

## Starboard Weekly Report Ending June 22, 2018 Charts of the Week



**ITB** iShares U.S. Home Construction ETF NYSE  
 21-Jun-2018, 10:59 ET, daily, O: 38.94, H: 39.09, L: 38.61, C: 38.82, V: 401528, Chg: -0.16 (-0.41%)  
**P&F Pattern** Bear Trap on 08-Jun-2018  
 Scaling: Traditional [Reversal: 3]

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This week's two ETF charts show the US Home Construction (ITB) depicting the collapsing state of the homebuilding industry. The top charts are a relative strength comparison with the S&P while the bottom is a Point and Figure price chart for ITB.

## **TECHNICAL**

The major takeaway from the top chart is the crossover of the 50 day versus the 200 day that took place in early April (red circle, middle of chart). The other red circles on the right of the supporting charts confirm the weak position of home building. The point and figure pattern is labeled bear trap which suggest a reversal if ITB can trade above 42. However, the top chart is suggesting that a breakdown below the previous low of 36 is a more likely scenario. These charting conflicts depicted here are very similar to the overall market where the long term is flashing serious downside but the short term is striving to recover. With rising interest rates it is hard to believe that this very important economic sector could develop enough buying strength to reverse up from its current 11% down on the year position. Nonetheless, should it reverse it would mean further market upside.

## **FUNDAMENTAL**

This ETF not only reflects homebuilders but also includes retailers that supply the paraphernalia that goes into houses. It is 76% consumer cyclical in its portfolio makeup. How this ETF trades will go a long way in determining whether the entire market has any further upside. Housing is very sensitive to interest rates rising, especially in an economy where the average American consumer spends 26% of annual income on credit card consumer debt. Total consumer debt is expected to rise to \$4 trillion this year. Banks currently get 16+% on credit cards; so either a great deal of refinancing has to take place or consumers will have to stop spending. At some point rising interest rates, along with rising prices due to tariff wars, will begin to rein in consumption. American GDP is 70% based on the consumer. If these charts are signaling an end of that consumption then the market will soon follow to the downside. Some market pundits are stating that in the past FED rate increases went on for a while before the market declined. This rate increase cycle was slow in coming and happened from such artificially low levels that debt was allowed to accelerate to extreme levels. This high debt load seems to be responsible for the slowdown in consumer spending. Housing sector setback is showing us that a consumption reversal has started and if it breaks down further it will very likely take the rest of the market with it.

## **ASIDE**

*“Too many of us now tend to worship self-indulgence and consumption.”* Jimmy Carter

We have now carried this worship to the extent that rational concepts about debt are ignored.

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