Money matters: Brexit and your investments

By Rick Gross

The United Kingdom’s decision to leave the European Union following a referendum known as Brexit was the latest test for investment markets worldwide. The immediate market reaction was decidedly negative, but soon after markets started to rebound, more so in the U.S. than overseas. Investors should be prepared for continued uncertainty related to the Brexit vote, which could contribute to volatility in the days, weeks and even months to come.

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Volatility is nothing new

Significant price swings in the market, both up-and-down, are nothing new. A number of notable events, many arising without much warning, have occurred in recent years causing markets to react. Among them are the 2011 Japan earthquake and tsunami, a temporary shutdown of the U.S. federal government in 2013 and the dramatic drop in oil prices that began in 2014. These events had an impact on stock markets in the short run, but over time, stocks recovered.

There has been plenty of speculation on what the anticipated exit of the United Kingdom from the EU will mean for the global economy and the financial markets. Yet nobody can predict with certainty what the future holds. It’s important to keep in mind that volatility is a reality for stock investors.

How should you respond to Brexit?

Geo-political events can act as a reminder to review your financial position. At the same time, remember that portfolio decisions should not be based on emotion or speculation about events that have occurred or may happen in the future. Here are steps you can take to stay calm during the next wave of volatility:

- **Assess your risk tolerance.** How did you feel during the most recent downturn? Feeling especially uncomfortable could be a sign that you’re taking on too much risk. Make sure you are honest about the level of risk you are willing to accept and position your portfolio accordingly.

- **Diversify your portfolio**. Don’t be overly dependent on a single investment or asset class. Owning a properly diversified mix of assets can help you withstand the rough periods in the market.

- **Align your portfolio with your goals**. If you have a longer time horizon to let your money work, it may make sense for you to have more aggressive investments in your portfolio. However, if you’re retiring soon or need to tap some of the money you have invested, you may want to shift some assets into less volatile investments.

- **Don’t be overly influenced by the headlines**. It’s easy to find reports in the media that can scare you away from your long-term investment strategy but put the pundits’ opinions into perspective. One thing is for sure – they won’t know your personal financial goals and situation.

The most important drivers of your investment success are your long-term goals, the time you have to invest and your commitment to save as much as you can. You can be certain that there will be more events like Brexit in the future. When they happen, avoid making irrational decisions and stay focused on your long-term strategy.

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