

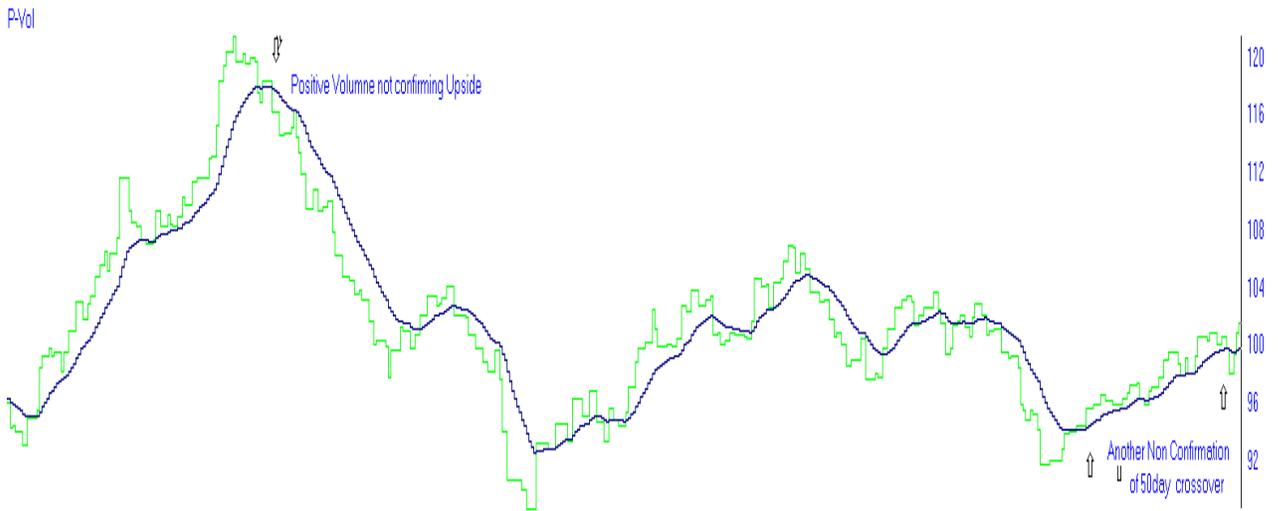


# The Starboard Side Report

The week ending September 5, 2014

## CHART OF THE WEEK

China Small Cap Securities (Daily)



**Technical Comments:**

This China Small Cap ETF (HAO) chart represents the only holding that we have in foreign markets. We expect that will change in the future because, as this chart is indicating, emerging markets are not quite ready for a serious commitment. We believe that Emerging Market Small Cap ETF's offer excellent future opportunity; however, we are waiting for the market to let us know that it agrees. Other Emerging Market Small Cap ETF's have similar chart patterns to HAO. They are all in new up trends, but have weaker relative strength to the US markets, and in particular large cap equities. Conversely, the emerging small caps are gaining on a relative strength basis to the US small caps. We are monitoring this relationship closely because we see it as the next major investment opportunity. We believe that emerging markets are not dead, just dormant for a period. If we have a major sell off in the markets, they will start to seriously outperform US stocks in the next up cycle.

**Fundamental Comments:**

The annual GDP growth levels of the emerging world are better than twice that of the developed economies and they have more manageable debt levels as well. Currently emerging small cap price/earnings are 14 times vs 20 times for the Russell 2000. Recently, Barron's had a quote from Peter Marber, head of Emerging-Market Investing at Loomis, Sayles. He warns us about indexes filled with state-owned companies. *"EM small-cap stocks may better capture true growth and profit potential, particularly in the consumer sector. EM small-caps [are] also riskier. Their volatility is higher, liquidity inherently lower."* His comment on volatility is why we want to wait and try to get this group at the right price. August 22nd, the Starboard Weekly Report had a GMO 7-year Asset Class Real Return Forecast graph of the future expected returns over the next 7 years. In this graph, emerging markets were estimated at annualized 3.6% positive versus the US small caps estimated at 5.2% negative returns.

Recently, I read an article on the "deserted island portfolio". The author referenced the 1999 Tom Hanks movie "Cast Away" and how Hanks should have invested in emerging markets now for when he returned five years in the future. You might say that at least he did not have to look at the market go against him in order to make money in the future. However, that is what successful investing is about; *not today's happenings, but tomorrow's trend.*

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