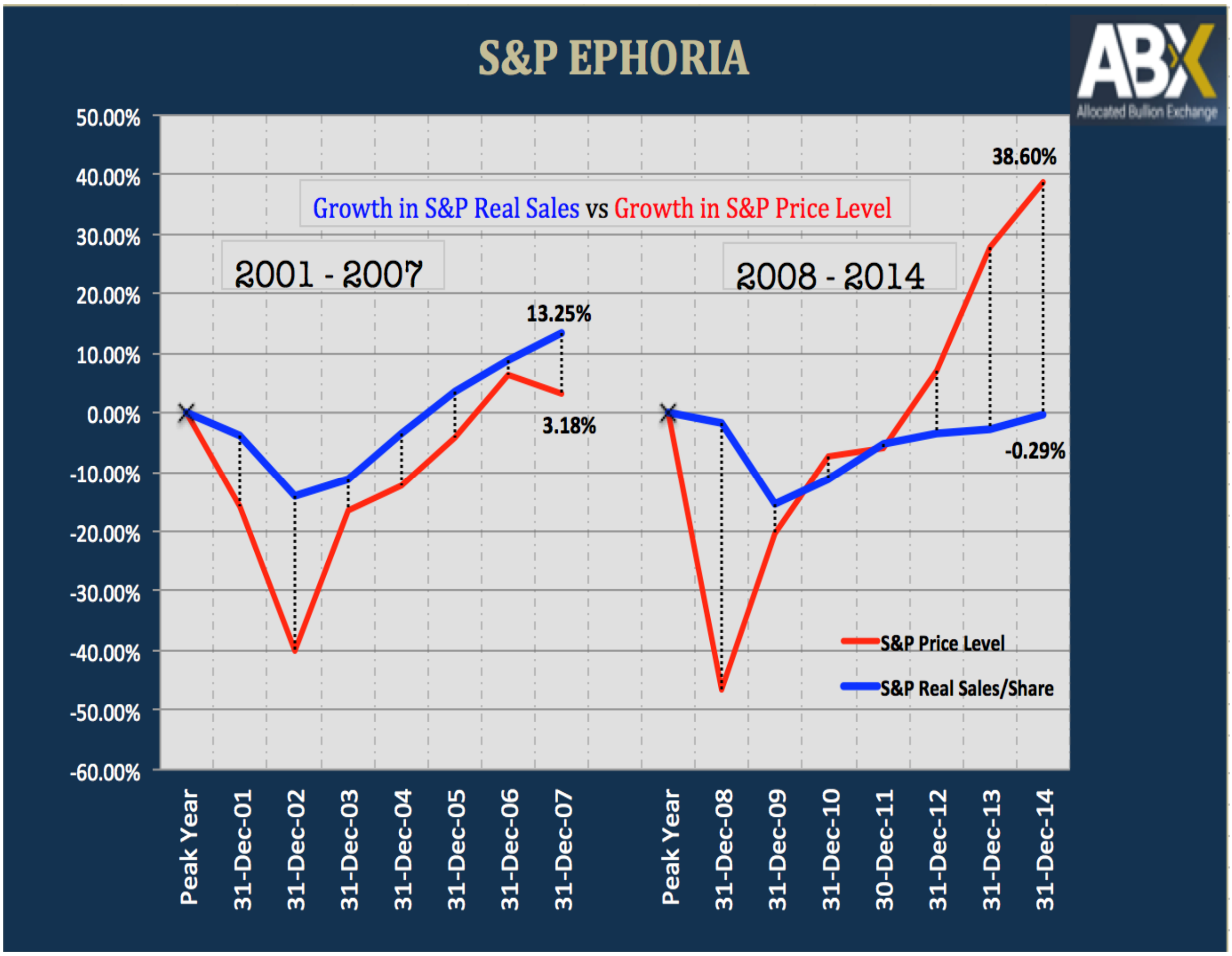
Starboard Weekly Report Ending May 15, 2015

Chart of the Week



This week's chart was produced by a new Australian metal exchange called Allocation Bullion Exchange.

TECHNICAL
Real sales are actual earned revenues, not income from mergers or acquisitions. As the picture above has figuratively been painted on my brain, I am now thinking that this would make a great tattoo on me since it epitomizes what I have been preaching since 2012. Additionally, this chart is very appropriate because the news of the week is that the S&P 500 is now making new highs. Continued technical chart euphoria (red line), when it catches up with awful fundamentals (blue line), has the definite makings of a market crash. I am continually being asked what event will make this market go down when, according to Wall Street and the media, everything is doing so well. The answer is contained in this week's chart and it shows market participants have been buying for the wrong reason. The FED zero interest rate policy has forced the public into the market while abandoning the real purpose for owning company stock - *growth*. Hence, it is the market decline that will ultimately be the black swan and not some outside event.

FUNDAMENTALS
This chart drives home the risk of owning stocks since 2012. Past weekly reports have looked at the long term potential analyzed returns several times since that year and the reward estimates were meager. Viewing the gap in stock prices of the S&P versus sales growth, we can see how dramatically risk has increased in today's market. Investing at a high risk level for a low expected analyzed return is portfolio suicide. Earnings have increased during this period and not because of organic revenue growth. Instead it is due to corporate financial engineering, such as stock buy backs. An interesting side aspect of the lack of growth is the amount of corporate taxes paid in 2007 versus 2014. US corporations paid almost 50billon less in taxes last year than they did in 2007. This might have been caused by numerous accounting issues. But, if corporations had real growth rather than the artificial variety of the past cycle, then they would have paid a great deal more in taxes and thus helping do their share to reduce the deficit.

ASIDE

"The market can remain irrational a lot longer than you can remain patient".

This paraphrase from a famous John Maynard Keynes quote is likely how you feel about this week's chart and comments. According to several technical indicators I follow, we are now within days to several weeks of the market tanking and gold rallying; and that will reward our patience.