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Could selling a Jaguar have predicted Brexit?

This quarter's defining feature was Brexit, which caused significant price movements for both the entire market as well as our portfolio. Clearly, none of the price movements were in a good direction. Over the long-term, however, I don't expect Brexit to have a meaningful impact on the U.S. economy.

The E.U. is constructed in a manner very similar to the Articles of Confederation, which governed the U.S. in the 1780s. Just as the Articles of Confederation eventually failed because they lacked a strong central government, so too may the E.U. suffer the same fate.

As a personal example, about 15 years ago, I sold a vintage Jaguar XKE to a gentleman in Germany -- in his words, so he "could drive it very fast on the Autobahn." Hans was extremely detail-oriented and discovered that he could dodge a 20% tax by importing the car into the Netherlands and having it trucked to Germany, rather than importing it directly into Germany. This clearly was a sign of a dysfunctional system.

One area of potential concern is banking in the E.U. After the 2008-2009 mess, the U.S. forced its banks to clean up their balance sheets and reduce leverage. The E.U. still has not completely addressed that problem.

Another aspect of the Brexit is the fate of banking in London. London maintains its position as the European global banking hub because treaties allow banks to locate in London and operate throughout Europe. With Brexit many of those treaties will need to be renegotiated. If the renegotiation is not successful, London-based banks will face challenges.

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