Brexit Might Yield Some UK Bargains

By Juliette Fairley
InsuranceNewsNet

Brexit has caused American investors to ponder the safety of continuing to allocate some of their portfolio internationally, and the consensus among financial advisors is a cautious “yes."

In fact, it might be time for some bargain-hunting.

“U.S. investors should not withdraw especially not after the losses that have already occurred,” said Kashif A. Ahmed, a financial planner and president of American Private Wealth in Woburn, Mass. “I would buy high-quality British multinationals. They are definitely at a discount and an even better value if you buy via currency hedged vehicles.”

Volatility is at the heart of investor concern.

“The markets don’t like uncertainty and there is a lot of that with Brexit,” said Bryan Slovon, founder and CEO of Stuart Financial Group, a financial planning firm in the D.C. area.

According to The Wall Street Journal, the FTSE 100 closed up 0.3 percent on June 29 from June 23, the day of the vote. Germany's DAX fell 6.3 percent over that period, the UK index has fallen 8.3 percent and German shares 7.8 percent.

"U.S. companies increasingly derive most of their revenue from international operations, and vice-versa," Ahmed said. "Buying U.S. domiciled multinationals will offer international exposure by default. America is still the cleanest dirty shirt in the laundry."

Stock market performance over time has indicated that commitment to a long term investment strategy, if properly diversified, will eventually overcome volatility. Advisors largely believe the same is true for Brexit.

"As of now, most markets have almost recovered from the last few days of aftershock of this major news," Slovon said. "We believe the markets will be fine and the world isn't coming to an end."

In fact, there is still a benefit to buying more now, according to Larry Luxenberg, financial advisor with Lexington Avenue Capital Management in New City, N.Y.

"European and UK markets make up a substantial part of the world stock markets and including these stocks from these markets provides additional diversification, which over time should lower risk and increase returns," Luxenberg told Advisor News. "Owning more stock makes it likely that you'll have purchased big winners and that if you also hold the big losers, they'll be diluted in a broadly diversified holding."

When buying internationally in the wake of Brexit, Ahmed recommends European stocks as they are the most beaten down.

"This divorce will take time and at more junctions, people will react to news items and other sell offs will happen," said Ahmed. "In the U.S., financials and healthcare offer better discounts than other sectors and I would stay away from emerging markets."

Individual stocks or bonds, Luxenberg believes, may not be the best way for most investors to participate in the markets overseas.

"I suggest to my clients broadly diversified open end mutual funds or exchange traded funds," Luxenberg said. "Broad-based Vanguard index funds, for example, and exchange traded funds such as the Vanguard Total International Stock Index Fund."

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