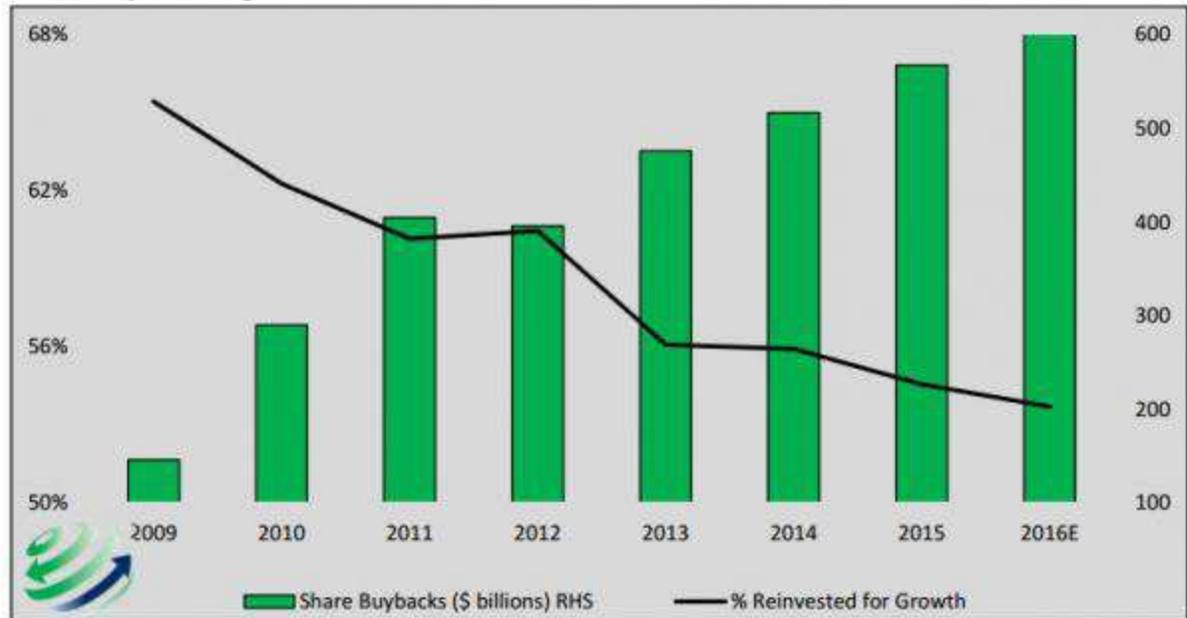


Starboard Weekly Report Ending December 4, 2015
Charts of the Week



Data Courtesy: Bloomberg



Data Courtesy: Bloomberg, Goldman Sachs

The two charts above appeared in an article on corporate buybacks from ZeroHedge.com and both originated from Bloomberg. There has been an 18% increase in share buybacks from companies and at certain times it represents 60% of trading activity. Without this artificial support the markets would be a lot lower.

TECHNICAL

The first chart shows how these buybacks are creating the inequality of income between the corporate class and the middle class. Some of the general public participated in market growth, but not to the extent that corporate executives have. Never in our economic history have we had such a prolonged period of concentration of wealth in so few hands. The real issue in the bottom chart is that management is using corporate capital to purchase shares instead of investing in jobs or capital improvements. This short term thinking is creating an enormous problem for future economic growth. The black line on this second chart shows a serious decline in reinvestment for growth, while more corporate expenditure is spent on share buy backs. Corporate management is notorious for buying at the tops of markets and this causes serious damage to their balance sheets, in addition to retarding future growth.

FUNDAMENTAL

When wealth is concentrated then the money does not get broad circulation, which is extremely hurtful to the economy. The Nineteen Twenties was another period where we had one percent of the population controlling twenty percent of the wealth and we all know how that ended. An article from Seeking Alpha summarized the issue with the following: *“Stock buybacks are a conflict of interest which has been exposed through extravagant levels of executive pay and income inequality. As investors, we are very concerned that the short-termist approach buybacks represent are doing significant long term harm.”* The next time you hear that the DOW, S&P or NASDAQ are up short term, just stop and think about how much of your investment future is being stolen.

ASIDE

“In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military industrial complex. The potential for the disastrous rise of misplaced power exists and will persist.” Dwight Eisenhower

In addition to the military industrial complex he speaks of, we now have banks *too big to fail* that can be added to the list. Our 34th President was right and if our current leaders do not do something about corporate management’s short-termism, we will then have Ike’s feared disastrous consequences to deal with.

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