Dodging a Bullet

- Following the Brexit vote, global financial conditions tightened and signaled immediate danger to the global economy.
- Since the initial post-Brexit global market reaction, financial conditions have loosened and the US equity market rebounded to pre-Brexit levels. This should limit the economic costs for the US.
- We may have temporarily dodged a bullet because damaged financial conditions improved rapidly, but the stock market is still vulnerable.

Following the Brexit vote of June 23, the global equity markets were meaningfully shaken, and global financial conditions tightened (access to cash, credit availability, transaction liquidity, dollar strength, etc.). It looked bad; bad enough where we quickly reacted and positioned client accounts to a more conservative stance. After all, it is our job to be both proactive and reactive to market concerns so as to best protect your portfolio, which is a means to protect your retirement goals. In regard to our proactive measures, as we wrote in our June 24 missive simply titled “Brexit”:

“We really should have been holding a lot more European assets in all of our clients’ accounts. After all, the European Union accounts for about seventeen percent of total global Gross Domestic Product. Traditional investing theory argues that, depending upon your particular goals, you really should have had ten or twenty percent of your BMM investment portfolio in European assets. But you didn’t. In 2014 we sold out of that exposure. I actually remember the day, sitting in the second row of a conference hall listening to a lecture given by former Federal Reserve governor Ben Bernanke, that we decided we wanted out. Over the long-term, diversification makes portfolios safer, and it’s our job to make sure your portfolio is safe. But we felt that this traditional tool to keep your portfolio safe just wasn’t for you. Not in the intermediate-term, at least.”

So the proactive measure was to avoid European exposure in the first place. The reactive measure was to reduce the remaining risk of client accounts (by reducing US equity exposure), until the fallout could be better measured. Financial conditions have loosened and the US equity market rebounded to pre-Brexit levels. This should limit the economic costs for the US.

In the short-term, the US stock market has dodged a bullet. It suffered some losses, but it bounced back strongly on good volume (not to be overly technical, but there were “breadth thrusts” that tend to be clues as to good support of the market as indicated by demand entering back into the market after a sell-off). However, conditions can change quickly. We may have temporarily dodged a bullet because damaged financial conditions improved rapidly, but the stock market is still vulnerable in the just-a-bit-longer-than-short-term due to increased post-Brexit uncertainty. This type of unprecedented uncertainty can cause businesses to reduce hiring and investment, grinding growth and dampening corporate earnings.
It will take some time to accurately assess how international developments will affect the behavior of US businesses, but it is prudent to expect that it will be a net negative. Combining that net negative with already full equity valuations along with a coming US Presidential election, a modest decrease in risk is appropriate. The stock market may continue to go up from here, but our job isn’t to capture every percentage point of return of the flavor-of-the-day investment; our job is to make sure you can accomplish all of your goals. And sometimes (most of the times), that involves protecting you, even if it’s “just in case”. Consider us your retirement insurance.

All that being said, again, things have improved dramatically and quickly, post-Brexit. One of the biggest issues was the immediate possibility of an excessively strong dollar which would be a global monetary shock. The US dollar has a dominant role as a global funding currency as well as invoicing currency in international trade. The shock to the US dollar has somewhat reverted and somewhat stabilized. This has taken some of the risk out of the global equity market, and allows us to consider new investments for available cash (even if those investments are more conservative for clients’ portfolios than they might normally be).
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DOW

The Dow Jones Industrial Average (NYSE: DJI, also called the DJIA, Dow 30, INDP, or informally the Dow Jones or The Dow) is one of several stock market indices, created by nineteenth-century Wall Street Journal editor and Dow Jones & Company co-founder Charles Dow. The Dow average is computed from the stock prices of 30 of the largest and most widely held public companies in the United States. Clients of BMM may have portfolios that differ substantially from the composition of the Dow and therefore, their performance may vary significantly from that of the Dow. The Dow is used for illustrative purposes only, as one indicator of the overall US economy, and its past, present, or future performance should not be viewed as an indicator or comparison point for BMM client performance.
# Privacy Notice

## Facts

### Why?

Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.

### What?

The types of personal information we collect and share depend on the product or service you have with us. This information can include:
- Social Security Number and Account Balances
- Transaction History and Risk Tolerance
- Retirement Assets and Wire Transfer instructions

### How?

All financial companies need to share customers’ personal information to run their everyday business. In the table below, we list the reasons financial companies can share their customers’ personal information. You reason Berkshire Money Management chooses to share, and whether you can limit this sharing.

<table>
<thead>
<tr>
<th>Reasons we can share your personal information</th>
<th>Does Berkshire Money Management share?</th>
<th>Can you limit this sharing?</th>
</tr>
</thead>
<tbody>
<tr>
<td>For our everyday business purposes—such as process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td>For our marketing purposes—to offer our products and services to you</td>
<td>NO</td>
<td>WE DO NOT SHARE</td>
</tr>
<tr>
<td>For joint marketing with other financial companies</td>
<td>NO</td>
<td>WE DO NOT SHARE</td>
</tr>
<tr>
<td>For our affiliates’ everyday business purposes—information about your transactions and experiences</td>
<td>NO</td>
<td>WE DO NOT SHARE</td>
</tr>
<tr>
<td>For our affiliates’ everyday business purposes—information about your creditworthiness</td>
<td>NO</td>
<td>WE DO NOT SHARE</td>
</tr>
<tr>
<td>For nonprofits to market to you</td>
<td>NO</td>
<td>WE DO NOT SHARE</td>
</tr>
</tbody>
</table>

### Questions?

Call 888-232-4072 or go to www.berkshremm.com

## Who we are

### Who is providing this notice?

Berkshire Money Management, 192 Merrill Road, Pittsfield, MA 01201

### What we do

**How does Berkshire Money Management protect my personal information?**

To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.

**How does Berkshire Money Management collect my personal information?**

We collect your personal information, for example, when you:
- Open an account or enter into an Investment Advisory Contract
- Tell us where to send the money
- Give us your contact information
- Seek advice about your investments

### Why can’t I limit all sharing?

Federal law gives you the right to limit only:
- Sharing for affiliates’ everyday business purposes—information about your creditworthiness
- Sharing from using your information to market to you
- Sharing of your information to nonprofits

State laws and independent companies may give you additional rights to limit sharing.

## Definitions

**Affiliates**

Companies related by common ownership or control. They can be financial and nonfinancial companies.
- Berkshire Money Management has no affiliates.

**Nonaffiliates**

Companies not related by common ownership or control. They can be financial and nonfinancial companies.
- Berkshire Money Management does not share with nonaffiliates.
  - They can market to you.

**Joint marketing**

A formal agreement between nonaffiliated financial companies that together market financial products or services to you.
- Berkshire Money Management does not participate in joint marketing.