



Phone: 248-325-9947  
Fax: 248-325-9952  
Toll Free: 855-273-8620  
[sculatiwealth.com](http://sculatiwealth.com)

7457 Franklin Road, Suite 222 • Bloomfield Hills, MI 48301

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The word of the year for 2016, thus far, is sure to be “Brexit”. This new “buzz-word” refers to the referendum vote by the British people on June 23, 2016 to leave the European Union. It was interesting to learn that Britain initially refused to join the European Union when it was founded in 1957 and did not become a member until 1973. Two years after joining, a similar exit referendum was held due to a crisis of confidence, with 67 percent of voters choosing to stay. Now, as a result of Britons feeling that they have lost their independence and autonomy, and have been dragged into poor policy decisions by the European Union, the “Brexit” issue has surfaced once again.

The day after the referendum passed with just 2% of the majority, the global markets reacted with significant declines. The referendum is not a legal vote and must be acted upon by Parliament. Within the week, the US went on to recover almost all of what was lost. This volatile negative response and the immediate devaluation of the Pound sent a clear message to the British people. Many said if they could vote again, they would vote to stay.

The risk to your portfolio is that the UK goes into recession and the rest of the world sees a slowdown in growth as companies stop investing in large projects and adopt a “wait and see” attitude. If this happens, the market will stay stuck in this range we have been in for a while longer, and we will need some growth catalyst to break out to the upside. Having said that, this range we have been in continues to bump up against all-time highs, and if we are going to be stuck, I prefer the highs rather than the alternative.

In the meantime, dividends and interest will be paid and as this process evolves and the outcome is better known, markets will recover. I do not anticipate anything like what we saw in 2008. All of the financial plans we create have assumptions for periods like this built into them. It is never fun, but we know it will happen along the way. We just don’t know what the reasons will be.

In the meantime, enjoy your summer and let us know if there is anything we can do to resolve any anxiety you have in regard to your investments or financial plan. We can't change the action in the financial markets, but we can use the tools we have to make sense of them. As always, thank you for your trust and confidence.

Sincerely,

David J. Sculati  
President

Nathan Hawrot  
Certified Financial Planner™