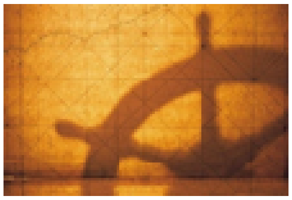

THE STARBOARD WEEKLY REPORT

The Week Ending August 1, 2014

We will be taking a slightly different approach to the weekly letter and it will be less macro-economic analysis along with fewer charts than in the past. The new approach will be more specifically orientated toward the investments we hold in accounts, asset classes and sectors that we intend to invest in along with our reasons why. This week we will start with our largest asset class - cash.

Yes, cash is an asset class despite what most mutual fund and many institutional investment managers believe. They refer to cash as trash for self-serving reasons. We, on the other hand, believe that cash is king and that it is the primary investment vehicle for risk management. Having a high concentration of cash last year has hurt our returns. However, we believe those returns will be fleeting and disappear much like this year's Dow Jones returns that vanished in a single two weeks during the recent selloff. The important focus on cash would be: what does it do for the long-term returns of a portfolio. When return expectations are lacking, as they have been for the past two years, we want to wait for better opportunity. It is frustrating to miss out on returns, but where is the long-term portfolio value when they go away in a cyclical bear decline. Yes, despite all the bullish Wall Street propaganda, there will be a decline. The last three times that the FED stopped quantitative easing, the market corrected. So unless there is another QE in the future, the US stock markets will lose their life blood.

On the next page is one of my favorite charts because it has an 80% accuracy for 70 years; 1929 through 1999. It demonstrates the expected annualized rate of return for a rolling 15 year period. The chart takes into consideration many economic and market variables to determine overvalued and undervalued markets.

For the past two years, the expected annualized return was anticiapted to be between 0 and 1% negative. Compare that with the 1980's when the expected return was 14% per year, which came close to happening. This is why we prefer cash. The risk is not worth the return prospects. At the bottom of the last sell off in 2008/09, the return was close to the long-term mean of the chart at 6.5% and at that level we were very comfortable committing capital because we could expect a decent return for the risk. We may not get back to the extremes of the 1980's, but we believe that we will have opportunities in the future to invest your cash at above the mean level. This analysis is done on the US market only. Some world markets are more attractive since they are not as extended as our market. From an opportunity standpoint, we believe emerging markets are getting very close to a good-risk reward buying opportunity. We will be reviewing some of the emerging market opportunities in future weekly reports.

Rolling 15-Year Forecasts vs. Actual Real Total Returns, S&P500 1928 – 2013