Peregrine asset advisers

4th Quarter 2020 Market Overview
Not a Typical Bull Market

It was ironic that the harshest living conditions in our lifetimes fostered a bull market for Wall Street.

Initially, when the pandemic outbreak sent the S&P 500 down 35% back in March, it seemed 2020 would be a bad year for the market. Little did anyone know the magnitude of what followed. First, the Federal Reserve instituted massive money printing. Next, the government followed with a $2 trillion stimulus, later followed by the most recent $900 billion package. Investors cheered "easy money" and drove the market to record highs. Meanwhile, main street remained under duress. It was all so implausible.

In the most recent fourth quarter, there *were* threatening signals. The leading stocks like Alphabet, Amazon, Apple, and Microsoft shares all saw sizeable declines during the period. The S&P 500 slumped 3% in October. It was disturbing to see the virus spread. The election loomed and created worries regardless of your political persuasion.

The trepidation over the election proved ill founded. The S&P 500 gained 11% in the next 20 days, following the Biden victory. It even eclipsed the surprising 5.6% surge following the Trump win back in 2016.

The markets continued their improbable climb through year end.

To further illustrate the extraordinary dichotomy between the economy and markets, a recent survey conducted by Bespoke Investments revealed 80% of respondents with a negative outlook for the economy. Conversely, Bespoke reported a record 68.9% of respondents with a positive view on their own personal finances. This is a noteworthy contradiction.

While it is understandable that we all want to put 2020 behind us, we cannot help but wonder if 2021 brings more irony.

Reckless Speculative Investing

The speculative investment behavior that is raging is reminiscent of the dotcom bubble in 1999-2000. Markets are seemingly being run by video game players.

Indications of this include online broker Robinhood, which has amassed over 13 million users on its app, a gain of 10 million in the past year. The stocks of alternate energy, electric vehicle, biotech, and any potentially disruptive company have been soaring. Over $70 billion poured into special purpose acquisition companies (SPACs) in the last quarter of 2020. This is more than the previous 10 years combined. These companies lack substantial financial performance, yet their stocks are spiking.

Another example of the speculative nature of the market is the parabolic move in Bitcoin, which is up 300% since the election.

Tesla is now acclaimed as an idea, rather than a car company. It is now the fifth largest company by market cap and has surpassed Facebook, even though FB earns 12 times more money. Remarkably, Elon Musk became the richest man in the world surpassing Jeff Bezos of Amazon.

Unbridled speculation from investors has come at the expense of some areas of the market. Our favored holdings General Mills and Proctor Gamble have businesses that can even flourish in a pandemic, but these stocks have declined in the recent months.

As this reckless, speculative wave of investing plays out, *it is clear now that the most reliable bets are also the riskiest.*

Peregrine Holdings and Strategy

Surging speculative activity means elevated risk for equities. Usually, when markets top out, a change in trend can serve as a warning to investors. However, the most prominent risk at these frothy market levels is a "rug pull" event, where the market drops a *considerable* amount in a very short period.

For now, it is difficult to plan for this sort of shock, other than consistently taking profits, holding investments that might be impervious to a sudden decline, and maintaining suitable diversification.

A proper correction would provide an opportunity to invest in stocks like Tesla. So far, this has not happened. Escalating prices in some of these favored areas is so rapid that it is difficult to make a prudent investment. A correction in the overall market would give us a better opportunity to reinvest in some of these market leaders.

We certainly wish our core holdings like General Mills and Proctor Gamble would boost their shares by simply announcing they plan to develop an electric vehicle, but this is unlikely to be the case.

For Peregrine Managed Equity accounts, we earned profits with two trading investments in Tesla in the fourth quarter. The best percentage gains were achieved in the government software provider, Palantir. Accounts also gained from speculative investments in solar provider Sunrun, uranium producer, Cameco, and power equipment manufacturer Eaton.

Overall, market momentum points to further gains for the initial stages of 2021.
Dan Botti
Investment Manager 1/16/2021

Peregrine Asset Advisers ● 9755 SW Barnes Rd. Suite 295 ● Portland Oregon 97225●503.459.4651 ● www.peregrineaa.com