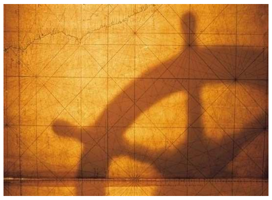
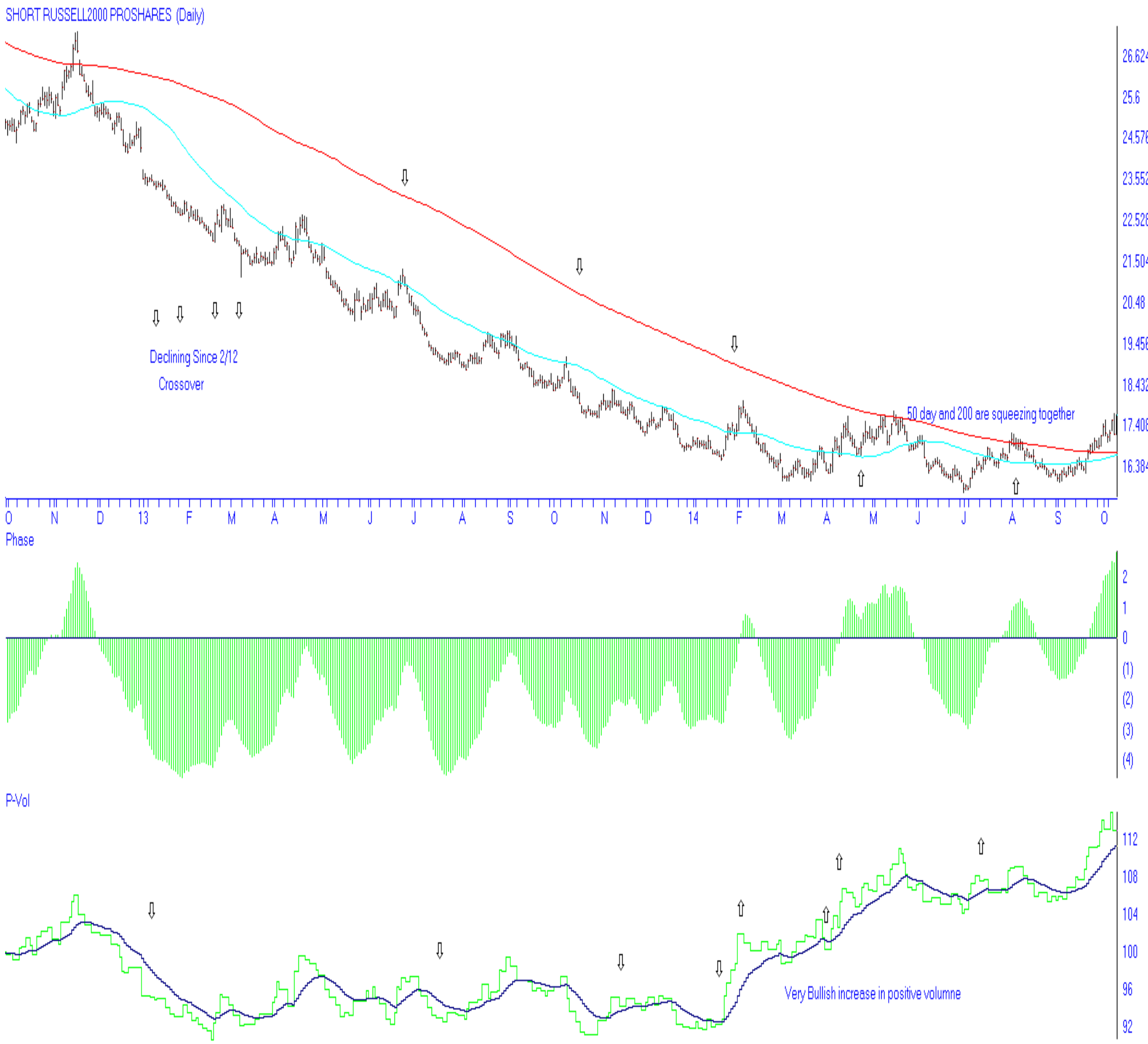


The Starboard Side Report

The week ending October 10, 2014

Chart of the Week



We have looked at this week's chart of the Inverse Russell 2000 several different ways recently, but since it is our main hedge against market declines, I thought it was worth revisiting. We are now .08 cents from the 50 day going over 200 and that could be the beginning of a significant move to the upside. When this ETF first moved to the downside, the shares were selling in the 90 dollar range. I don't expect that kind of move, but long term it could retract half of its downside.

TECHNICAL

The moving average shift in this equity index ETF is very noteworthy, especially when compared with last week's graph on GMO's expected annualized return for small cap equities. The Phase indicator in the chart above is a confirmation of the price move. It is rising strongly and it is as high as any time since June of 2012. Positive Volume continues its upward surge and this indicates confident buying by institutional investors in this ETF.

FUNDAMENTAL

Small Cap stocks often trade up on the availability of bank capital in the economy. They do not have the same corporate borrowing capabilities of larger companies. The lack of bank resources available has to do with the lack of velocity of money which is due to a structural problem within the economy. Despite the money made available by the FED via Quantitative Easing (QE), it is not filtering through the economy because the banks are not putting out loans on their balance sheets at these current artificially low interest rates. This is a problem with stocks in general, but it is more acute with the small caps. That is the reason why the small caps are down 12% from their June high and down 8% for the year.

ASIDE

This market is more scary than gabbling holloween goblins. Maybe that is why the markets misbehave so much in late October; they are terrified by the seasonal ghosts. Actually, this may be a better reason than some of the incredulous headlines that the talking heads and print media are coming up with. The real answer however is housed in the charts, which are a reflection of the future economic environment. Based on the recent extreme volatility, which has been absent for years, "*You ain't seen nothing yet*". If the global market message is that debt has caught up with the developed world economic policies, then the recent market action could be the beginning of a very lengthy bear market cycle.