us at paragonfinancialpartners.com/blog. The transcript should be available in the next several days. To stay up to date with future podcasts, please sign up for our email list using the link below.

Elean: So stay tuned as we'll shortly be releasing another podcast with additional information discussing investor sentiment and some ways you can best navigate current events as they unfold.

Evan: Thank you again for listening, and we hope to have another podcast in the next several days.

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