STARBOARD ASSET MANAGEMENT

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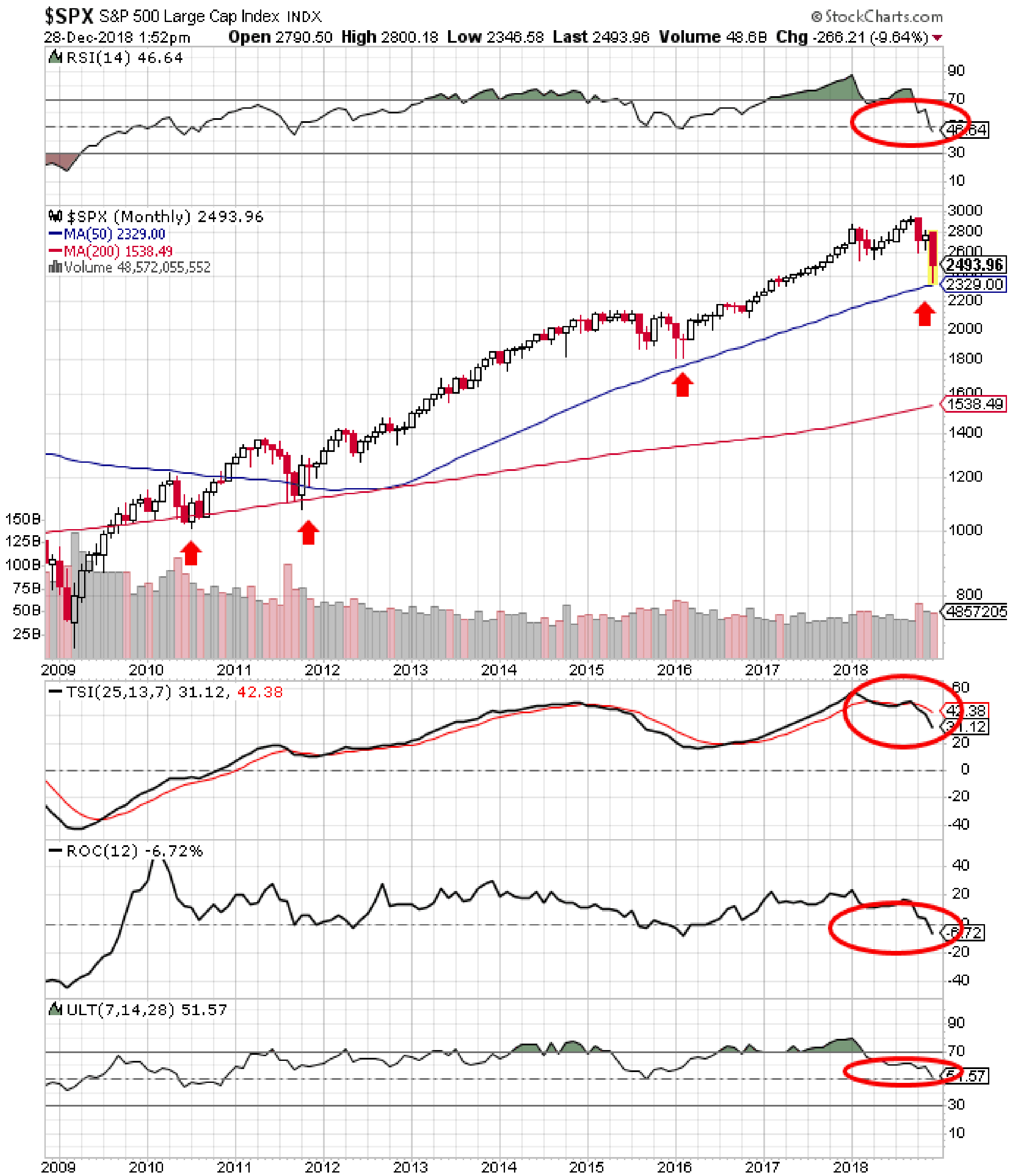
Starboard Weekly Report Ending December 28, 2018

Charts of the Week



This week we display one S&P 500 Large Cap Index chart and it includes several supporting charts. This chart is provided by StockCharts.com.

TECHNICAL
What a week, what a month and additionally what a roller coaster year for this index average. The current week set several records for incredible rebounds. But as this week's chart indicates, nothing has changed regarding the long term continued bearish posture of the S&P 500 Index. This week's artificial rallying point was the 200 week moving average (not shown) at 2,348. This rallying point was 20 basis points from the index falling into bear market territory defined at being 20 % down from the recent top. This level is also close to the 50 month moving average on the above chart which is at 2,329. Since we are in the last week of the year, it is worthwhile to look at the monthly picture to get a prospective on where we may be headed in 2019. If the S&P breaks this week's lows then the next support is 34% down to the 200 month average located at 1,538. To the contrary, if chart momentum were to completely shift to positive and we return to the old highs that would be a 17.3% gain. Not a good risk ratio at a 2 to 1 loss to gain difference. Note how bearish all the supporting charts have been this year indicating that the recent decline is not a one quarter affair. Several broad indexes are now in a bear market and they metaphorically represent the troops. As 2019 unfolds they will be leading the Dow and S&P generals in the same direction.

FUNDAMENTAL
This quarter's market decline is about debt and lack of liquidity that cannot be reversed with a couple of presidential tweets. The FED balance sheet sales are draining liquidity along with having to deal with financing $50 billion per quarter of government debt. Therefore, there is no money left for private sector corporate debt. Since the last recession many of Non-Financial Corporate Bonds have been degraded to BBB status and according to Bianco Research 14% of the S&P companies must borrow to pay existing debt. Better known as Zombie corporations, many have reached this status by borrowing to buy back their shares. GE is a prime example for this type of management since they have lost over 30 billion dollars buying back their shares between $20 and $30. The stock is now at 6; largely because these losses have wiped out other profitable areas of the company. Today's Wall Street Journal had an article pointing out the serious problem of companies repurchasing their own shares in a declining market. This is also true for profitable companies like Apple that lost $9.5 billion since September due to buying back their shares earlier this year. Before this bear market ends, US corporations through leveraging their balance sheets will have wasted trillions on buy backs. This is money that could have gone into building long term plant equipment instead of short term earnings fixes.

ASIDE
"Take time for all things; great haste makes great waste." Benjamin Franklin

American Corporate Management has made *great haste* with debt in the name of increasing earnings and that could destroy balance sheets for the next generation. Just ask GE who is the poster child for abusive corporate debt.