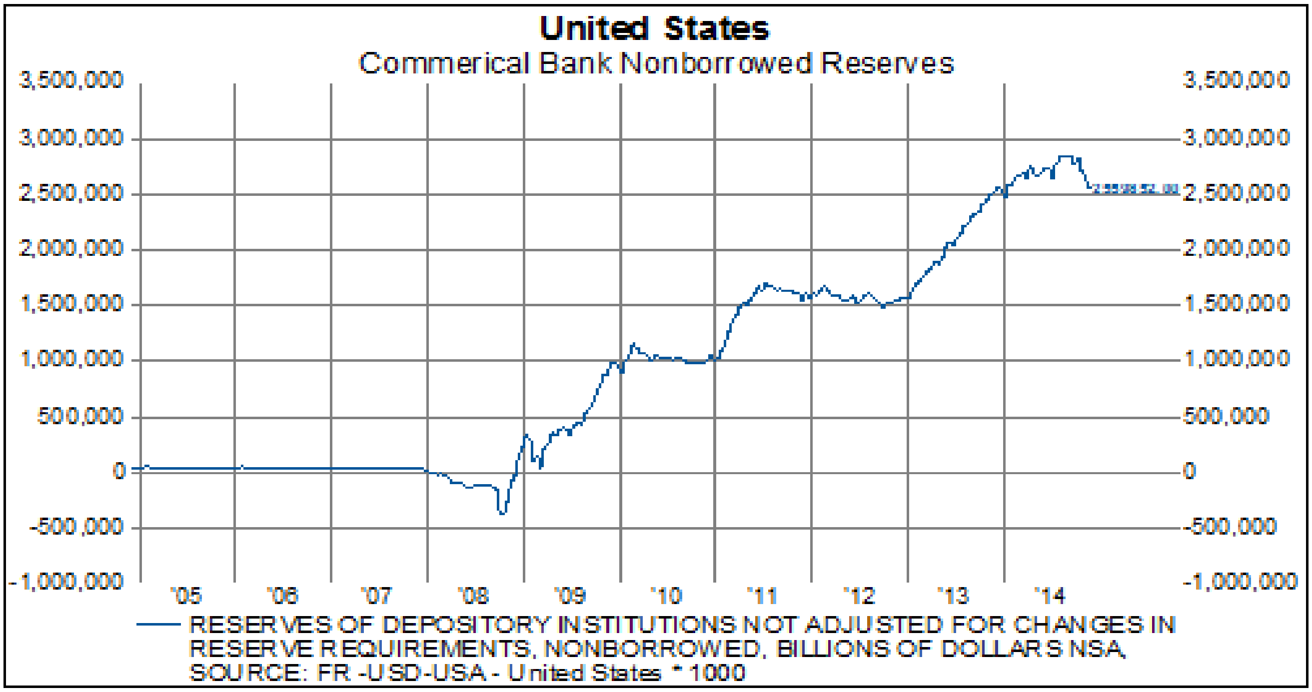
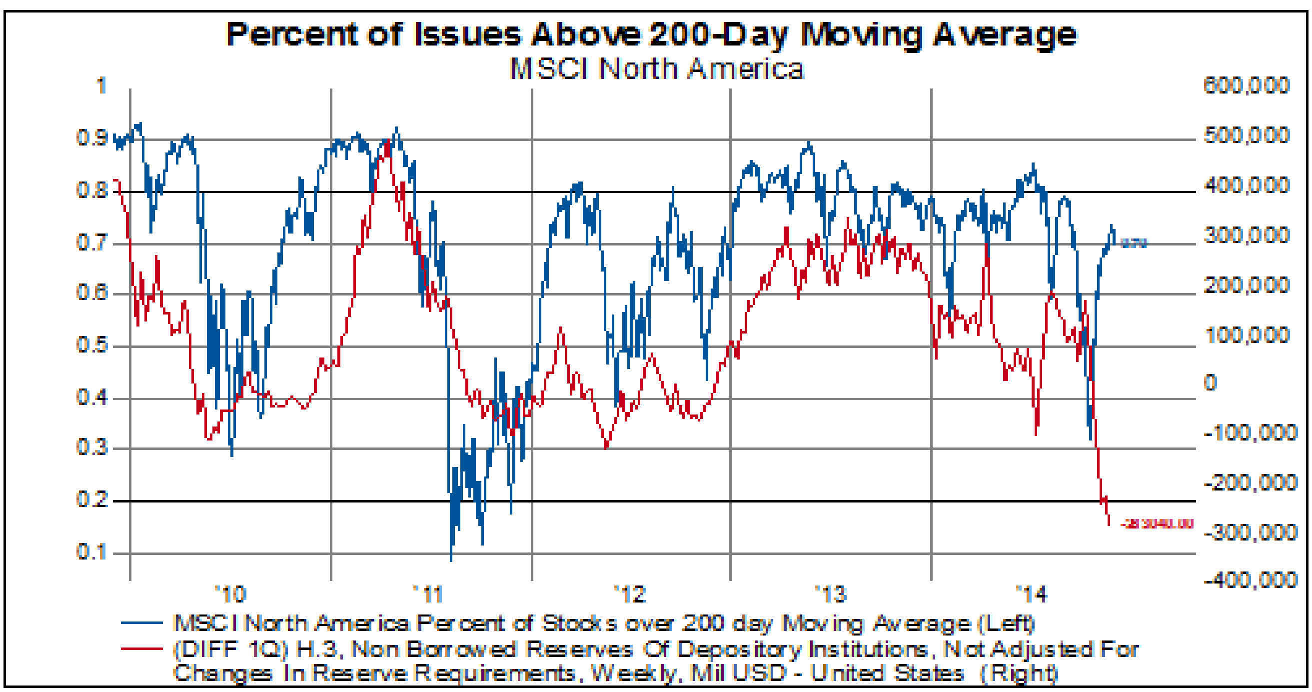
Starboard Weekly Report

The week ending December 12, 2014

Charts of the Week





This week's charts are taken from a familiar source: Gave Kal

These charts depict the possible effects in the ending of Quantitative Easing (QE). The unprecedented amount of liquidity created in the past 5 years is the primary reason for the United States stock market's out-performance. Now that QE has ended, the market should have serious downside adjustment.

TECHNICAL

The bottom chart compares stocks that are over their 200-day moving average (blue line), which is a good proxy for market bullishness. After its initial surge from the October lows, it is now flat-lining. Please note how closely the market follows QE contractions in 2010 and 2011; also, how the current blue line should have a great deal of downside catch up. The blue line was slightly behind the 2011 decline in QE, but it caught up with a vengeance. Based on this week's sell off, I expect the same type of decline is beginning to take place.

FUNDAMENTAL

QE has been an artificial stimulus to stock prices. In my opinion, unless we have a serious political or economic issue that might bring it back, QE has ended. Last week's announcement of improved unemployment is further ammunition to suggest, not only the end of QE, but a complete reversal of FED policy toward restraint. I am not sure that the economy is strong enough to handle higher interest rates, but if employment accelerates, the FED may be forced to raise rates. That could be a further death knoll to a stock market that has been dependent upon low rates and stimulus.

ASIDE

The Dow and the S&P are down close to 4% this week and given that each rally met with heavy selling, the market is now looking very weak. The high to low ratios, as well as the advance decline comparisons during the recent market climb, have been indicating very poor underlining strength to the price improvement which started October 15th and ended last Friday. Instead of a "Santa Clause Rally" that the news media keeps forecasting, it sure looks to me that we might be setting up for a "Christmas Crash".