BRIDGES INVESTMENT MANAGEMENT

Think Forward

Market Comments
June 24, 2016

S&P 500	2035
10 year Treasury	1.57%

British voters narrowly opted to for the U.K. to exit the European Union, resulting in significant capital markets volatility today.

European stocks sold off 5-10% in response, and the pound declined 8% to a 30-year low.

While the results of the referendum are non-binding, Britain's Prime Minister Cameron resigned, and it is likely that the "Brexit" result will create considerable uncertainty for global capital markets in coming months, within the context of a global economy that is already soft.

U.S. stocks declined about 4% today, essentially taking stock prices back to where they started the year (the S&P 500 ended 2015 at 2044).

Bond prices rallied, and the 10-year Treasury reached all-time low levels at a yield of 1.57%. Oil dropped 4%, and gold rallied.

The uncertainty created by Brexit vote clearly raises investor concerns about the near and intermediate term social, economic, and political impact of Brexit on the U.K., Europe, and to a lesser degree, the U.S. The uncertainly created by Brexit is likely to result in increased capital markets volatility in the short run, until events coalesce and intermediate term implications become clearer.

We believe U.S. stocks remain the most attractive asset class for investors with long-term investment horizons. While the near-term events in Europe may cause us to lower our fair value estimates for U.S. equities for 2016 and 2017, we believe U.S. stocks remain attractive long-term, more so if/when prices decline to the lower end of the trading range that has persisted for the past two years (1800-2100 for the S&P 500).

In challenging and extremely volatile capital markets environments, it is imperative to focus on what is important:

1. Time horizon – a long time horizon allows investors to look past short-term capital markets volatility, and think opportunistically about how that volatility creates long-term opportunities, and invest proactively not reactively.

2. Quality – a strong bias to owning companies that have strong business franchises and low debt, highly liquid balance sheets both reduces risk in the short run, and allows investors to capture longer-term returns created by company managements that allocate capital well during difficult periods.

3. Valuation – our focus is on "value" as opposed to "price" -- we think about sharply lower asset prices created by market volatility as creating opportunities to commit capital at attractive valuation levels that should allow for solid long-term returns as capital markets recover over time, and as our companies continue to build shareholder value.

The next few months are likely to be very volatile and challenging for investors. We cannot predict what the "outcome" of events will be, but we can focus on the long-term, diligently apply an investment process that emphasizes rigorous qualitative and valuation metrics, and maintain an opportunistic and proactive mindset.

Please contact us if you would like to discuss any matter regarding the unfolding events and/or your portfolio, and visit our website at www.bridgesinv.com often, as we will provide frequent updates to our thinking in coming weeks. We will also be updating our capital markets expectations in early July, concurrent with the dissemination of our standard second quarter market comments.

We appreciate your confidence and we welcome any questions that you have.

Ted Bridges, CFA
President