Starboard Weekly Report Ending November 15, 2018
Charts of the Week

Both of the above charts provided by StockCharts.com cover the long term monthly and the short term daily price movement of the Russell 2000 Index (RUT).

TECHNICAL

The top chart shows a strong downside reversal. However, the Index is still a long way from its 50 and 200 month support lines. The 50 month blue line on the top chart is 11.33% from the current Index price level (calculated from today's mean price of 1,509). From the same Index level we are currently 42.61% from the 200 month average. In 2009 the RUT was down 60% from its previous high of 856 to a bottom of 342. In 2000 the Index was down 47% with the range from a 614 high to a 324 low. The elevation of this cycle will likely produce a greater percentage decline than even the extreme 60 % produced from the 2009 bottom. When it comes to excessive volatility extremes at one end of a cycle it often creates the same at the opposite end. The crossover in the bottom chart is huge for our largest Small Cap Inverse holding. The RUT upside crossover began on May 26, 2016 at 1,139 and then this August 31st topped at 1,742. We are now down 13.37% from that high allowing the RUT to lead the way for the other US market averages. Keep in mind that the RUT represents a diverse group of 2000 companies and one of the hardest hit sectors has been small banks, along with bio tech companies.

FUNDAMENTAL

Small Cap companies are more affected by higher interest rates because they do not have the same access to the debt markets that their Large Cap cousins have. This Index is also loaded with bio tech companies; especially when viewed through the top ten performers. In an earlier report on the RUT, I calculated the average PE of the top 10 performers at over 90 times earnings. If these stocks collapse then this Index could go back to where it started at 342, which would be 80% from the top. The RUT is not likely to go there in a straight line but the 50 day dropping below is the start of what could be a very serious bear market. The "troop" companies are represented by the RUT stocks, while the DOW, NASDAQ & S&P Large Cap "generals" are not likely to be far behind as the monthly downside gap in moving averages compresses on the Small Cap Index.

ASIDE

"There is no training, classroom or otherwise, that can prepare for trading the last third of a move, whether it's the end of a bull market or the end of a bear market."
Paul Tudor Jones, Billionaire Investor

The ends of bull or bear markets are frustrating and require patience. The shift in the 50 and 200 period averages are a beginning but they must be followed up with further confirmation. If the crossover discussed above is followed by the NASDAQ and S&P and then the Dow, we will have confirmation that a bear market has commenced. It takes consistent trading below the 200 day to accomplish this. The NASDAQ & S&P are close to reversing as they are well below their 200, but the DOW remains at or above its 200 day. Because of the DOW, NASDAQ and S&P's importance for our defensive investment posture, future reports will focus on the moving average trading of these three popular indexes.

Please note:
It's the client's responsibility to notify Starboard of any changes that would in any way influence their financial requirements.