



June 27, 2016

UK's EU Referendum Result

On June 23, citizens of the United Kingdom voted to leave the European Union. While there has been much speculation leading up to and since the vote, many of the longer-term implications of the referendum remain unclear, as the process for negotiating what a UK exit may look like are just beginning.

Dimensional has nearly 35 years of experience managing portfolios, including during periods of uncertainty and heightened volatility. We monitor market events—including their impact on trading and trade settlement—very closely and consider the implications of new information as it comes to light. We are paying close attention to market mechanisms and they appear to be functioning well. Our investment philosophy and process have withstood many trying times and we remain committed.

We urge caution in allowing market movements to impact long-term asset allocation. Long-term investors recognize that risks and uncertainty are ever present in markets. A drop in prices is generally due to lower expectations of cash flows, higher discount rates, or both. In some cases, a drop is also due to investors demanding liquidity. In the current situation, some investors and economists may expect lower cash flows due to possible trade barriers that may or may not be implemented. Higher discount rates may be occurring due to uncertainty about changes in the economic landscape and regulations. We have seen markets increase discount rates in times of uncertainty before, resulting in lower prices and increased expected returns. However, it is difficult to know when good outcomes will materialize in the future. By attempting to time the right moment to invest or redeem, one risks not enjoying the potential benefits of such materializations. Many of those who exit the markets miss the recoveries. What we have often seen in the past is that investors who remained in well-diversified portfolios were rewarded over time.

The UK will have up to two years to negotiate a withdrawal, during which time it remains subject to EU treaties and laws. Any potential operational changes depend on what path the UK and EU decide to take. Leading up to and since the vote, we have worked with our counterparties, including custodians, brokers, and dealers, regarding potential operational implications resulting from the UK's leaving the EU.

Dimensional remains committed to helping our clients in the UK, other parts of Europe, and around the world have a good investment experience.

Diversification does not protect against loss in declining markets. Past performance is no guarantee of future results. Investing involves risk and the possible loss of principal. There is no guarantee strategies will be successful.

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