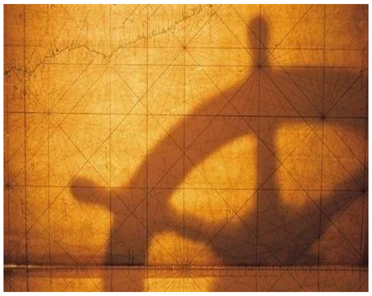
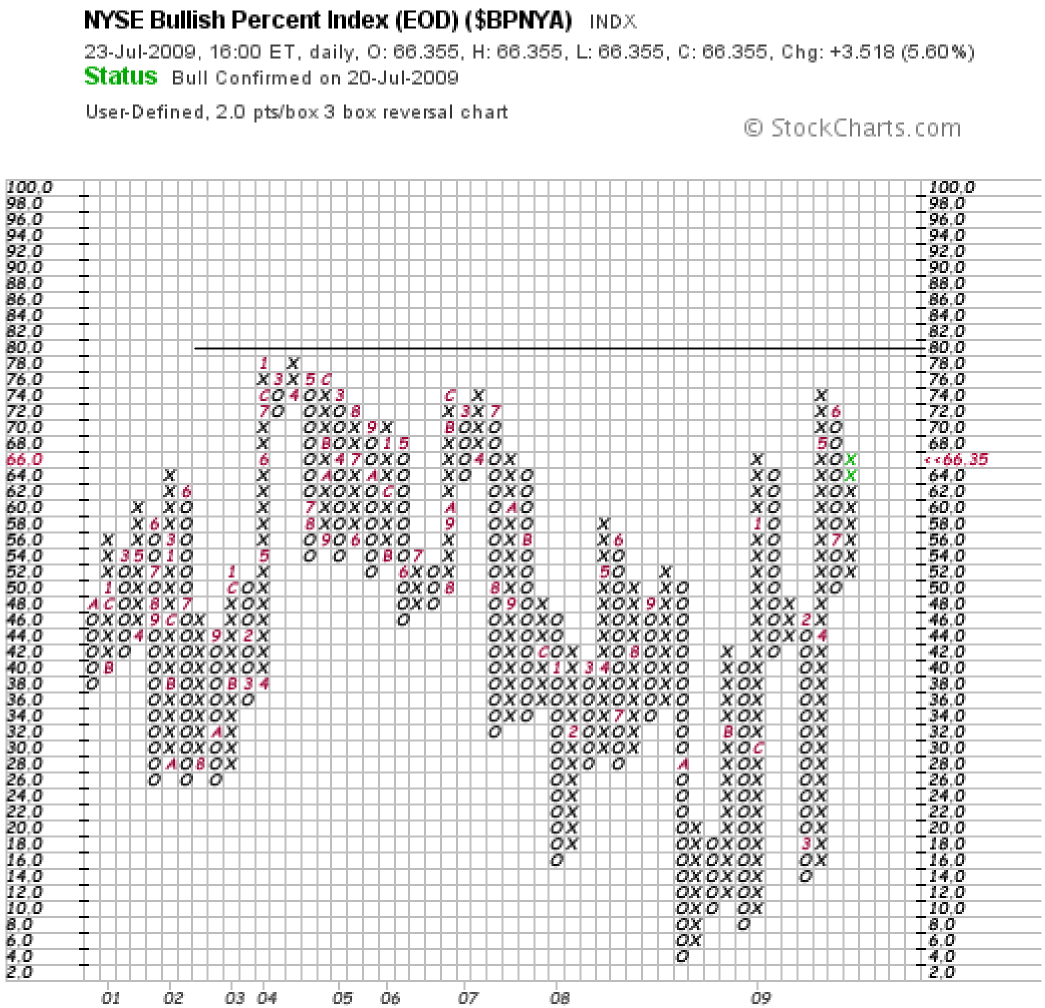


The Starboard Side Report

The week ending July 24, 2009

What a difference two weeks make. The S&P 500 has gained over 10% since our last report on July 10th. This market strength was enough to reverse the majority of supply/demand indicators that we track such as the NYSE Bullish Percent Index seen below. This indicator spent exactly one month in O's (meaning sellers had control of the market for this period).

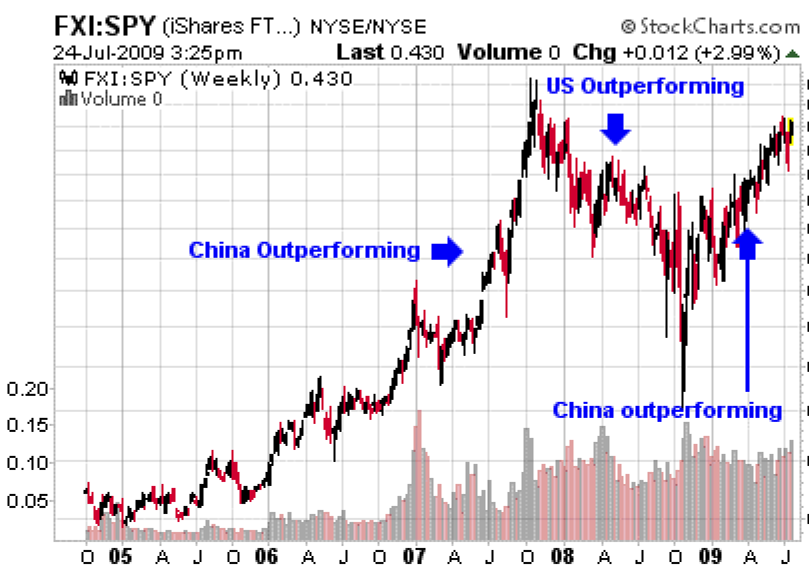


We believe the reversal back into X's on July 20th will officially mark the end of the summer correction. The only fly in the ointment is that we are already back close to the high risk 70% level. As you can see by the chart, it's rare for market surges to move this risk index beyond 80%. In fact, it has only been above 80% eight times since records began in 1955. That being said, we are not too concerned yet and will let this rally play out to the upside. It seems plausible that the S&P 500 still has another 200 points to go before it runs into serious resistance. Therefore, we will wait before aggressively starting to lock in gains from this bull cycle. There are still huge sums of investor cash sitting on the sidelines in money market funds earning zero interest. Market psychology has a funny way of causing cash raised during panics to eventually chase post-crash rallies due to the fear of missing out.

Opportunities in international equities continue to look attractive versus other asset classes. Specifically, the emerging market space continues to exhibit positive relative strength versus the developed countries. As a result, we will continue to focus our international exposure in the emerging market countries (predominately in Asia and Latin America). Below is a chart of the relative strength of the Hong Kong market versus the S&P 500. After ten plus years of outperformance over US stocks, Hong Kong stocks are finally back to the level they were before the Asian financial crisis began in 1997. This level acted as a level of resistance in 2007, but we feel this ceiling may be decisively cracked in the months ahead.

Since November 2008, Asian stock relative strength has reasserted the dominance that began in 1998.

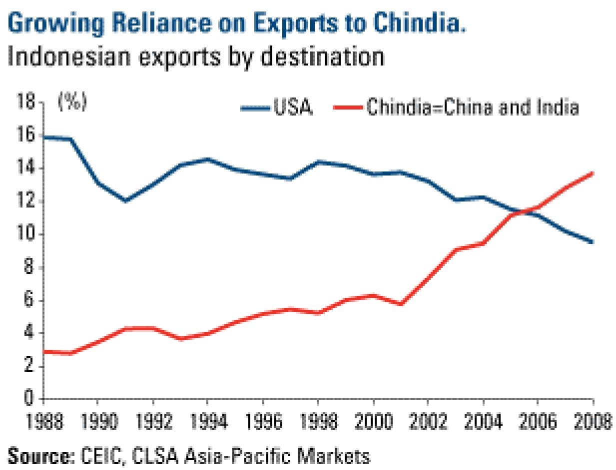
Relative strength of iShares FTSE/Xinhua China Index Fund Versus S&P 500



This relative strength chart shows that Chinese stocks have doubled the performance of the S&P 500 since November 2008. Until we see this trend reverse, we expect momentum to remain with emerging Asia.

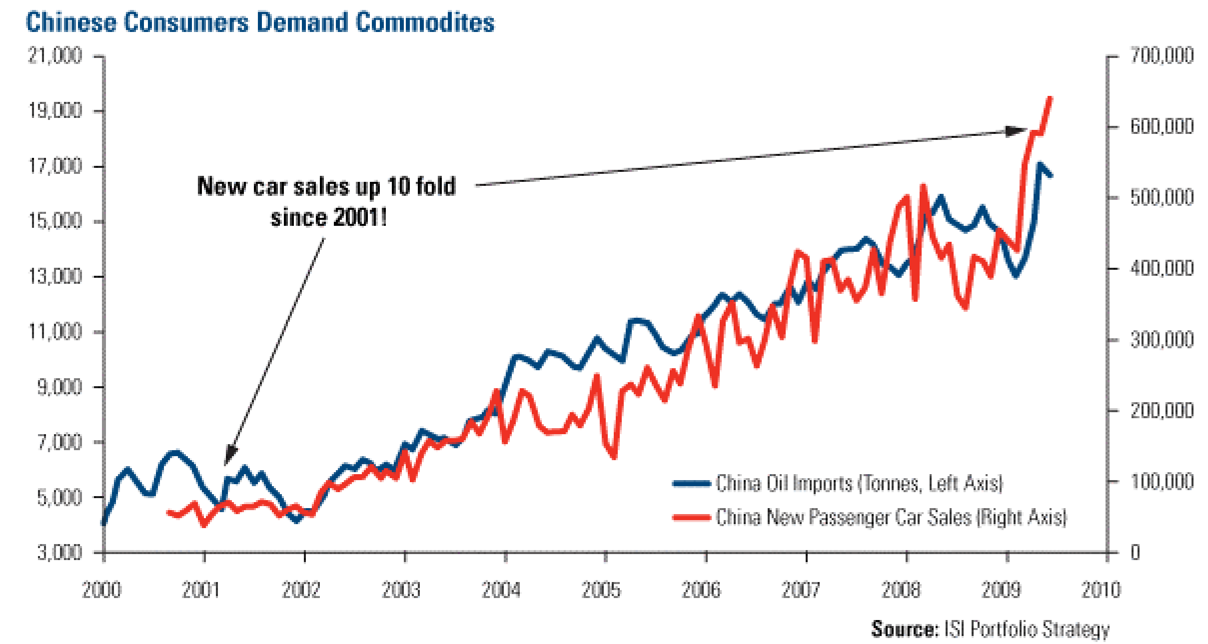
While we focus a great deal on technical analysis in this report, we do not discount the importance of fundamental analysis. As such, there are fundamental signs that China is succeeding in lifting the world out of recession. Below are some supporting charts to this point.

There are many who believe that emerging Asian economies can not recover without continued demand from US consumers. Below is a chart that calls this argument into question. Indonesian exports to China and India began to exceeded those to the US back in 2006. We take this as evidence that a structural shift away from the US is already underway in Asia.

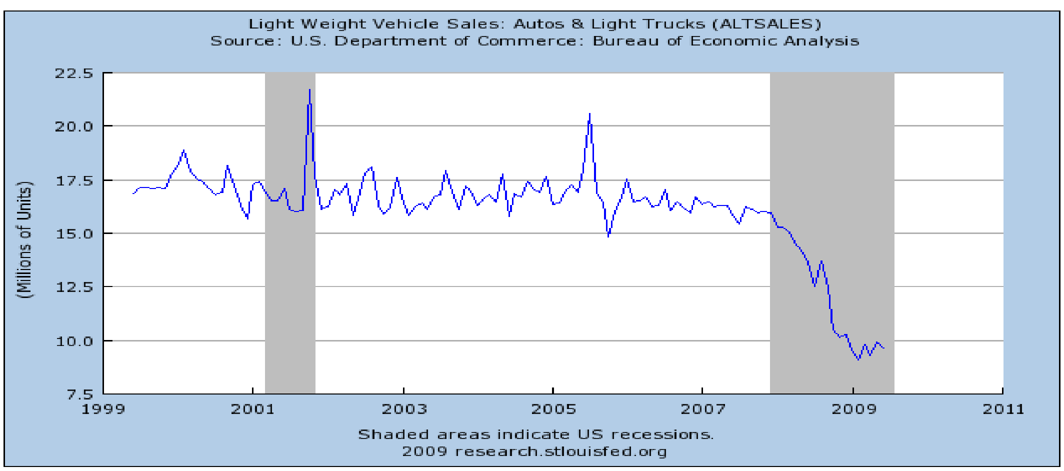


Congress is apparently upset that US banks are not lending enough. Unfortunately, what they fail to realize is that the large commercial banks in the US can't lend more because their balance sheets are still in a state of complete disarray. One of the reasons we liked Asia coming out of this crisis was that their banks were in a much better position to lend and stimulate economic growth. The chart below illustrates that point quite clearly. The yellow line shows an amazing 35% year-over-year loan growth in China. The Chinese stimulus package is certainly getting some bang for its buck. For comparison sake, total US loan growth at all commercial banks is up only 3.4% over the past year despite trillions in stimulus money being thrown at our banking system.

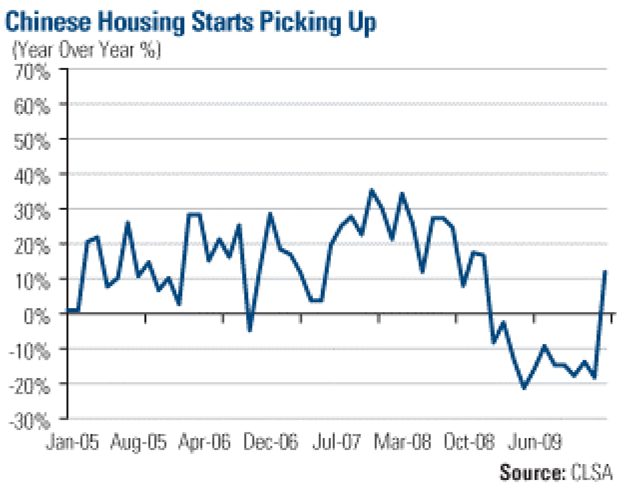
While the US consumer drastically cuts back spending, Chinese loan growth is starting to show up in their consumer purchase figures for homes and cars. The red line below is the monthly unit sales of new passenger cars in China.



You can barely tell from this chart that there was an economic slowdown, let alone the greatest global recession of our lifetime. Based on numbers from the first half of 2009 (if we include light trucks), China has overtaken the US as the largest car market in the world. Over the past year, Chinese auto sales have grown 36% versus a 30% decline in the US! Below is a graph of US vehicle unit sales over the past ten years. As you can see, the impact of the recession and the lack of access to credit is quite evident.



"Fiscal policy and monetary stimulus have been introduced around the world, and we are seeing signs, particularly in China, that they are beginning to work." This is a quote from Jim Owens, chief executive officer of Caterpillar Inc. on CAT's earnings conference call this past week. US companies with leverage to Chinese growth are starting to feel the impact of this massive stimulus. Below is a graph that illustrates housing starts in China have already turned positive with 10% growth year-over-year. Even though US housing starts appear to have bottomed as well, they are still down an astonishing 46% over the past year.



Caterpillar, the big tractor maker, was up 23% this week after better that expected earnings. This reversed the chart and penetrated the chart's bear market downtrend line.

When you put it all together, we have both a technical and fundamental reason behind the recent move in global equity prices (especially emerging markets). Even though a sustainable recovery in the US is questionable, there are clearly parts of the globe that are coming out of the funk much faster and in better position to capitalize on the enormous amount of money that was thrown at the system to prevent meltdown. The markets are telling us that emerging countries in Asia and Latin American are going to be the prime beneficiaries as well as those companies able to tap into this growth.