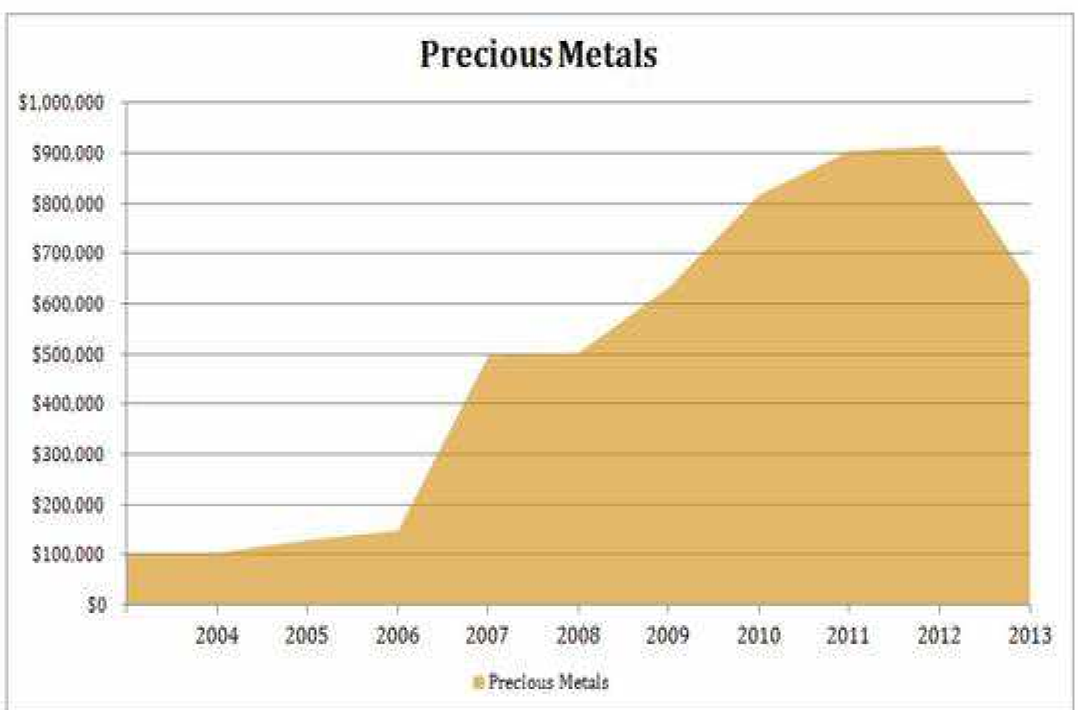
The Starboard Side Report

The week ending September 12, 2014

Charts of the Week



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Precious Metals	2.47%	24.79%	15.02%	237.55%	1.13%	26.07%	29.23%	10.69%	1.15%	(29.74%)
Growth of $100,000	$102,470	$127,872	$147,079	$496,464	$502,074	$632,965	$817,981	$905,423	$915,835	$643,466

Total Return (Last 10 Years): **543.47%**
Annualized Return: 54.35%

In our August 15th weekly, we looked at the gold stock ETF; GDX. Since then, gold as well as the gold stocks, have not performed very well. This week I would like to put this decline in prospective by looking at the main driver of the Precious Metals Sector, gold as viewed through the gold bullion ETF; GLD. This security is priced at 10% of the price of gold, less administrative carrying costs. Therefore, it is representative of what happens to the price of the commodity gold that in turn impacts what happens to the price of precious metal stocks; such as those that are part of the GDX; ETF that we reviewed in August. Precious metal stocks can perform better or worse than the metal, but track its price direction up or down.

Technical Comments

Gold is slowly recovering from the major sell off over the past two years. The GLD had an all time high in September of 2011 and a lower high in September 2012 from which it sold off from 174 to 115 in June 2013. It has been trying to rally since that low but keeps running into stiff resistance at the 135 price level. This type of price action is normal market behavior for any stock or commodity. Price action must attract buyers to prove that an issue has regained positive momentum. Gold is not there yet, but each time it holds support and challenges resistance, it gets that much closer to breaking out or breaking down. The take away from the first chart displayed is that the resistance levels and the support levels are marked. It is currently at a support level that we believe will hold and are basing that speculation on the fact that the 50-day average is still in excess of the 200 (indicates that we are still in an up-trending market).

The second chart listed demonstrates the primary reason for owning gold. It is still the best performing asset for the past 10 years, despite the recent sell off. We believe that gold is still in a bull market and that it will exceed the old highs. It will do so with a continued high degree of volatility which has bucked off many impatient investors, but those of us who hang on and ride it out will be greatly rewarded.

Fundamental Comments

Recently I received a periodic table of performance for market sectors. Since 2001 precious metals were the best performing sector 7 of the past 13 years; however, for 3 of those years it was the worst performer. Last year was one of the 3 bad years with the sector down 35.71%. One of the worst performing years was 2008 when the sector was down 56.02%, only to recover 76.46% the following year. You might ask why the big swings and why own such a volatile investment. The answer is politician investment insurance. I consider the FED and its attempts to control the free market fluctuations as very political. Our government officials overload the system with debt and then the FED creates money to make sure that individuals and corporations overload their balance sheets with debt. We now have a total of three and half times debt to our GDP (includes both private and public debt). That would be equivalent to each of you borrowing three and half more than your net worth. Europe is four and a half times and Japan is six and a half times total debt to GDP. If interest rates in Japan advance to 2 -3% , the Japanese government would not have enough tax revenue to pay the interest on their debt. If today's low rates spiked to the high single digits, then we would be in a similar situation to Japan. That is why the FED, ECB and Bank of Japan must keep rates down. How do the Developed World economies grow with such an onerous debt burden? The answer is in one of my favorite quotes: "*Debt is future consumption denied*". They can't grow until balance sheets are deleveraged; meantime, the currency's that stand behind the debt mess are in serious jeopardy. That is why you want to own gold. Even if the dollar holds up, the EURO and YEN are vulnerable. The question becomes one of timing. This charade could go on for some time. But, if stock prices breakdown or bond yields spike up, then the deterioration of private sector balance sheets could bring the problem to a head.

Aside:

The best performing asset class last year was the Russell 2000. It has led this market to these heights. The Russell 50-day average is 5 points from crossing to the downside over the 200-day, which had its upside change February 2012. *Stay tuned as this crossover could be a game changer for the markets and for gold.*