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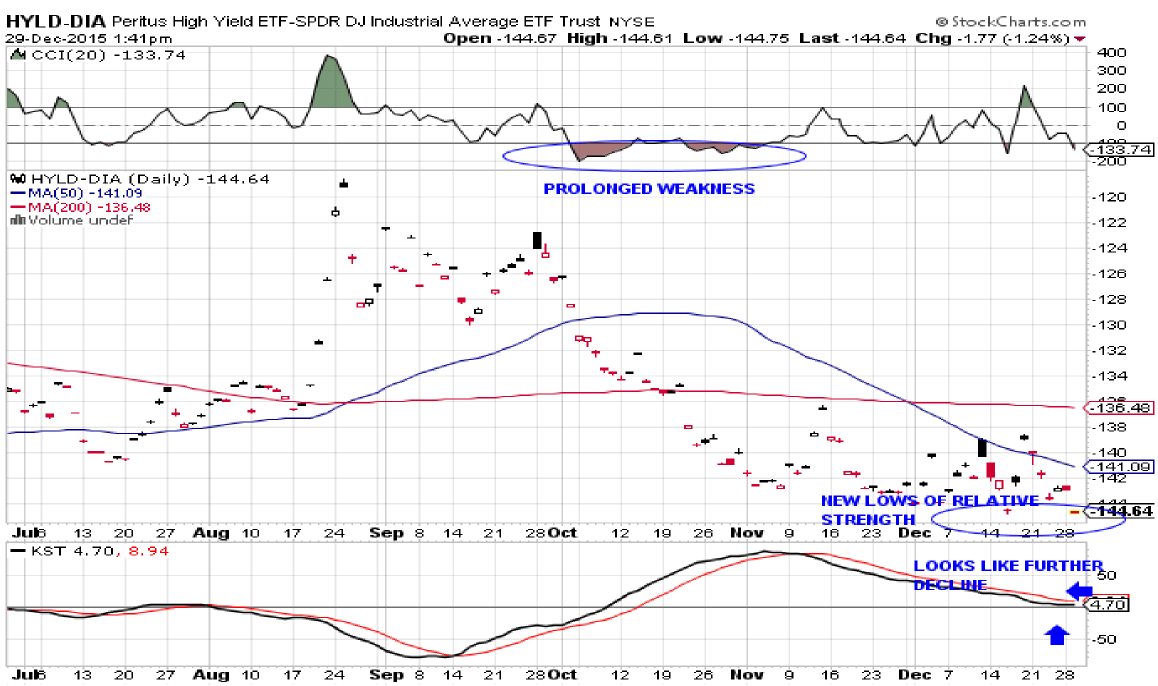
Starboard Weekly Report Ending December 31, 2015
Charts of the Week



The above charts are both from StockCharts.com. The first is a relative strength comparison between the Russell Index 2000 ETF and the Dow Jones 30 Index ETF. The second chart is the HYLD which is an ETF representing high yield bonds.

TECHNICAL

The top relative strength chart represents the comparison of the IWM, which is comprised of 2000 small cap companies and this is compared with the Dow that reflects the performance of 30 stocks. The small caps are a better barometer than the Dow because they give a more comprehensive view of the market. This type of divergence frequently shows up at market tops. When analyzing which Dow sectors are moving, the market also does not offer good news. The sectors that are moving are the defensive segments of the economy, such as Utilities and Consumer durables. This cautious behavior also occurs at market peaks. Since mid-year, the Dow is unchanged, while the small caps are down 7%. This contradictory performance clearly shows a low appetite for taking stock risk. The second chart indicates a lack of enthusiasm for the high risk area of the bond markets. Due to a zero interest rate policy, investors have been driven to speculative markets, such as small caps and high yields. Both of today's charts are telling us that the speculative bubble has burst and that we are starting down a very slippery slope.

FUNDAMENTAL

The collapse of oil prices, which does not appear to have a projected bottom, is causing much of the selloff in High Yield Bonds. Bruce Richards, from Marathon Asset Management, had the following observation on the downfall of oil. *"More than 1/3 of the US Shale producers are expected to go bankrupt in the next 36 months which is putting the whole high yield market at risk for a major crash".* In the fall of 2014, Saudi Arabia set out to destroy the shale oil and gas business in the US. If Mr. Richard's comment is anywhere near correct, then the Saudi's will have accomplished their goal. They were greatly assisted by the FED's easy money policies. This is only one of several economic bubbles ready to burst as high risk investments are deleveraged. In 2015, we began to see the unwinding of the bubbles that the FED policy has created since 2009. Yet to come are Commercial Real Estate, Student Loans and Corporate buy backs. The year of 2016 should be a bubble bursting type year, similar to the 2008 housing bubble.

ASIDE

"*Ring out the false, ring in the true*." Alfred Lord Tennyson

Remember this line as the events of 2016 unfold. The FED has rung the interest rate bell marking the end of a false economic period. Now the markets will be ringing in the truth.