

The Market in Review

Paul Siluch, Lisa Hill, Peter Mazzoni, and Sharon Mitchell
Financial Advisors
Raymond James Ltd. – Victoria BC

October 11th, 2019

This week's special article:

Wales and Brexit



Source: Google Maps

My wife and I recently travelled to Wales to the Pembrokeshire Coast Trail, which is a 186-mile path that winds its way along the most scenic cliffs and sandy beaches of western Wales. A second reason was to come to an understanding of Brexit from the inside of Britain looking out.

Wales is an interesting little country. It is full of hidden chapels and jaw-dropping cathedrals:



Wales has more castles per square mile than any other place on Earth, and yet almost none of them were built by the Welsh themselves.



Why? To watch over the Welsh, of course! They were a particularly prickly bunch, rebelling constantly and attacking from the rocky hills they knew so well.

Should we care about Brexit as Canadians? The issue of the United Kingdom leaving the European Union is one of four festering issues plaguing the world today. These include:

- US-China trade frictions
- Brexit
- Negative interest rates and the rise of global debt
- The general slowdown in world economies

We could add many other long-term issues, such as climate change, but the four above are what are weighing on global markets right now. Of course, the world always has problems, and somehow we manage to survive. Thrive, even. But four storms howling all at once are creating extra unease this time around. It would calm things to get relief from even one.

My question coming over was whether to support Brexit and become a Leaver, or align with the EU as a Remainer. I came over tilting to the side of the Leavers, I will admit. My wife and I have proud English blood coursing through our veins. The patriotic call of Brexit has some pull.

As it turns out, the 186-mile hike around the cliffs of the Pembrokeshire coastline – an excursion equivalent to climbing Mt. Everest (30,000 feet of elevation) - was easier than understanding Brexit. The coastline is made up of splintered sandstone cliffs.



And spectacular beaches



The Brexit drama that has been dragging on ever since 2016 and seems to change by the hour.

We want to leave. No, we want to stay. Actually, we want to both leave and stay. Understand?

In truth, the United Kingdom's membership in the European Union has always had the ups and downs of a roller-coaster.

After joining in 1973 and becoming the 7th member nation out of what is today 28, the UK got cold feet and held a referendum just two years later in 1975 to decide if it even wanted to remain.

The result was 67% to remain in the EU. But, as time passed, and more and more countries were admitted, Britain felt more and more insignificant. In 2016, an uneasy UK held a second referendum. This time, the result was just 48% to remain and 52% to leave. The term "Brexit" was born.



The last three years have been a quagmire of argument as various prime ministers (three, at last count) have tried in vain to negotiate a separation agreement with a hard-nosed European Union. A European Union that cannot appear weak because so many of its other members are agitating for change, just as Britain is.

What was thought to be an easy divorce has become anything but.

To explain and understand Britain's exit from the EU, let's travel into the unique past of Wales and look at a few points through Welsh eyes.

1. Things Are Never As Easy As They First Appear

Stonehenge is a perfect example of the above statement.



Stonehenge is a Neolithic structure composed of concentric rings of giant stone slabs. It is oriented such that the spring and autumn eclipses are aligned down the middle so their light illuminates the centre on just two days every year. The 50 tonne slabs were erected in just the right places so that the entire edifice became a giant sundial.

The question for centuries has been, how the heck did they move those rocks?

The outer slabs are made of sandstone. They match up with similar geology about 10-20 miles away. They are huge, but easy enough to pull on sledges or wooden rollers. The inner stones, however, are made of bluestone dolerite. It was a mystery where these came from, and only after years of geological analysis and searching was their origin pinpointed to one single outcrop in Wales. The Welsh, as you can imagine, were ecstatic about this discovery, since their own myths tell us Merlin himself – a Welsh sorcerer, no less – moved them through the air with his magic.

Levitation notwithstanding, there have been numerous theories as to how a primitive people led by Druid priests moved 50 tonne stones over 150 miles. Barges, wooden rollers, and even stone ball bearings have been suggested. A recent theory suggest it was glaciers that did the heavy work, lifting and depositing the blue slabs during the Ice Age hundreds of thousands of years earlier. The Druids presumably made use of what was lying around.

One modern attempt involved volunteers dragging identical stones over animal-fat greased rollers. They made it 18 miles before they quit. The quest to explain how the stones of Stonehenge were moved 150 miles by Stone Age man goes on. It is a decades-long endeavour with many theories.

Now back to Brexit.

The UK joined the European Economic Community (later renamed the European Union) somewhat reluctantly in 1973. I say reluctantly because the UK has never really seen itself as part of Europe, being an island and all. While they wanted a ready market for British goods, they

also desired a stronger Germany to serve as a barrier to further USSR expansion. It was also a sound idea to keep German hands busy, in case they were ever to consider yet another continental war.

The UK agreed to certain conditions when they joined, such as freedom of movement (EU workers could work in any country easily) and freedom of trade (no EU member could sign a side deal outside of the EU). The UK refused, however, to give up their beloved pound sterling. This has always kept them in, but out, at the same time.

Fifty years later, untangling these ties has been like the push and pull of a bitter breakup. Brexit makes moving the Welsh bluestones to Stonehenge look like a piece of cake. Three years of arguing and stalemate, still.

Some things are truly harder than they first appear.

2. Facts Change

As mentioned above, the relationship between the UK and Europe has always been an arms-length one. Yes, they have been allies for most of our lifetimes, but this is a very modern alignment. Disagreements go back thousands of years, and most involve Britain being invaded. As a result, Britain and the European powers circle each other warily even today. There is even friction over who is senior and who is junior in this grand alliance.

The Celts illustrate this conundrum.



The Celts were a culture that existed over 2,500 years ago throughout Europe. The Romans described them as barbarians who painted themselves blue, fought naked, and drank heavily. Roman legions encountered Celts from Germany all the way to England, at first losing major battles and then finally almost extinguishing them from history.

The Celts never had a written language and so there is little record of their centuries at the top of Iron Age Europe. A few of their ancient words remain in English today - nook, ruddy, bucket, and crock are all Celtic words that go back millennia - but they are few. Latin, and later Anglo-Saxon, replaced Celtic almost everywhere. Remnants persist, however, in the tiny alcoves of Ireland, Wales, and Scotland.

And here is where a long-established viewpoint about Britain's place in Europe is beginning to change. In a small way, it has helped fuel the fire that is Brexit.

Because Irish Gaelic and Welsh Celtic are related - but distinct - languages, it has always been assumed that they were a result of invading waves of ancient Celtic tribes sweeping over from Europe. Each thrust penetrated further and further, first to Wales and finally to Ireland. Each invasion carried with it a later variation of the Celtic/Gaelic language.

But where did these invaders come from? Why, Germany, of course! The most well-preserved Celtic burial mounds and salt-mine graves are found in Germany, so naturally the Germans believed they were the centre of the Celtic universe. It fit perfectly with the modern European Union narrative: the ancient Celtic empire came from Germany.

A modern European Union surely must be rooted in Germany, as well. As it was, so it shall always be.

The English have never been very comfortable with this notion. They refused to accept the euro as their currency, and they have always bristled at the rules coming out of Brussels. This rankles those in Europe, who wish the English would just be quiet and pay their annual dues.

“We finally turned them into a colony!” was one such comment caught on tape between two EU negotiators. It fuelled Brexit anger even further. Hence, the 52% who voted to leave in the 2016 referendum.

Back to Britain's place as just a German outpost. That Celtic narrative is now being challenged by recent findings. Thanks to deciphering of very early written markings around 800 BC, the computer tracking of language, and even DNA traces, evidence is now growing that the Celts may not have originated in Germany at all, but rather in the far European west – in Portugal and England, before migrating into central Europe.

Needless to say, the Portuguese are *delighted*, as are the Welsh, who still cling to their ancient Celtic language. The Germans, as you can imagine, are not nearly as delighted. Most German scholars are sticking with the older theories that they are the cradle of Iron Age civilization in Europe.

As with its Celtic history, the narrative of Europe today is in a state of flux. What was thought to be agreed upon and decided is now anything but.

New facts can change ancient history. Modern history, too. Can Europe adapt?

3. *Follow the Money*

All of this brings us to today. October 31st looms as the day the UK could crash out of the European Union with no agreement. I arrived as a Leaver, but has my mind changed as to what is best for the UK – to stay or to go? In most crime dramas, the smart detective says to “follow the money”. Let’s do that as we consider the problem of Brexit.

In addition to setting common rules, the EU has an annual budget of approximately €140 billion. It allocates this to the neediest EU members and to those projects deemed most necessary. This is a lot of money being doled out by a few bureaucrats and politicians in Brussels!

Farmers are the biggest recipients of money from the EU budget. The more land you have under cultivation, the more money you get. Why farming? Central Europe has a lot of farms and this is a favoured sector to support. Needless to say, this is very popular in those nations receiving the money, but less popular in those paying for it.

Here is the list, in order, of the net payers into the EU budget:

1. Germany
2. United Kingdom
3. France
4. Italy
5. Netherlands
6. Sweden

These six nations contribute the most to the EU budget and receive the least back. Note that the UK is #2 on the list and their money will be missed if they leave.

Here are the net takers from the EU budget:

1. Poland
2. Greece
3. Romania
4. Hungary
5. Portugal
6. Czechia
7. Belgium
8. Luxembourg
9. Bulgaria

As the 2nd largest contributor, the UK has a net contribution of about €7.43 billion per year (source: BBC News). This is not unlike Canada’s equalization program, where the wealthiest provinces send money to the poorest. If the UK were to leave, at least six EU nations would see their entitlements slashed to zero.

Of course, there are intangible benefits that cannot be measured by money alone. The UK benefits from joint research projects, such as the Eurofighter, free trade with Europe, and its workers can travel without the need for a visa. Most of those are hard to put a price on.

The reality is that Brexit could hurt the EU just as much as it will hurt Britain.

We took advantage of our tourist innocence and just out-and-out asked people if they were Leavers or Remainers. It can be a touchy subject, but they forgave us because of our foreign ignorance.

Our informal poll showed almost exactly what the original referendum did: half want to stay and half want to leave. It skews towards older people wanting to leave (because the UK pays in far more than it receives, and the silly rules that regulate everything from vacuum cleaners to balloons), versus younger people wanting to stay (primarily for the job mobility).

What they did agree on was that they were sick and tired of the political paralysis and just want something to be concluded. Stay, go – just get on with it!

4. The Original Brexit



I mentioned earlier that the UK first toyed with Brexit way back in 1975. This is only partly true, because Britannia experienced a major separation back in 410 AD when the Romans left after ruling for 400 years – the original “Brexit.” Britain lost the security of the Roman legionnaires, its currency, and access to the best wine in the world. They had to go back to drinking ale!

There was chaos at first, with the Picts and Scots invading from the north, and most towns were abandoned as the population moved back out onto the land. But when a door closes, a window opens, they say. Christianity flourished and a new Anglo-Saxon era dawned.

One archaeologist says the British even lived two years longer because they stopped paying taxes to the Romans and had more money for food! That's an opinion that plays well with modern Brexit supporters.

Whether Brexit happens on October 31st or within a few months, **something is going to happen** in the UK. The people have spoken and the ground is shaking. In fact, there are tremors everywhere. Because the European consortium depends on just six nations doing most of the funding, and immigration far exceeding what was first envisioned decades ago, few countries are happy with the current arrangement.

This isn't something we made up – approximately 80% of Europeans expect the EU to dissolve in the next 10-20 years. The best thing for them today would be some sort of reform. Fewer rules, less power in Brussels perhaps, and maybe even divide the euro into two versions. A weaker euro for nations like Italy, Greece, and Spain that are struggling and a stronger one for the northern countries.

Most economists are expecting the UK to crash if Brexit happens. This is certainly possible, especially because trade and travel will face new restrictions. The surprise on October 31st could also be a boom in UK stocks, strange as that may sound. The pound sterling is cheaper than it has been in years, UK equities are among the cheapest in the world at just 12x earnings (versus 17x in the US) and so much investment has been deferred, it could all come flooding back once a decision is made, once and for all.

The decision to leave or stay comes down to choosing independence or opportunity. An independent Britain may be able to make its own rules, but it has a population smaller than that of Vietnam and a hollowed out industrial base.

As we hiked through many small towns in Wales, we saw a country clinging to its past as more and more young people depart for the cities. It is beautiful, brave and proud, but it is also small and isolated. Unlike Canada, it isn't growing through immigration or births, so its pension systems and hospitals are increasingly burdened.

In the end, I went to Wales supporting Brexit, but left supporting the EU. The security the EU provides, as well as the opportunities, cannot be replicated by a standalone UK, in my opinion. I wish the best for the UK, of course. Whatever they decide on October 31st – to leave the EU with no agreement, with a negotiated separation, or remain with some new arrangement – there will be pain ahead for the United Kingdom.

The clock is ticking...

Thank you for your referrals this month! They are always handled with great care and discretion.

<http://www.dividendvaluepartners.com>

We thank you for your business and your referrals and we hope you find our site user friendly and informative. We welcome your comments.

How to contact us:

paul.siluch@raymondjames.ca

lisa.hill@raymondjames.ca

peter.mazzoni@raymondjames.ca

(250) 405-2417

Disclaimers

The information contained in this newsletter was obtained from sources believed to be reliable, however, we cannot represent that it is accurate or complete. It is provided as a general source of information and should not be considered personal investment advice or solicitation to buy or sell securities. The views expressed are those of the authors, Paul Siluch and Lisa Hill, and not necessarily those of Raymond James Ltd. Commissions, trailing commissions, management fees and expenses all may be associated with mutual funds. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. This newsletter is intended for distribution only in those jurisdictions where Raymond James Ltd. is registered as a dealer in securities. Any distribution or dissemination of this newsletter in any other jurisdiction is strictly prohibited. This newsletter is not intended for nor should it be distributed to any person in the USA. Raymond James Ltd. is a member of the Canadian Investor Protection Fund.

Raymond James does not accept orders and/or instructions regarding your account by e-mail, voice mail, fax or any alternate method. Transactional details do not supersede normal trade confirmations or statements. E-mail sent through the Internet is not secure or confidential. We reserve the right to monitor all e-mail.

Any information provided in this e-mail has been prepared from sources believed to be reliable, but is not guaranteed by Raymond James and is not a complete summary or statement of all available data necessary for making an investment decision. Any information provided is for informational purposes only and does not constitute a recommendation. Raymond James and its employees may own options, rights or warrants to purchase any of the securities mentioned in e-mail. This e-mail is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited.

This email newsletter may provide links to other Internet sites for the convenience of users. Raymond James Ltd. is not responsible for the availability or content of these external sites, nor does Raymond James Ltd endorse, warrant or guarantee the products, services or information described or offered at these other Internet sites. Users cannot assume that the external sites will abide by the same Privacy Policy which Raymond James Ltd adheres to.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Mutual funds and other securities are not insured nor guaranteed, their values change frequently and past performance may not be repeated.

Prices shown are as of close October 11th, 2019.

You are receiving this message because our records indicate that you have requested this information. If you no longer wish to receive research from Raymond James, please reply to this message with unsubscribe in the subject line and include your name and/or company name in the message. Additional Risk and Disclosure information, as well as more information on the Raymond James rating system and suitability categories, is available at www.rjcapitalmarkets.com/Disclosures/Index.

This email, and any files transmitted, is confidential and may contain privileged information. Any unauthorized dissemination or copying is strictly prohibited. If you have received this email in error, please delete it and notify the sender immediately. We may monitor and review the content of all email communications. Trade instructions by email or voicemail will not be accepted or acted upon. Please contact us directly by telephone to place trades. Unless otherwise stated, opinions expressed in this email are those of the author and are not endorsed by Raymond James. Raymond James accepts no liability for any errors, omissions, loss or damage arising from the content, transmission or receipt of this email. Raymond James Ltd. is a member of the Canadian Investor Protection Fund.

Le présent courriel, de même que tout fichier transmis en pièce jointe, est de nature confidentielle et peut contenir des renseignements privilégiés. Toute diffusion ou reproduction en est strictement interdite. Si vous avez reçu ce courriel par erreur, veuillez le supprimer et en informer immédiatement l'expéditeur. Nous pouvons surveiller et examiner le contenu de toutes les communications électroniques. Les instructions portant sur des opérations, données par courriel ou dans une boîte vocale, ne seront pas acceptées ni exécutées. Veuillez communiquer avec nous directement par téléphone pour donner des ordres en bourse. Sauf indication contraire, les avis exprimés dans le présent courriel sont ceux de l'auteur et ne sont pas avalisés par Raymond James. Raymond James décline toute responsabilité en cas d'erreurs, d'omissions, de pertes ou de dommages découlant du contenu, de la transmission ou de la réception du présent courriel. Raymond James Ltd. est membre du Fonds canadien de protection des épargnants.

To unsubscribe and no longer receive any email communications from this sender, including information about your account, please either click [here](#) or send a reply email to the sender with [UNSUBSCRIBE] in the subject line.

Pour vous désabonner de cet expéditeur soit cliquer [ici](#) ou envoyer un e-mail de réponse à l'expéditeur avec [UNSUBSCRIBE] dans la ligne d'objet.

