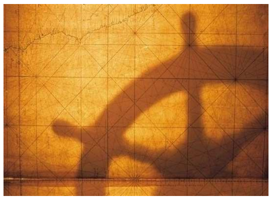

The Starboard Side Report

The week ending October 24, 2014

Chart of the Week

We are in the 15thyear of the current structural bear market.

Structural Bull/Bear Cum Perform	Structural Bull/Bear Total Performance	1 year	5Year	10years	15 years	20 years	25years
January 1900-August 1921	-3%	1%	-4%	48%	14%	22%	
August 1921-September 1929	457%	52%	137%				
September 1929-April 1942	-74%	-34%	-76%	-62%	-73%		
April 1942- February 1966	971%	44%	93%	186%	403%	573%	842%
February 1966-August 1982	-22%	-15%	-18%	-17%	-11%		
August 1982-January 2000	1409%	54%	152%	315%	603%		
January 2000-Present	45%	-9%	-10%	-18%	26%		

Structural bull market is measured by positive long-term market performance in the S&P 500 and, for data prior to WW2, Robert Shiller'sData.
Structural bear market is measured by negative long term performance in the S&P 500 and for prior to WW2 Robert Shillers Data

GaveKal CAPITAL

This week's chart is an excel worksheet re-creation that highlights a more extensive table on the subject of structural bull and bear markets since 1900 done by GaveKal Capital. It makes a very important point about the investment environment we have had since the beginning of the decade. As the title of the charts states, we are in the 15th year of a structural bear market and in my opinion it has several more years to run. When compared to the past three long-term bear markets, which lasted an average 17 years, we would appear to be in the late innings. However, this bear has not had a major decline that would offer a buying opportunity above the long duration median return level. For the *this time it is different* viewpoint, the above table won't be very meaningful. It's better to base risk taking decisions on the side of history rather depend on artificial props like Quantitative Easing or Fiscal Stimulus.

TECHNICAL COMMENTS

The difference between the total performance column (second from left) and the yearly performance columns is due to dividends added to total performance. The fifteenth year on the 1929 to 1942 period is actually a fourteen year return. Please note that the three previous structural bear market periods all ended in the minus on a total return basis while the current period is 45% positive. That would indicate further decline before we can put this long-term bear in the history books. The important focus on this table is the total returns column as the rest is just supporting data. Many of the charts that we have highlighted lately support the premise that we are in a cyclical bull market within a structural bear market. Next week we will look at a continuation of this study of cyclical bull and bear markets during the last century.

FUNDAMENTAL COMMENTS

Why do we have such long-term positive and negative cycles? Having witnessed two bear and one bull market in my career, I believe it has to do with political choices that affect the laws of supply and demand. The penned up demand from World War II created the boom from 1942 to 1966. Then the next bear period was due to Lyndon Johnson's Great Society and the Viet Nam War followed by Richard Nixon's wage and price controls along with his political mayhem, followed by Jimmy Carters ineptness. The excessive government spending from guns and butter economics started by Johnson, and then not controlled by his two predecessors, was the root cause of the 1966 through 1982 bear market. Then along came Ronald Reagan with the idea of lowering taxes and government controls. All of a sudden we have a bull market that lasted because it created growth start-up and gave us the tech boom that carried us on to the end of the decade. Enter George Bush, a supposed conservative, who spent like a drunken sailor. Once again, he started government deficits and loose money policies. The free money policies created a real estate bust, which in turn created a government bailout and more debt. Add in Bernanke's throwing money from helicopters and that is where we stand now. The money from helicopters has helped the stock market, but done little for the economy. And it is not what will end a structural bear market. Until we get serious structural political/economic changes, we will be stuck in a structural bear environment.

ASIDE

Ending this up on a political note is appropriate with elections coming up. The people who ask us to make hard choices are the ones that we should elect. But we probably won't until the next crisis hits. Hopefully in our future there will be a strong leader who can make change that in turn will make a difference.