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PEREGRINE PRIVATE CAPITAL CORPORATION APRIL 24, 2015

# The Greater Fool Theory

NEWS FLASH
**"IMF's Lagarde Sees 'New Reality' of Mediocre Growth."**
April 09, 2015 / Reuters

At the risk of being immodest, we told investors nearly 5 years ago what you see is what you get. The past, present and future zero interest rate environment is the new economic reality. It simply reflects flat line economies in both Europe and Japan and our own that is stuck in first gear.

We told investors then and are repeating it now, we are in the middle of our own "lost economic decade." However, "the powers that be" (IMF's Lagarde, Fed's Yellen, ECB's Dragi, etc.) can't admit this because;

- It's politically incorrect
- It's prima facie evidence their collective monetary policies have failed and
- It puts the lie to their myth of omniscience.

However, their unwillingness to admit defeat results in central banks printing more and more money. So much money has been printed that cash is essentially worthless. This is reflected in our new era in bonds: Zero yield or less.

Until April 8th, no country had ever sold 10-year debt that gives investors a yield of below 0%. But in the latest sign of how easy the era of easy money has become, Switzerland just sold 10-year bonds that investors are actually paying to hold. This turns on its head the basic free market assumption that capital is a scarce resource. The more of something there is, the less it's worth, right?

The new bottom line is that central bankers have created such a glut of capital that rates of return have not only been driven down but are now negative. How is this supposed to help savers, fixed income investors and retirees? It clearly doesn't. For the majority of folks, it simply drives down income and their life style follows.

As an investor this leaves you with two options. Either you pursue "The Greater Fool Theory" (TGFT) which the stock market has become or you consider the alternative asset universe. Both the stock market collapse in 2000 and housing market bust in 2007 have their roots in TGFT. In both instances the Fed pursued policies that inflated asset prices and ended badly when we finally ran out of fools.

Today's stock market is again showing symptoms of this affliction. The current market bubble is due to the Fed's asset purchase program under which fixed income investments were removed from the market, forcing yields down and driving money into stocks.

However, "The Times They Are A Changing." The Fed is no longer pumping billions into the market each month. The economy is slowing. The dollar has gone up and corporate earnings are going down. Therefore, only TGFT is currently maintaining the market's momentum. Pause for a moment and consider how Alan Greenspan's "Irrational Exuberance" experience ended in 2000.

To protect yourself from this, I would immediately reduce my exposure to stocks and other potentially volatile traded securities and raise cash. I would then work overtime to find some nice safe real estate investment with minimal moving parts and a nice tax advantaged yield. In many instances, renting is still the low cost alternative. Given what could be coming, that's a good thing.

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