STARBOARD ASSET MANAGEMENT

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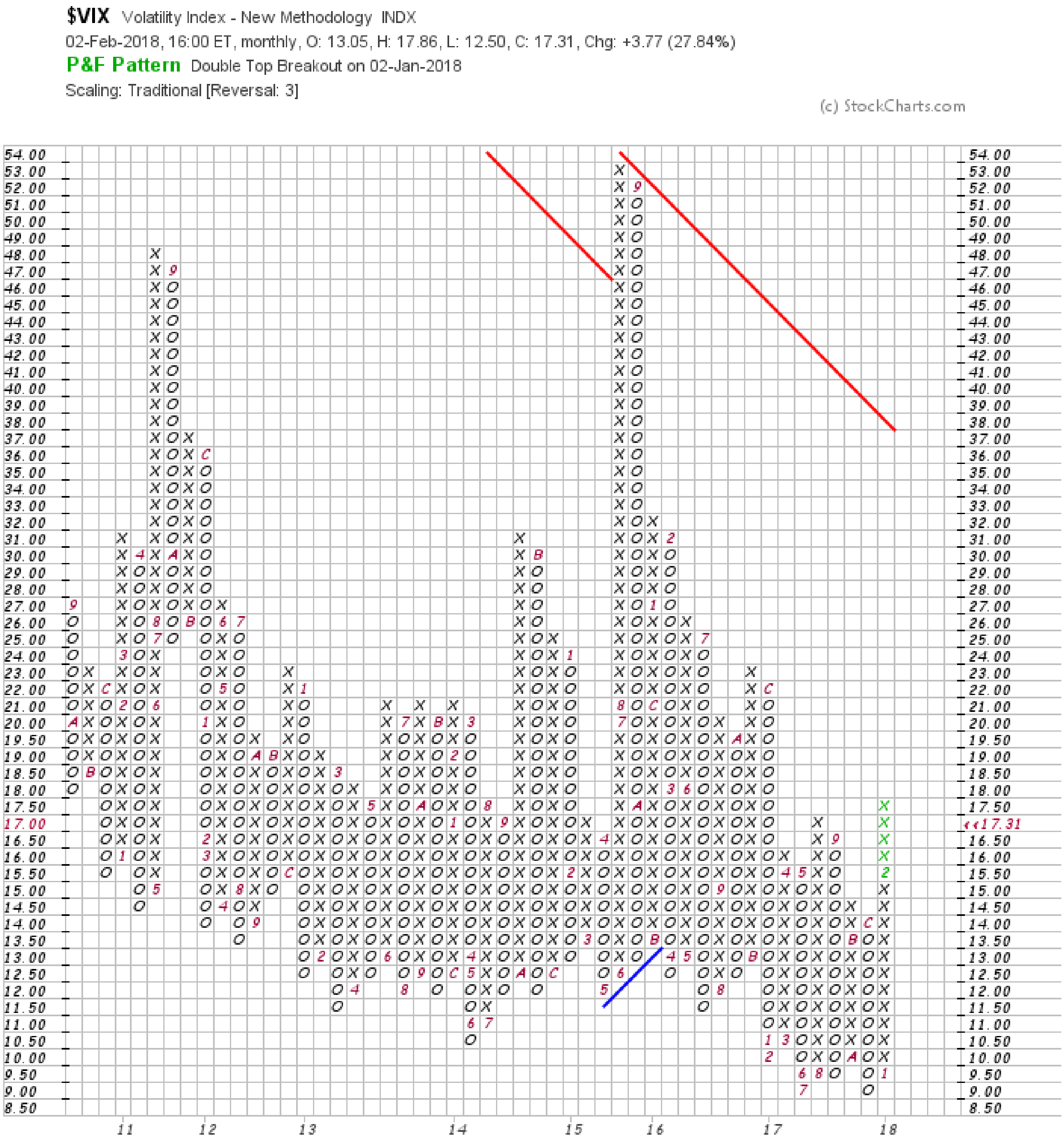
Starboard Weekly Report Ending February 2, 2018
Chart of the Week



This week's Point and Figure chart is the relative strength of the S&P Volatility Index (VIX) to the price of the S&P index (SPX).

TECHNICAL

It is ironic that this chart had to be seriously compressed to fit on one page. The irony is that the VIX, which represents market volatility, is also severely compacted verses the S&P price. It is like a coiled spring ready to leap into the air. While the market is crashing today, the VIX is up 28.43%. Today the SPX is 2766 after making a recent high of 2872. In August when the VIX last rallied, the SPX was 2437. While the S&P rallied 15.1% from late August, the VIX was continually compressed and it is now ready to breakout. We need to exceed the comparative level of 69 on this chart for volatility vs price to actually have a longer term breakout to occur,. The price chart for the VIX (attached to your email) is at 16.66 and has traded today at 17.50 to indicate a volatility breakout. Should today's VIX vs S&P relative strength activity continue to breakout above the August high of 69, then I will be able to say with a great deal of confidence that the bull market from 2009 has indeed ended.

FUNDAMENTAL

The compression of volatility is the reason for today's market reversal. You will not read or hear that from the media pundits because they would rather chatter about interest rates, the dollar and inflation. These are all contributing factors, but the compression of volatility has been excessive in this Trump rally and thus it has been the most instrumental bearish issue. As the market advanced there were many managers selling volatility on futures markets to enhance return. That makes them short volatility which must be bought back and this is the primary cause of today's spike in the VIX. Volatility is essentially put vs call activity in the options market. During the crazy Trump rally, the majority of market participants did not think that they had to protect risk with puts and therefore they do not buy them and this is a cause of lower demand for the VIX. As a healthy amount of fear returns to markets, we can then expect further move in volatility. However, if today's serious 665 point decline is simply a pullback instead of the beginning of something larger; the VIX will remain compressed until the actual end of the rally occurs. Today's historic decline is likely to get the FED jawboning about interest rates. This time around it may not work because serious inflationary economic growth appears to be on the horizon.

ASIDE

"Courage is resistance to fear, mastery of fear, not absence of fear." Mark Twain

It does take courage to be fearful when all around you are greedy.