

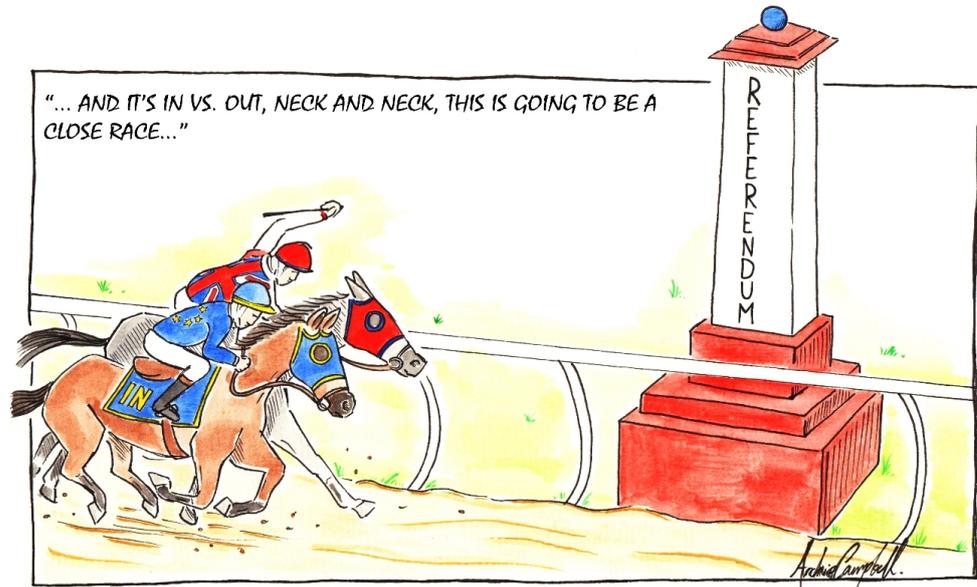


MVAM  
MOLE VALLEY  
ASSET MANAGEMENT

# MVAM Newsletter

'Once more unto the breach dear friends, once more.....'

June 2016



MVAM has no wish to push opinions on the upcoming referendum but we do have to keep focusing on it. For the investment world it is the only game in town. This time we look at what might happen.

We don't make predictions (see May 2015 newsletter) but the likely short term effects of a vote to leave are becoming clear. And if there is one thing clear about markets it is they are great at over-reacting to news, especially big news. An overreaction is what we are about to see, one way or another.

Firstly, the basics. A vote to Leave will be seen as negative and a vote to Remain positive. Not because leaving the EU would be such a bad thing (who really knows) but leaving will create a fear of change. That fear will create the overreaction that, we think, will cause a problem in the real world. So Brexit predictions are:

1. Sterling Weakness  
Really a safe bet. May saw Sterling rise against the Euro and the Dollar as polls forecasted the Remain camp would prevail. This move has now been reversed as the chances of Brexit, according to the polls, have risen sharply. It is therefore pretty clear, if we exit, Sterling will fall sharply, and if we stay it will bounce. Currently Sterling buys 1.44 Dollars and 1.27 Euros. Read 1.3 and 1.15 on an exit.
2. Recession  
Not as safe a bet but a very sharp fall in the currency coupled by a "what do we do now" feeling could trigger a recession. Possibly short in duration, but the longer term is more difficult to predict so markets will focus on the short term!
3. Less immigration  
This would be less immediate but likely given suggested changes for entry of EU citizens. Note economic strength is the key encouragement for migrants....

Investors have asked if our portfolios are prepared for the vote. Our answer in a word is "No". Surprised? Well perhaps its honesty, but it is difficult to prepare when a vote Out will have the exact opposite effect on a portfolio as a vote In! With the polls suggesting a neck and neck race who are we to know? What we can do is prepare for the inevitable overreaction. The stocks we like that get hit too hard by the verdict will be worth buying and vice versa.

So "once more unto the breach..." go markets, somewhat ironically as this quote comes from Shakespeare's Henry 5th speech made before Agincourt, the battle that almost led to Henry's conquering of France. Shakespeare's words in that same speech sum up the final days of this less bloody campaign as well. "The game's afoot: Follow your spirit, and upon this charge cry 'God for Harry, England, and Saint George!'"

After the weeks of debates, "facts" and predictions - follow your spirit - remains the only opinion we are prepared to give.

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