STARBOARD ASSET MANAGEMENT

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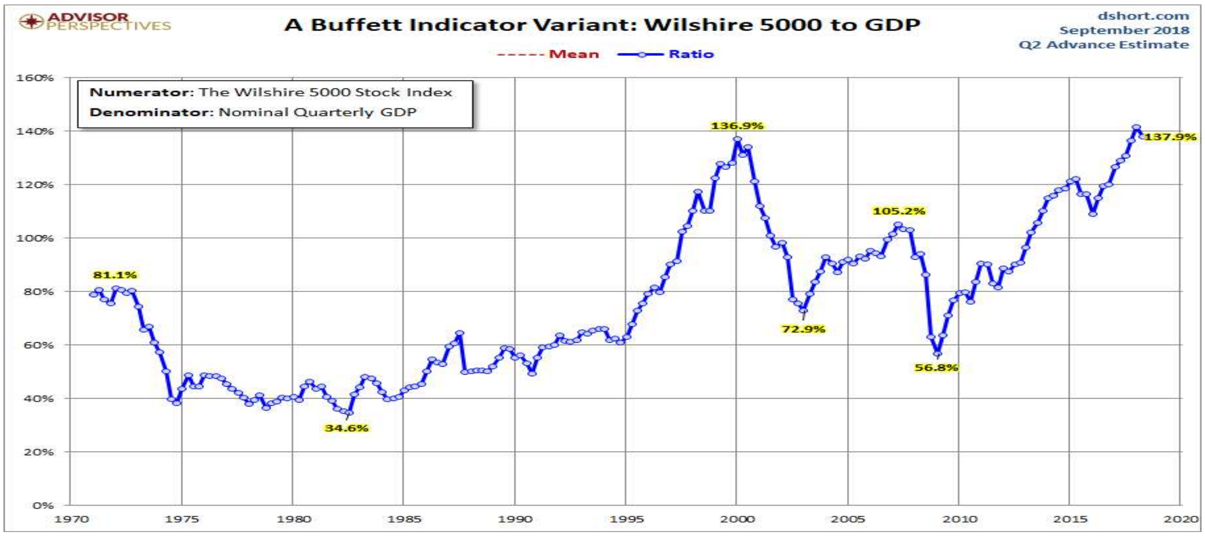
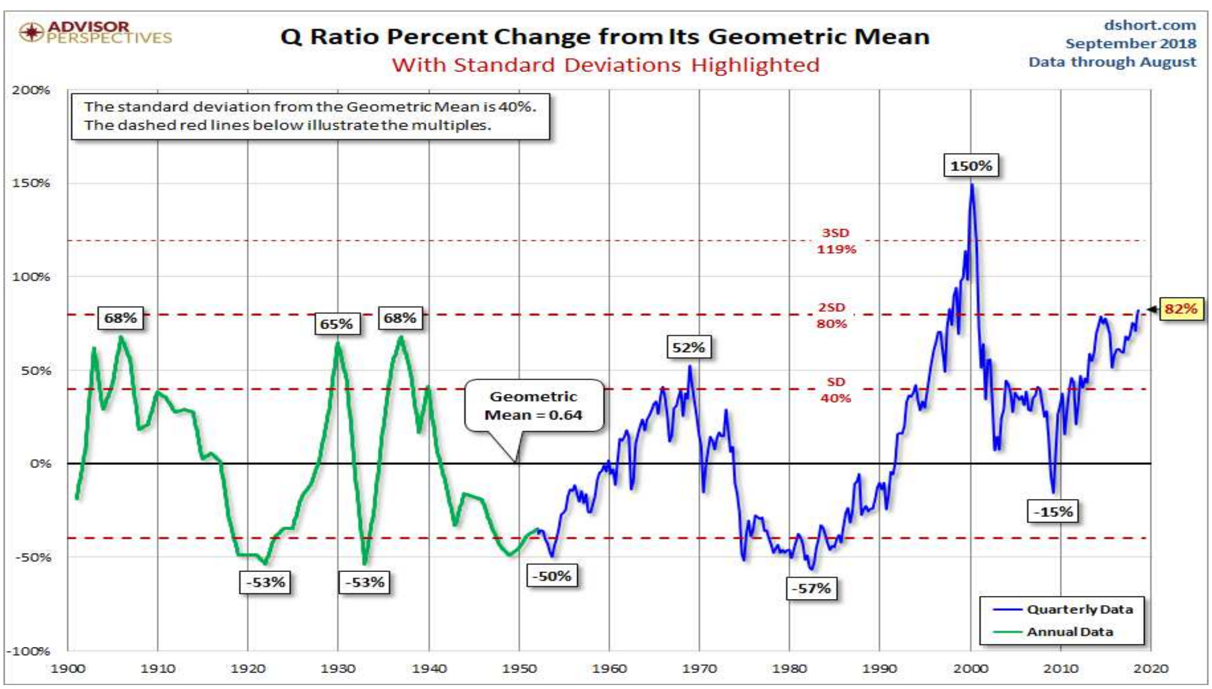
Starboard Weekly Report Ending September 7, 2018
Charts of the Week





These two charts represent fundamental overvaluation of the US market. The top chart compares the Wilshire 5000 (the broadest US Stock Index) with Gross Domestic Product (GDP). The Q ratio computes the replacement cost of corporate assets versus more than a century of its geometric mean comparison. Both charts are from Advisor Perspectives.

TECHNICAL

These charts really challenge the *"This Time it's Different"* crowd. The top GDP comparison to the Wilshire Index exhibits how high stock prices have gotten beyond the growth of the economy. The Q Ratio chart shows how expensive corporate assets are historically. An important takeaway is how elevated each of these charts are from their average. The mean on the top chart is not marked, but it is similar to the Q Ratio in the low 60% area. The last bear market ended slightly below that with the 2003 level declining to 72.9% but the 1982 low was down at 34.6%. The average of those three lows is 54.7%. For this indicator to drop to that level would take a 58% decline from its current all-time high of 137.9%. That would likely result in the same or greater price percent decline for the Wilshire 5000. The Q ratio decline from 2000 at 150% to -15% in 2008 was an 86% decline to the mean. That corresponded to a 51.57% decline in the Wilshire 5000 average. Please note how the GDP to Wilshire started to decline in the most recent quarter. The Q Ratio is well above the 2007 highs but it is still a long way from the 2000 all-time high. Maybe it will go back to that level, but I really doubt it.

FUNDAMENTAL

You might ask, if stocks are beyond growth potential and expensive why have they advanced to this level? The answer is simply FED liquidity. It is interesting to note how this excess liquidity started in the early 1990's under Greenspan and how it has continued to the present. The QE the FED created has inflated stock price volatility well beyond any sense of economic value. There seems to be an attitude prevalent in Wall Street and Washington that the US can stand alone economically. That is very possibly going to end badly and it will likely be created by the current tariff wars, along with a strong dollar. Attached to your email this week is a list of world market ETF's and ETN's. Worldwide it is not a pretty picture. Along with energy producing nations, the US is one of the top 5 performers, but out of 46 different countries 33 have negative equity markets versus 13 positive. The Wall Street Journal had a headline today that at down 20%, emerging markets have officially entered a bear market. President Trump is playing a very dangerous game with tariffs because of the way they strengthen the dollar and that in turn is creating economic hardship and resentment among world trading partners. The long term consequence will be a much weaker dollar; in particular when the US enters a recession.

ASIDE

"Isolation gives time but not immunity". Contemporary Author Lamine Pearlheart

We have to hope that the rest of the world gives us enough time because we are not economically immune to the rest of the planet.