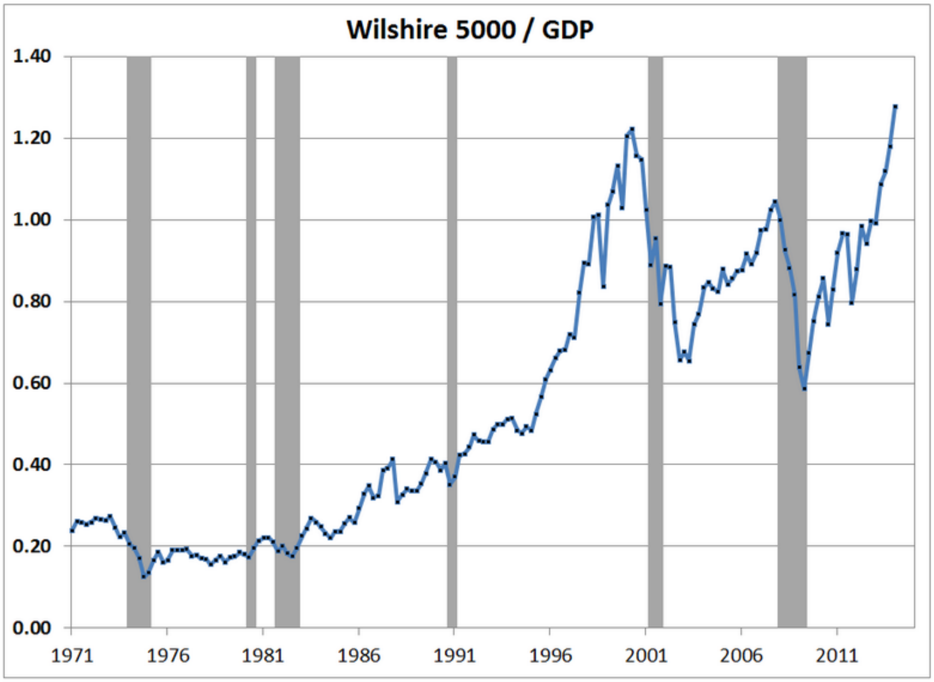
The Starboard Side Report

The week ending January 10, 2014

US Stock Market / US Gross Domestic Product (1971 – Present)



Sources: Bill Hester, Hussman Funds & Doug Short, dshort.com

This chart above is the only item that we are going to include on this week's report because we feel it is telling a *very* important story. Assuming economic growth comes in as expected in the third and fourth quarter of 2013, **the late December equity rally has now made the US market, as defined by the very broad Wilshire 5000 Index, the most expensive in history versus the underlying output of the economy (GDP).** This could be looked at as the ultimate price-to-revenue ratio for the entire economy (i.e. how much the market is willing to pay for each sales dollar generated by the publicly traded universe). As you can clearly see, it is now above the extreme peak that occurred in the first quarter of 2000 right before the technology bubble burst. In early 2000, that overvalued market was driven mainly by a select group of large stocks and the technology sector. This version is much broader in that wide swaths of small and mid sized companies are those that are the most expensive. Despite the fact that there may be one final surge higher at some point in the first quarter (as there was in 2000), risk levels are extraordinarily high as we start the New Year. We remained convinced that there will soon be an epic shakeout that will return security prices to more attractive levels and provide investors with a *much* better long-term opportunity to buy.