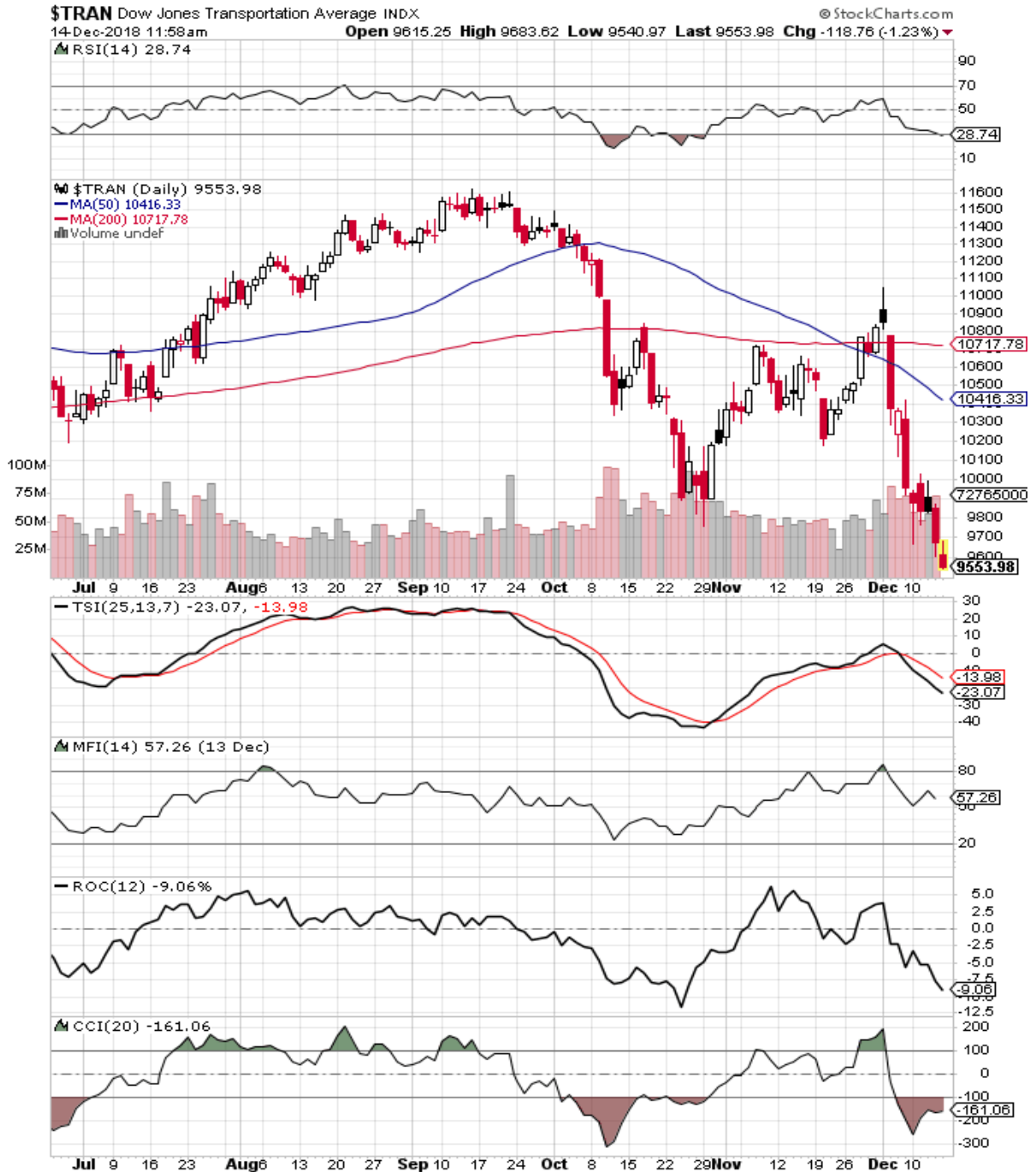


Starboard Weekly Report Ending December 14, 2018 Chart of the Week



This week we have just one chart and it is highlighting the current position of the Dow Jones Transportation Index (TRAN). The main daily chart is accompanied by one supporting daily chart above it and 4 below it. The chart is provided by StockCharts.com.

TECHNICAL

If this chart belonged to a single company stock then you certainly would not buy it. However, it is actually 20 different companies that are in the TRAN Index; which also should not be bought. The TRAN Index is represented by Airlines, Railroads and Trucking companies. According to the over a century old Dow Theory, the TRAN signals the future direction of the Dow Industrials. Please note how the TRAN topped on the second week of September while the Industrials made their top on Oct 3rd. True to form TRAN is leading the way on the down side and does not appear to have any support until 9,100 near the 200 week average (not shown). Today saw a new low of 9,487 which is down from an 11,623 top making it an 18.38% decline. This compares with the Dow being down 11.39%; taken from this Monday's low. Another 189 points down (or 1.62%) and TRAN will officially be in a bear market with the strong historic likelihood that the DOW will also follow. Attached to your email is a very important Point & Figure Chart on the NYSE Bullish Percent. This chart gives a powerful bearish confirmed signal with a downward breaking triangle. I have found this basic supply-demand indicator to be one of the most accurate, which is likely due to how broad it is because it covers 1,900 of the largest companies in the world.

FUNDAMENTAL

The usual fundamental reasoning behind the TRAN being an early economic signal is due to pick up or slowdown of transportation of merchandise and thus it is a leading indicator. Today we have cyber buying through Amazon and EBay, et al (or lack of buying thereof) and the shipping of this merchandise is an important economic component. There might very possibly be another reason that transportation leads the industrials and that could be their high debt levels. They tend to be some of the highest levered companies in our economy; especially, the airline component that makes up about 25% of the Index. A tightening FED, along with higher interest rates and more importantly the crowding out by US Treasury financing could be what are affecting the bearish move in TRAN as well as another bearish leading indicator, the Russell 2000 Index. The first to feel a credit crunch are Transportation because of its highly leveraged balance sheets and also Small Caps due to their size.

ASIDE

"I believe that the root cause of every financial crisis, the root cause, is flawed government policies." Henry Paulson, Former US Treasury Secretary

First, we have a doubling of the US government debt over 10 years to 21.5 Billion. Secondly, there is a 4.5 Trillion FED QE balance sheet increase. Lastly, we had near zero interest rates. All three of these qualify for the "the root cause" that Paulson speaks of.

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

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