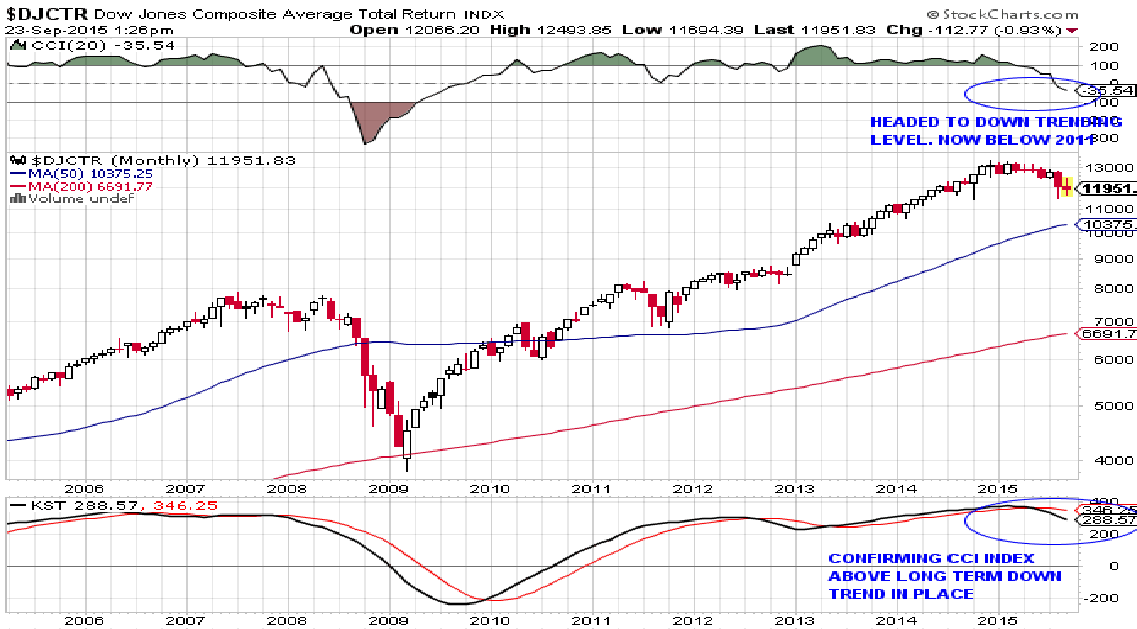
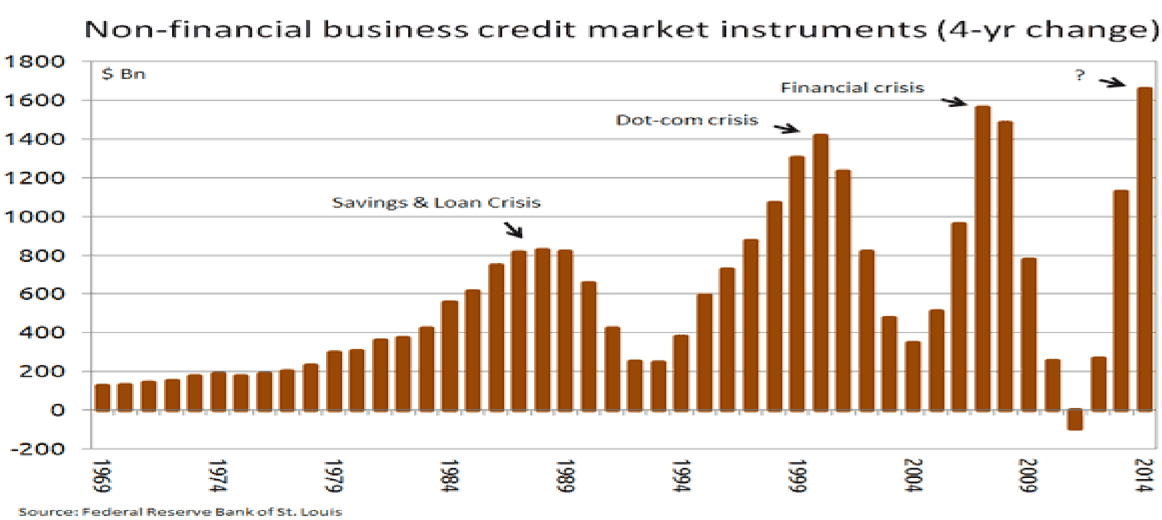
STARBOARD ASSET MANAGEMENT

Risk Management for nagivating your future.

Starboard Weekly Report Ending September 25, 2015
Charts of the Week





The top StockCharts.com monthly chart is of the Dow Jones Corporate Bond Total Return Index (DJCBP).
The bottom Bank of St Louis Federal Reserve chart is based on non-financial debt increase.

TECHNICAL

The two charts above clearly show a hand and glove relationship between technical and fundamental analysis. The top monthly chart is an obvious technical indication of a long-term downturn. The bottom chart shows a stressed upward level of debt that is more of a fundamental economic supply demand issue. In 2011, we had a credit scare surrounding the downgrade of US Treasury debt. It is very disconcerting that corporate monthly debt price trend is actually lower now than it was at that time. Today's 9/25 Wall Street Journal has an article on the subject of corporations buying corporate debt of other companies. As corporate bonds decline and interest rates begin to rise, it will create serious problems for US corporations. In addition, for the past five years, companies have been engaging in large corporate buy backs. Combining the two could have disastrous effects on the corporate balance sheets, and that type of investment double whammy could prolong a recovery.

FUNDAMENTAL

In honor of Yogi Berra and the great character that he was, the St. Louis FED chart should be called *"Deja Vu all over again"*. Every financial crisis that we have had in the past 30 years began with the decline in corporate debt from elevated levels. Our technical chart shows the beginning of a price decline, which would indicate a contraction for demand of debt. As our FED chart illustrates, the pull back is coming from the highest levels ever. The decline in debt markets will likely be the beginning of the next crisis. It is hard to think of rates rising in a deflationary environment, especially when rates are so low. However, quality concerns could be the spark to accelerate higher yields and lower bond prices. The Emerging Markets have private debt at levels of 33% of GDP. China's debt has risen from 3.4Tn. to 12.5Tn. between 2007 and 2015. It is no wonder that China is causing such angst in the U.S. markets. As debt rises in the economy it gets invested in riskier assets. When the high risk debtors cannot pay interest and principal, a crisis develops. That is exactly what happened in the three previous catastrophes noted on the chart and what will propel the next economic calamity.

ASIDE

"When you come to a fork in the road, take it." Yogi Berra

The straight upward movement of U.S. markets has come to a fork. We are positioned to take that fork.

Yogi, thank you for all the sage advice throughout the years. We will miss you and your Yogism.