PEREGRINE
Private Capital Corporation

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PEREGRINE PRIVATE CAPITAL CORPORATION — AUGUST 13, 2015

Elevator Going Down

Welcome to the end of the financial bubble. Buy this dip… err crater at your own risk.

We have been saying for several years now that the outsized gains in global financial markets have nothing to do with the long term growth trends. Soaring stock prices since 2009 are the direct result of the greatest monetary reflation in history.

Strange as it may seem, it is this very reflation that has created the current deflationary cycle. Humbug you say, how can running the world's monetary printing presses full bore and flooding the world in cash lead to declining asset prices? Money creation is supposed to increase asset prices.

Unfortunately, that logic gets knocked on its head when that same ocean of cheap money fuels artificial development booms that produce more of everything, from oil and natural gas to iron ore, copper, ship-building, warehousing and distribution capacity etc. Zero interest rates and a fivefold increase in global money supply has created a false chain of demand literally from the ground up.

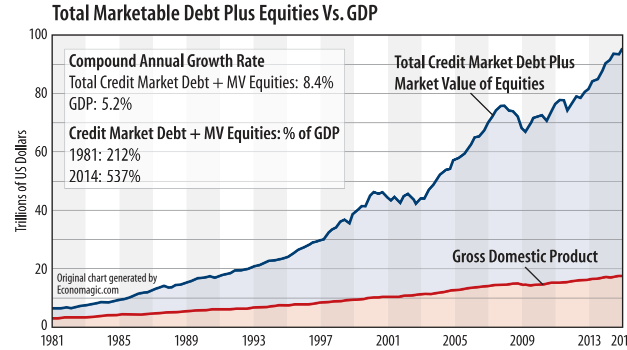
All kinds of projects, which would never have seen the light of day without global central bankers artificially repressing the cost of capital have flooded markets with an excess of everything. As Ben Bernanke so eloquently put it in a riposte of Larry Summer's secular stagnation hypothesis, "at a negative or even zero interest rate, it would pay to level the Rocky Mountains to save even the small amount of fuel expended by trains and cars that currently must climb step grades."

Contrary to the hopes of "best and brightest" at the Fed, cheap and abundant money did not reignite demand from the consumer up. It simply catalyzed production from the manufacturer down. Congratulations Ben, you leveled the Rockies.

Oops… guess the Fed got it wrong again. Hey, at least they're consistent. They have a 100% track record of being wrong regarding the outcome of their actions. But then again, when has central planning every worked? The demise of the Soviet Union is testimony of this.

So now the era of gluts, shrinking profits and deflation begins. What's an investor to do? Stay as far away from the capital markets as possible is a good start. Ultimately, the world's central bankers will be powerless to halt the deflation of this monstrous bubble they have so foolishly generated. This of course, will not stop them from applying the odd financial band aids here and there. However, in no way shape or form will any of this represent real "value." Given the profound divergence between GDP and Total Credit Market Debt + Market Value of Equities (see graph). We won't see value for a while.

Financialization of the US Economy – Total Marketable Debt Plus Equities Vs. GDP



Stay tuned and stay liquid, unless our flat line economy takes off like a rocket, financial assets have to get a lot cheaper.

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