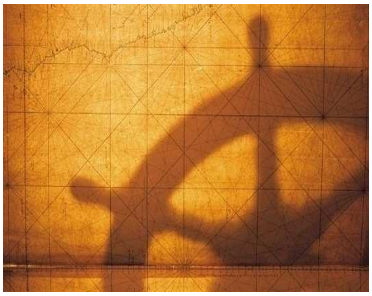
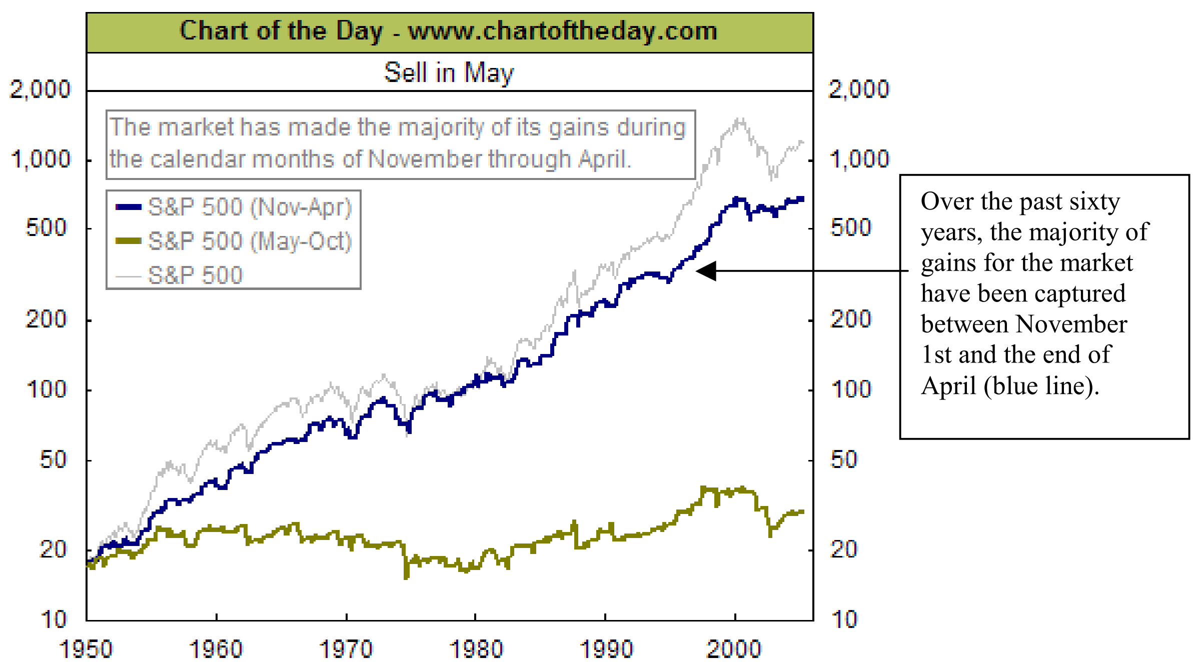


The Starboard Side Report

The week ending October 30, 2009

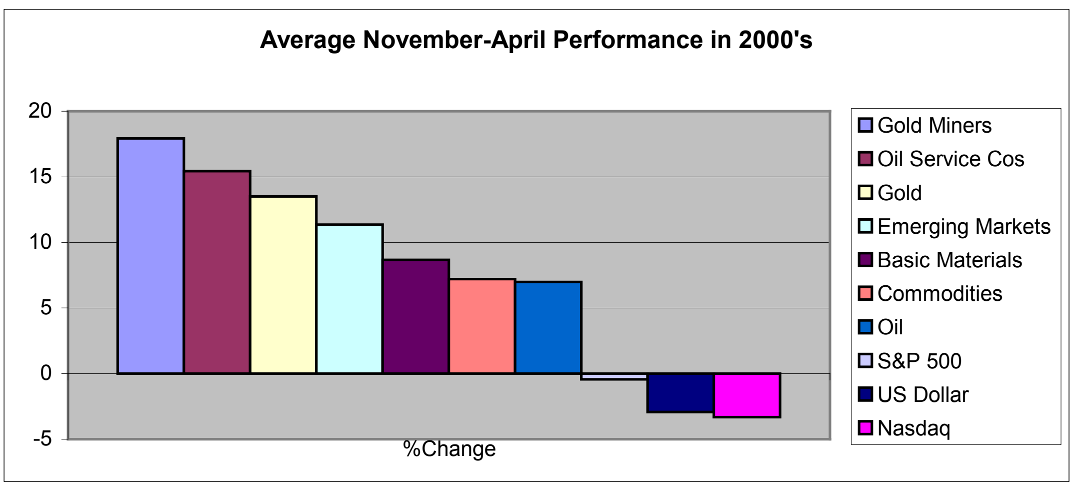
Stocks were pummeled this week as the worst of the September-October seasonal weakness arrived a little later than normal this year   However, despite many ups and downs over the past two months, it appears that the market is going to close this sixty-one day stretch with a small 1.5% gain. All things considered that isn't so bad...last year the S&P 500 lost 24.5% over this historically treacherous period! The bad news is that recent weakness was enough to reverse the majority of the bullish percent indexes that we track. This indicates to us that the first few weeks of November have *the potential* to be rather ugly. Sellers have clearly regained control of the market for the first time since June/July. They say that the sharpest corrections happen in the context of a bull market and this one appears to be pretty severe. Yet, once we get through this little storm, we believe that there is enough buying power left for one move higher before this bear market rally officially calls it quits. Aside from the stimulus still left in the pipeline, zero percent interest rates and lots of money market cash on the sidelines, seasonality will increasingly start to play in our favor. Below are several charts that speak to this favorable period ahead for stocks

"Sell in May and Go Away" is a very well known Wall Street saying. The theory is that selling stocks on May 1st and buying them back again on November 1st is a reliable strategy. As simplistic as it sounds, the facts most certainly bear it out. Below is a chart that graphs the S&P 500 (gray line) and then breaks down the performance between the two six month periods in question (blue and green lines). As you can clearly see the majority of the gains occur in the November through April time frame.



This page's exhibits are a more recent look at the sectors we are most positive on. We have also included the US dollar, the S&P 500 and the Nasdaq for comparison purposes. This first exhibit is a breakdown of the nine November through April periods this decade. Notice how gold has not had one negative return during these favorable six months, while the basic material, oil service and commodities have only a slight negative return once. This is pretty impressive considering we are just about to finish the worst decade in the history of the S&P 500 in terms of annualized total return (see third exhibit picture below).

Timeframe	Emerging Markets	Basic Materials	S&P 500	Nasdaq	Gold Miners	Gold	Commodities	US Dollar	Oil	Oil Svc
Nov 00-Apr 01	-7.35	14.58	-12.59	-37.19	28.53	15.05	-2.18	-0.63	-12.91	13.34
Nov 01-Apr 02	33.55	13.76	1.62	0.12	52.38	12.82	8.35	0.37	28.85	32.03
Nov 02-Apr 03	6.62	5.56	3.52	10.12	3.54	5.55	1.58	-8.81	-5.22	3.73
Nov 03-Apr 04	6.66	4.22	5.38	-0.62	-14.88	1.29	10.08	-2.43	28.41	21.84
Nov 04-Apr 05	12.89	1.71	2.36	-2.7	-19.81	0.84	7.06	0.62	-3.83	8.77
Nov 05-Apr 06	32.64	22.88	8.58	9.54	64.19	40.65	16.18	-4.55	20.26	32.55
Nov 06-Apr 07	16.64	16.02	7.58	6.69	4.21	11.96	5.11	-4.55	11.87	20.43
Nov 07-Apr 08	-12.28	1.55	-10.57	-15.61	-13.83	10.07	18.04	-5.18	20.03	8.02
Nov 08-Apr 09	12.74	-2.27	-9.9	-0.21	57.09	23.29	0.54	-1.16	-24.61	-1.84
Average	**11.35**	**8.67**	**-0.45**	**-3.32**	**17.94**	**13.50**	**7.20**	**-2.92**	**6.98**	**15.43**



Annualized Return of the S&P 500 Total Return Index

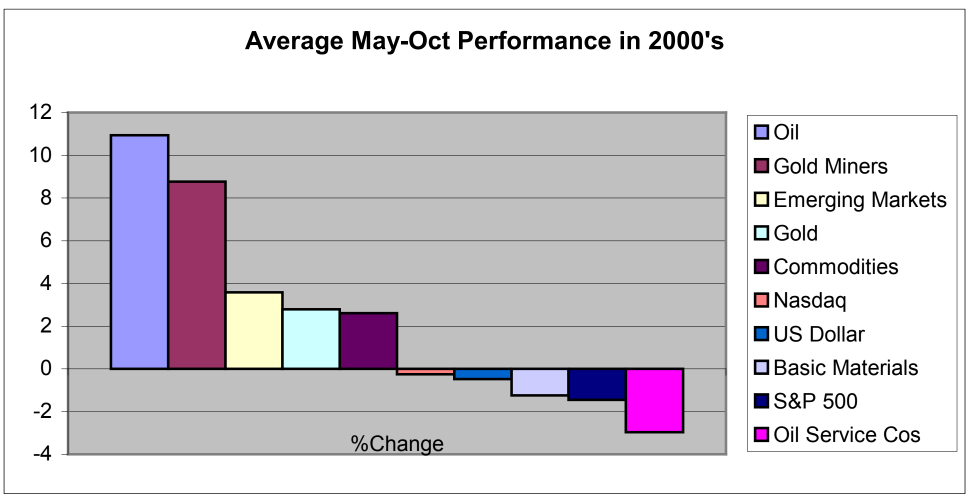
Period	**Return**
1920's	14.77%
1930's	-0.47%
1940's	8.99%
1950's	19.25%
1960's	7.75%
1970's	5.87%
1980's	17.55%
1990's	18.19%
2000's	-1.45%

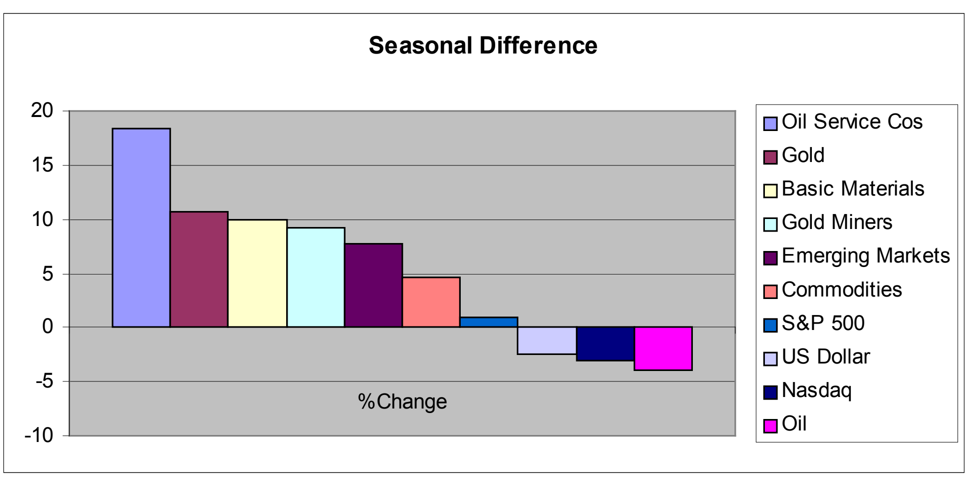
Annualized total return of the S&P 500 this decade is on pace to be worse than in the 1930's!

Source: Global Financial Data via Systematic Relative Strength

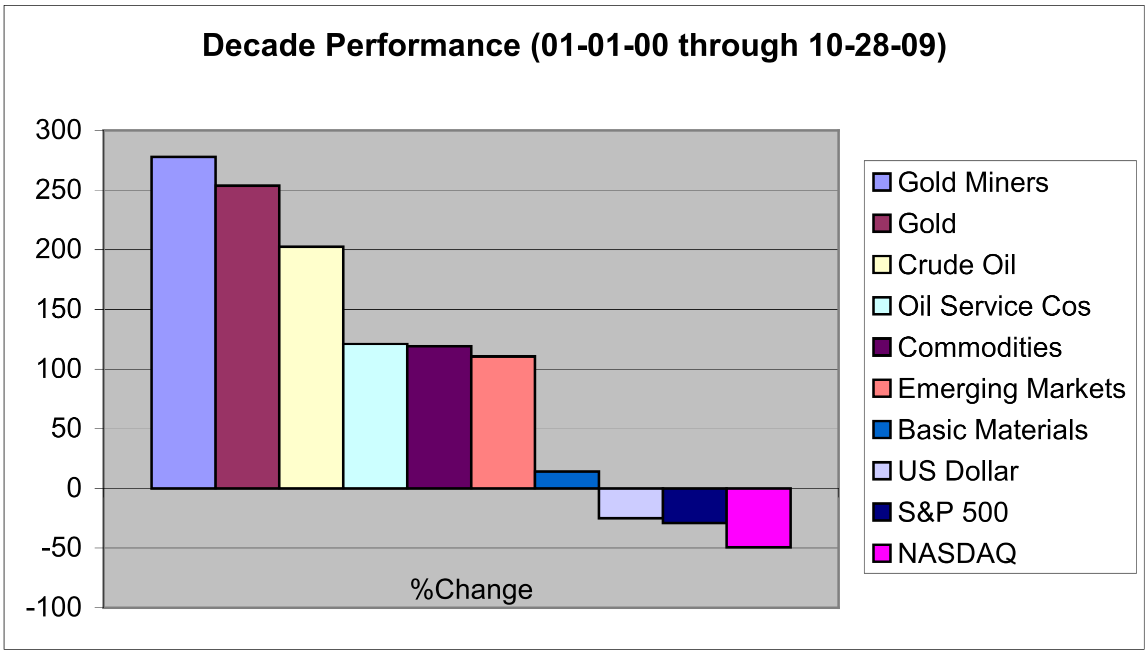
The next two exhibits are the same as above only they are broken down for the May through October period. As you can see there is a lot more red across the board. In addition, the highlighted yellow line shows the difference between the seasonally weak and strong periods. Only the Nasdaq, Oil and the US dollar performed better in the weaker May-Oct period. The oil service sector has the most dramatic difference with an 18.4% outperformance between November and May. Perhaps the divergence between oil and the oil service group is the result of increased oil prices from the May through October period leading to more capital spending from oil producers in the subsequent months.

Timeframe	Emerging Markets	Basic Materials	S&P 500	Nasdaq	Gold Miners	Gold	Commodities	US Dollar	Oil	Oil Service
May-Oct 00	-20.2	-8.56	-1.59	-12.72	-20.64	-3.01	3.91	5.91	26.96	-0.155
May-Oct 01	-17.59	-11.21	-15.18	-20.14	14.51	-1.27	-13.45	-0.94	-25.58	-38.77
May-Oct 02	-18.96	-18.43	-17.75	-21.23	-4.01	-2.8	13.79	-7.51	-0.25	-22.93
May-Oct 03	41.1	17.74	14.59	31.95	56.71	12.33	6.47	-4.59	12.83	0.66
May-Oct 04	12.07	9.65	2.07	2.86	26.78	9.99	4.09	-6.16	38.34	13.98
May-Oct 05	19.09	1.7	4.34	10.34	23.84	5.11	7.55	6.77	20.19	30.12
May-Oct 06	-1.75	-2.77	5.14	1.9	-12.8	-7.34	1.16	-0.77	-18.28	-13.11
May-Oct 07	38.36	18.66	4.52	13.23	27.92	17.25	12.58	-6.02	43.86	25.71
May-Oct 08	-47.98	-46.98	-30.08	-28.67	-51.95	-17.89	-31.08	18.21	-40.23	-51.45
May-Oct 09	31.64	27.79	19.46	19.93	27.23	15.48	21.04	-9.75	51.53	26.24
Avg	**3.58**	**-1.24**	**-1.45**	**-0.26**	**8.76**	**2.79**	**2.61**	**-0.49**	**10.94**	**-2.97**
Seasonal Difference	7.77	9.91	1.00	-3.06	9.18	10.72	4.59	-2.44	-3.95	18.40





The final chart is a look at the aggregate decade-to-date returns in the groups we have featured above. This gives a total big picture at what has transpired since the new millennium began in 2000. As mentioned in the blue annualized return table at the bottom of page two, it looks like the S&P 500 is about to have its worst decade ever from a total return perspective. However, there have certainly been areas that have performed well. The key to long-term relative strength analysis is being able to see these big picture trends and investing accordingly. Right now, both our fundamental and technical analysis continue to point to money flowing into basic materials, emerging markets and energy. We would not be surprised to see the next ten years look similar to the last ten in terms of relative performance. Although when the relative strength shifts away from these areas, we will do our best to shift with it.



Symbol	%Change
Gold Miners	277.87
Gold	253.56
Crude Oil	202.58
Oil Service	121.15
Commodities	119.24
Emerging Markets	110.60
Basic Materials	14.15
US Dollar	-24.85
S&P 500	-29.04
NASDAQ	-49.39