Lessons in trading best practices from the aftermath of the Brexit referendum

Trading and market microstructure - FIN11

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Abstract

This essay analyses the build-up and reaction to Britain's unexpected vote to exit the European Union in June of 2016 and identifies potential strategies for success for the three core types of traders listed above. In short, brokers should use different types of safeguard measures to safeguard themselves and clients to the extreme volatility. Informed traders should buy stocks when voting polls become positive and they should invest in companies which get the majority of their revenues outside the United Kingdom. By gathering information they can deter the fundamental value. The more and better the information, the bigger the profits. Dealers should carefully work large long and short positions toward zero prior to the event while establishing hedges for their remaining positions with a focus on the material difference in stock value response between multinational and domestic firms. The efforts of all trader types should focus on maximizing flexibility to permit a rapid response, regardless of the outcome, since the immediate uncertainty and initial movement offers a large potential for profit. By looking at the currency markets, the effect of the Brexit was very strong in the first day after the publication but its impact decreased shortly after.

Introduction

On June 24th of 2016, the British people passed a referendum to leave the European Union, in direct opposition the expectations portrayed in the British media and polls leading up to the vote. The unexpected passage of this referendum sent ripples throughout the entire world and, in particular, Europe where multiple nations contemplated following Britain's lead. Although the so-called Brexit held serious implications on multiple fronts, some of the most prominent and immediate were economic, as reflected by fluctuations in the world's stock and currency markets. This essay will analyze the impact the Brexit had on these markets and make recommendations from multiple trading perspectives on how to maximize one's ability to profit off of uncertainty and volatility generated by future Brexit-like political events.

The perspectives to be touched upon are as follows: informed traders, brokers, and dealers in stock markets. As the Pound and Euro are widely traded in Foreign Exchange markets, the essay will also include a section analyzing the impact of the outcome on exchange rates and the currencies strength relative to the United States Dollar. Political events of major consequence, such as presidential elections or the Brexit vote, have major implications for investor confidence. Outcomes frequently drive runs on the stock market, as uninformed traders scramble to get into or out of the market to protect or enhance their wealth in the context of the news. In general, these responses are not connected to any meaningful change in the fundamental value of an asset, as the uninformed traders driving the movement are working out of pure optimism or fear. The reality is, although some assets fundamental value will suffer due to new political circumstances, the vast majority of assets value will only be marginally affected by any political event. The three trader types must be aware of this reality and position themselves accordingly to take advantage of the fundamental mispricing and volatility that will occur in the wake of any high profile politically event as investor confidence waxes or wanes.

The purpose of this term paper is to shine a light on the consequences of the Brexit in the aforementioned markets. Furthermore, we will try to describe the prudent moves to make if a similar event would occur in the future. These will have to be taken with a grain of salt, as it will always be a gamble whether events with similar importance to Brexit's would happen or not.

Brokers

Introduction to Brokers

Brokers have an important role in both currency and stock markets. Brokers are acting in the middle of the market and have contact with large companies, banks etc. This gives them unique insights and knowledge about financial instruments. They fulfill an independent role in over-the-counter (OTC) markets. A broker executes trades submitted by their clients. In exchange, they earn a commission or fee. Rules regulate that brokers cannot take positions for themselves so that they are just serving their clients. Important is that they trade on behalf of their clients (Tradition, n.d.). Brokers trade with high trading volumes and have a cost advantage over individual traders. Normally traders use brokers to submit their bid and/or asks. Therefore, brokers know exactly the inside spread and may obtain price improvements.

The period around the declaration date was a highly volatile period. To maintain their strong trading positions several brokers gave some advice and changed some rules for investors. In addition to that, since brokers bring buyers and sellers together, this section will discuss the trading volumes in the period of the Brexit.

In the next part of this paper is described what drives brokers to behave in the way they did during the month of the Brexit referendum. The main stock index used is the Financial Times Stock Exchange Index (FTSE). The volatility and trading volumes per day of FTSE 250 are given in the paragraph below. This index is used because if you compare it to the big FTSE100 more companies focused their business on Great Britain, so we will see a bigger influence of the Brexit in this index. We will explain this effect later when we take a look at the informed traders.

Circumstances of brokers

As mentioned before, brokers expected an increase in volatility in the period around the referendum. The main reason for this is probably the uncertainty in the market due to both the result of the referendum and what is going to happen subsequently. Furthermore, if there was a close race brokers would expect even more volatility in the market. This happened, the polls showed two weeks before the referendum that Britain was equally divided. This made the outcome very difficult to predict.

The volatility is a measure to describe the risk in the financial markets. The volatility and return of the FTSE250 in June in both 2015 and 2016 are calculated, which results in:

Annualized Volatility 2015: 11.2752869 %

Return 2015: -0.156 %

Trading days: 22

Annualized Volatility 2016: 46.996914%

Return 2016: -0.452 %

Trading days: 22

Data retrieved from http://www.investing.com/

Which means that the expectations of the brokers were right, a high volatile period during the Brexit referendum month. Furthermore, the difference between the returns of both periods is statistically significant. In order to measure their risk and decrease the exposure, the firms use some different types of safeguard measures during the exposure to extreme volatility.

Safeguard methods

Firstly several English brokers have raised the margins for Sterling pairs. This temporary measure is both for the protection of the client and the brokers. Brokers can decrease their potential risk by using this method. They use this method because of the high volatility in the markets, where prices can decrease or increase very quickly. Brokers can depend on their contracts with clients, issue a margin call. They will do this if the equity in a clients' account reached a lower level than the so-called maintenance margin. By executing a margin call traders can liquidate their position in a certain stock or higher their own equity by adding cash to their account. If a margin call is issued and a trader does not meet de requirements, the broker is allowed to sell your securities until your equity account is again higher than the level of the maintenance margin (Foster, 2013). This is the reason they do not only safeguard themselves but by using this restriction also the clients are safeguarded for the high volatility.

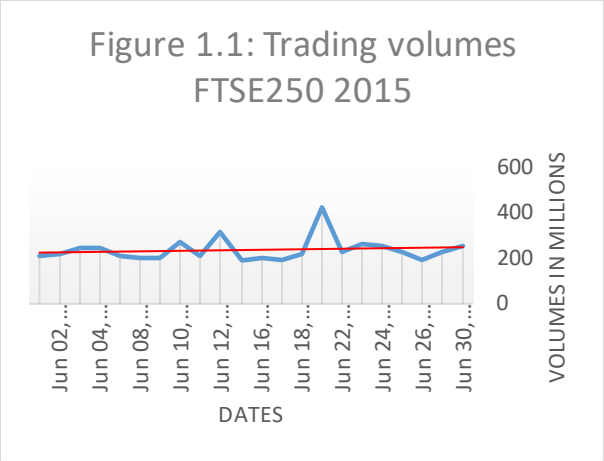
Secondly, brokers restrict their net open positions because they strongly believe it is a prudent measure. Total portfolio of clients can never have a too long or short position. This limits the broker's companies' exposure to the extreme volatility. By doing this they make sure the total broker's portfolio is well enough diversified (Saks-McLeod, 2016).

Most important advice to traders

Several brokers gave as the most important advice to their clients to stick to their strategy. During a period of uncertainty, experienced traders will probably sit out, therefore also in the Brexit case. These traders will come back at a later moment in time to pick up their normal trading patterns. Emotional reactions will not help in optimizing your portfolio during the highly volatile period (Ritholtz, 2016).

High trading volumes

Besides, **Figures 1.1 and 1.2** show that traders were more active than in 2015. For the FTSE 250, this results in average daily trading volumes of 320 million compared to 237 million the year before. Furthermore, on the declaration date, there was a high increase in daily trading volumes. The red trend lines in the figures show that especially at the end of the June 2016 there was a big increase in trading volumes. In comparison, the trading volumes in 2015 almost constantly keep moving around the average of 237 million. All these high trading volumes could be related, as explained above, to abnormal high volatility due to the British decision to leave the European Union. However, brokers advised traders to keep in mind to wait to trade till the trading patterns could be read, it seems like traders wanted to make use of the high volatility to get extraordinary profits.



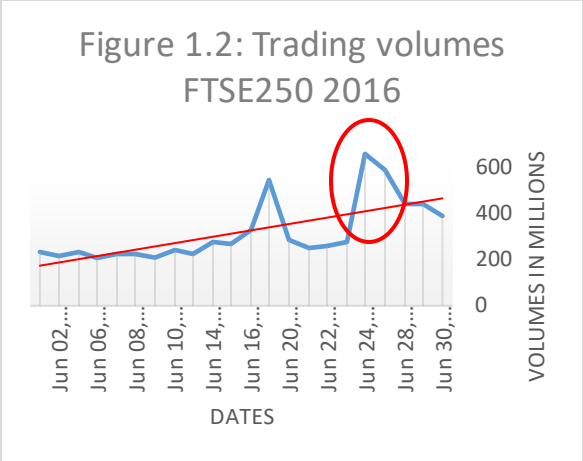


Figure 1.1 and 1.2: A comparison of trading volumes of FTSE 250 stocks in June of 2015 and 2016 with data retrieved from www.investing.com.

Informed traders

Introduction to Informed Traders

There are different kinds of informed traders. An informed trader can be a value trader, arbitrageur or news trader. All these forms of informed traders use information to buy or sell a specific stock. The information they trade on is firm-specific news, like profits and scandals, industry news, like a change in use of technology, and macroeconomic news, like GDP and CPI. An informed trader supplies money and is, therefore, a liquidity supplier (Schenk-Hoppé, 2016).

Informed traders suppose that they can forecast future market prices based on certain events or news that happen in the market. They make prices informative by the information that they gather. When they implement the information in the stock price they get the fundamental value (Campbell & Shiller, 1988). When the stock price is lower than the fundamental value an informed trader is going to buy that stock. When the stock price is higher than the fundamental value an informed trader is going to sell that stock. Buying and selling stocks has an impact on the stock price. If a trader buys, the price of that stock goes up. When a trader sells, the price of that stock goes down. Informed traders profit from uninformed traders because those traders drive the stock prices away from the fundamental value (Schenk-Hoppé, 2016).

In the next part of this section, there is a distinction between two different phases; before the national declaration of the referendum result on 24th of [2016] June, and after the declaration of the referendum. By analyzing these different phases one gets a good picture of what happened and what an informed trader should have done during those phases. This part focuses on the Financial Times Stock Exchange Index (FTSE), the stock exchange of London. The index level per day of FTSE 100 is given in **Figure 2.1**. **Figures 2.2 and 2.3** show respectively the index of FTSE 100 and FTSE 250 in a close up of the days around the National Declaration of the Referendum Results.

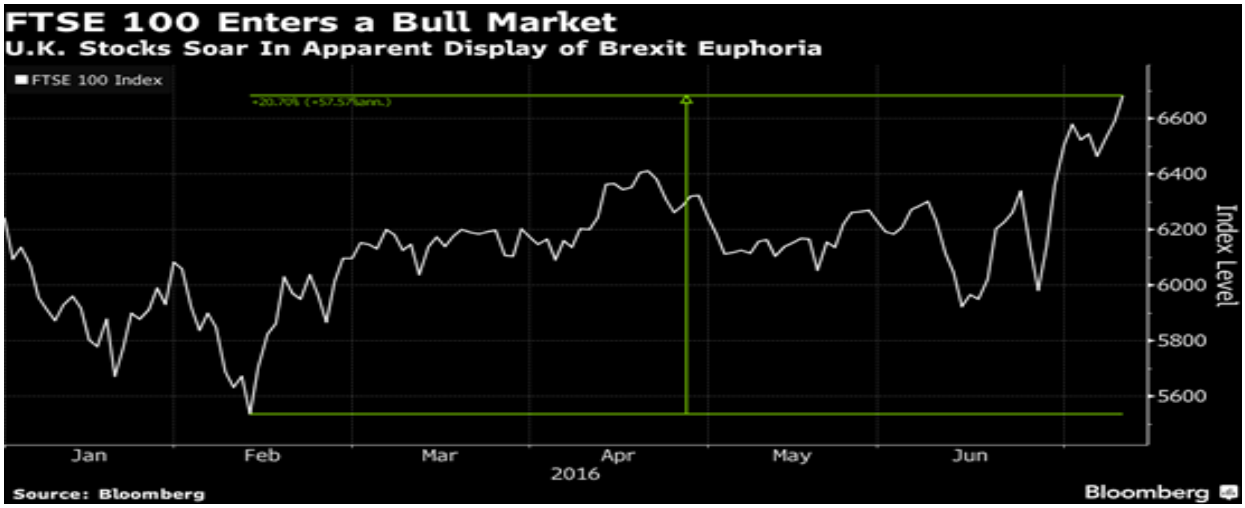
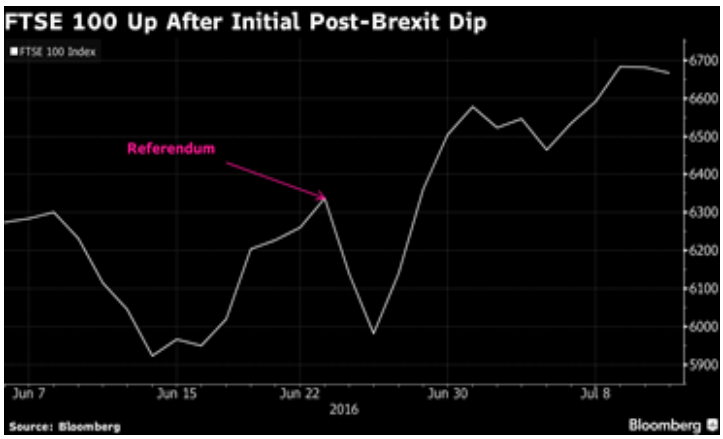


Figure 2.1: Value of FTSE from January 2016 to June 2016 as retrieved from Bloomberg.com



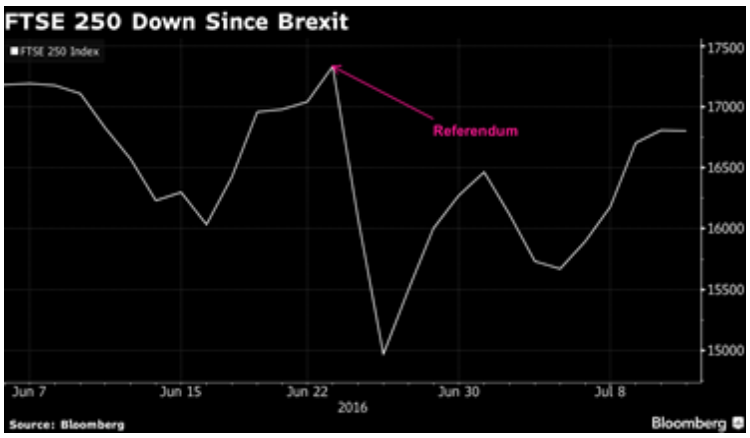


Figure 2.2 (right) and 2.3 (left): Value of FTSE 100 and FTSE 250 from June 7th, 2016 to July 8th, 2016, as retrieved from Bloomberg.com

Before the National Declaration of the Referendum Result

Figure 2.1 shows that the index level of FTSE 100 has increased since February 2016. The reason is that there is more demand than supply for stocks in the FTSE 100. Therefore, the price increases. When looking at it from the perspective of an informed trader, the fundamental value of the index was in average higher than the price of the index. Therefore, the informed traders wanted to invest in the index. There are different reasons why the index level is lower than the fundamental value.

The first reason could be that uninformed traders' view on the FTSE 100 is too negative. That could be because of the Brexit. They think that the Brexit will bring a lot of negative consequences for companies, so they are already selling their stocks even before the results of the referendum. This causes a drop in the index. Informed traders can use this opportunity to buy those stocks and sell them for a higher price because the fundamental value at that point is higher than the actual price.

Another reason could be that the companies in the FTSE were doing very well. For example, they achieved some great profits or came up with a new product. In this case, investing in such a company becomes more interesting. This has not got something to do with informed traders specifically, it is more the general working of the market. But when this is the situation, informed traders are the traders that know this news really fast and act on it immediately so they can make the highest profits.

Figures 2.2 and 2.3 have the same time frame but it is two different indexes. FTSE 100 includes 100 companies from the London Stock Exchange with the highest market capitalization. FTSE 250 includes the 250 companies from the London Stock Exchange with the highest market capitalization (Bloomberg Markets, 2016).The fluctuations before the declaration are almost similar. The analysis given below is, therefore, similar for both indexes.

If you analyze the fluctuations before the declaration, there is a decrease from 8th till 16th of June, after which the index increases. This can be explained by the polls about the Brexit that were announced each day. In the period from 8th till 16th of [2016] June, the polls predicted the Brexit. In that period traders wanted to get rid of their stocks. After the 16th, the polls predicted that the Brexit was not going to happen. This news had a big impact on the actions of traders because now they would buy stocks (Financial Times, 2016).

Now that we have analyzed this period we can conclude something about what informed traders should have done in this specific period. First, a trader should buy when the polls become positive. When polls become, positive and stay positive the prices will go up. Secondly, if a trader wants to invest in this period, the smartest thing to do is invest in international companies who get the majority of their revenues outside the United Kingdom, because then the impact of the Brexit is relatively small.

After the National Declaration of the Referendum Result

For this part, we only analyze **Figures 2.2 and 2.3.** The big difference with the period before and after the declaration is that the fluctuations are not similar anymore. Both indexes show a big drop after the referendum results, but after that, the indexes do not behave the same anymore. In the next section, analysis is provided about why a drop occurred after the declaration and why there is a difference in fluctuations between the two figures.

First, we will analyze the drop after the declaration. There are several reasons for this drop. First of all, the Brexit had some serious consequences for the economy and financial markets. These consequences were already known before the results of the referendum. The expectation was that companies would face difficulties with international trade. Therefore, the value of those companies and their stocks dropped. Secondly, the Brexit came unexpectedly. As mentioned before, in the days before the referendum, the polls indicated that the Brexit was not going to happen. It did eventually pass, contrary to the polls, shocking traders. Another reason is that, because of the Brexit, the currency markets dropped. Thus, a lot of international traders would not invest in UK related indexes anymore. Therefore the demand is lowered but the supply remains at the same level or goes up. This results in lower prices. A more detailed analysis of the currency market is given further in this paper. One conclusion is that the fundamental values dropped because of the Brexit and settled at a value lower than the market price. Therefore informed traders would not buy stocks anymore and they wanted to sell their current stocks.

If you look at the graphs, the index of FTSE 100 is higher after a few days after the declaration than the index of FTSE 250. The reason is that FTSE 100 companies get the vast majority of their revenue from outside the United Kingdom. The Brexit has, therefore, less influence on companies who are only situated in the United Kingdom and dependent on trading with other countries. Because of that, the FTSE 100 is probably less representative of Brexit sentiment than the FTSE 250 (Bloomberg Markets, 2016)

Now that we provided an analysis of this period we can say what an informed trader should have done in this period. As an informed trader, you know how to get new, differentiating information really fast. Getting information after a big event like the Brexit is very important because it could have a huge impact on the fundamental value. Therefore, it is important to keep searching for news that affects the fundamental value. By doing this informed traders can make huge profits.

Dealers

Introduction to Dealers

Dealers serve the crucial role of the liquidity-providing market maker in quote driven markets (Schenk-Hoppé, August 2016). This role is especially crucial in situations where important news shocks the market, such as Brexit, as they increase the resilience of the market by providing constant liquidity for their clients (any public buyer or seller) to move their position freely in accordance with the news (Schenk-Hoppé, August 2016). Since Dealers set the bid and ask in any order book, they possess the ability to protect themselves in such situations by adjusting the price of the asset to reflect the influx of orders they are receiving. This ensures that a savvy dealer can profit under any market conditions and is therefore incentivized to always have bids and asks on the order book. This prevents the book from drying up and provides on-demand liquidity to the public. Furthermore, in the case of a shock that greatly expands the bid-ask spread, Dealers are doubly incentivized to enter the market since their business model is to capture and profit off that spread and a larger spread equals greater potential profit (Schenk-Hoppé, August 2016).

Market Climate for Dealers prior to the Referendum

In the months leading up to Brexit, the bull market exhibited by the FTSE **(Figure 2.1)** made profitability fairly easy for Dealers as, the majority of the time, any stock they moved was likely to increase in value (Bloomberg Markets, 2016). Additionally, the strong up currents in the market indicate a large number of uninformed traders trading within the market, limiting the ability of informed traders to take advantage of Dealers limited knowledge of a particular stock. In general, this period simply required the dealers to consistently buy and resell stocks while working out of robust long position to fully capitalize on the market conditions, with few efforts necessary to protect their positions and profits. However, in retrospect, a savvy dealer would recognize the bull market and anticipate the turn in the market and prepare accordingly.

Strategies for the reduction of Inventory and Information Cost

From Stan Busquet de Caumont, a macro portfolio manager at Point72 Asset Management, as quoted in the Financial Times, "The best is to go into the event with as few positions as you can, so you can take advantage of the volatility that comes afterwards" (Financial Times, June 2016). This quote typifies the lowest risk strategy for managing inventory risk in

instances with a specific date such as the referendum; unload long and short positions to a target inventory near zero leading up to the vote This strategy provides the maximum flexibility depending on the direction the market turns after the vote, allowing the dealer to move freely toward either of their risk bounds as the market demanded. This strategy minimizes exposure but also potential profit.

From a customer knowledge standpoint, dealers should be aware that many skilled hedge fund and asset managers anticipate the market dislocation generated by events such as Brexit (Financial Times, June 2016). Leading up to Brexit, Bank of America Merrill Lynch found that global investors had more of their portfolios in cash or cash-equivalents than at any time since 2001, leading Goldman Sachs to warn of the "potential to create material gaps in liquidity and wide swings in market prices" in markets such as foreign exchange if most those funds were put to work (Financial Times, June 2016). With this information, Dealers can anticipate larger than average movements well before the vote as traders move to cash heavy positions, lower volumes immediately prior to the vote, then heavy volumes after the announcement. This conclusion to verified by the comparison presented in **Figures 1.1 and 1.2**, which show large volumes of FTSE stock moving 10 days prior to the vote (large traders offloading positions), a lull back to mean volumes prior to the vote, and a sharp spike in volumes after. None of these trends are present in the prior year, strengthening the phenomenon's correlation to the Brexit vote.

As noted, gaps in liquidity and price swings can represent an opportunity for Dealers, as they set the prices and have relatively more power on the individual level when prices are uncertain or volatile. It also represents a significant risk, as Informed Traders and Brokers will be the ones making the big bets of which dealers will take the other side, greatly increasing the exposure to information risk. This is the source of liquidity issues Goldman references, as more risk-averse dealers will likely hesitate to enter such a market if price is unstable. This can be compensated for by directly by utilizing the dealers market power to discourage similar trades, especially since the dealer know that the trader is attempting buy assets cheap due to people being nervous. Since dealers will know the direction of the trades (largely buy in negative events and the reverse in positive) they can recognize the influx of this money and hike prices quickly to profit. Overall, this behavior by asset managers creates a relatively dead period leading up to news event, meaning any zeroing of positions, as described above, should be started well in advance to protect profit in the short term through post-news flexibility and price management.

With the dip that occurred in mind, we know that a short position would have created more potential for profit as the dealer would provide the desired liquidity to the investors fleeing the market in the immediate aftermath of the vote at considerable lower prices than they originally sold the asset. Inversely, an unhedged long position would prove to be a non-factor for a patient dealer in the FTSE 100, as quotes rebounded to above their pre-Brexit level within a month of the referendum **(Figure 2.2)**. This position would negate the ability of the dealer to profit from the situation in a meaningful way.

It is important to note that long positions in FTSE 250 stocks would generate losses, as the value of the index did not reach its pre-Brexit levels **(Figure 2.3)**. This presents us with the best hedging opportunity to limit exposure and maximize profit. The material difference between the FTSE 100 and 250 is the density of multi-national and British domestic companies. As explained in the informed trader's section, the FTSE 250 has a larger number of companies who generate the majority of their profits in Britain. These companies, by and large, did not return to their pre-Brexit value. Dealers could have very effectively protected

themselves by shorting such companies while maintaining the long position strategy for large multinational firms, in case the strong market perpetuated despite or due to the vote outcome. Hedging as described effectively limiting exposure to a change in either direction.

Conclusion and Summary of Key Findings

There are three essential learnings for dealers facing politically driven market turmoil:

1. Information is less of a factor: When common knowledge political unrest is the driving force in the market, informed traders' advantage is significantly less. While informed traders can still take advantage of the unrest to buy stock in companies they believe to be priced bellow fundamental value, it will largely come at the expense of the uninformed traders. In future instances of political turmoil, a dealer should position themselves to have maximum flexibility to meet the market's needs with limited concern for the information they are not aware of. In cases, where informed traders are looking to make big bets, an effective dealer will have the market power, if liquidity dries up, to set favorable prices and profit.

2. Multi-national companies can be an effective hedge for more aggressive positions in National Firms: Firms who do the majority of their business in the international market will hold their value through such uncertainty, making them an effective counter-balance for domestic companies in the inventory of any dealer.

3. Uncertainty is temporary: Dealers should largely avoid panicking, regardless of the size of their position or the movement in the market, as the market will likely settle and behave very similar to how it did before. This is due to the core issue being investor confidence, rather than an actual swing in fundamental value. Patience is key if caught on the wrong side of the swing.

Effects on currency market

Introduction to Currency Markets

To analyze the impact Brexit had on the currency markets, the two most exchanged currencies of Great Britain will be used. These are the Euro and the American Dollar. This is not a surprise, as Great Britain's export was highly focussed on Europe and the United States (Harris & Li, 2010). Asia also receives a significant share of Britain's export goods, however, it is harder to analyze as the largest Asian countries have different currencies.

The relevant data for this analysis will, therefore, be the British Pound to Euro index and the British Pound to American Dollar index, before and after the Brexit. The chosen timeframe will be slightly before and a prolonged period after the Brexit. To be more precise, the timeframe is June 18th till July 17th, which means 6 days before and 24 days after. This will minimize the influence of external factors before the Brexit. Given that it was a rather sudden phenomenon, as the vast majority did not expect the Brexit to happen (Menon & Salter, 2016), We can clearly see the influence of the event on the currency drops that occurred subsequently.

British Pound to Euro

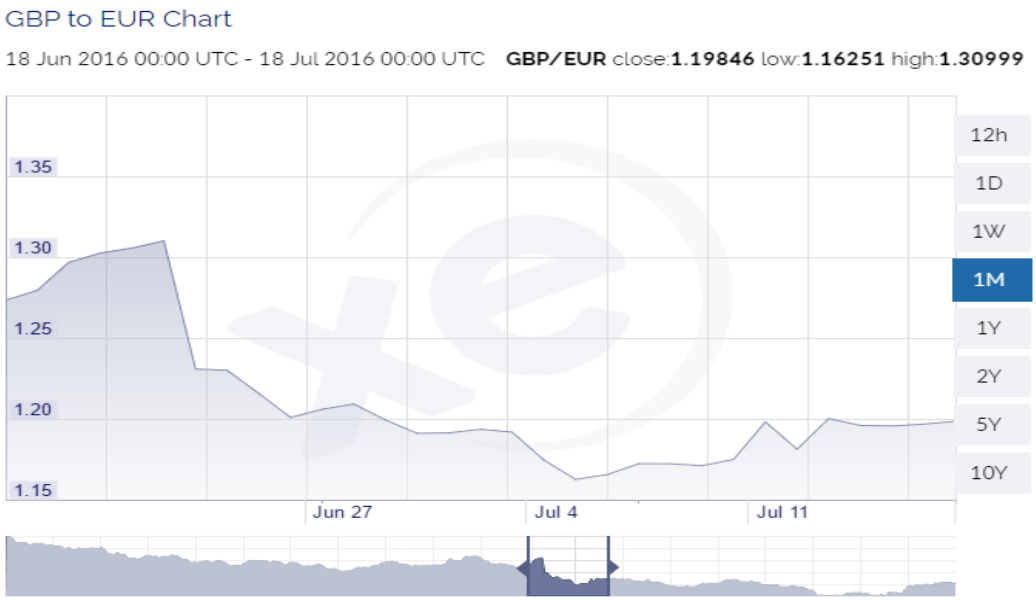


Figure 3.1: Value British Pound to Euro from June 18th till July 18th, retrieved from xe.com

In the chart (**Figure 3.1**) one can clearly distinguish the moment Brexit was determined. Before the event, the British Pound was appreciating against the Euro, which may be explained by investors wanting to hold on to their British Pounds, as at that point it was expected that Brexit would be refused by the British population (Ryan, 2016). This may have resulted in more confidence from the wealthy investors in the market. This may subsequently have resulted in a rise in price.

This never happened, however, as everyone knows by now. The world was shocked by the result, but especially the Brits that voted to remain in the European Union (Sinn, 2016). What happened after was a gigantic drop in the value of the British Pound, it was the biggest plum in several decades. In one day the value of the British Pound against the Euro went down from €1,3099 to €1,23075, which is a drop of 6,05% (**Figure 3.1**). This is a tremendous percentage considering it was only 24 hours. In the following days, the value of the Pound went up and down with smaller steps. Over the course of the 23 days after the Brexit drop, the value dropped to €1,19669 on July 17th. To emphasize on the drop after the Brexit, one can see that the value dropped more on the first day after the event than it did in the weeks after.

After having a look at all the numbers, it would be prudent to look at consequences of political events for currency markets. The most remarkable thing is definitely the first day after the result of the Brexit referendum came out. The people were obviously not confident in the country's future (Sinn, 2016). The currency traders wanted to be in time to avoid heavy losses. This means that currency traders went on to sell a large number of British pounds, with an even heavier drop in value as a result. This is a logical response, as liquidity improved and the sell side wanted to get rid of their Pounds (Harris, 2003). The results of the days after are less extraordinary. Moreover, these results are influenced by the Brexit to a lesser extent. This is simply because event became less recent and the value of a currency is dependent on many factors. Therefore, the first day is the most relevant in terms of relatedness to the Brexit and in the meantime also the most significant.

British Pound to American Dollar

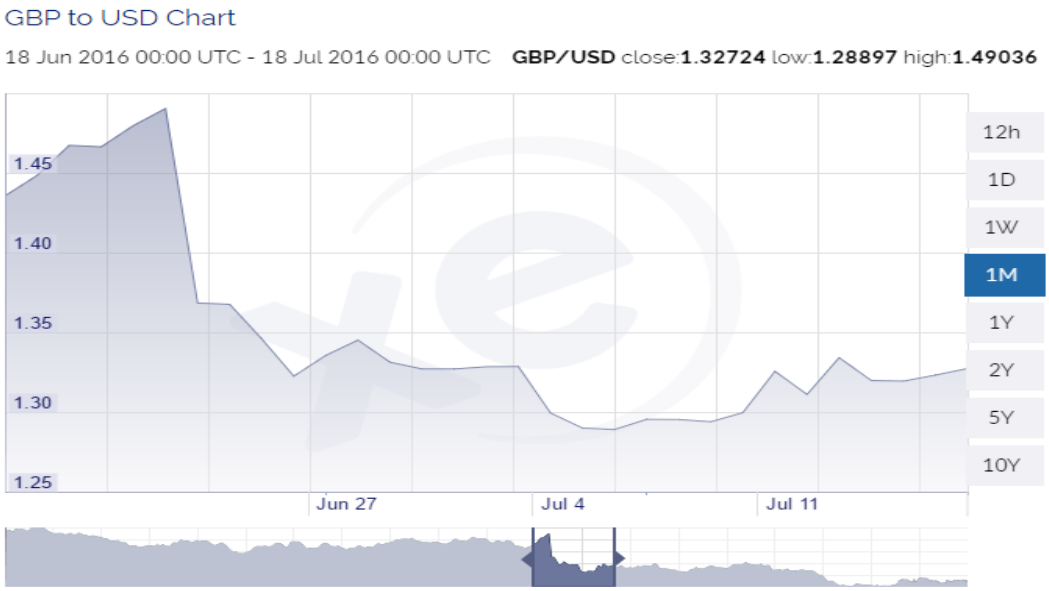


Figure 3.2: Value British Pound to American Dollar from June 18th till July 18th, retrieved from xe.com

The chart of the value of the British Pound to the American Dollar shows many similarities with the one of the British Pound to the Euro. This is not surprising, as other currencies should usually gain from the uncertainty and quick selling of the Pound in Great Britain. The conventional values may be different, as the American Dollar has a lower value than the Euro, but the slope of the curve has a lot in common. The value just before the announcement was $1.49036. Within 24 hours this dropped to a value of $1,36834 (**Figure 3.2**). This is a fall of 8,19%, which is evFen higher than the previously discussed drop.

In the weeks after this value plummet, the value eventually fell down to $1.36834. Again, the trend is that the first 24 hours after the event are crucial for the value of the currency. The curve of the given timeframe is similar to the one regarding the Euro in its fashion, however, it is even more extreme in terms of value changes.

Conclusion and exploiting similar events in the future

When comparing the two explained situations, it is easy to see the major resemblance. First of all, in both graphs can be seen that the value of the Pound increased shortly before the news of Brexit was published. This can be explained by people not expecting an event like Brexit to happen (Ryan, 2016). Subsequently, after the event, in fact, does happen, the drop of value is immense, and may harm currency traders a lot. After the initial drops, the market usually becomes more normal and stable again. However, till this day the values have not bounced back to the values before Brexit. This information should be useful for traders as they would know that acting early would be rewarded with higher values.

After this elaborate analysis, one should wonder how to act when a situation like this would occur again. Since events like Brexit are almost always followed up by drops in the value of the currency of the local country, a trader should know what to do. This is simply selling a big quantity right before the event would happen, then wait for the price to drop.

Afterward, the trader can either buy back or focus on another market, because the value is often more volatile after political events, and this is more dangerous for traders.

There is one very clear downside of this. Characteristic of events like these and their subsequent value drops is that most people did not expect them to happen. What this means for traders is that they would have to be willing to take a gamble. It may pay off very well if it pursues like Brexit. On the other hand, if the event does not take place, the traders that took a gamble might be caught off guard and face a disadvantage.

Summing up, the news of Brexit had a major influence on the value of the British Pounds to both the Euro and the American Dollar. The biggest effect has been shown in the first 24 hours after the publication of the news. The drops in both indexes were the biggest in several decades. After the initial drop, the market would slowly stabilize again but at a lower value. Traders can act on this by timely selling their position down, to capture the value when it is still high and not fall victim to the upcoming drop. This strategy is somewhat of a gamble, as the drop is partly a result of the unexpectedness of the event.

Conclusion and final remark

Brokers faced extreme annualized volatility in the month of the Brexit referendum, 47.00 % instead of 11.28% in 2015. Therefore brokers used different types of safeguard measures to protect themselves and clients to this extreme volatility. To safeguard they raised margins for Sterling pounds and restricted their net open positions. These are both prudent measures to safeguard either the client and themselves. In addition, brokers advised traders to stick to their strategy. Emotional reactions to make profits will not help in optimizing portfolios. Namely, experienced traders come back to the market after the Brexit to pick up their normal trading patterns.

The goal of informed traders is to gather information to deter the fundamental value of a specific stock. The FTSE 100 and FTSE 250 show that both indexes dropped after the declaration of the referendum results. By splitting up the period before the declaration and after the declaration, some conclusions can be made about the behaviour of informed traders. In the period before the declaration informed traders should have bought stocks when the polls became positive. Another conclusion is that an informed trader should invest in a international company to minimaze its risk. The conclusion of the period after the declaration is that an informed trader should take adventage of all the information he gathers. By knowing new information very quick he can deter the new fundamental value and can therefore decide to buy or sell a stock with profit.

In instances of politically motivated uncertainty, a savvy dealer will position themselves to be able to easily provide liquidity, regardless of direction, to traders to help ensure market integrity. Furthermore, said dealer will carefully use multinational firms as a hedge for domestic firms, providing them the latitude to take on more aggressive long and short positions in some assets to provide an avenue to profit from the volatility, rather than just service it with liquidity. Finally, without pressure from clients to quickly react to losses, dealers should be willing to hold some positions for a time till the market settles, as this may result in a reversal of the initial fluctuation in stock price, preventing the dealer from unnecessarily locking in losses. Overall, due to their power to set price, alter price quickly as runs occur, freely hold assets through volatility, and the reduced information risk, Dealers possess high potential to profit from the financial aftermath of political events

The effect of Brexit on the currency markets is to be called remarkable. Both the British Pound to Euro and the British Pound to American Dollar made a big drop on June 24th, 2016, the day after the Brexit was published. The British Pound depreciated more against the dollar than the euro, respectively 8,19% and 6,05% in one day. The following weeks portrayed less extraordinary values. This can be explained by the relatedness to the event. Currency values are determined by a large number of factors, however, on the day of publication, Brexit outweighed everything else. This resulted in the depreciation of the British Pound.

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