



Wealth Advisors,
Investment Managers

Welcome to the halfway mark of 2016. As per usual we are astounded at how quickly the months go by. This quarter we offer our view on the meaning of Britain's Brexit vote, an event that captivated headlines and will be in the news for years to come. We also provide an overview of the economy and markets and point to the data that suggests continued slow global economic growth is the most likely path forward. In our planners' corner we share the impact of making good financial decisions over time in the context of a success story with a family with whom we work closely. Finally, in our Albion community section we share a few ways we've been able to positively impact people beyond the confines of our client base. We hope this letter finds you well and enjoying the long days of summer.

BREXIT - Why Do We Care?

Several thousand miles from North America an island nation has voted to terminate their close economic and political relationship with the mainland countries to their east - British citizens want to leave the European Union. While many claim the vote was nothing but a protest and a large share of those who voted for it did not really want or expect it to succeed, succeed it did.

Passage of the Brexit begs the question - why should we care? Our exports to Britain comprise about 2.4% of our total exports and secession from the EU does not eliminate Britain as a market. Our security ties will not disappear nor will our bond based on a common language and history. Yet there are costs the scale and extent of which we and all other analysts can only speculate about. The post Brexit devaluation of the British pound relative to the dollar will make it more difficult for U.S. manufacturers and service providers to sell into the British market. US multinationals with a strong presence in Britain - many have their EU headquarters in and around London - will bear the cost of shifting operations from Britain into an EU country, and finally and perhaps most importantly is the concern that Britain's vote will snowball to other countries causing the EU - an institution that through tight economic and social bonds has kept western Europe at peace for over seventy years - to disintegrate.

In today's economic system goods and services are sourced across the globe. Most British companies rely on parts, products, and services created outside the country to build finished goods. Yet those parts, products, and services just got about 10% more expensive due to depreciation of their currency since just before the Brexit vote. And this is before factoring in the as yet unknown friction and perhaps tariff costs Britain may face as a non EU member state. Of course the lower currency valuation (barring tariffs) should make British exports more competitive on the global stage. Yet to the extent their exports require imported components this benefit will be nullified.

If a company was considering expanding their presence in Britain - perhaps a new manufacturing facility or service center - those plans are now on hold; who in their right mind would build up a presence in a European country that may no longer have unfettered access to the much larger European market? Scores of multinationals currently have their EU headquarters in Britain and the race is on as other non-British cities compete to attract those headquarters and the powerful

economic activity they represent.

While for reasons described above the Brexit is likely to cause Brits some pain, the larger and in our view more important questions are why did this happen, is it likely to spread to other countries, and what does this mean for the United States? Ph.D. theses will be written on these topics. It's a ripe new field for research. Of course such future analysis does us absolutely no good today.

It's clear in Britain and many other countries a good share of the population does not feel they have benefited from global economic growth over the last several decades. They see flat wages, elimination of stable well-paying manufacturing jobs, and ever expanding holes in the safety net. They also see a segment of the population (The 5%? The 1%? The 1/10th of 1%?) that is thriving. Through this lens the system is clearly not fair, or as one U.S. presidential aspirant would say - Rigged. To many it feels like external forces are the only identifiable cause of the problem. Stick a refugee crisis on top of the economic stagnation these folks have experienced and you have a recipe for throwing up walls, distancing from the international systems, and taking care of one's own.

We have a choice between open and closed. Open implies we continue to open borders around the planet to the free flow of labor, capital, and ideas. Closed means each of us goes it on our own. Open is far from perfect. We are in the midst of perhaps the most rapid expansion between haves and have nots in history. Large segments of the population are struggling to make ends meet. Yet there are policy solutions to these issues if we can summon the will to act. Following the siren towards closed, on our ever shrinking planet, is the road to disaster. We hope we choose open.

Economy and Markets

In the second quarter global stock markets continued along with choppy trade and much uncertainty. For U.S. equities neither a clear trend nor sense of direction for the market was evident, primarily due to challenged aggregate earnings growth and macroeconomic concerns. For now flat is the new up and volatility remains a defining feature. Despite that backdrop the first half of the year did see advances in less appealing sectors in the equity market: beaten down, left-for-dead energy and materials companies with dubious fundamentals; industrials acutely exposed to weak global growth and a strong dollar; and expensive "safe havens / bond proxies" like utilities and telecoms. These money flows reflected both Wall Street's hopeful narrative on oil prices and investor dollars flowing into dividend stocks as investors searched for higher yield and lower volatility. Higher quality growth companies were left out in the cold. Indeed, stocks with the best fundamentals - rationally priced companies with growing sales, earnings, and cash flows - in technology, health care & pharmaceuticals, and consumer discretionary sectors have been largely ignored by investors so far in 2016. This doesn't make much sense to us. We strongly believe that staying the course by investing in strong businesses pays off over the long-run as opposed to chasing fast moving Wall Street fads.

On the American economy, Janet Yellen in her recent semiannual testimony to Congress stated that the risk of an imminent U.S. recession "is low". We agree. After a weak Q1 GDP report (+1.1%) underlying data has improved. Job growth - despite the unexpectedly low +38K job adds in May - is persistent; total consumer spending continues to expand at a solid clip; and general confidence is holding up. Additionally, savings rates are high, household debt servicing ratios are low, and net worth is at record levels. Banks are well-capitalized (perhaps as healthy as they've ever been) as

determined by the Fed's annual financial reviews, and businesses in general are not acting recklessly. Meanwhile, inflation is low and the large U.S. services sector continues its expansion. Together, these features suggest a continued moderate economic expansion here in the U.S.

Overseas, China continues its long wave economic pivot from primarily an export-driven economy to a firmer consumption-based one. We continue to be neither exuberantly bullish nor overly bearish on Chinese economic data. In Japan, bold experiments continue on the policy front in order to resuscitate their moribund economy. Over in Europe, Mario Draghi continues with his four year old mantra of "doing whatever it takes" with ECB policy to keep their economy's head above water.

The 800-pound gorilla overhanging the markets at the end of the quarter was the U.K.'s June 23rd referendum on whether or not to leave the European Union. As we briefly mentioned in last quarter's letter, this vote was sure to capture the market's attention as the date drew nearer. In a surprise to nearly everyone, citizens in the U.K. voted by a slim margin to strike out on their own - separating themselves from the EU bloc. Financial markets went haywire in the immediate aftermath and in the ensuing weeks all manner of pundits, prognosticators, and politicians have attempted to divine exactly what this "Brexit" means for the U.K., Europe, the global economy and financial markets. The reality, however, is that nobody truly knows how this will play out. With that said our current take is that while "Brexit" has increased short-term market volatility and may even slow economic growth in the U.K. as businesses and consumers pause a bit to assess conditions, we think there is little reason to believe this event will cause a global recession. Rather, we surmise that while an extra dose of caution may be warranted for the time being, this process will likely move slowly over many years and policymakers are likely to forge a new framework that minimizes economic pain. In other words, the world goes on.

All told, we continue to expect growth in world output to march along at a modest pace over the balance of this year. When we add up the pluses and minuses, we remain cautiously optimistic on stocks and continue our efforts to find and own high quality investments for our clients. Markets ebb and flow, but finding and owning a slice of first-rate companies endures over time.

Planners' Corner

Over Albion's thirty plus years of business we have had the pleasure of seeing many of our clients reach their lifetime financial goals. We have stood by their side year after year and helped them make good financial decisions. It is what we do. We recently met with a couple who had come to us about a year ago looking for guidance. They were feeling financially trapped and while they wanted to improve their situation they didn't know how or where to start. They had a lot going for them as both are high income earners. We call this having a strong offense. However they were struggling with defense - the spending side of the equation. Between a large mortgage they couldn't refinance, medical bills, children's education costs, and a high cost of living, there was nothing left over each month for saving for the future. They were living paycheck to paycheck and unable to get themselves on a better path. That is where we came in. We were able to help them evaluate their situation, come up with a priority list of payments and reduce unnecessary expenditures. With our guidance they made a series of good decisions.

Over the course of just one year they were able to pay off a large portion of their non-mortgage debt and build up a cash emergency fund. Having cash on hand allowed them to realize further savings through a mortgage refinance opportunity which would not have been available if they

hadn't had the cash to pay closing costs upfront. This resulted in additional savings of approximately \$10,000 per year in interest costs.

A lot can happen in a year. These clients are well on their way to building a strong balance sheet that they can rely on in retirement. They are reducing debt and freeing up cash flow to put towards savings and investment assets. As we reviewed this progress with them there was clear cause to celebrate their dramatic improvement. It was a joy to watch them lighten as the burden of financial uncertainty lifted. We are honored they chose Albion to be their advisor - to guide and support them along their path to achieving their desired financial future - and delighted to be able to share in the happiness of successfully arriving at that future.

Albion Community

We are honored to inform you that Albion has been asked by The Enterprise - Utah's Business Journal - to write monthly articles on issues of financial interest. To date we have written articles on income investing and issues to consider when contemplating selling a business. The articles are available on Albion's blog. Please have a look and tell us what you think!

Our Women of Albion initiative has met with great success. Every event is well attended and our guests always leave asking for more! While it's likely a bit late to attend as you read this letter, our team is hosting a Women, Wine, and Wildflower event in Alta, Utah the evening of July 14th. This event is especially meaningful because the roots of Albion are firmly attached to the rocks, ridges, and swales of upper Little Cottonwood Canyon. It was in Alta where Toby Levitt and John Bird first met and founded Albion Financial Group.