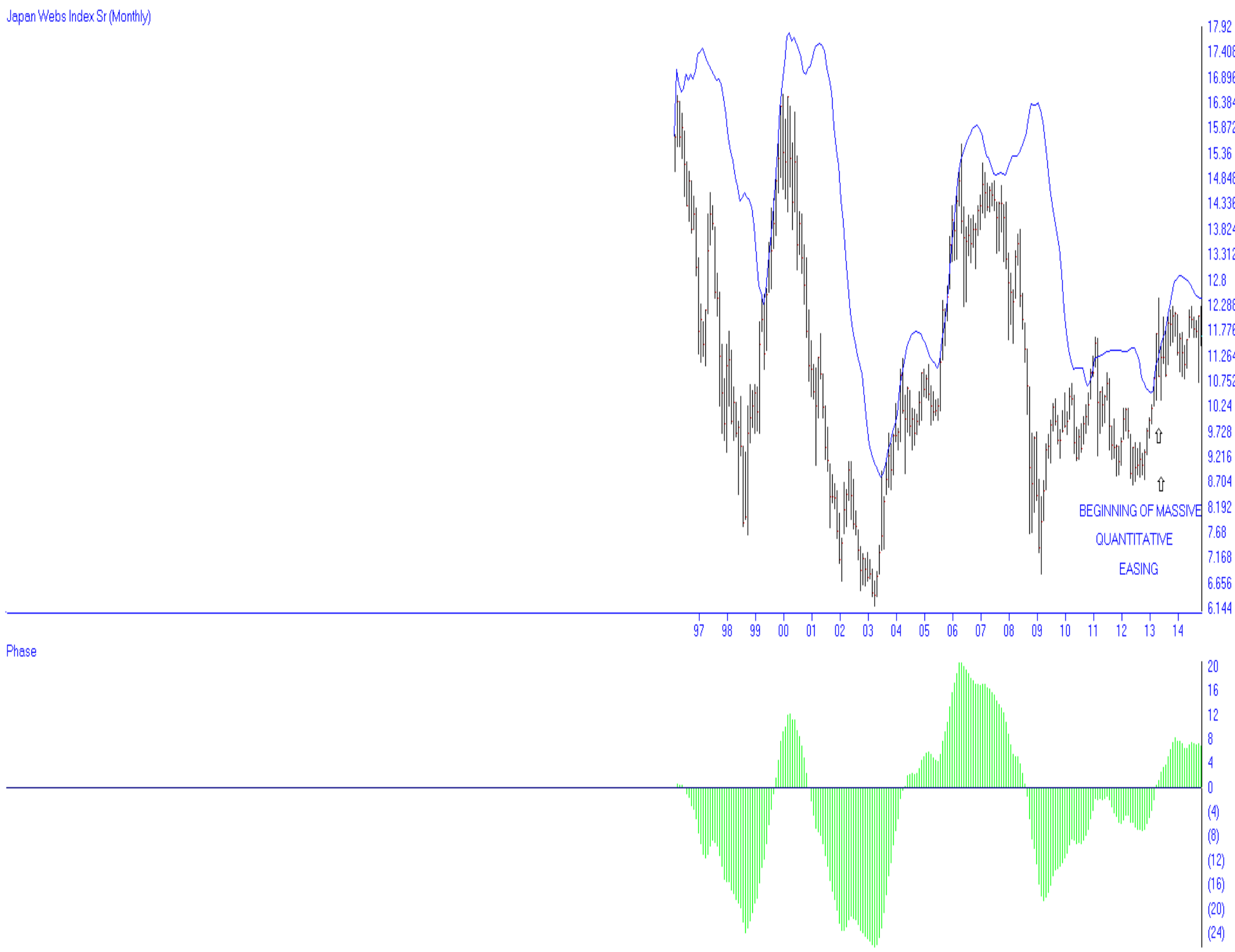
Starboard Weekly Report

The week ending November 21, 2014

Chart of the Week



The above two ETF charts on Japan's currency and stock market clearly show the lack of benefit received from Quantitative Easing (QE). The currency has plummeted while their stock market has risen slightly. And more importantly, the Japanese press has announced this week that their economy has fallen into recession.

TECHNICAL

Now trading at 82.28, the YEN chart shows very weak performance. It has been in a down trend since the beginning of 2012 and seems about ready to challenge a multi-year low of 80.61 established in June of 2007. If Japan's problems continue, they could easily challenge the all-time low dating back to January 2002 at 74.50. On the other hand, if world stock markets begin a serious decline, it could be bullish for the YEN since many hedge funds and leverage traders are short the YEN due to their extremely low interest rates. They would have to buy back the YEN to close out their transactions. The second ETF chart is the MSCI Japan Index Fund. It shows a roller coast history going back to 1997 with very little movement since the Bank of Japan's unprecedented QE first announced in April 2013; and later followed up with two more installments, the most recent being in the latter part of this October. Before QE was announced, the Japanese Index was trading at 10.80. It is now 11.55 for a gain of 6.94%, however the YEN has dropped 22.55%. This represents a net loss to Japanese investors of 15.61% in world purchasing power. So much for the benefits of QE.

FUNDAMENTAL

If the US was not the reserve currency, then our stock market versus the dollar would likely resemble the Japanese experience. Many believe that we are following the Japanese economic model of strong governmental control of the economy that requires us to mask structural economic problems with generous amounts of QE, large governmental borrowing and artificially low interest rates. The above charts are indications of where that will lead us, especially if our fiat reserve currency position is changed. There are many political-economic issues that could challenge the dollar as the primary world currency. If the YEN continues down because of Japan's serious deflationary problems, it could the beginning of making the world's currency traders realize that QE is more of a disease than a cure.

ASIDE

Another issue with falling currencies is that it could create currency wars, which is the likely reason for China's announcement today that they are going to lower interest rates. The cheaper YEN is creating considerable economic turmoil in other Asian economies. If it continues not only will Japan suffer, but it could have serious ramifications to all of Asia which is the primary growth engine of the world.