Starboard Weekly Report Ending August 17, 2018
Chart of the Week

This week's chart is on the Dow Jones Industrial Average (DOW). Please note the gap between the 50 day and 200 day moving averages. (Marked by green arrows)

TECHNICAL

The relationship of the 50 and 200 day moving averages is very important in showing the strength of a market cycle as well as when it is likely to change. The recent cross to the upside started April 2016 and peaked this February at a 2,258 point spread between that has now declined to 300 points. The point spread at the February high was an 8.94% gap and it is very similar to the tops of the last two bull markets. The gap topped at 7.89% in 2007 and at 8.03% in 1999. The current breech between the averages has narrowed considerably and has a downward momentum in the secondary chart pictured above and marked by red trend lines. Thursday's almost 400 point DOW rally caused a slight upturn in the support charts but the impetus is down. This week's DOW relief rally came off of the 50 day average. This is significant because the next time it is broken we are likely to see a bear market confirming crossover. The DOW is still below January's high. However, with this chart picture of the receding gap between the averages and the likely moving average crossover, the high for this cycle has likely occurred.

FUNDAMENTAL

Typically the market is a discounting mechanism that forecast recessions, but since so much of this economy is wealth effect dependent, a market decline could actually cause a recession. Attached to your email is a chart on the decline of the most prolific spenders in our economy which is the age group 25 to 54 years old. That would indicate that one demographic event holding this market up is the post 65 baby boomers who over own stocks because of lousy returns on fixed income investments. When equity markets decline they often shake credit skeletons out of their protected economic closets. We only have to go back to 2008 and remember how that stock market decline brought to the surface enormous bad loan issues.

ASIDE

"What we need to understand is, one, that there are market failures; and two, that there are things like asset bubbles and irrational exuberance. There are periods of booms, bubbles, and manias. These things, if left to themselves, can lead to crashes, to busts, to panics." Economist Nouriel Roubini

The most important economic fact today would be that credit exuberance causes the periods that Dr. Roubini refers to. He also believes Trump's tariff wars will accelerate us toward a world recession.