Peregrine asset advisers

1st Quarter 2018 Market Overview

The Curious Symbiotic Relationship

"………if Boeing and Amazon are targeted with a new trade policy, these stocks could take down the entire market. If the market falls, then the nation's wealth affect is threatened. If the wealth affect is threatened, then the government's new, inflated budget goes by the wayside. If the budget deficit explodes higher, then the total debt becomes uncontrollable. This is a cycle the government can ill afford. "

Since 2009, the stock market has embarked on one of the grandest bull markets in history.

In seven of the past nine years, the S&P 500 achieved double digit returns. Just prior to February of 2018, the market completed a journey of 15 straight advancing months. It went 19 months without being nicked a mere 5%. This durability for the market was unprecedented.

Throughout this long term advance, the stock market and our federal government developed a mutually beneficial relationship. In essence, the stock market and our government are like living organisms. It's fair to borrow the biological term, **symbiotic relationship** to describe the two.

The market represents the government's golden goose. Rising equities creates a wealth effect that is a government lifeline. The government, in return, stokes the stock market by employing favorable tax or trade policies. It is important to realize that Uncle Sam *needs* a bull market and concurrently, the market *needs* every tool the government has in order to propel further growth.

Our government is falling into a deeper hole due to their inability to run a budget. The only viable remedy to our accelerating budget deficit and the enormous debt load is the wealth effect created by gains from the stock market and real estate. Interest on the debt consumes 7% of the total Federal government budget and this is projected to double by 2023 and triple by 2027. Actively promoting asset price appreciation is the only reasonable way the government can meet its future obligations.

Curiously, the sizeable drops in the market over the past two months seem precipitated by the government. First, worries spread over an overly hawkish position by the Fed that would usher higher interest rates. Secondly, the threat of imposed tariffs caused the market to swoon. These factors contributed to the downward slide in the market.

As a result, investors enter this second quarter with a very apprehensive mindset. Durable market darlings like **Facebook** and **Alphabet** are wrapped in turmoil over the integrity of their data. Meanwhile, **Amazon** and **Boeing**, the pillars of the stock market, are in the crosshairs of the White House's evolving trade policy and their stocks have suffered by falling 15%.

All major sectors in the S&P 500 are negative for 2018 and the average stock is off 5% after the start of the second quarter.

Before we get too worried, we need to recognize the government can ill afford to take any action that might be detrimental to the stock market. It also implies the recent drawdowns will be *temporary* and long term support should be maintained.

Once the investors realize the government will **ultimately** act in a supportive manner, the market should stabilize from its recent volatility. Domestic and global growth remains on a solid growth trajectory. The US economy is still set to benefit from the new tax plan enacted at the end of last year. Finally, corporate earnings, which will be reported this month, promise to show the highest growth rates since 2011.

The **symbiotic relationship** between the stock market and the government should be supportive to the market.

Peregrine Portfolio

We were able to step aside and cushion accounts from damage in the markets during the first quarter. Active investment management will diminish the effect of volatility. Our goal is to always maintain the high water mark in client accounts. Another benefit from selling and raising cash is to capitalize on the dips in the market. Many stocks that declined in the second quarter are likely to rebound in the months ahead.

Meanwhile, the interest rate on cash balances has risen above 1% and is promising to move towards 2% throughout this year. This is a welcome change for investors since riskless cash has been paying next to zero for the last eight years.

In the first quarter of 2018, our Equity Composite gained 1.96% and our Balanced Composite gained 1.37%. The S&P 500 finished the quarter with a loss of 1.30%.

The current environment still poses a formidable challenge to investors. How do you preserve two years of strong gains and still receive strong returns if the market performs well? Our investment management provides a solution to this quandary.

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