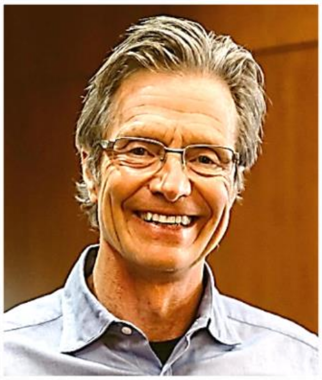

4th Quarter 2016 Market Overview

A Year of Surprises

The markets overcame their worst start ever to a year and finished 2016 with a gain of 9.5% on the S&P 500 index. The DOW almost touched 20,000 before finally ending the year at 19,780. It was a year marked by surprises and punctuated by the election in which Donald Trump's victory precipitated a vigorous, year-end rally.

Although the market ended 2016 in fine fashion, it didn't start out that way. Markets swooned 15% in January and February. Oil prices sagged to $26 per barrel. Investors fretted about a sagging Chinese economy. The markets were deteriorating drastically enough to resemble past bear markets.

World central banks reacted and jumped in to save the markets by printing money. When it appeared as though the China condition was not so dire, the market bounced back. The early 2016 losses were recovered by mid- April.

There were more surprises in store, however. In June, the market was back into record territory only to be hit by the Brexit vote. This caused a sudden sell-off in the markets. Investors changed their view in short order and determined that Brexit would NOT be bad for economies. Another surprise…

As the election date approached, the market was tipping over. The S&P 500 dropped 5% from its August high.

On an emotional election night, fear broke out in the markets when it looked like Trump would win. The S&P 500 futures markets plunged 5%. This equated to a 900 point drop in the DOW. An apparent Trump victory was greeted with deep consternation in the markets. Famous economist Paul Krugman wrote at the time, "So we are very probably looking at a global recession, with no end in sight. I suppose we could get lucky somehow. But on economics, as on everything else, a terrible thing has just happened."

Despite this negative outlook, the markets began to stabilize. By Wednesday morning, the DOW was only down 200 points and within **five minutes**, it turned positive! This was a stunning reversal. The gloom on Tuesday night turned to relief on Wednesday and the markets rallied. It was a wild and emotional ride.

Over the next ten days, the Dow Jones rallied over 1000 points and the S&P gained 3%. Both indexes broke out of ranges that had confined stocks for nearly two years. The Trump victory followed by a market rally was a complete surprise to everyone working in the investment business.

Investment managers will need to decide whether the recent strength in the markets can be sustained. Will the DOW hit 20k? A more meaningful question is, will the DOW maintain 20k?

The markets seem bolstered by more than a new administration. Corporate earnings finally broke a five quarter losing string by posting a 6% increase in the third quarter. Maybe our economy is going to finally start growing. If this happens, it would be bullish for 2017.

A Tale of Two Stocks

"It was the best of times. It was the worst of times." The opening of the Charles Dickens classic, "A Tale of Two Cities", describes the curious trading courses of Nike and Caterpillar Tractor over the past two years.

Both stocks are in the DOW 30. They are both important components of the market and our economy, for that matter. Both companies permeate their respective cultures in Portland and the industrial Midwest. They are both iconic brand names.

Sales and earnings of the two companies have gone in vastly *different* directions over the past few years. Nike global sales grew from $23b in 2012 to $32b by 2016. This is stellar by any standard. By contrast, Caterpillar slid from $66 billion in 2012 to $38b by 2016. Shudder.

Nike is rapidly growing while Caterpillar is shrinking.

In 2015, Nike was the best performing stock on the DOW and gained 33%. Last year, Nike fell 20% and was the worst performing stock on the DOW. From an investment standpoint, what was once good became bad.

In 2015, shares of CAT fell 27%, and it was the worst of the DOW stocks. Cat followed by gaining 37% in 2016 and won the tag as the best performing DOW stock.

Cat and Nike are endemic of the market's condition and their paths would make any investor wary. After all of the fluctuation by these two grand companies, both stocks are back to their late 2014 levels. This means after all of the shoes, apparel, excavators, and engines sold; marketing plans unveiled, executive teams organized, the stocks of these companies have made no progress for two years.

Amidst all of the noise in the investment *ecosystem,* we can learn from the tales of Caterpillar and Nike.

Peregrine Portfolios

The election ignited a strong rally in stocks. Optimism about tax cuts, de-regulation, and pro-business policies are currently fueling the markets. This could end suddenly, but so far, the bulls should get the benefit of the doubt. If all of the heady expectations from the new administration don't come to fruition, the markets would sell off.

It took a couple of weeks to reposition accounts to reflect the optimism in the markets following the election. This meant selling stocks like **Google**, **Amazon**, **Facebook**, and **Mercado Libre**. It also meant exiting a **GoPro** investment since this turnaround story was derailed. New stocks like **Goldman Sachs**, **Nucor**, **Cummins**, **United Continental**, and **Netflix** were solid contributors for client accounts in the fourth quarter..

The Peregrine Equity and Balanced Composites both gained 1% for the 4th quarter versus 3.25% for the S&P 500. For the full year 2016, Peregrine Balanced Composite gained 10% and the Equity Composite gained 11.60% versus a 9.5% gain for the S&P 500.

Dan Botti
Portfolio Manager
1/6/17

Past performance is no guarantee of future results. Investment management involves the possibility of losses. Significant general stock market moves up and down can influence the performance of client portfolios. Composite returns are based on client portfolios of over $100,000. Not all clients are included in the composites. All returns include the reinvestment of dividends. All returns are net of fees. Composite returns are derived from aggregated, time-weighted returns for clients of Peregrine Asset Advisers. Individual client returns can deviate from the composite returns. While Peregrine uses the S&P 500 as a benchmark, Peregrine does not attempt to mimic the structure of this index. Individual client portfolios vary. The number of securities held also varies per client.