Risk Management for nagivating your future.

Starboard Weekly Report Ending August 28, 2015
Charts of the Week

The top chart is the Dow Jones Industrial average (DIA), while the bottom chart is the ETF that follows the price movement of the Dow Jones Transportation Index (IYT).

TECHNICAL

In the July 2nd Starboard Weekly Report, I mentioned the decline of the 50 day below the 200 for the Transports as a warning sign for a market decline based on the Dow Theory. This theory, which goes back to 1900, states that transportations lead the market up or down and this week we got a confirmation of that warning. When the DIA 50 day dropped below the 200, it gave us a Dow Theory bear market sell signal. Despite the subsequent rally this week, according to the oldest and most reliable market signal, we will continue to be subject to additional market selloff. A contradicting alternative would be for the averages to both reverse back up, moving the 50 day price above the 200 day average. The last Dow Theory sell signal occurred in January of 2008, while warning for it came in September 2007. The subsequent buy signal happened in July of 2009. Looking at the circles on the above charts, it would take a great deal of buying to reverse the damage inflicted over the past week. As mentioned last week, this week's rally is only a short covering bounce due to extreme oversold conditions. The downside should resume next week and the next expected support is at 15,000 on the Dow. Then there will be another short covering rally into September, with a more serious selloff occurring in October.

FUNDAMENTAL

The Chinese and U.S. economies work in synchronized fashion with each other because they are the two largest in the world. In today's Wall Street Journal, there is an article written by Harvard History Professor Neil Ferguson and he calls this duel economic relationship Chimerica. The reason that many US economists are surprised by the recent market selloff is because they have left China out of their analysis. The strong dollar, generated by the Federal Reserve, has caused problems in China and other Emerging countries. The Peoples Bank of China (PBOC) is now launching a QE program, along with currency devaluation and the possible sale of the large position of US Treasuries that they hold. These events will all negatively impact our economy and that is what the stock market is forecasting. As a result of the ensuing currency war that PBOC has started, gold will finds itself in a positive environment.

ASIDE

"Ratings agencies wait too long to spot risks and downgrade countries, while investors behave like herds, often ignoring the build-up of risk for too long, before shifting gears abruptly and causing exaggerated market swings." Nouriel Roubini, Economist

China's risks have been ignored for too long and due to the Chimerica relationship, our markets will be in peril.