



Pittsburgh financial advisers urge calm on investment front in wake of EU vote



PATRICIA SABATINI AND JOYCE GANNON
Pittsburgh Post-Gazette

JUN 24, 2016

1:00 PM

The stunning news that Britain would exit the European Union triggered a worldwide market swoon Friday, but clients at Pittsburgh investment advisory firms seemed to keep their composure amidst the haze of uncertainty and plunging stock prices.

“We took one phone call from somebody who was a bit more of a conservative investor. He had some gains in his account and wanted to trim back a little bit,” said Matt Yanni of Yanni & Associates in Franklin Park. “Aside from that, we haven’t had any phone calls,” he said late Friday morning after the news broke overnight.

Meanwhile, at Pittsburgh-based law firm Reed Smith's office in the heart of London’s financial district on Friday, attorneys fielded a torrent of calls, questions and concerns about how the historic Brexit referendum will impact global trade, currency and regulatory issues.

“The volume of interest today has gone up enormously,” said Roger Parker, Reed Smith's managing partner for Europe, Middle East and Asia in a phone interview.

A day earlier, it had looked like the vote in Britain might go the other way and the financial markets didn't take the surprise well.

By day's end Friday, the Dow Jones industrial average had plunged 611 points, or 3.4 percent, while the Standard & Poor's 500 gave up 76 points, or 3.6 percent. It was the biggest drop for both market indices since August. The Nasdaq composite sank 202 points, or 4.1 percent, its worst day since 2011. Bond and gold prices rose as investors sought safety. Among overseas markets, France's benchmark index lost 8 percent, Germany's fell 7 percent and Britain's dropped 3 percent.

Stay the course

Despite the losses, Mr. Yanni and others were advising clients to stay the course. “There is cause definitely for some concern as a result of the vote. But it shouldn't cause a major shift in somebody's investment objectives,” he said. “I wouldn't use [Friday] as a reason for panic selling.”

Calm also ruled at Fragasso Financial Advisors, Downtown, and McMahon Financial Advisors in Mt. Lebanon. “In general ... investors realize that asset allocation over time works,” said Christopher McMahon, founder of McMahon Financial. Among hundreds of clients, a handful contacted the firm with concerns, mainly people close to retirement, he said.

Mr. McMahon noted the modern 24-hour news cycle “gives people a heightened and acute awareness of what's going on” in the world. Once the dust settles, “You could make the argument there is an opportunity over time for a flight to quality. That means people are going to invest in the U.S.”

The direct impact of Britain's departure on the U.S. economy is going to be pretty limited, even if the United Kingdom sinks into a recession, said Gus Faucher, deputy chief economist at PNC Financial Services Group, Downtown.

More of a concern, he said, is the potential indirect impact on the U.S. psyche.

“What happens to business confidence? Do businesses pull back on hiring and spending because of the uncertainty of the global outlook?” he asked. “Do consumers become more cautious in spending?”

“I would call those downside risks and they’ve certainly increased since yesterday,” Mr. Faucher said.

He said the U.S. economy for now remains fundamentally strong. “We have job and wage growth, solid growth in consumer spending.” His forecast is for the nation’s economy to continue to expand this year and into 2017.

Mr. Faucher said the news in Britain was good for borrowers. “We’ve seen interest rates come down already,” he said.

That means already low mortgage rates will head lower. Refinancings also should pick up, he said. And companies looking to borrow to invest in their businesses will get a break.

Continued low interest rates is bad news for the banking industry, which has been looking for rates to move higher and ease pressure on profit margins. Mr. Faucher believes the damper from Britain “makes a Federal Reserve rate hike any time soon less likely.”

“I don’t think we’ll see a rate hike until the end of 2016, once this all blows over,” he predicted.

Taking clients’ calls

The flood of calls at Reed Smith probably came because the results of Thursday’s election were so close and the final outcome was tough to predict up until the end.

“We’re staying close to our clients and listening to their thoughts,” Mr. Parker said. “What affects shipping and international trade is very different than what’s on the mind of [other industries.]”

He is one of 360 lawyers who work for the Pittsburgh-based firm in London where it has operated since 2001. Staff in Reed Smith offices in major business centers elsewhere throughout the European Union — including Paris, Munich, Frankfurt and Athens — also faced client inquiries about the ramifications of Britain’s vote to pull out of the EU.

ReedSmith did not prepare a lot of advance materials because its diverse range of clients will deal with widely different issues related to the outcome, Mr. Parker said.

At K&L Gates, another Pittsburgh firm with global operations, a 24-hour hotline is being staffed by firm partners to answer client questions about Brexit.

The firm is also accepting inquiries at a special Brexit email, brexit@klgates.com, and has compiled briefings that address topics including employment, tax, and international trade.

‘We regret the United Kingdom vote ...’

Regional companies that rely on international sales weren’t panicking.

“We expect no long-term material impact to our business,” said coatings and glass maker PPG. The Downtown-based company earlier this week said it is selling its European fiber glass business, which has plants in England and the Netherlands, to Japan’s Nippon Electric Glass.

While it produces industrial and consumer paints at facilities throughout Europe, sales from those coatings typically remain in the country where they are made, thereby reducing currency and international trade issues, PPG said.

Lanxess, a German-owned company that makes specialty plastics and has its North American base in Findlay, said it’s too soon to predict the economic fallout.

However, the company issued a statement saying, “We regret the United Kingdom vote ... since at Lanxess we are convinced that a strong Europe is the best way of capitalizing as a community on the global opportunities presented to us — including economically.”

Some Pittsburgh companies with global operations declined to weigh in on the vote. Kraft Heinz said it had no comment and Westinghouse said it has taken “a neutral stance ... and respects the vote of the British citizenry to leave the EU.”

Patricia Sabatini: PSabatini@post-gazette.com; 412-263-3066. Joyce Gannon: jgannon@post-gazette.com or 412-263-1580. First Published June 24, 2016, 1:00pm