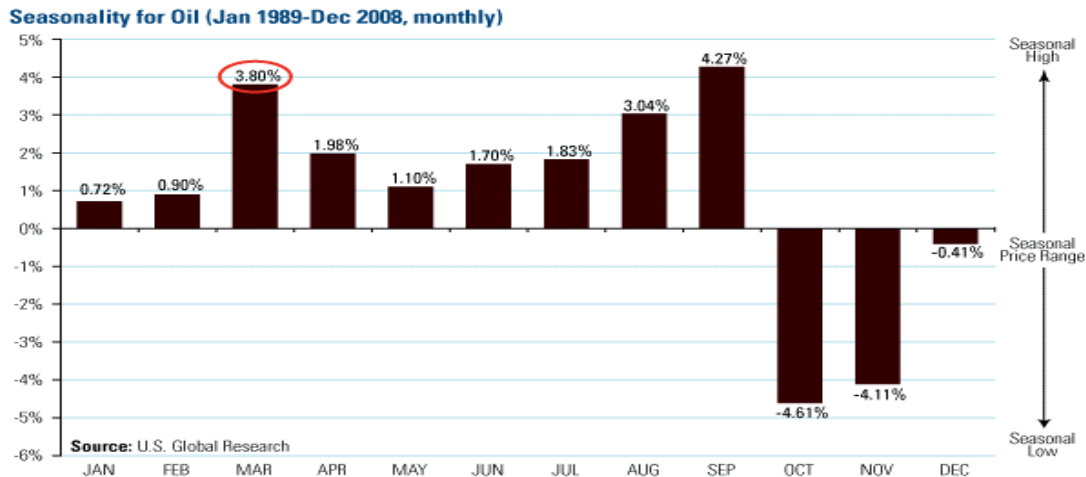




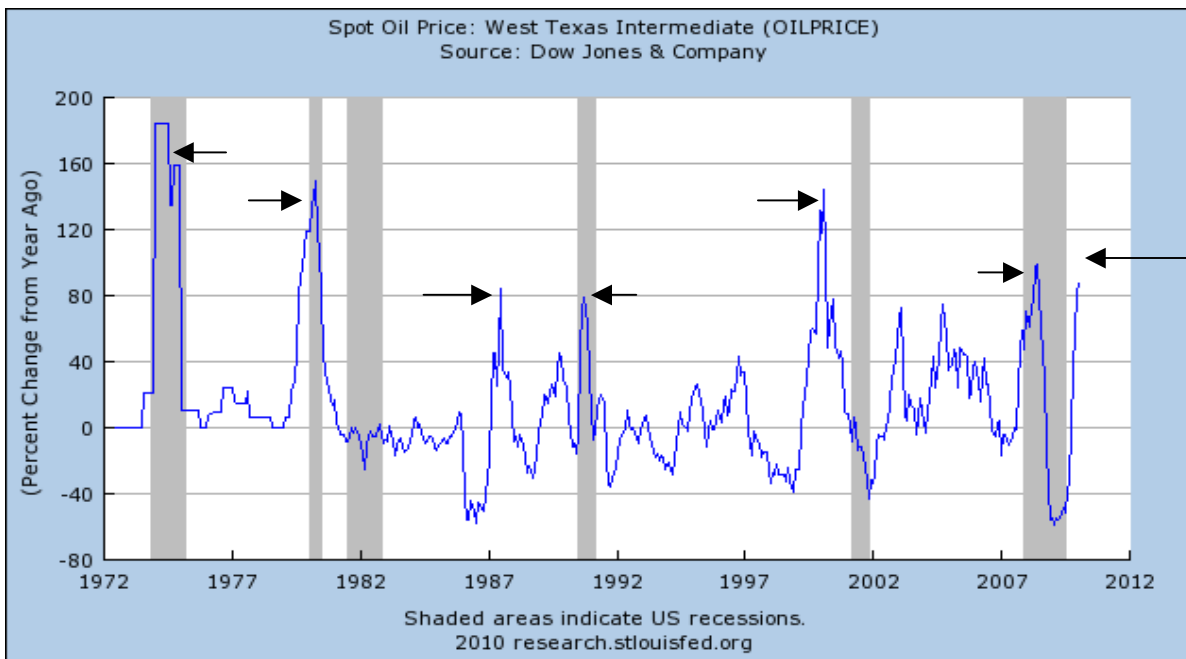
The Starboard Side Report

The week ending February 26, 2010

As you can see below in the chart from US Global Investors, oil is entering its seasonally strong price period. Historically, March is the second best month of the year and prices have tended to stay firm all the way through September in anticipation of both the summer driving season and the Atlantic hurricane season. If this seasonality holds this year, it does not spell good news for already stressed US consumers. We will also show further below that growth in auto sales in emerging markets may add another factor into the equation.



One item worth watching is the monthly year-over-year change in the price of oil. Over the past forty years, whenever oil prices have risen by 80% or more from one year to the next, it has signaled turbulence ahead for the stock market and/or the economy. With a February closing price of just under \$80, oil will end the month with a 104% year-over-year increase. Most economists focus on interest rates when trying to predict the economy and markets, but this the chart below shows that oil prices are an extremely important factor that should not be overlooked.

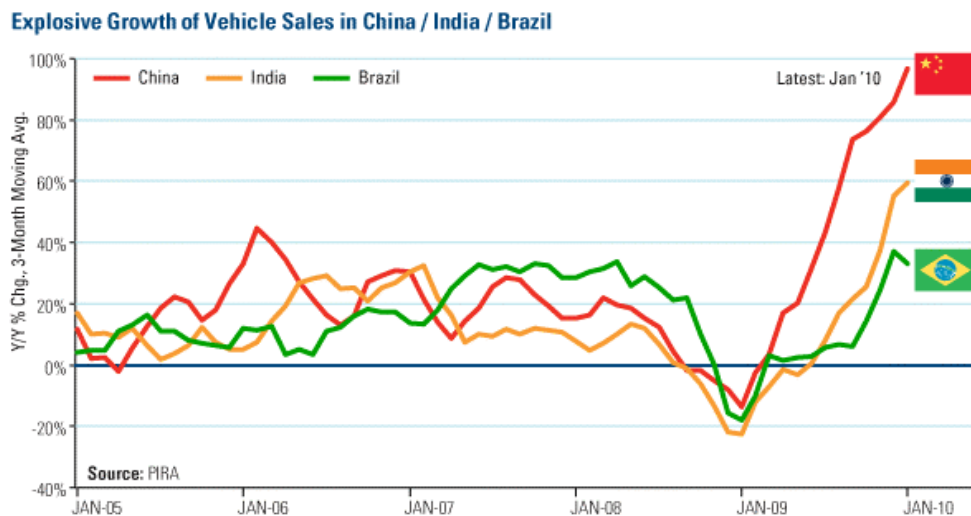


With this month's closing price of \$79.56, this chart will move back over the 100% threshold for only the fourth time since 1970.

As the arrows on the chart show, we have just encountered only the seventh episode since 1970 that year-over-year oil prices have increased by at least 80%. Unfortunately, in the other six, there has been a recession and/or a market crash within five months of that level being breached. The most mild S&P 500 declines were a 17% correction in 1980 and a 14% decline in 2000. However, the 2000 episode included a 40% crash in the NASDAQ. In 1974 there was a brutal recession and a 50% market decline, 1987 saw a market crash and 1990 had both a bad consumer recession and a 20% market decline. Last, but certainly not least was the market crash and recession of 2008.

The Federal Reserve is currently in the midst of extremely easy monetary policy, whereas most of the other big oil price spikes and ensuing market calamity occurred during a Fed tightening cycle. Therefore, the effects of cheap money may mitigate the impact of higher energy prices this time around.

The chart below illustrates that even though oil demand is soft in the developed economies, it will be consistently robust in the strong growth emerging world. Vehicle sales are skyrocketing in the BRIC nations. This adds a whole new element to the seasonality factors we discussed above.



We wanted to share a good piece from one of our research vendors Dorsey Wright & Associates. In it they discuss tangible evidence that the easy money has been made off of the 2009 bottom and they stress that strong relative strength will increasingly dictate returns going forward. As such, the number of good performing countries, sectors and stocks can be expected to narrow with every rally until only a few strong performers are left. This doesn't mean it is time to run and hide, but it is time to start paying increasingly close attention to the relative strength of portfolio holdings. During the last bull cycle, the broad market peaked in the spring of 2004, yet there were still plenty of chances to make money over the next four years. It just paid to know where to look and relative strength proved to be an excellent map. As we mentioned before, we don't think this bull cycle will last four years, but there should still be some opportunities over the next year or two especially if the Federal Reserve keeps interest rates near zero.

One final quick comment on the US Dollar Index. After having positive momentum for the past twenty weeks (a very long run), we have just seen a key reversal negative. This sets the stage for a relief rally in risk assets that do well in a weak dollar environment such as precious metals, emerging markets and commodities. These groups have been laggards during recent dollar strength.

US Dollar Index Weekly Momentum

Date	Top	Bottom	Last	Cross
03/01/2010		-0.00056	80.315	80.448
02/26/2010	0.00772		80.315	78.506
02/19/2010	0.01374		80.560	77.362
02/12/2010	0.01118		80.315	77.704
02/05/2010	0.00810		80.305	78.408
01/29/2010	0.00429		79.480	78.480
01/22/2010	0.00173		78.295	77.894
01/15/2010	0.00613		77.195	75.797
01/08/2010	0.01471		77.455	74.133
12/31/2009	0.02123		77.940	73.168
12/24/2009	0.01930		77.850	73.494
12/18/2009	0.01803		77.715	73.649
12/11/2009	0.00907		76.550	74.495
12/04/2009	0.00362		75.775	74.952
11/27/2009	0.00509		75.030	73.882
11/20/2009	0.00554		75.595	74.340
11/13/2009	0.00097		75.240	75.018
11/06/2009	0.00193		75.745	75.303
10/30/2009	0.00499		76.415	75.272
10/23/2009	0.00157		75.470	75.111
10/16/2009	0.00043		75.600	75.502

The green highlighted numbers indicate positive weekly momentum. The US Dollar Index had an impressive 20-week positive run, but the rally appears to have run out of steam. Whether this is the start of a new move lower or just a breather is yet to be determined.

Source: Dorsey Wright & Associates

Despite this twenty weeks of positive momentum, the Dollar Index was unable to break through its downtrend line or its June 2009 double top of \$81. We will still give it the benefit of the doubt since the Eurozone is in so much fiscal trouble at the moment. However, it appears as if we are at least going to get a pause in US dollar strength and a counter trend rally in the Euro.

US Dollar Index (EOD) (\$USD) INDX

26-Feb-2010, 16:00 ET, daily, O: 80.769, H: 80.848, L: 80.123, C: 80.375, Chg: -0.317 (-0.39%)

P&F Pattern Bearish Signal Reversed on 15-Dec-2009

User-Defined, 0.5 pts/box 3 box reversal chart

Prelim. Bullish Price Obj. (Rev.): 94.5

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