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Investors Scared of Brexit: This Is What to Do Now

Nothing. (Well, Fidelity's customers are making 2.25 buys for every sell.)

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It's hard not to get spooked by the economic and financial uncertainty unleashed by Thursday's Brexit stunner in Europe. And some investors getting close to retirement who haven't paid much attention to their asset allocation might want to make a few protective moves.

But much of the counsel coming from financial planners today, as equity markets plunge, is to keep calm and carry on, focusing on the long term and resisting the temptation to time the markets.

Investors should put Britain's vote to leave the European Union in perspective, said certified financial planner Michael Kitces, of Pinnacle Advisory Group, noting that the U.K. is less than 4 percent of global gross domestic product. "For U.S. investors, "the fear of the things it could be is far worse than any of the outcomes it actually can be," he said.

Look back at the trauma over the Greek debt defaults a few years ago and how volatile the markets got, Kitces said. While agonizing for Greece and a source of political and market turmoil for Europe and investors around the world, in the end it didn't turn out to be of tremendous economic consequence for U.S. investors. The U.K. is larger than Greece but is still relatively small in the grand scheme of the global economy, Kitces said.

Steady nerves are as important for investors now as they were in 2008, said certified financial planner Michael McKevitt, of Guillaume & Freckman in Palatine, Illinois.

"The problem with selling now is that you have to get back into the market," he said. "When will the client who is nervous now not going to be nervous about buying back in? The answer is when there is less uncertainty, which, nearly by definition, is going to be when the market is higher."

Certified financial planner Ian Weinberg, chief executive officer of Family Wealth and Pension Management in Woodbury, N.Y., doesn't need to tell clients to get out of Europe or other international holdings now, because he started doing that about a year and a half ago. That was after looking at how the MSCI EAFE Index[1] had underperformed the S&P 500 Index over the long term, yet had as much downside risk, if not more, he said.

Weinberg's advice for older investors is to look at how big a chunk of their portfolio international holdings are now and work on understanding the risk and reward they represent. Then they could "strongly consider looking at other asset classes in the U.S. that have better risk and return parameters." Yes, he added, "I know asset allocators say you need an allocation that will give you broad global diversification. But I say not when the risk/return equation is so upside down."

Weinberg thinks you can be amply diversified owning segments of the U.S. economy and U.S. markets, with companies that have acted "like true fiduciaries by having a long and strong history of dividend increases and good cash flow returns." He thinks there are overlooked stocks in the agricultural and health care sectors that have great dividend returns and good potential. One exchange-traded fund he likes is the ProShares S&P Dividend Aristocrats ETF (NOBL), which was down 2 percent at midday.

"Stay focused on the long term, and do not do anything drastic," said Mike Loewengart, vice president of investment strategy at E-Trade Financial. "This is an opportunity for investors near retirement to consider how much risk they are really comfortable taking in the context of their longer-term goals and income needs in retirement."

For someone who is fully invested in a portfolio that blends securities from the U.S., EAFE, emerging markets and so on, certified financial planner George Gagliardi, of Coromandel Wealth Management in Lexington, Mass., said now is probably not the time to sell.

But it isn't the time to buy, either, and that goes for both U.S. and foreign stocks, he said. He'd hold off "until things have settled down or there has been a major correction." Gagliardi says U.S. stocks remain highly valued considering the declines in earnings for many S&P 500 companies, and that "the most insightful forecasts that I read predict mediocre returns for the U.S. market for the next decade."

Vanguard's Francis Kinniry sees the turmoil as more proof of the role of a prudent, diversified portfolio that pairs equities with high-quality bonds.

"With global stocks off 3 to 8 percent, high-quality bonds are up a half to three-quarters of a percent," said Kinniry, a principal in Vanguard's Investment Strategy Group. "So despite rumors of significant dislocations and massive equity declines should Brexit occur, a well-diversified global portfolio of, say, 60 percent bonds and 40 percent stocks is only down about 2 to 3 percent as of midday."

Wayne Park, head of T. Rowe Price's business focusing on individual investors, counsels calm as well. "We saw spikes in call activity earlier today from both 401(k) investors and personal investors, but the volume has stabilized," he said. And while Fidelity is seeing elevated trading volume in brokerage accounts, it says its customers are looking at today's pullback as a buying opportunity, with customers making 2.25 buys for every sell.

William Bernstein, of Efficient Frontiers Advisors, offered a useful reminder: "Investing is a process," he said, "that distributes money to people who have a plan and can execute it from people who do not or cannot."

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