

Starboard Weekly Report Ending June 19, 2015

Chart of the Week



The bright red and black lines up and down the middle of the chart are price activity.
The faded red and black bars across the bottom of the chart are volume per hour.

TECHNICAL

This week we are viewing an hourly price chart of the Dow Jones, in addition to the Dow's hourly volume. There are two concerns regarding the bottom bars on the chart. First is the amount of red colored volume bars which represent selling (especially note the large sell-off today). The next troubling item is the spike in volume in the first and last daily trading hours. The red bars indicate heavier activity when the market is declining versus the gray colored action during periods of buying. Another more serious take away from volume is to observe how it spikes at the opening and close of each day. The reason for this is due to the high frequency traders (HFT) concentrated activity during the first and last hours of a trading day. The concerning aspect of this is lack of liquidity for the majority of trading days. When a serious selloff occurs and the HFT's stand aside, their absence of support would be a huge negative for the market. The HFT activity has caused low market volatility; however, the opposite will ensue when they are no longer a trading factor.

FUNDAMENTAL

Volatility is often caused by black swan events like the possible Greek exit from the Euro Zone. It can also be caused when a minor selloff breaks below trader support levels. If either of these occurs, they can develop into economic game changers. The Bear Stearns bankruptcy that started with the bail out from the Federal Reserve in March of 2008 was the prelude of the mortgage debt crisis culminating in September that same year. I believe that Greece will be the Bear Stearns of the next financial meltdown. There are too many European countries that are in a similar over-leveraged position like Greece. As bankers try to figure out who is the next Greece, interest rates for these overextended countries will rise to dangerous levels. This could touch off the next crisis, a sovereign debt disaster, which would be much more difficult to resolve than the 2008 one. This is especially true with interest rates being so low that they cannot be relied upon for economic stimulation.

ASIDE

"A national debt, if it is not excessive, will be to us a national blessing".

Alexander Hamilton

What would have been excessive in Hamilton's day has become insane today. Hamilton's insightful words will be advice to remember while recovering from the next crisis.

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