

## Starboard Weekly Report Ending September 18, 2015 Charts of the Week

Change in Yield	Upside Hedge
6%-3%	31.59%
3%-1.5%	16.83%
1.5%-0.75%	8.70%
0.75%-0.375%	4.42%
0.38%-0.19%	2.26%



The top table is an estimation of hedge value that the 10 year provides.  
 The bottom chart is the PIMCO 20+ Year Zero Coupon U.S. Treasury ETF (ZROZ).

## **TECHNICAL**

Our first table shows that as long term interest rates decline, their value as a hedge diminishes. The higher up the yield curve the interest rate goes, the more appreciation is possible as the rate reverses and then goes back toward zero. This gauge demonstrates that the closer the 10 year bond goes to zero, the less hedging value the bonds offer. We own the ZROZ depicted in the bottom chart. There are two reasons to own this investment. One is the income and the second is the safe harbor hedge that government bonds offer. The ZROZ has sold off recently due to fear that the FED would raise interest rates. When that fear disappeared on Thursday the bonds rallied and it should persist, especially if the stock market continues to decline as the technical analysis charts are indicating. The table shown above is on the 10 year U.S. Treasury, but our holding is more representative of the pricing on the 30 year. They trade about  $\frac{3}{4}$  of a percent higher. Please note the price spike in the ZROZ to 126 where at that level the yield was 2.62%. When we compare this to our table, it is about a 10 to 11% hedge. If we get back to that level, I plan to liquidate part or all of our position because the longer term risk versus 10% hedge value is not attractive.

## **FUNDAMENTAL**

Government Bond Rates should decline due to a weak economy, thus increasing prices. However, there is a genuine risk that the Chinese will have to start selling U.S. Treasury Bonds in order to shore up their economy, as well as their currency. If that should happen it would raise rates and lower prices. Uncertainty creates volatility and the FED is less than certain on the rate direction, even as half of the investing public was calling for a rate upturn. They proved their ineptness to control a sick economy by not raising rates after creating months of speculation and ambiguity regarding a possible change. I believe that the creditability of all central bankers suffered a blow as a result of this week's Federal Reserve action, or should I say non-action.

## **ASIDE**

*"The trouble with the world is that the stupid are so confident while the intelligent are full of doubt."* Bertrand Russell

There was plenty of stupidity displayed by the whole saga on the interest rate rise to make any intelligent person have doubt on the subject of the FED and the economy.

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