STARBOARD
ASSET MANAGEMENT

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Starboard Weekly Report Ending September 21, 2018
Charts of the Week

"Even though the Dow rose another 159 points yesterday, the A-D oscillator remained negative for the 12th consecutive day. This negative divergence between price and breadth is getting CRAZY!!! I looked back at the A-D oscillator readings that preceded the crashes of 2001 and 2007-2008. None of the readings were anywhere close to the readings I'm seeing now. Be careful!" This comment was taken from a daily email I receive from "The Market 101". It is clearly warning us about the divergence they see in the market highs.

The two charts above are weekly depictions of the current rise in rates (30.78 is 10 times the actual interest rate of 3.078%) on the 10-Year US Treasury Bond and the decline in the US Dollar Index. These charts on the dollar and the bond market, along with the Market 101 comments below them, all represent independent markets; however, they are very economically related.

TECHNICAL
There are several notations on these charts that are worth observing. On the top chart, the red arrows show rising interest rates with the 50 day average above the 200 day. The arrows on the US Dollar Index chart are indicating a moving average weekly trend that is bearish. The linear red lines on this top chart show a seasonality that coincides with the Moving Average Convergence Divergence (MACD) crossover. When price changes occur in conjunction with a MACD averages crossing, they tend to be severe. Both charts are indicating a near term change in this indicator. The comment below the charts about market divergence is very disconcerting. It is not only the advance decline discrepancy the author mentions; another example would be last week's Russell and Wilshire Index diverging charts. In addition, there are several other conflicting supply and demand technical indicators not shown that are confirming the new market highs will *not* advance. If these two charts are correct by indicating acceleration in interest rates and a decline in the dollar, then we could be in for a long, drawn out and ugly bear market.

FUNDAMENTAL
The two charts illustrate interest rates rising and the dollar dropping, which is an unusual event. Normally when US rates are rising higher than the rest of the world, money flows into our debt markets for a greater return while driving the dollar higher. We no longer have past foreign buyers for our debt; such as China, Japan or an ever increasing group of emerging countries that are at or near insolvency. China and Japan hold large amounts of Treasury debt but recently have been Treasury sellers and if the tariff wars heat up then China and Japan would have trump cards. They could start aggressively selling their US Treasury debt that could send rates soaring and the dollar plummeting. The attachment to your email titled "Who is Buying US Treasuries" ends with the following warning on interest rates and their effect on corporate buybacks. *"They were essentially using record low interest rates to artificially inflate their share prices. Those days are rapidly coming to an end."* Today's charts are indicating that celebrating the new market highs is tantamount to "*fiddling while Rome burns"*.

ASIDE
"A national debt, if it is not excessive, will be to us a national blessing." Our first Treasury Secretary, Alexander Hamilton
The blessing becomes a curse when rising interest rates tell us that the debt is excessive.