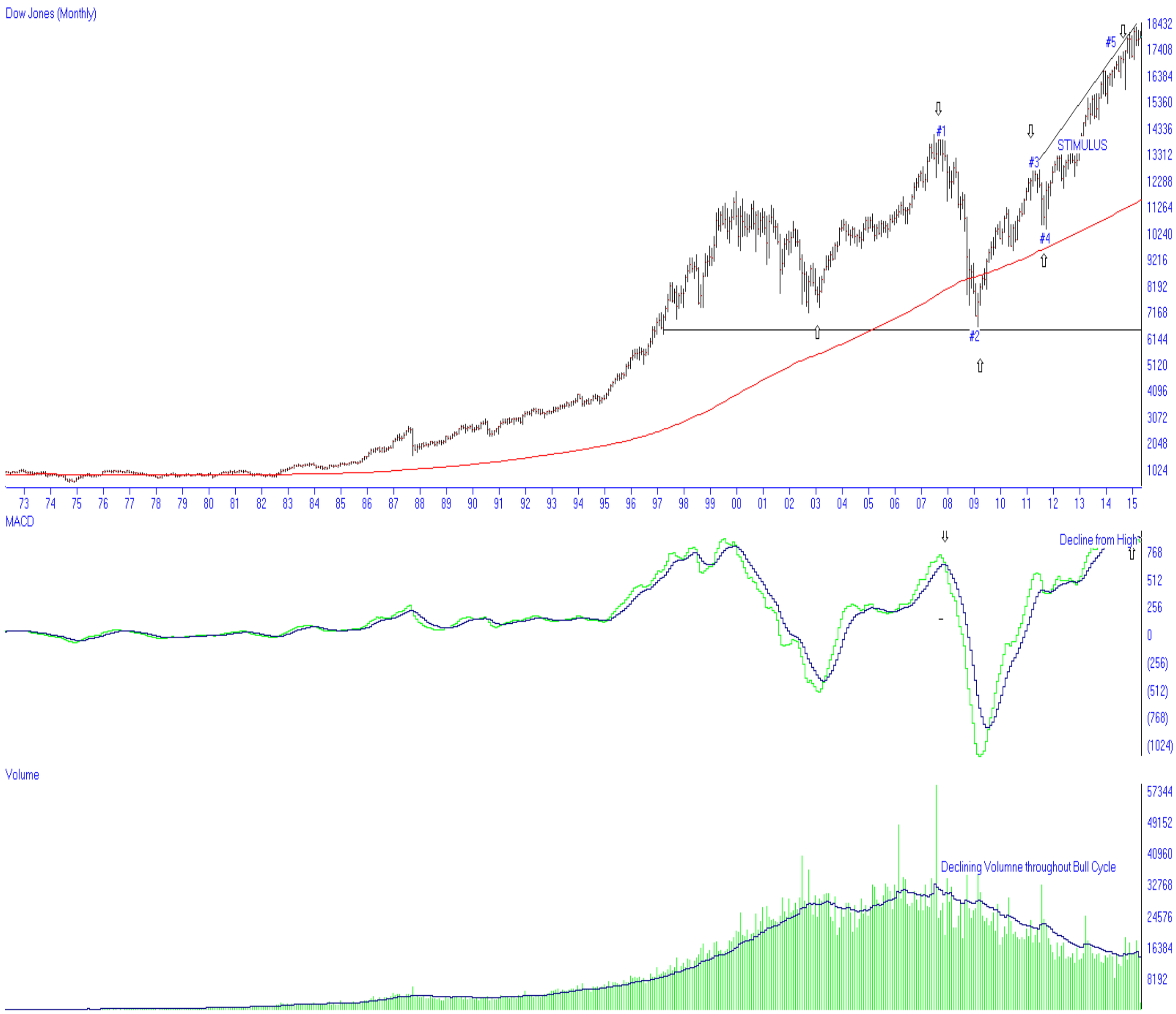
STARBOARD
ASSET MANAGEMENT

Risk Management for nagivating your future.

Starboard Weekly Report Ending May 8, 2015

Chart of the Week



This week's chart and supporting indicators come from AIQ software and represents the long-term picture of the Dow Jones Average.

TECHNICAL

There are many concerning takeaways from the chart and indicators this week. Since they represent monthly data, they are a better forecasting method than daily gauges. In the top chart you will see that there are five points marked. These denote the Elliott Wave points and are what are referred to as wave analysis. Their discipline states that both up and down markets move in 5 waves, which is what the numbers adjacent to the arrows represent. Despite the daily noise, like today's unemployment numbers, the Elliot Wave conclusion is that the fifth up wave is complete and that we only need to decline below 17,589 on the Dow for the new bear market to begin. The next item on our top chart is the red line. This represents the 200 month moving average. Note how past market selloffs get support at that red line. The line is at 11,300 on the Dow and if the market should drop to that level, then we would have a 37% decline. Now, please note the black line going across on the right side which is where the 2009 bottom occurred. Should we go to that level (I believe that is the more likely level) it would be 63% from today's levels. The moving average convergence divergence (MACD) supporting indicator across the bottom of the top chart has clearly declined below the average level. If you go back on this graph to 2007 and 2000, you will see a similar decline below the average from elevated levels. Those two dates represent the top of the last two bull markets. Our current crossover is from an even higher level, which would indicate a more severe downside than the last two bear markets. The bottom graph display is a long-term look at market volume. Note how it declined throughout the entire bull market of the past 6 years. Recent monthly volume in October, December and March were all down months and yet they had above average activity. When heavy downside volume starts and there are fewer than normal buyers, it creates liquidity issues which will make for considerable downside volatility.

FUNDAMENTAL

As annoying as our defensive investment posture has been while waiting for the market to turn down, it will be well worth the wait to protect capital and enable portfolios the benefit of buying at more attractive market levels. Several people, and lately even Janet Yellen and Timothy Geithner, are talking about how pricey stocks have become. The major macroeconomic problem is not that stocks are high-priced, but what will be the consequences to the economy when they adjust. Stock prices have been the main beneficiary of the World Bank's credit bubble and when they decline, the shock will create long-term economic ramifications. When you have declining asset values, along with anemic economic growth in an overleveraged world, you have the ingredients for financial stagnation. The long-term charts are warning us and it is just a short matter of time before their predictions become a reality.

ASIDE

"In battle it is the cowards who run the most risk; bravery is a rampart of defense" … Sallust

I certainty know what this ancient, Roman, Historian-Politician speaks of as it has taken a great deal of bravery for Starboard to remain defensive.