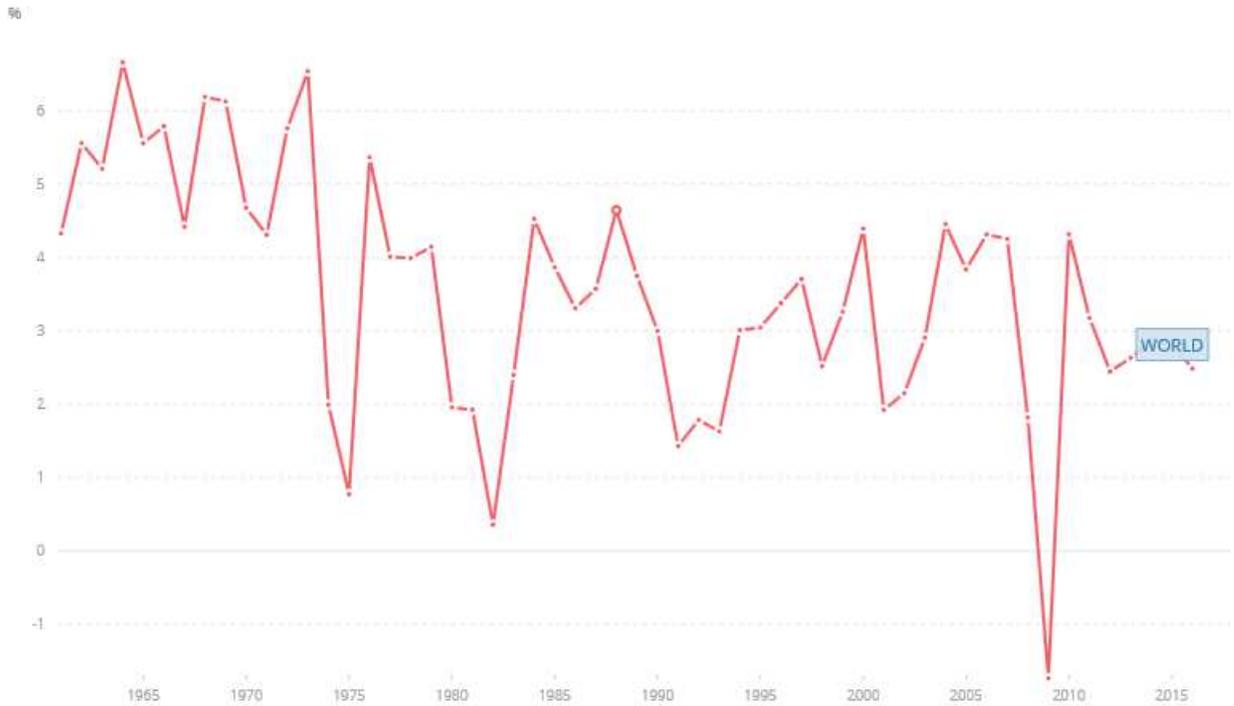
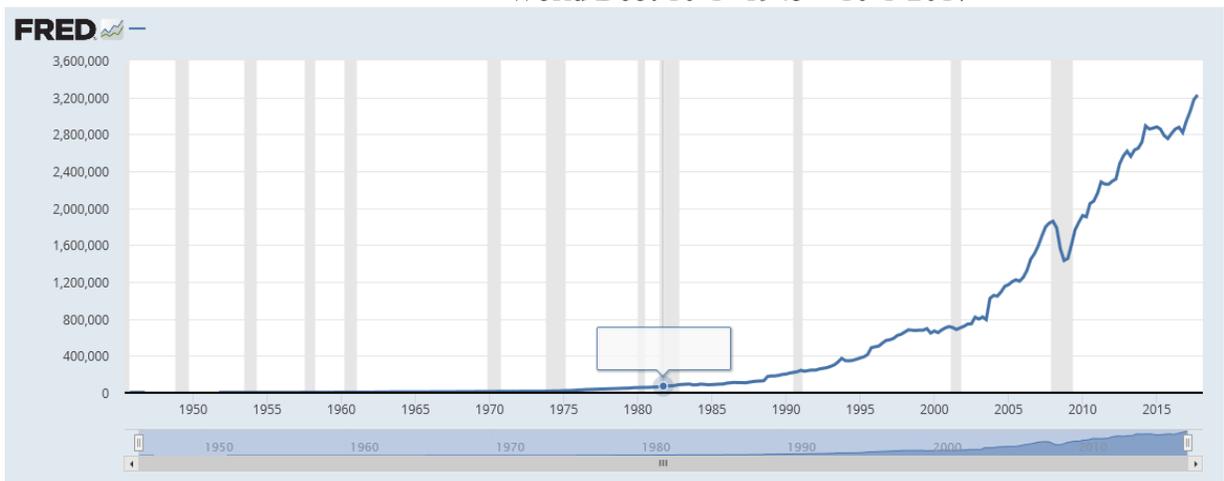


Starboard Weekly Report Ending April 27, 2018 Charts of the Week

WORLD GDP GROWTH 1965 - 2016



World Debt 10-1- 1945 – 10-1-2017



This week we are looking long term at World GDP Growth versus World Debt Growth. The top chart is from the internet while the bottom chart is from ST. Louis Federal Reserve Bank (FRED).

TECHNICAL

The major takeaway from these charts is how debt has continued to accelerate since 2012 and world GDP has declined. Instead of stimulating growth through debt increase, they now are having a deflationary effect on world GDP. And another observation is that debt is growing much faster than world growth. If your personal balance sheet looked like this you would be bankrupt. US Central Bank is raising rates and you have to wonder what is going to happen to this mountain of debt when other Central Banks increase their rates? An attachment to your email has a chart of the US market cap to GDP. Please note the recent decline on this chart compared to the last two recessionary bear markets in 2000 and 2008.

FUNDAMENTAL

The only conclusion from this conundrum is that debt interest payments are robbing growth of GDP. That is what happens when debt is 350% of GDP. The Central Banks and Governments throughout the world continue to issue debt despite the inability of interest and principal to be paid by borrowers. Where has all the debt money gone if not to grow GDP? The answer is that much of it has gone to the US stock market where the total market capitalization to GDP is at historic highs. As mentioned above, this chart of market cap to GDP is attached to your email. When we compare debt to GDP versus stock market equity to GDP, the conclusion has to be that much of the money borrowed is going into stocks. The Bank of Switzerland had been buying tech stocks with QE money created out of thin air. Artemis Capital Management has stated that 70% of earnings increases have come from corporations buying back their own stock. How much of that is with debt? We won't know until congressional investigations sometime after the market crash.

ASIDE

"A national debt, if it is not excessive, will be to us a national blessing". Alexander Hamilton

From Mr. Hamilton's quote we do not know what is excessive, but we are about to find out. It certainly has been a blessing to politicians, bankers and the corporate elite who for decades have been wallowing in capital excess from debt at the expense of society in general.

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