GEORGIAN
CAPITAL PARTNERS

BREXIT! A thorough report from an unlikely source, with useful perspective. Much is yet to be written, with few finite answers. Mr. Cameron wrote his own history, but Mrs. Thatcher was likely right in the first place.

Enjoy – quality and patience!

David Knight
Georgian Capital Partners
Scotia Plaza
40 King Street West, Suite 3405
Toronto, ON M5H 3Y2

Toronto: (416) 640-4100
Victoria: (250) 595-7955
www.georgiancapital.ca

June 29, 2016

Phones: 949.646.6086, 949.646.0481
Email: sales@ferraris-online.com
Fax: 949.646.6978

Articles

Michael Sheehan's
Ferraris-online.com Article

Brexit!

We're seeing another shift in the collector car market:

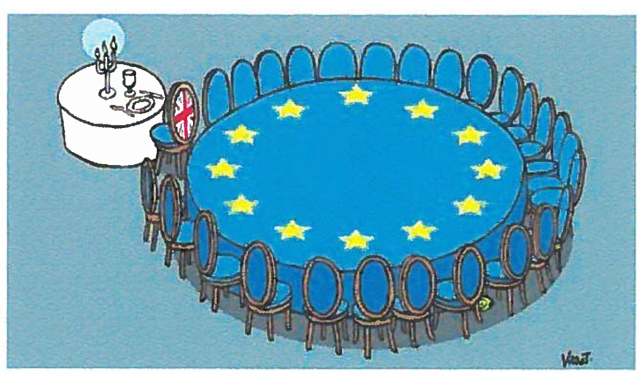
As appeared in:

Online Exclusive—June 27, 2016 issue
Sheehan-Online
by Michael Sheehan

What just happened?

On Thursday 23 June, the UK voted to leave the European Union. Watching the late-night voting returns on the various business channels was like watching a car crash in slow motion. The British £ Sterling fell by 10% and the FTSE 100 (British stock market) fell 8.7%, the biggest drop since the demise of Lehman Brothers in 2008. Global markets went into turmoil. The Dow fell almost 5%, the S&P 500 fell 5.1%, The Japanese ¥en jumped 3%, threating Japan's failing economy, and oil, which was thought to be Brexit-proof, fell by 3.8% to $48.20 a barrel. Ireland's bourse was off nearly 12%, Spain fell 10% and the German market was down 7%. Shares in Royal Bank of Scotland, Lloyds and Barclays fell as much as 30% on opening, before rebounding slightly to trade at 16.7%, 18% and 17 % in Friday-morning trading. $2.6 Trillion in global equities were wiped out in a day! Fear turned to panic as the financial markets fell in only a few hours! Gold surged as a safe haven by 8.1% to $1,358.54 an ounce and Mark Carney, the governor of the Bank of England, declared that the UK central bank was ready to provide an extra £250 billion in liquidity to the UK markets!

Voting was strong, with a 72.2% voter turnout. England and Wales voted to leave by relatively narrow margins while Scotland voted 62% to stay and Northern Ireland voted 55.8% to stay. The £ Sterling had already dropped by 7.5% over the past 12 months as the Leave camp had slowly gained momentum. In the near term, investors were no doubt over-reacting. Britain will not leave the EU tomorrow and the divorce proceedings to extract the UK from the EU will take at least two years. The Brexiteers are hoping to negotiate a Norwegian- or Swiss-style EEA (European Economic Association) that preserves the UK's access to the EU. None the less, there is no doubt that both UK and EU economic momentum will decline and the affect will ripple throughout Europe, with the triple threat of immediate, short term and long term consequences!



We dine alone thank you

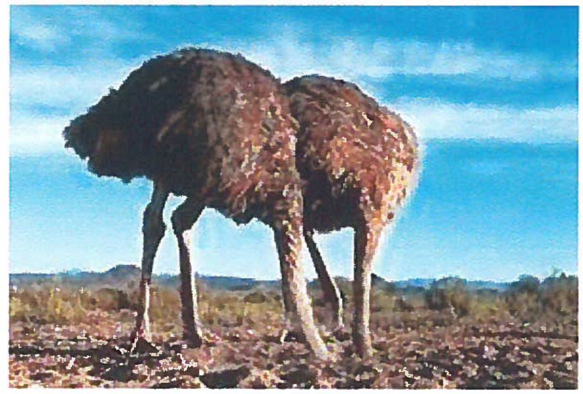
Why did this happen?

From its origins the European Union has been a project of the overly bureaucratic political elite in Brussels, often operating without a clear popular mandate. The adoption of a common currency in 1999 was deeply controversial, with the UK keeping the £ Sterling, Denmark keeping the Kroner, Norway keeping the Krone, Sweden keeping the Krona and the list goes on. The failure to integrate a central bank with a common financial supervisory, a common bank resolution scheme and a deposit guarantee fund has guaranteed hostility between debtors and creditors over austerity, debt relief and the ECB. Since the demise of Lehman brothers in 2008 the EU has been in long-term stagnation. Southern Europe is in depression with extremely high unemployment numbers. Over a million immigrants have entered Europe, most do not speak English, or German, or Swedish, or French, and most have limited job skills, their integration will only add to the existing massive social and economic pressure on the EU. Terrorist attacks have added to both the social and economic unrest. Add in the sovereign debt crises in several European countries, the fragile condition of major European banks, the large trade deficits that now plague most eurozone countries and the massive debt to GDP ratios of southern Europe. It's not a pretty picture.

Angela Merkel's decision to open her country's doors wide to refugees was an inspiring gesture, but was not properly thought out, because it ignored the pull factor of ever more refugees. The lack of any plan or adequate controls created panic, affecting the local population, those in charge of public safety and the refugees themselves. It has also paved the way for the rapid rise of xenophobic anti-European parties — such as the UK Independence Party, which spearheaded the Leave campaign — as both national governments and European institutions proved incapable of handling the crisis.

Britain had the best of all possible deals with the European Union, being a member of the common market without belonging to the euro and having secured a number of other opt-outs from EU rules. And yet that was not enough to stop the United Kingdom's electorate from voting to leave.

The UK held two competing views of the EU, Remain, which saw the EU as essential to British economic well-being, arguing that the problems listed above would be solved in the long run and that Britain should be part of the solution for its own sake. The Leave camp saw the European Union as a failing institution threatening to drag the UK down, with problems that should have been solved years ago, but were now beyond saving.



What problems?

Most of the political class, financial elites, economic, journalistic and academic professionals were inherently biased toward Britain remaining in the EU because it gave them predictability and maintained their economic status quo. When everyone in your social group thought Brexit was impossible, it was hard to imagine there was a majority, that you don't know or understand and haven't met, that doesn't share your views. The working class resented globalization, immigration, the rich and the Brussel's political elite, outnumbered the elites and voted in mass. The big winners in globalization and immigration are international companies, wealthy families and those with easy access to capital. Older working class families have struggled with stagflation, low-or-no wage growth, job losses and the lack of affordable housing. Skilled workers and the middle class have struggled with job losses to less skilled but less expensive immigrants or foreign out-sourcing. Income in-equality has gotten worse for Western countries that have embraced globalization and immigration.

How did they get there, a history lesson?

Our story begins on 18 April, 1951, with the treaty of Paris when West Germany, Italy, France and the three Benelux countries (Holland, Belgium and Luxemburg) signed the Treaty of Paris, to establish a common market, the founding document of what has become the European Union. At its humble beginnings there were six members, four languages, 177m people and (in today's money) app $1.6 trillion in GDP. The Common Market expanded in 1967 to form the European Communities, and then, in 1992, the Maastricht Treaty gave rise to the European Union, which created a larger free-trade area, provided for the mobility of labor, and set a timetable for adopting a single currency and an integrated European market for goods and services. The adoption of a common currency was opposed by Germany, reluctant to give up the deutsche mark and the price stability and prosperity it had brought to the country's postwar economy. Germany eventually gave in, leading to the launching of the euro in 1999.

As the European economic powerhouse, Germany was able to dominate the ECB, demanding the bank's formal independence, its single policy goal of price stability, the prohibition on purchasing bonds from member governments, a "no bailout" rule for countries that became insolvent, and its location in Frankfurt. Germany also established financial penalties for any country that had a budget deficit of more than three percent of its GDP or a debt that exceeded 60 percent of its GDP. When France and Germany soon violated these conditions, the Council of Ministers voted not to impose penalties, and the terms of the pact were weakened so that they have since become meaningless. Today the EU includes twenty-eight countries, 24 languages, 505m people and a 19 trillion GDP and an ever growing litany of socio-economic problems.

Who's to blame for Brexit?

When David Cameron became the conservative leader in 2005 he assured his party's members, who have a strongly Eurosceptic cast, that he was one of them. When Cameron became prime minister in 2010, he pledged to hold a referendum on any new EU treaty. Leading a coalition government at the time, he gambled that it would never be necessary to keep his pledge. When Cameron's conservatives won a small overall majority in May 2015, he found himself on the spot. His renegotiation of Britain's membership, which culminated in a deal between EU heads of government secured in February of this year, was not without substance. But it fell well short of fundamental reform, proving to be a handicap rather than a boost. Lulled into a false sense of security by opinion polls and betting markets predicting a "Remain" win, Cameron lost his political gamble. By Friday morning the final votes had been counted and Cameron resigned that morning. In a day of unprecedented, fast-moving developments Cameron announced he would be making way for a successor within the next few months.

As Jimmy Shiba in Japan pointed out, *"The UK could cease to exist as such now that Scotland and probably Northern Ireland may go their own ways, leaving England in much more compromised position."* As for the opposition Labor Party, by Monday morning their leader, Jeremy Corbyn, had over twenty of the thirty-one members of his "Shadow Cabinet" resign in protest of his weak leadership on behalf of the Remain camp.

This doesn't look good

Old versus Young

Today's youth lives in a connected, integrated global system. To the UK's young, their E.U. passport is incredibly valuable, ensuring freedom to travel and work in any of the union's 28 member states, each with its own culture to explore, its own charms and opportunities. Across the U.K., polls showed that 76% of people between the ages of 18 to 24 supported Remain. The older poor, the blue collar, the stanchly conservative, the nationalist and the pensioner, many of who came of age before the E.U. was created, voted by a staggering 59% to leave. When all of the roughly 33 million ballots were counted on Friday morning, the position favored by most pensioners won out by a margin of around 1.3 million votes.

The 76% of the under-25s who supported Remain are now creating unrest about the "wrong" result, voicing the need for a second chance. There are already a million signatures on yet another petition for Regretix, the hope of another referendum in the hope of staying part of the EU. Cameron has refused to go down that complex and controversial path!

As Andrew Turner of ART Classic Sportscars in Australia wrote in response to this column, *"It might have helped if more than 36% (of the under-25s) had bothered to get out of bed and voted in the first instance. Or maybe they just didn't realize you cannot vote on Facebook?"*

Brexit and the Ferrari Market

Only four days after Brexit it's hard to see the longer term consequences to the collector car market, but our immediate personal experience is not good. We were selling a four-car package of three ultra-low mileage 550 Barchettas and a 575 SuperAmerica from Japan to an English dealer and a 639 F1 car to another English dealer. Needless to say Thursday's Brexit, the 10% fall in the £ Sterling and the market's uncertainty instantly saw any commissions go "poof". Additionally, we were negotiating to sell a 250 SWB replica to an Australian client, which has now gone on hold because of the fall in the Aussi dollar. While we will find other buyers in other markets, Brexit had made every sale more difficult and the eventual sale will require more time, more energy, more negotiations and further price reductions! The British and the US were the last strong markets, the Brits have left the party!

As Thor Thorsen asked in response to this column, *"Will there be a rush to hard asset 'safe havens' like collectibles or will the money that has gone there in the past ten years or go somewhere else? Should (the enthusiast) buy a very good twin cam but non-supercharged 6c1750 drop head for $450k with a great history, MM eligible, etc. but not a 'great' Alfa."*

My advice is not to panic. If you already own one or two cars you enjoy, any market correction should be irrelevant to you. If the collector car market does deflate, treat it as a buying opportunity. Many priced-out-of-the-market collectors have been hoping for just such a re-pricing. If you want that MM eligible hypothetical $450k Alfa, it's now much more affordable.

And as Mark Coffey of Maranello Motorsport in Australia wrote *"Hopefully we can buy back all our cars we lost to the UK market in the past 2 years. (it's) Just another cycle."*

Now what? Or… as Monty Python would say, *"And now for something completely different"*

And now for something completely different

Brexit is not the EU's greatest problem. Whether Britain stays or goes, the union will have to grapple with migration and the euro, which are even more complex. Its progress will be hampered by economic stagnation. Unemployment will continue to feed populism and frustration with the elites. The fight will go on between debtors and creditors over austerity, debt relief and the ECB. To the extent that people feel economically hard-pressed, they will be even less inclined to accept immigrants. The Germans won't accept freeriding, the easterners won't accept a collective response, and the migrants will keep coming. As John Arba in Australia pointed out, the possibilities of a Grexit, a Departugal, a Czechout, a Italeave or a Finish are all now possible.

As I put the last touches on this tonight, the £ Sterling has dropped to a thirty-one year low against the USD and the DOW is now down 870 points from Thursday. Both Britain and the EU have entered the great unknown. No member country has ever left the EU before, there is no playbook. Investors hate uncertainty and uncertainty will be in surplus not just for days or months, but potentially years. Like the 917 driven by Steve McQueen in Le Mans, this slow motion car crash has a long way to go!

Thanks to Thor Thorsen; Howard Cohen; Andrew Turner; Mark Coffey; John Arba; Jimmy Shiba; Jim Spiro; Jim Weed; Tim Wyman and Bruce and Spencer Trenery for their help and feedback on this article