

FINANCIAL newsletter

JULY

Across the Pond

If you've turned on the news in the last month, you have heard the term "Brexit." The portmanteau has been splashed all over international headlines since early June, when Britain prepared for a referendum on whether it would exit from the European Union (EU). When the U.K. shocked the world on June 23 by actually voting to leave, "Brexit" cemented its place as one of the most important words of the year.

(Unsurprising) Panic

The impact of the U.K.'s decision to leave the EU was felt immediately by the global stock market. Analysts all over the world had believed the U.K. would remain and were pushing share prices higher in the hours before the vote. When the results were announced, the reaction was a rapid—but not catastrophic—downturn across nearly every stock exchange.

As it became clear that Brexit probably wouldn't result in the end of the EU, panic dissipated and stocks returned to normal. For Americans, the disruption seemed to have passed; Brexit would be nothing more than a temporary political problem between distant countries. After all, didn't we start a war 240 years ago so that British decisions wouldn't affect us anymore?

Quid Pro Quo

Brexit still has important implications for the U.S. economy because of the British pound. The pound has a long history and is considered one of the most reliable currencies in the world. Its value has helped make London the financial capital of Europe and ensures the Bank of England is a key player in global interest rates.

But Brexit means the U.K. will be disrupting its access to the EU's massive economic power and banking needs. This could shrink the U.K.'s economy and may ruin the stability

of its banks, costing the pound its place next to the U.S. dollar, Japanese yen and the euro as a top-tier currency. And that would make all the difference.

A volatile pound will drive some investors to other currencies. Since the EU and its euro are also shaken by Brexit, choices for low-risk currencies are limited and purchases of U.S. dollars and Treasuries increase.

While this further cements the United States as the economic center of the world, it does cause some problems. Although trade with the U.K. makes up less than half a percent of U.S. GDP, the appreciation of the dollar's value makes U.S. goods more expensive all over the world, hurting our ability to export. Additionally, U.K. products that directly compete with American products (e.g. luxury cars) gain a huge price advantage in foreign markets.

Brexit's bigger impact, however, may be on interest rates. The market disruption caused by the U.K. will make the Federal Reserve wary of raising short-term interest rates this summer as it had planned. High demand for Treasuries will push down long-term borrowing rates in major economies. This effect was immediately evident following the Brexit vote as U.S. mortgage rates approached historic lows. If interest rates remain this low, they could inflate home prices and make it more difficult for people to buy their first home.

The full effects of Brexit are still unknown, both economically and politically. No independent country has ever left the EU and analysts are unsure when and how (or even if) it will take place. The move could fundamentally alter trade agreements, trigger recessions in emerging economies or open space for another major country to take Europe's center stage. Regardless of what happens, it's clear that economic changes don't stay confined to a single country. Even with 3,000 miles of ocean between us, the consequences of the U.K.'s decision have already begun arriving on our shores.

the market at a glance

JUNE

U.S. Large Cap
(S&P 500)

2,098.86 (0.09%) ▲

U.S. Mid/Small
(Russell 2000)

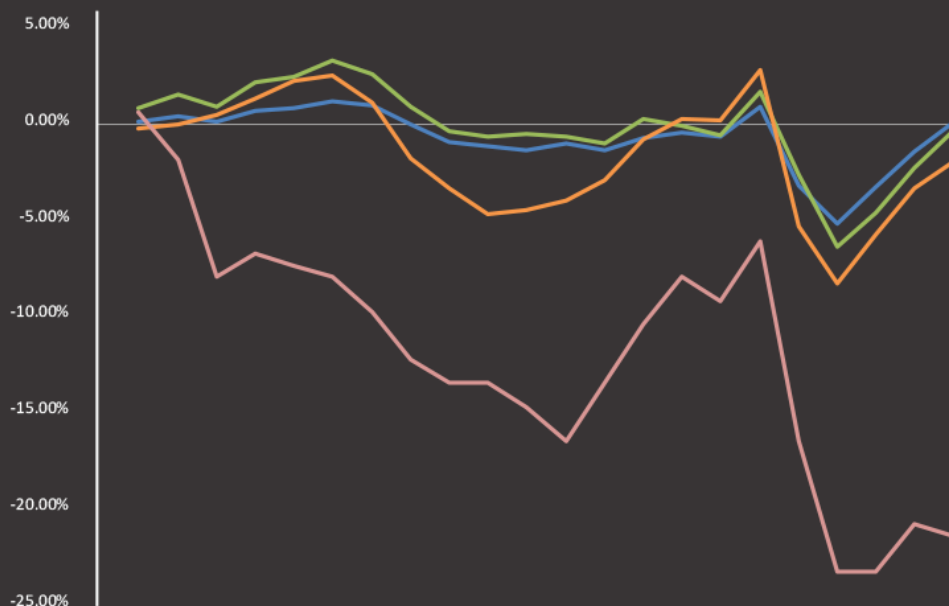
1,151.92 (-0.25%) ▼

International Large
(NYSE International 100)

4,652.98 (-1.68%) ▼

U.S. Treasuries
(U.S. 10-Year Treasury Yield Rate)

1.49 (-19.02%) ▼



Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

The market in action

- The U.S. Department of Labor reports the worst jobs numbers in more than 5 years. The report reveals that payrolls increased by just 38,000 jobs in May (compared to 164,000 anticipated) and revised down the payrolls for the previous two months by 59,000. Despite this weakness, the unemployment rate fell to 4.7 percent in May—its lowest level since 2007.
- Swiss company Nespresso announces it will begin selling Cuban-produced coffee in the United States this fall. It will be the first Cuban product available at American retail stores in over 50 years.
- German auto giant Volkswagen AG agrees to pay up to \$15.3B in penalties and settlements for the diesel-emissions scandal uncovered last year—the largest settlement in automotive history.
- IEX Group wins approval from the SEC to open a new U.S. stock exchange. IEX has differentiated itself from other exchanges by implementing a 350 microsecond delay on all trades, disrupting computer “flash trading” that reportedly drives up stock prices for individual investors.
- The world's largest uncut diamond (1,109 carats) fails to sell at its London auction after the \$61M highest offer does not reach the minimum reserve price set by the Lucara Diamond Corp. that uncovered it last year.
- The German 10-Year Bond yield falls to a negative level for the first time in history and U.S. mortgage rates hit three-year lows. The drop highlights strong demand for low-risk assets amid the uncertainty surrounding the U.K. “Brexit” vote.
- Microsoft Corporation acquires the business-networking social website LinkedIn for \$26.2B.
- Online pseudo-journalist group Gawker Media files for Chapter 11 bankruptcy protection after losing a \$140M lawsuit over privacy invasion. Gawker Media owns several popular blog sites, including Deadspin, Lifehacker, Kotaku and Jalopnik.
- Strong appreciation in home values pushes the wealth of Americans to new high of \$88.1T in Q1 2016.
- Xerox Corp announces plans to split, spinning its business services off into a new company called Conduent.

Athletes Train for their Financial Future

The alarming amount of athletes going broke has been the subject of dozens of documentaries, opinion-editorials and articles. Despite making millions of dollars each year, athletes seem to be more susceptible to financial struggles than the average American. In years past, few solutions were offered to aid players and their families. Recently, however, the NFL and NBA have acknowledged these financial problems and have begun working with players' unions to provide education about finance and money management.

According to recent studies, nearly 60 percent of NBA players go broke within five years of their retirement. A vast majority of players don't earn top-dollar salaries, as the median NBA salary is roughly \$2.5 million. In addition to significantly lower average salaries, the average career of an NBA player only lasts five years. While earning \$12.5 million in a career seems more than enough for most Americans, there are pitfalls that come with being an NBA player. Similar to lottery winners, young professional athletes see a massive increase in pay, which fuels the impulse to make extravagant (and reckless) purchases. Also, like most young people, players have limited financial knowledge and are unable to recognize if their financial advisor is taking advantage of them.

However, the NBA and the players' union have teamed up with Personal Capital Corporation, an online financial advisory firm, to develop an educational program that teaches players responsible and sustainable financial habits. This program includes seminars on financial topics as well as a smartphone app that allows players to monitor their spending habits, calculate their net worth and set a budget. Through the seminars and the app, players can now self-educate and have their current financial information in the palm of their hand. Since its implementation last fall, 10 percent of NBA players

already have started using the app. While it's uncertain how effective the app will be, the availability of hands-on educational technology may reduce the amount of players encountering financial struggles in retirement.

Financial challenges aren't just limited to the NBA, as about 78 percent of NFL retirees experience financial struggles (debts, lack of income and savings) after their sports careers. A 2015 study from the National Bureau of Economics found that 1 in 6 players drafted between 1996-2013 had declared bankruptcy within their first 12 years of retirement. While the average salary for an NFL player is \$2 million, the average career only spans 3.5 years. With high-end lifestyles and lack of preparation for the future, NFL players need guidance to protect their life after the game.

Like the NBA, the NFL recognizes the issue and is now on their second year of offering personal finance seminars, run in part by the University of Miami. With emphases on personal finance, generational wealth, risk analysis and other topics, players are able to educate themselves on issues that may have otherwise plagued their finances. While the first year was only open to players, this year's seminars were also open to family members. Forty-three current and former NFL players attended this year, nearly double the amount from last year's inaugural financial camp.

A large portion of the population has trouble with money or needs to develop better financial habits. Fame and fortune alone don't negate the responsibilities of providing for a family, leaving money behind for loved ones and living comfortably in retirement. From sports superstars to the average American, money management skills are vital to everyone's financial future.

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