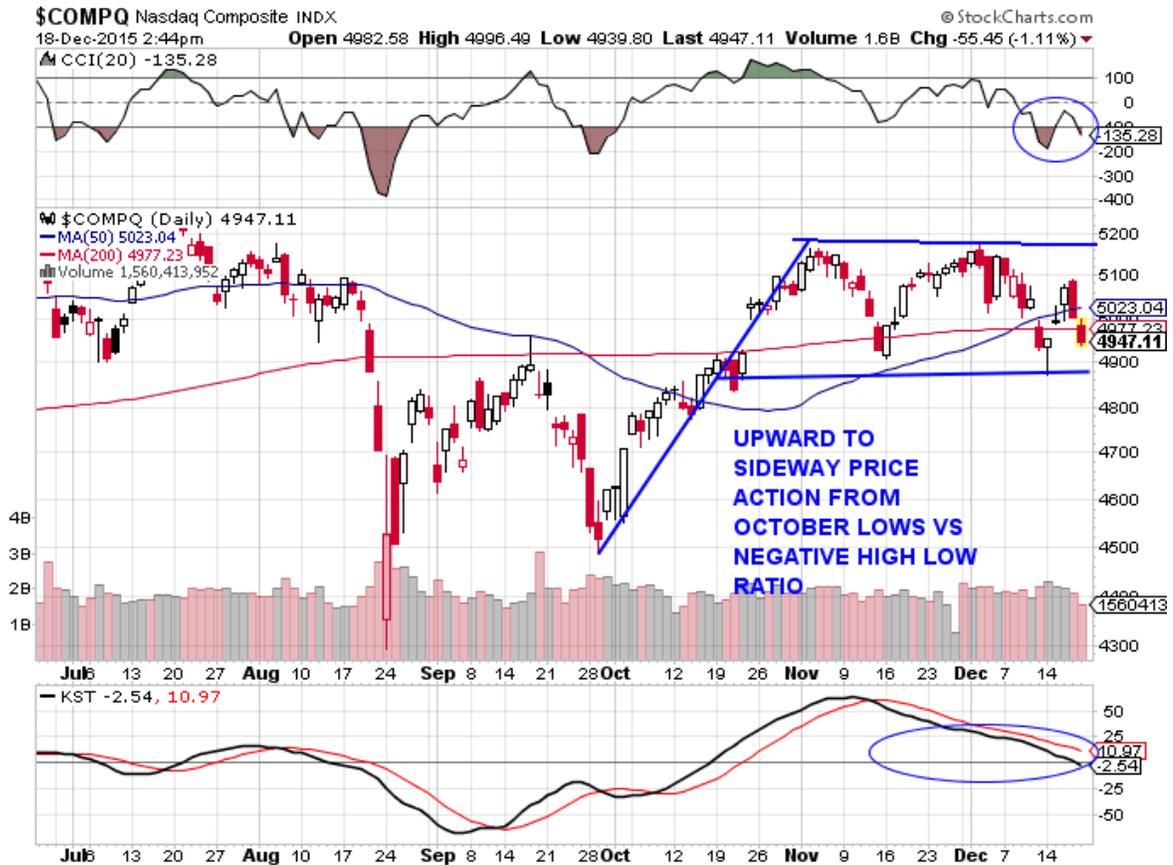
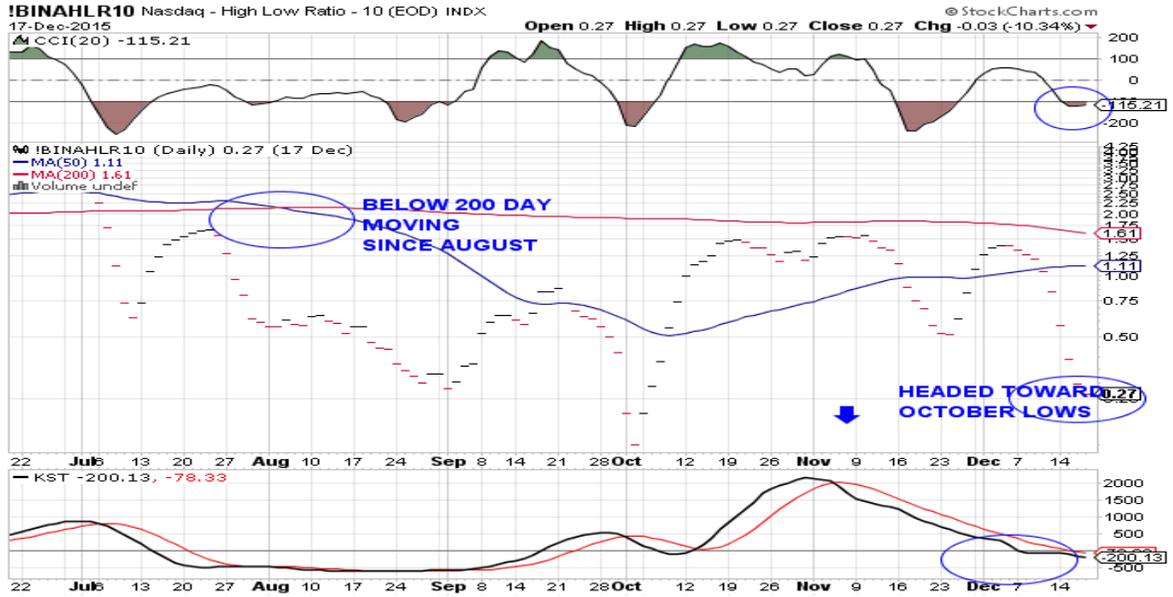


Starboard Weekly Report Ending December 18, 2015 Charts of the Week



This week's charts are from StockCharts.com

TECHNICAL

When indicators like the high-low chart (the first of the two charts presented above) do not agree then it is called a divergence. This divergence is not only present in high-low charts but it is also very much the case in advances versus declines (not shown in these charts). When these internal technical indicators separate from price, it is a very bearish indicator. Price cannot advance when excess supply exists. Fewer stocks are advancing, along with more stocks making new lows rather than highs. Therefore, we have an underlying negative despite the fact that price is showing the opposite. The longer this persists, the bigger the price fall when these internals catch up with the façade. In a future weekly we will take a look at the Russell Index, which is what we are using as a hedge against a down market. This small cap index is diverging seriously in price. This means that smaller companies are not rising along with the S&P, Dow and NASDAQ.

FUNDAMENTAL

Last week we looked at the influence that the FED has had on stock prices since 2006. That stimulus could be coming to an end with the recent rise in rates. The end of the bull market in small caps could be brought on by higher interest rates, which are a strong factor in earnings growth for smaller companies. Ten years of not raising rates and a zero rate for most of that period, along with trillions of quantitative easing (QE), has created mass liquidity. That liquidity drove risk asset prices to today's inflated levels. Too much available capital in an economy drives money to riskier assets. The deleveraging of this risk is what causes economic bubbles to burst. We only have to look at high yield bonds, car loans, student loans, commercial real estate, energy debt in this country, along with Emerging Country borrowings to realize the unwinding of these liabilities will be painful.

ASIDE

"We meet aliens every day who have something to give us. They come in the form of people with different opinions." William Shatner

In honor of the opening of the Star Wars movie, I thought it appropriate to hear words of wisdom from Capt. Kirk, Commander of the Star Ship Enterprise.

The aliens from the FED have been giving to us for some time. There is an increasing body of opinions that are differing on the value of their benevolent liquidity. The economic opinion poll; i.e., the stock market, will be the ultimate judge.

Nothing on this Weekly Report should be interpreted to state or imply that past results are an indication of future performance. There are no warranties, expressed or implied, as to accuracy, completeness or results obtained from any information posted on this or any "linked" website. Any reference to specific securities is not to be considered a recommendation. Every investment strategy has the potential for profit or loss.

Please note: It is the client's responsibility to notify Starboard of any changes that would in any way influence their financial requirements.