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On the 23rd of June, 2016, British voters surprised just about everyone when 52% of them voted to exit the European Union. The plan to exit, or Brexit as its portmanteau shortcut refers to it is the hope of many who are skeptical of the benefits of being in the EU. Since 2010, interest in the referendum to Brexit has been driven largely by the growing popularity of the United Kingdom Independence Party (UKIP). The UKIP capitalized on concerns about immigration among British working-class voters, and the easy movement of people from poorer nations in the EU into the UK.

Britain has long had an uneasy relationship with the EU, and only was able to join what was at the time the European Economic Community (EEC) in 1973 after French president Charles de Gaulle left power. De Gaulle argued that Britain had a "deep-seated hostility" to the notion of the EU. The idea of Britain leaving the EEC came as early as 1975, and again in 1983 as the Labour Party argued for the move both times. The 1975 effort led to a referendum that affirmed EEC membership. The Labour Party lost the opportunity to push for a referendum in 1983 after a big loss in the elections of that year.

Britain also elected to keep the pound sterling as their currency when the euro was proposed in 1997. Concerns were raised about whether adopting the euro would hurt London's position as a global financial center. Britain was also unwilling to lose control over setting interest rates in its economy. Tony Blair, the UK Prime Minister at the time declared that five economic tests had to be met before the UK would accept the euro, and the five tests were seen as very high hurdles that would not be met.

Issues of sovereignty and local governance have increased over the years, as the EU continued to expand its authority over many areas of policy that were seen as an intrusion on local governance. In 1988 Prime Minister Margaret Thatcher declared her rejection of "a European super-state exercising dominance from Brussels". In 1992, after Thatcher's departure, Prime Minister John Major agreed to further EU integration by accepting the Maastricht Treaty, and this led to the sense that Britain was giving up its sovereignty – a sentiment largely felt among conservative Members of Parliament.

The referendum vote of 2016 triggered a process culminating in the official departure to take place on March 29th, 2019 (at 11 PM UK time, which is midnight Brussels time). In order to leave without serious disruption to the British economy, Britain has been negotiating the terms for nearly two years. Major issues include the rights of EU citizens in Britain (as well as British subjects in the EU), security, trade of goods and the movement of people across the land border with Ireland. Also in the plan is a separation payment Britain will need to make to the EU; numbers tossed around are in the tens of billions of euros. An exit plan was finally agreed upon with the EU, and now the British Parliament needs to approve it.

Those following Brexit closely should realize by now that it is still not possible to predict the outcome. Prime Minister Theresa May's strategy to get Parliament approval looks fairly clunky and she hasn't had enough support from her own Tory party, which is split deeply over Brexit. Many believe that there will be an 11th hour approval, either by Labour chipping in enough votes and the Tories splitting apart, or a negotiated delay or even a new referendum. An approval vote in Parliament on January 15th, 2019 failed by 230 votes. If no agreement on the negotiated plan is reached or a delay put in place, Britain will leave the EU in a "hard" Brexit, without any agreements on the key issues and potentially substantial disruption to the economy.

It is possible that the EU fundamentally doesn't want to see Britain leave and has taken a hard line on any changes to the negotiated agreement, which Parliament can't seem to agree to. The EU is also watching Italy carefully, as a successful Brexit might embolden the Italians to do the same. The departure of both Britain and Italy could risk the long-term future of the EU.

The worst impact of Brexit, especially a "hard" Brexit, is likely to fall on British industry, as they run into problems with supply chains and moving goods in and out of the country. Import/export agreements will have to be renegotiated with the EU as well as the UK's major trading partners outside the EU. For the rest of the world, the impact is likely to be muted and vary depending on the country. A country that supplies lots of goods to the UK could be hurt more. The British economy is 3.3% of the global economy, and the US economy is 7.7 times as large, so there may be a ripple effect but not a tsunami. A British company with a global presence will likely see less impact than, say, a British car manufacturer with lots of export business.

Should Brexit trigger an EU breakup, the risk for other countries is probably greatest for the Germans. Germany has used other EU countries much like the UK used its colonies – as a place to sell its goods while watching them borrow money in euros to pay for them. Southern Europe is economically weak partly because the common currency has allowed them to delay reforms to make their economies competitive. There is a school of thought that suggests that the demise of the EU might be beneficial in the long run, though with some pain in the short term. That is a longer term and less certain threat than Brexit, and a subject for a commentary yet to come.

For those who are concerned about their investments, Brexit's impact on a well-diversified portfolio is likely to be less than what many pundits tell you now. There are already moves in place to limit the risk of Brexit on the London financial services industry, and most stocks traded in London are also traded around the world rather than on a single exchange. The stocks of companies deeply bound up in the British economy are likely to be seriously hurt, at least in the short term, and are probably already trading at low prices in anticipation.

In principle, deviating from one's chosen long-term investment strategy in response to a perceived threat (war, recession, Brexit, Fed action, you name it) rarely achieves the desired outcome. Even if the perceived threat has a real potential to cause a decline in your portfolio, it is quite difficult to time such an event and mitigate the impact. The threat is rarely certain, and how it plays out could have less impact than you think. In the case of a recession, which is among the most certain of possible events, one may do better by assessing the risk/reward of various elements of the portfolio rather than making a wholesale decision to get out of an entire asset class, such as stocks.

We have yet to see any clarity on Brexit, though Prime Minister May has a vote scheduled for March 12th with lots of movement behind the scenes. Will we see a negotiated Brexit, or a "hard" Brexit? We may not know until we wake up on March 30th.

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