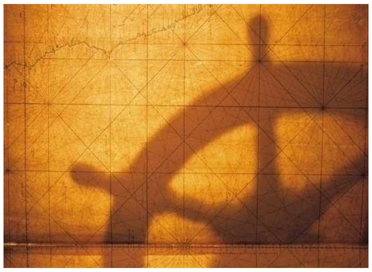
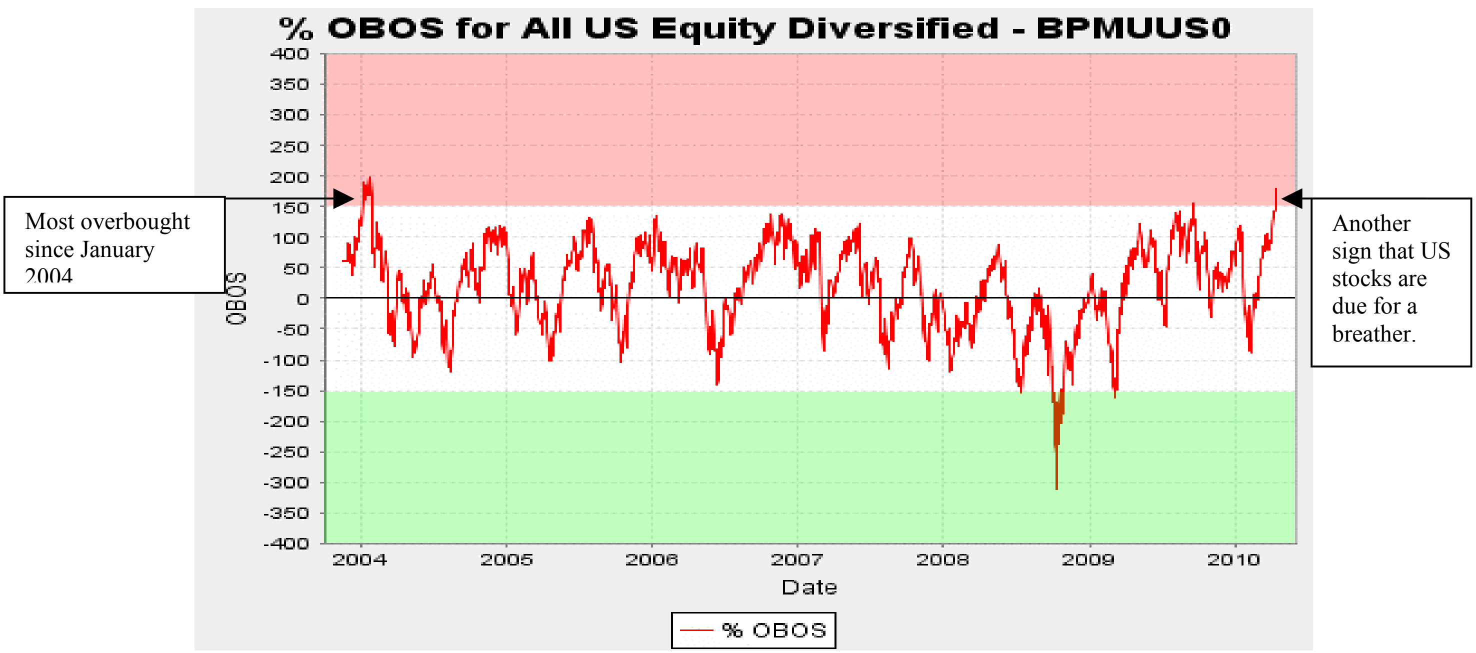


The Starboard Side Report

The week ending April 16, 2010

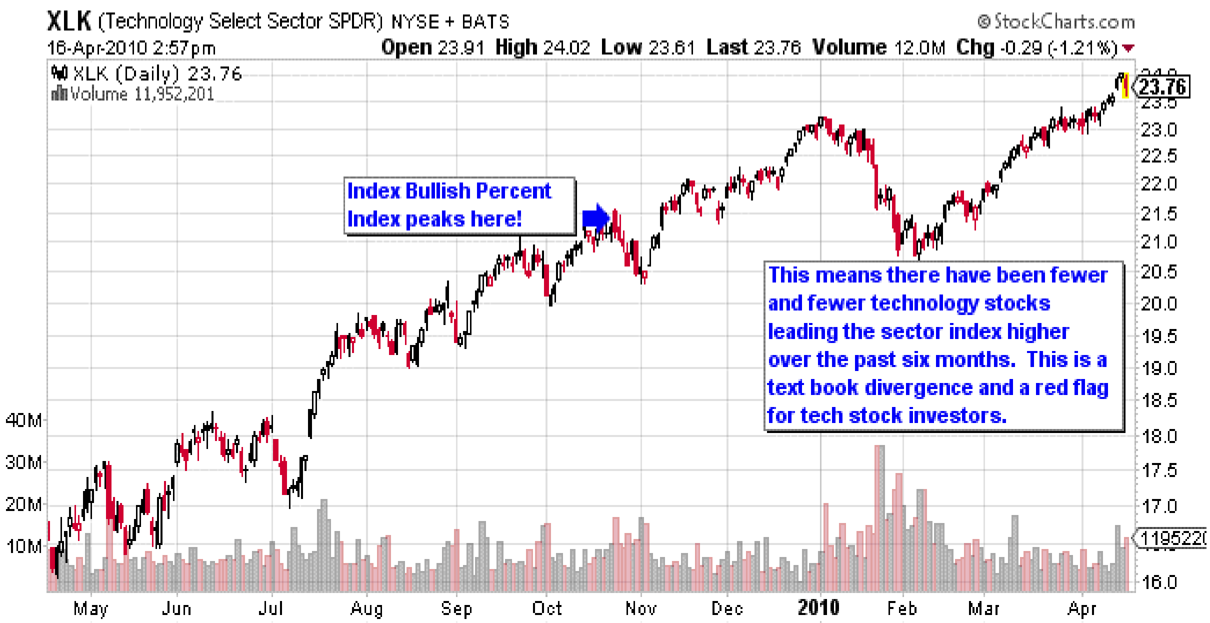
We have been harping for a few weeks now that the market is very overbought at current levels. Whether it is the VIX Index that we discussed last week or the Starboard Composite Risk Index that we included in the 3-26-10 report, all signs point to this leg of the bull market getting very tired and due for a break. This week we wanted to show another visual that also speaks to the fact that a correction may shortly be upon us. Below is a chart of the Overbought-Oversold level for the All US Equity Mutual Fund Universe. As you can see, this is the most overbought the US mutual fund universe has been since January of 2004. Extremely stretched conditions like this are a time to exercise caution and patience. Alleviating this dangerous set-up can be achieved by a time consuming sideways consolidation or a sharp and violent correction. Either case means the odds simply do not favor much more upside in the very near term. Small cap stocks are the most overbought of any asset class, so they may be the most vulnerable in any pullback.

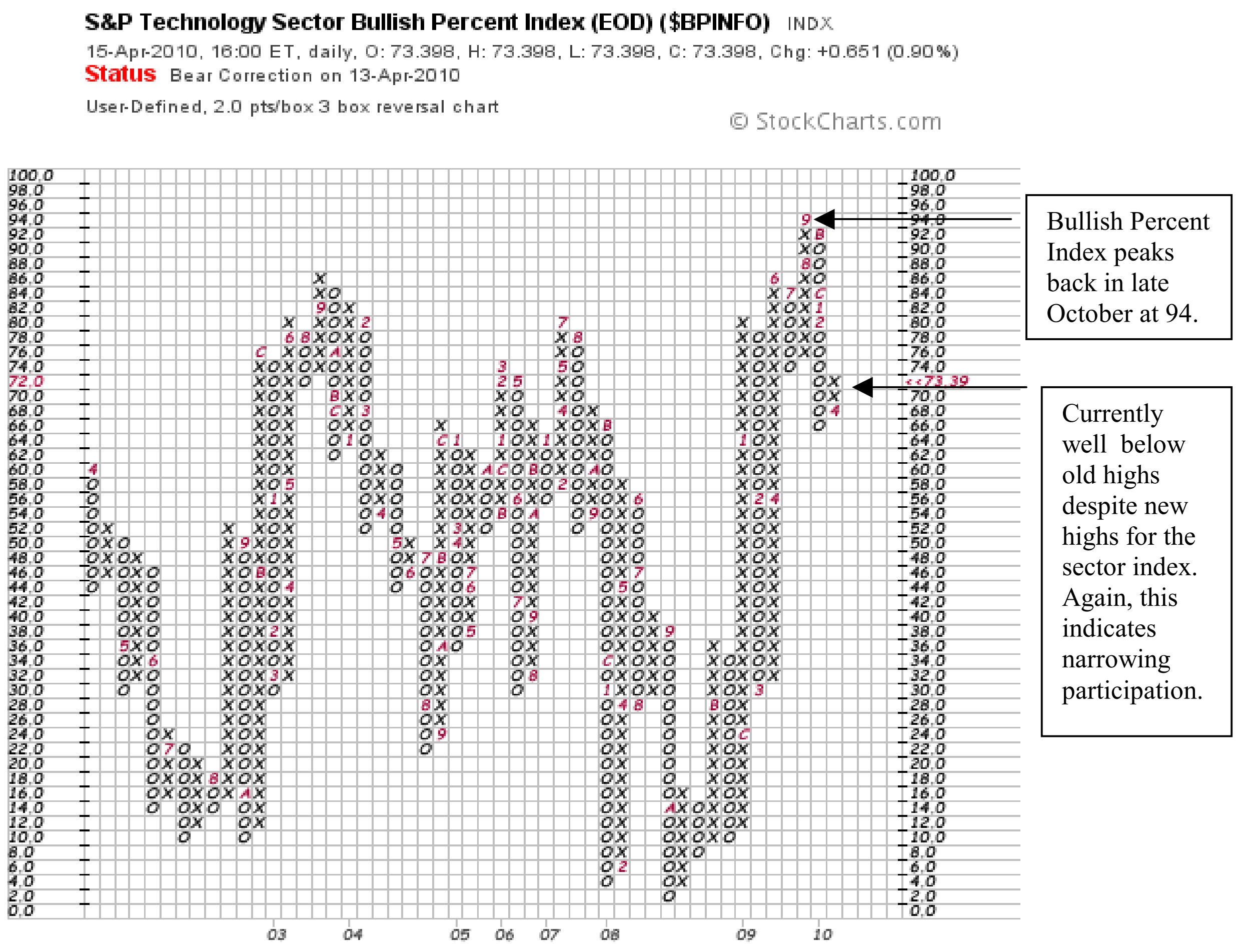


Source: Dorsey Wright & Associates

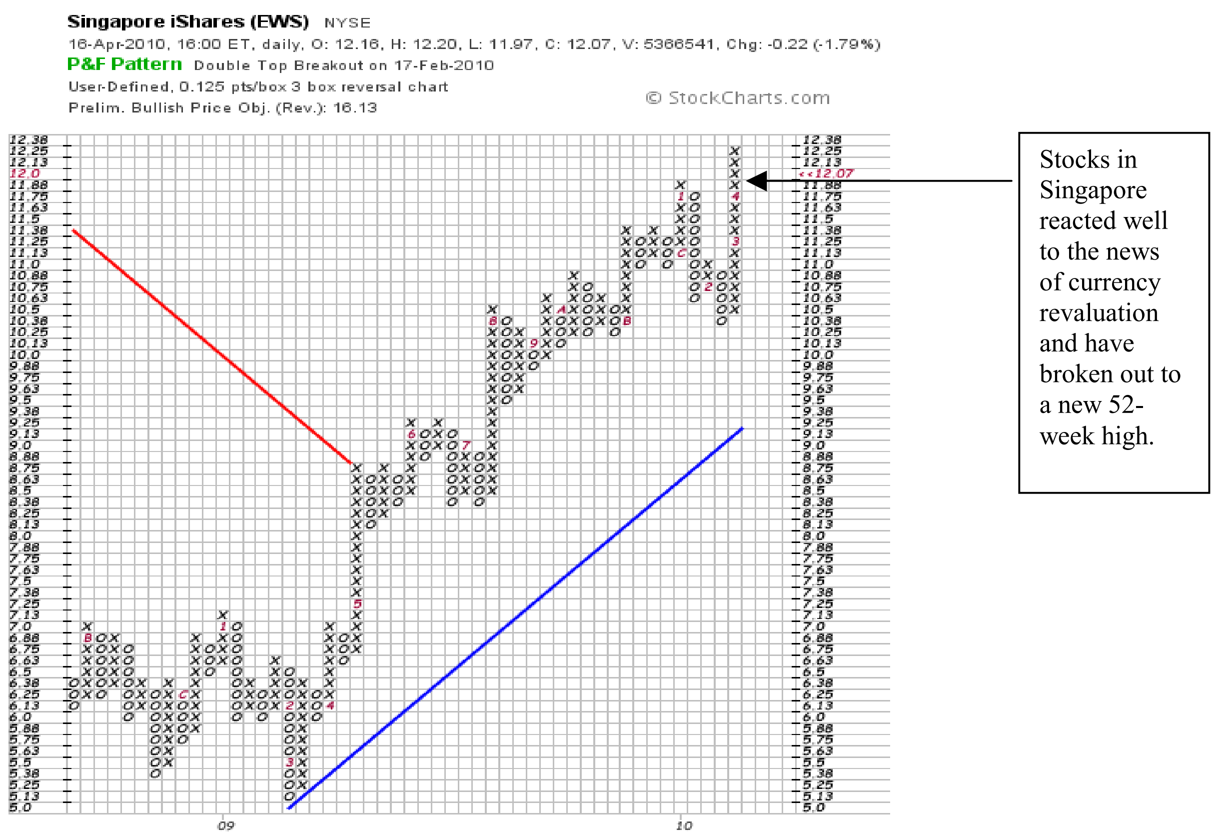
One of the issues that we often talk about in this report are positive and negative divergences. These are when the underlying stocks of a price index indicate something different than the aggregate price of the index itself. This can be used to spot key inflection points in sectors or broad markets. Today we want to focus on a negative divergence occurring in the technology sector. This much loved group is the largest percentage of the S&P 500 at 22% of the Index, so it is an important area to watch. We show a chart of the S&P Technology Index and also the Bullish Percent chart of that Index below. A real life example of that shows how a stock or a few stocks can drive an index at or near market peaks is the fact that Apple Computer now makes up a whopping 17% of the NASDAQ-100 Index! Therefore, it pays to "look under the hood" to see what is actually going on with the rest of the index constituents to get a more accurate read on the health of the market.

S&P Technology Index





We include this above view of the dollar because its strength has been a prime reason why emerging markets have underperformed the US indexes year-to-date. However, we are now seeing signs that this dynamic may be in the process of changing. The big news this week, that kind of flew under the radar, was that Singapore revalued their currency higher due to strong economic growth and coresponding inflationary pressures. Appreciation of extremely undervalued currencies of the Asian Tigers is one of the catalysts that should help this region outperform for US investors in the years ahead.



For years Asian exporters have artificially surpressed their currencies and pegged their monetary policy to that of the US (their largest trading partner). This vendor financing scheme always provided built in demand for US treasuries as export dollars were recycled into the US debt markets. This preemptive move by Singapore is a very big deal in that it signals that the regions faster growing economies are starting to be fueled more by internal and regional demand rather than by demand from US consumers. Therefore, it appears as if the time has finally come for Asian exporting nations to begin to decouple monetary policy away from that of the US. In addition to lessening demand for US treasuries, strengthening Asian currencies will provided them with more purchasing power to buy the commodities needed to fuel their rapid growth. This is further proof to our point last week about how US demand will decreasingly control the price of valuable natural resources going forward.