



**This is your captain speaking, we are
about to experience some turbulence...**

Last night Britons voted to leave the European Union. This morning markets around the world responded quite significantly, with the JSE down 4.8% in the first 20 minutes of trading. The currency weakened overnight from R14.40:\$1 to as low as R15:50:\$1 which was a bigger move than after the firing of Minister Nene. The British pound weakened to its lowest levels against the US Dollar in 31 years over the same period. As I am writing this note David Cameron, the prime minister of the UK has announced his resignation as a result of the vote.

All this clearly points to potentially significant turmoil in global markets as the implications of this decision play out and become clearer. There is also the response to the decision that will play which is likely to impact on markets further down the road. The question now is, how should you as an investor respond to this?

Before I answer that question, it would be prudent to outline some of the factors that will likely impact on your decision making in the coming weeks. News headlines will be dominated by this decision this weekend, and into next week. You will likely hear debates about this on the radio, and you will be part of conversations where this issue will be discussed. There may be a bit of scaremongering in some of these interactions.

After all of this you will get a statement from the product provider administering your portfolio. If they do quarterly reporting, you will probably see that the value of your investments has fallen. If the fall in the markets between now and the end of June is significant, it is possible that you may even go onto the product provider's website and get a statement, where you may see that your investment has fallen in value. Growth investors are likely to experience a significant drop in portfolio value, while income investors will experience little by way of portfolio movement.

So, how should you respond to all of this? It is important to remember that investing entails risk, and this is one such risk playing out. Very few risks are ever permanent, although some may take longer to recover from. Global markets experienced a significant

risk in 2008 which result in a crisis that lasted a few years. However, the market started its recovery within six months of the start of the crisis. The global economy recovered a year or so later. Secondly, we at GM Investments are acutely aware of downside risk, and structure portfolios with a view to lower downside risk than the market. We do this by appropriate diversification, by using established managers, and by investing in funds which give the manager sufficient space to manage risk as well. While we may not have restructured your investment portfolio in the past week, it is very possible that the fund managers have made changes. So in form you are still invested in the same funds, but in substance the asset allocation of your portfolio may in fact be different.

Boston based financial research firm Dalbar recently updated their annual research on the impact of investor behaviour on portfolio returns. The research found that the US stock market returned 8.19% per annum over the past 20 years, but the average investor in the US earned a return of only 4.67%. The findings of the research has not changed since inception. According to Dalbar, the main reason for this underperformance is that investors sell out the market after a period of market weakness, and invest after markets have done well. It is investor behaviour that destroys more value than any other factor.

In conclusion, there is a period of market turbulence ahead of us, but I am confident that the aeroplane is well built, and will withstand the turbulence. Speak to us if you are nervous about what is happening at the moment. Most importantly though, do not make any long term decisions based on this one event.

Craig, Kagisho and the team at GM Investments