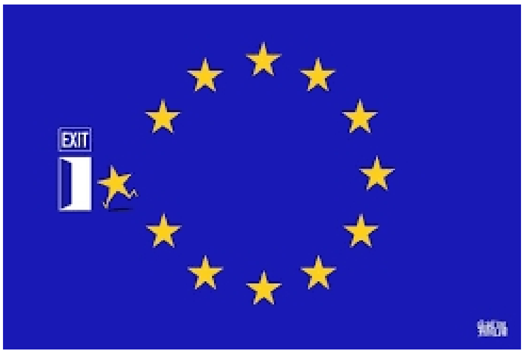

The Brexit vote Thursday was a big surprise to some. As voting closed, some London bookies were putting the odds of a vote to leave at less than 10%. Pollsters and "experts" had shown a 10 point margin 24 hours earlier for "Remain" yet "Leave" prevailed 52%-48%. Stock markets don't like surprises and responded with declines of 3% to 9% worldwide before markets closed for the weekend. With the flight to safety, as expected, most fixed income and some alternatives, especially gold and some managed futures, were up.

The result shouldn't have been a surprise. We said the referendum was "too close to call" a month ago in our blog. http://www.dwmgmt.com/brexit/ . In large numbers, the "Leave" supporters were expressing their anger with the status quo and a desire to return to the "good old days." They haven't benefited personally from globalization and now their homeland is being "taken over by immigrants."

The issue isn't just Britain leaving; it's really about the future of the EU. EU institutions have failed in a number of key areas; including lack of planning and administration relative to the integration of the various member nations and migration of people among the countries. Now, Britain and the EU have two years to work out what could be a highly acrimonious divorce. And, while this is happening, all across Europe countries, including Germany, France and Spain, will be holding national elections debating the question of whether sovereignty and nationalism outweighs economics. These same issues frame the U.S. Presidential election and others around the world.

Despite Friday's selloff, Brexit is no Lehman. Back in 2008 after the collapse of Lehman Brothers, investors indiscriminately fled all assets connected to the American housing bubble. Subprime mortgages had been sold to investors worldwide and panic spread like a virus. This time, the trouble is more identifiable. London's ambition to be the world's most important city is over. The pound has lost some luster. The EU will likely continue to splinter and perhaps disband. If nations reject globalism and free trade, world economic growth will likely be reduced. In 2008, central banks did not recognize nor prepare for the mounting disaster.

Today, the financial systems in the U.S. and Europe are less leveraged and better capitalized than eight years ago. Just last week, all major American banks passed the new stress test requirements. The CBOE, Market Volatility Index, or VIX, remains far below the level of past panics.

The U.S. economy should weather the Brexit storm. American companies remain more insulated from global developments than any other country. U.S. companies generate 70% of revenues domestically. U.S. corporate balance sheets are strong, interest rates are low and the U.S. economy is on a pace for a 2.5% growth in the second quarter. Consumer sentiment remains strong in the U.S., coming in at 93.5.

However, expect more volatility. Britain's decision to leave the EU could cause more fault lines in Europe. Elections across the globe could reverse globalization's trend. Chinese growth could continue to decline. There is always a list of potential fears, many of which never materialize (e.g. the "hyperinflation" predictions of 2010 due to Quantitative Easing).

Some investors have not recovered financially and/or cognitively from their losses of 2008. They are dedicated to making sure that never happens again. No drawdowns for them-every market blip is cause for concern. "Another collapse is coming." This risk aversion has led them to miss a huge run-up in U.S. equities (200% since 2009) , as well as decent returns for fixed income and alternatives in the last seven years.

Certainly, one day the expansion will end and investors will feel some temporary pain. But, trying to determine when and how that will happen is a money-losing proposition. Maintaining a well-diversified portfolio is a better approach than having a fearful, concentrated one. Equities, in the long run, will outperform fixed income and alternatives. And, as we discussed in our seminar last October, the equity "premium," obtained for taking on risk, will continue- impacted greatly by inflation and economic growth. Lower inflation and/or lower growth, means lower equity returns. Your risk profile determines your appropriate asset allocation and the volatility of your portfolio.

Hold on tight, the road ahead may be bumpy, but, since no one knows the future (not even the "experts" as demonstrated above), it's the best route we have to accomplish our goals for the long term.