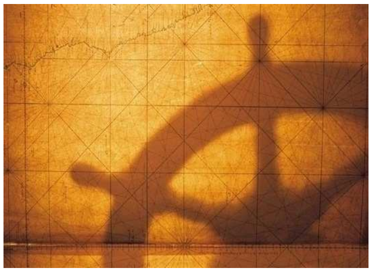
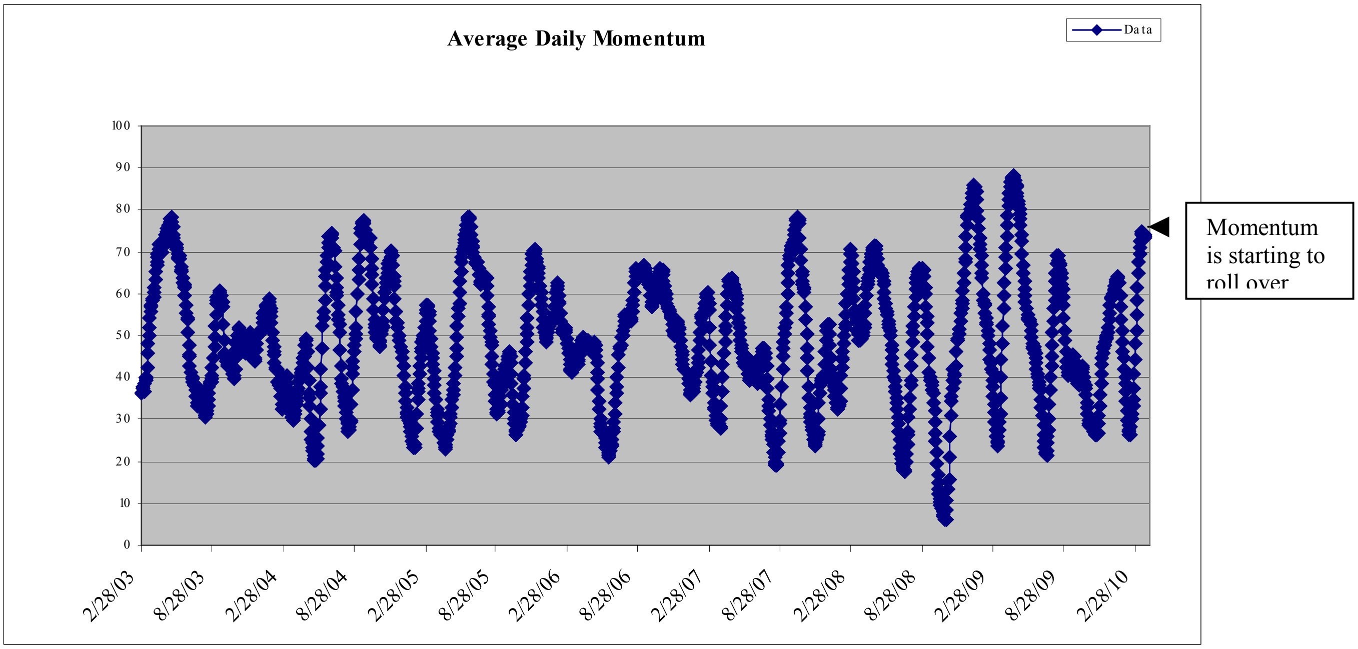


The Starboard Side Report

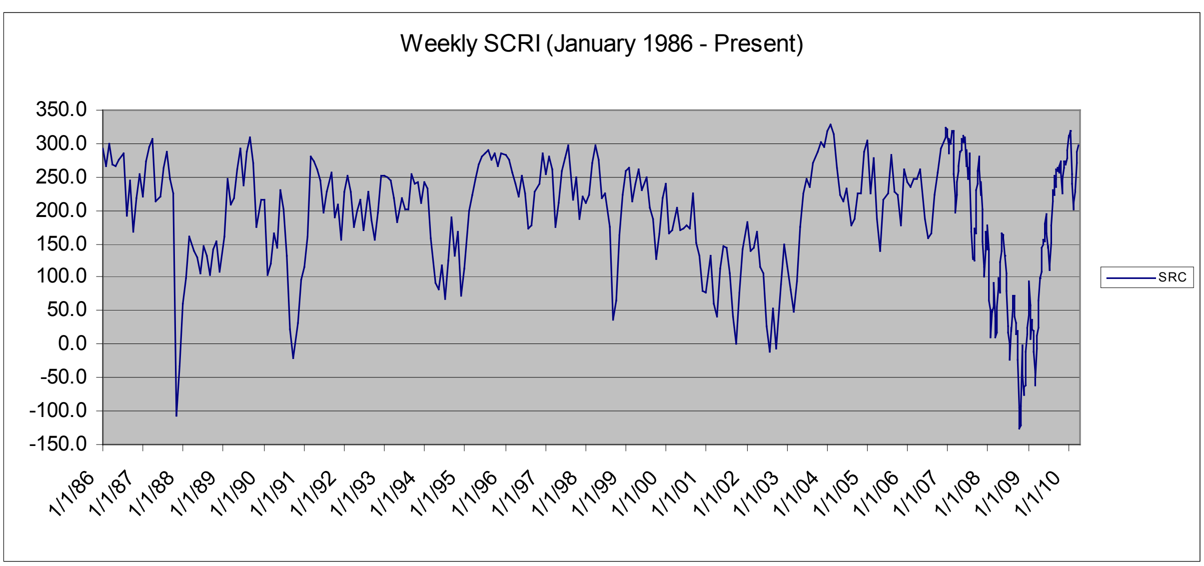
The week ending March 26, 2010

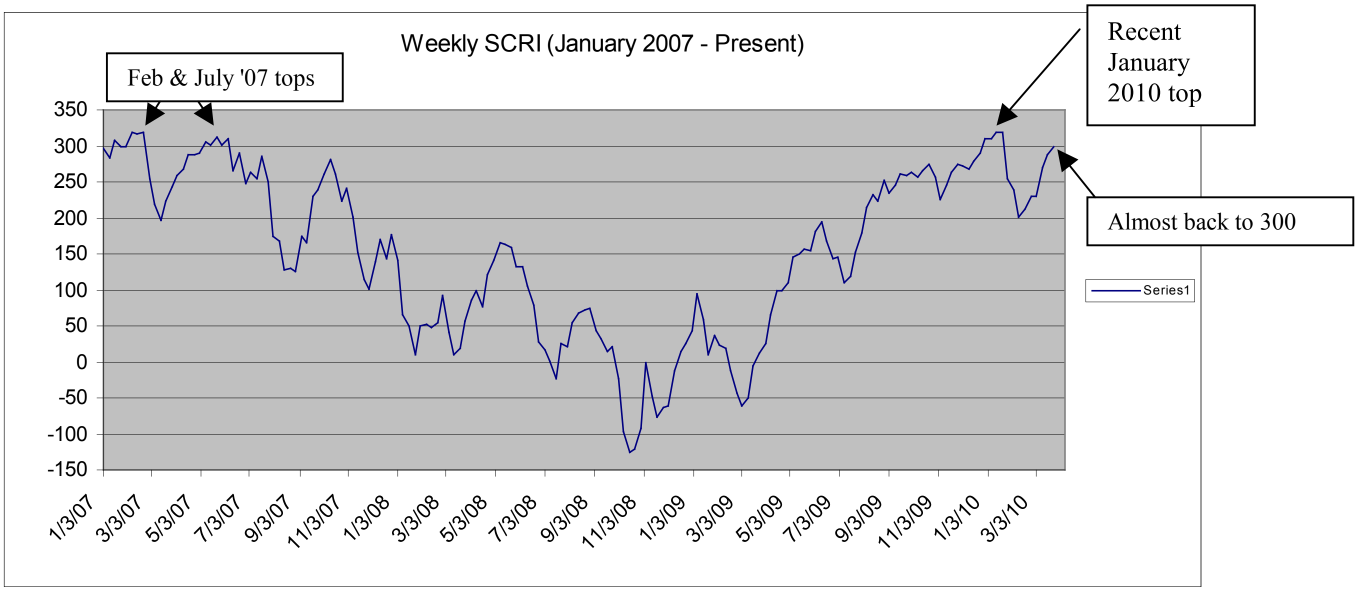
Ample liquidity continues to keep the market elevated, but the question remains for how much longer. We are starting to see signs that the momentum that fueled this move since early February is starting to wane. Below is a favorite short-term momentum indicator that we watch to gauge good entry and exit points. As you can see momentum is starting to roll over after an impressive six week run.



Data source: Dorsey Wright & Associates

The next chart that is warning us to be careful is the Starboard Composite Risk Index (SCRI). This has served us well over the years in calling market tops. We have included a long-term and short-term version of this prescient index. Historically, a pullback has usually occurred within a month of reaching the 300 level.





The silver lining in all of this is that the average momentum pictured in the first chart got all the way up to 75. That high of a reading is usually a number associated with intermediate term gains in the S&P 500 as we see in the table below. One and three months returns following elevated momentum peaks are fairly erratic and volatile, but the market has been 6.48% higher on average six months later (with only one down episode). That means that there is a good chance that any near-term correction associated with the overbought condition mentioned above could ultimately set the stage for higher highs in the S&P 500 by the end of the year.

Date Momentum hit 75	**1 Month % Return**	**3 Month % Return**	**6 Month % Return**
5/2/2003	3.97	5.4	12.97
7/1/2004	-2.4	.22	7.35
9/14/2004	-2.2	6.65	6.96
6/10/2005	1.15	3.62	5.11
10/4/2007	-2.15	-8.5	-11.2
12/22/2008	-5.1	-11.8	2.46
4/3/2009	4.2	6.4	21.7
3/17/2010	?	?	?
Average Return	**-0.36**	0.28	**6.48**

It appears as if the market may be telling us that all of the liquidity created to save the banking system will be able to prop up stocks for a while longer before the next meaningful bear market leg down begins. The yield curve in the US is still very simulative with no signs of double dip recession risk. The worst case scenario may be stocks are stuck in a volatile trading range for most of the year before one final big push higher.

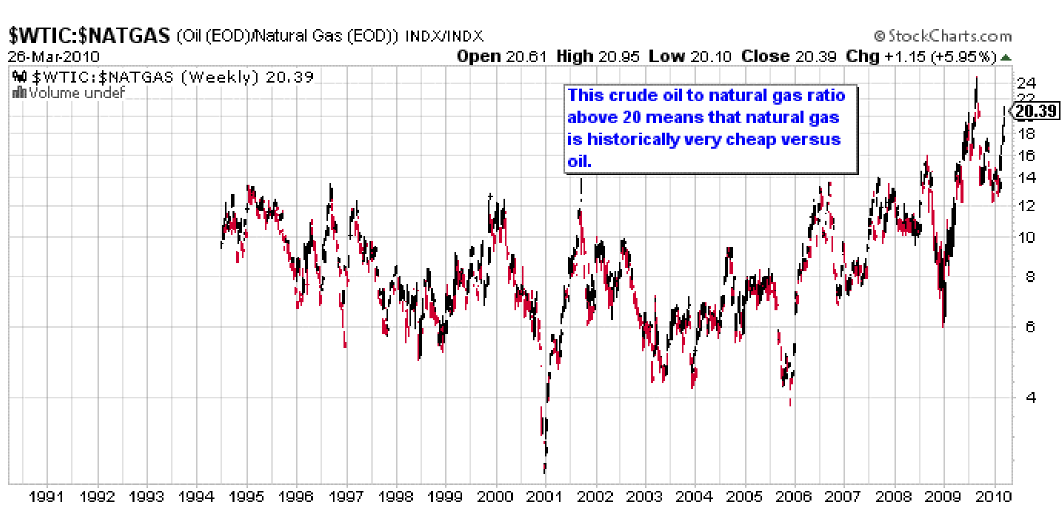
Energy stocks have been struggling lately due to weakness in natural gas prices and strength in the US dollar. Year-to-date, the S&P energy sector is down 2.03% versus a rise in the S&P financial index of 11.23%. In fact, recent strength in financial stocks and a relatively poor showing by energy has opened up a big gap between these two groups in the S&P 500 sector weightings. We feel that financial stock outperformance as a result of government handouts is not a sustainable long-term development. In addition, the same government liquidity that is driving finance and real estate stocks higher will eventually benefit energy prices as the US dollar falls and inflation takes hold. On the flip side, we feel that the long-term fundamentals for the energy industry are outstanding (please see our 11-13-09 report for a detailed analysis of our bullish view on energy prices).

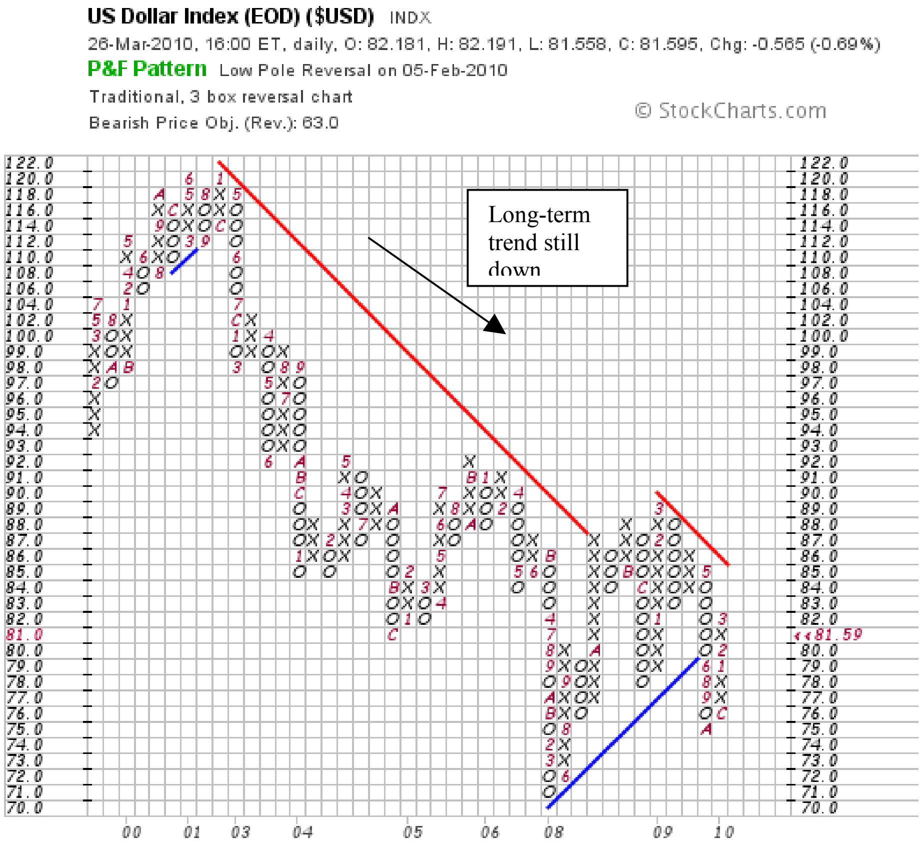
Performance Data
(as of 26-Mar-2010)
Daily Annualized

Index Name	**Adjusted Market Cap ($Million)**	**Percent of Index**	**Return YTD**
S&P 500	10,532,965.15		4.62%
SECTOR			
Energy	1,123,226.95	10.7%	**-2.03%**
Materials	364,999.47	3.5%	1.82%
Industrials	1,103,654.94	10.5%	11.92%
Consumer Disc	1,076,300.89	10.2%	**10.90%**
Consumer Staples	1,187,335.30	11.3%	4.93%
Health Care	1,275,619.22	12.1%	2.27%
Financials	1,748,633.57	16.6%	**11.23%**
Info Tech	1,995,224.19	18.9%	1.79%
Telecom Svc	296,748.09	2.8%	-5.58%
Utilities	361,222.52	3.4%	-5.28%

Source: Standard & Poors

The main factor driving the price performance of the S&P 500 sectors lately has been the US dollar. The greenback is in the midst of a fairly powerful countertrend rally**.** As a result, sectors like financial services and retail that tend to be positively correlated to a strong dollar are outperforming whereas more inversely correlated groups like energy and materials are struggling. Therefore, the strong dollar is causing big outperformance by sectors that have long-term structural problems. We do not feel that this is sustainable. It is perverse that after one of the worst credit busts of all-time, financials are back up to almost 17% of the S&P 500 and the second largest sector behind technology (another bloated legacy bubble sector). Institutional portfolios are very underweight energy stocks, so it is one of the few areas of the US market that has significant room to grow in the years ahead. It is interesting to note that if you strip out mega cap Exxon Mobil from the S&P energy sector, the sector is even less represented at only 7.7% of the entire S&P 500.





The US Dollar Index has been in a column of X's since December. This means demand has been in control. This has caused energy stocks to underperform the financial and consumer sectors. We feel that this is a countertrend situation and not the start of a long-term structural shift.