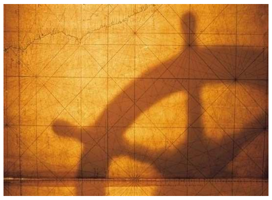

The Starboard Side Report

The week ending October 17, 2014

Chart of the Week

It is important to revisit gold this week since it is at a very significant junction as either the recent bottom holds or we will see much lower prices. It is hard to believe that this ETF representing the junior gold stocks could go much lower in price than the ugly levels that they have already reached. Many small gold mining operators have ceased activity due to the low price of the metal and this will create a gold supply shortage in what has been a steady demand environment in Asia.

TECHNICAL COMMENTS

Today's chart and supporting components show a picture of an ETF of the Junior Gold Mining stocks (GDXJ) that are most likely in the final stages of a bottom process that goes back to June 2013. Please note the two previous bottoms and what should be a third bottom. We do not have a final verdict on the third low but several areas, such as those in the back-up charts, look very promising. Additionally, the point and figure chart for this ETF, as well as the momentum for the precious metals sector, are all showing turnarounds. This will be interesting to follow in the future, either as a major bottom or as a serious breakdown creating more downside. Gold is the only part of our three-legged stool approach that is not yet working. For the time being, it is holding back portfolio values. The other two legs, Inverse Small Cap and Long-Term Government Bonds, worked well in this week's market selloff.

FUNDAMENTAL COMMENTS

Gold can work as well in deflationary times as it can during inflationary periods. Most people believe that it is only a hedge against inflation because the last time it moved in the late 1970's we had huge price and interest rate moves. However, during the 1930's, gold performed very well in what was a very serious deflationary depression. In Starboard's opinion, we are about to write a new chapter on gold which will be based on deflation caused in a large part to over leveraging by the developed world. This past Wednesday, we had a serious melt down in the stock and bond markets largely based on deflationary information coming from Europe. This problem will not go away overnight, so we can expect more volatile market activity. Gold did well while the stock market was tanking and we should witness more of this type action in the immediate future. To control the market selloff, a

FED head came out with a proposal for additional Quantitative Easing (QE) and this was enough to create a reversal. However, it is doubtful that there will be any near-term follow though by the entire Board. It is fairly obvious that QE is not working for the economy, other than making stock prices rise over the short term. The stock market seems to have lost its ability to discount the future economy due to the artificial stimulus provided by QE. However, the bond market, which is a better economic barometer than the stock market, is screaming deflation. Deflation is good for gold and will be the fundamental basis for its next rally.

ASIDE

Patience is at the core of good investment management. Watching a chart develop a bottom over a long period like this week's GDXJ is doing, should prove to reward our perseverance.

Please note: It is the Client's responsibility to notify us of any changes that would influence their financial needs.