World Stock Markets

Index	Friday	YTD
S&P 500	**-3.6%**	**-.3%**
Euro Stoxx 50	**-8.6%**	**-15.00%**
UK (FTSE)	**-3.2%**	**-1.7%**
Germany	**-6.8%**	**-11.00%**
Japan	**-7.3%**	**-22.20%**
EAFE	**-6.75%**	**-8.68%**
EM	**-3.54%**	**-3.54%**
Whitford Premier Alpha	**-3.3%**	**12.36%**
SPY	**-3.59%**	**7.96%**

Source: Russell, MSCI and Standard & Poor's

The After-Shocks?

The long anticipated vote by Great Britain on whether they would continue their 43-year-old membership in the EU has rocked the world. The vote shocked the political elite, the media and investors everywhere. The Brexit expected to take 2 years and leave 27 members in the EU. The elites believed they knew better how the general populace should live and be governed. That same arrogance has the elites pushing for a re-vote. There are some however, that are coming to the realization that this is only the beginning of this movement and not the end. The global elites are very disconnected form the middle and lower class citizenry. Already there is discussion that five other countries may stage a similar vote (France, Austria, Finland, Netherlands and Hungry).

In the short run the probability that the UK slides into a recession are high. Growth in the EU will also slow as employment rules; trade deals and consumer sentiment will be slow to recover. The U.S. will be on the cusp of a recession. Many in the U.S. are dismissing that a similar anti-establishment movement may sweep Trump into office. They may also be in for a shock as they continue to underestimate Trump and the level of disgust with the elite establishment.

The slowing of economies will lead to more volatility in the markets or more precisely more selling. Although there is a fair amount of cash on the sidelines, there will be Mr. Margin calling on those leveraged long only portfolios. The margins calls will lead to more selling which will lead to more margin calls. A sell-off of 15-20% is a good probability.

There is growing sentiment that the Federal Reserve will not raise interest rates now until 2017 given the global weakness. We are skeptical of that assumption. We think the fallout of Brexit will provide cover for the Fed to raise rates. Given the current state of the U.S. economy and expected weakness in Europe (0.3 to 1.0% decline in GDP) the only tools available to the Fed are low rates and fiscal policy. As we have experienced in the U.S. with 7 years (post-recession) of zero interest rates and flooding the system with money has produced very little in terms of growth. By raising rates now it provides the Fed the ability to lower rates again if only for appearances of promoting growth while being able to blame Brexit for the market decline.

As we have been recommending for months, hedges, cash, private equity, precious metals and funds with downside protection are places to invest that will help protect capital in this uncharted time. In the long run it is expected that Great Britain and the remaining EU will work through the issues. Great Britain managed alone for thousands of years and is quite likely to survive for thousands more. As the issues are remedied there will be opportunities to re-allocate capital without the risk of significant lost.