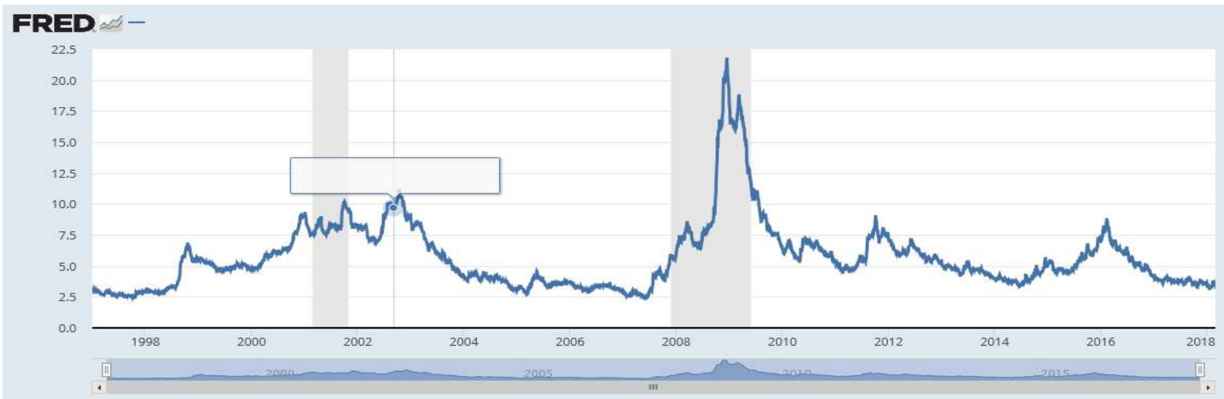
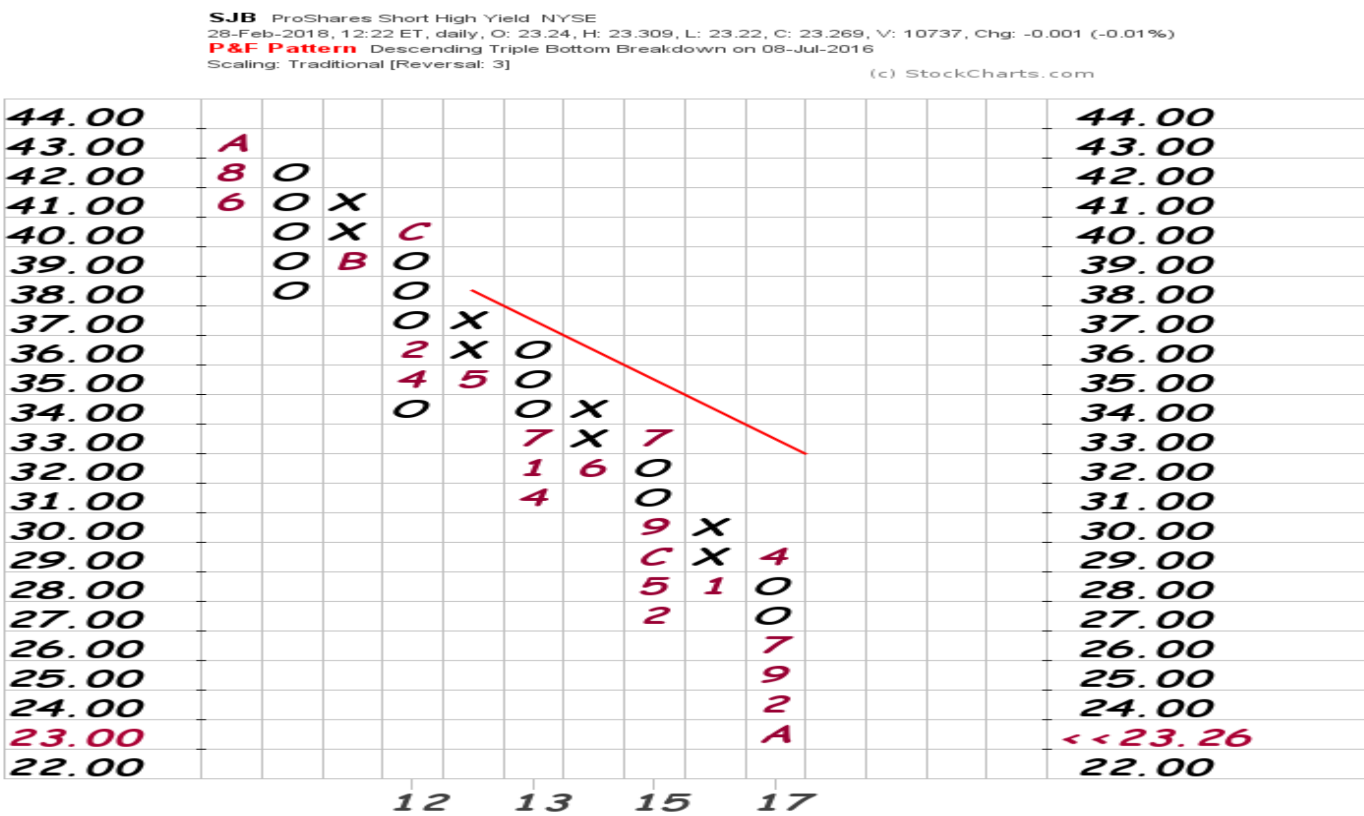
Starboard Weekly Report Ending March 2, 2018
Charts of the Week





The top chart represents the long-term spread between US Government Bonds and High Yield Bonds. This chart was copied from FRED, the Federal Reserve website. The bottom Point and Figure chart from StockCharts.com is a five year depiction of the Inverse High Yield ETF (symbol SJB).

TECHNICAL
As the comparative spread narrows, risk rises and the yield return for high yield bonds declines. The spread is currently 3.47% compared to previous spread lows in 1998 and 2007 of 2.5%. What this means is that historic spread profit potential for high yield is less than 1% versus a recessionary spread of 22% (2008 high) or a 10% spread risk from 2003. Twice in the past 10 years yields spiked to the 9 to 10 % area. While looking at this 5 year Point and Figure Chart we can see that the last time this spread spiked in 2016, SBJ Inverse traded at 30 or 29% higher than current prices. This is an opportunity that I will be monitoring rather than buying because high yield did not react to the past stock market sell off which is an indication that the spread could tighten to the 2.50% lows. This means risk is trumpy fear, but when that changes SJB Inverse will rally.

FUNDAMENTAL
High Yield spreads are an excellent risk barometer and at present both the stock and markets are crying bring on the risk. As that temperament wanes then the SJB Inverse will offer a huge opportunity. Recessions are the killer for high yield bonds because when the economy declines many issuers are highly leveraged and hence prone to bankruptcy. Most market pundits are not looking for a US or world recession; to the contrary they believe the tax reduction will cause a boom. Historically since WW II we have had a recession every 4.75 years while the current recovery is approaching 10 years. The major cause of these economic contractions is inflation. That is why the recent market reacted so violently when economic indicators showed increases in inflation. The irony of today's economy is that it is thriving on asset inflation due to the stock market wealth effect. Therefore, when that changes and stocks decline, a recession will surprise those market pundits.

ASIDE
"*Hindsight bias makes surprises vanish*." Daniel Kahneman, American Israeli Psychologist and Nobel Laureate

Charts assist in developing hindsight bias; and observing charts such as the FED long term high yield spread chart above helps to eliminate surprises.