THE GLOBE AND MAIL

INVESTOR CLINIC

My post-Brexit investing plan revealed

JOHN HEINZL - INVESTMENT REPORTER

The Globe and Mail
Published Friday, Jun. 24, 2016 4:49PM EDT
Last updated Friday, Jun. 24, 2016 7:33PM EDT

Shortly before midnight on Thursday, I checked the latest Brexit results. It was clear by then that the "Leave" camp was going to prevail.

That's when I put phase one of my post-Brexit investing action plan into motion. I went to bed.

Friday morning, phase two of my plan kicked into gear: I made myself a cappuccino and some oatmeal, as I do every morning, and emptied the dishwasher. As I placed the knives and forks in the drawer, I listened to the grim headlines on CBC: David Cameron had resigned; stock and currency markets around the world were in turmoil.

I had prepared for this moment. I knew precisely what to do next.

Nothing.

Now, I don't particularly enjoy watching my stocks get clobbered. But having lived through countless market setbacks – including the Asian and Russian financial crises, dot-com meltdown, various wars and recessions, and the subprime mortgage bust – I've come to understand that sharp sell-offs are a perfectly normal part of investing.

Attempting to dodge these unpleasant events is a fool's game. I don't even try. Instead, I prepare by building a diversified portfolio of solid, dividend-paying companies – such as utilities, pipelines, banks, telecoms and consumer stocks – that I know will withstand these sorts of shocks.

What if I'd sold everything on Thursday – just in case – and the Brexit vote had gone the other way? Even if I'd guessed correctly and avoided Friday's sell-off, how would I know when to jump back in? Apart from the stress that comes with trading in and out frequently, there are financial costs in the form of commissions and capital gains taxes.

Instead of trying to avoid market setbacks, I just accept them. After all, short-term volatility is the price investors pay for the superior long-term returns that the stock market delivers. Rocky Balboa probably said it best: "No pain, no gain." To be sure, Friday brought plenty of pain.

Britain's blue-chip FTSE 100 index plunged as much as 8.7 per cent at Friday's open, but recovered to post a loss of 3.2 per cent. Markets in Europe took the news harder, with the Stoxx Europe 600 index down about 7 per cent and benchmarks in Italy and Spain plummeting more than 12 per cent.

But in North America, the damage was comparatively light. Even as the S&P 500 was down more than 3 per cent Friday afternoon, Canada's S&P/TSX composite index – buttressed by its exposure to surging gold stocks – was off less than 2 per cent.

Glancing at my own portfolio on Friday, I was pleasantly surprised to see that some of my stocks – including utilities and real estate investment trusts – were actually up. With government bond yields sinking on Britain’s decision to leave the European Union, interest-sensitive sectors such as these received a boost, although stocks that benefit from higher interest rates – such as life insurers – got pummelled.

These were only the immediate, and indirect, impacts of the Brexit vote. The long-term direct consequences of Britain – and potentially other countries – leaving the EU are less predictable, but the fallout for businesses may not be as bad as some people fear.

“Not only will trade not collapse in the near term, but the medium- and long-term disruption to trade will likely be far less dire than feared, as alternative trade deals will be negotiated if and when the British follow through with plans to leave the EU,” Murray Leith, director of investment research with Vancouver-based Odlum Brown, said in a note to clients.

In the wake of the Brexit vote, central banks have signalled their readiness to provide liquidity and stabilize markets. The result is that interest rates could stay lower for longer, which would be good news for interest-sensitive sectors and perhaps the market as a whole. If you have cash to invest, this might be a good time to look for bargains.

“Initial investor panic will likely be followed by more sensible behaviour,” Mr. Leith said in his note, which was titled “Keep Calm and Carry On.”

That’s exactly what I plan to do.