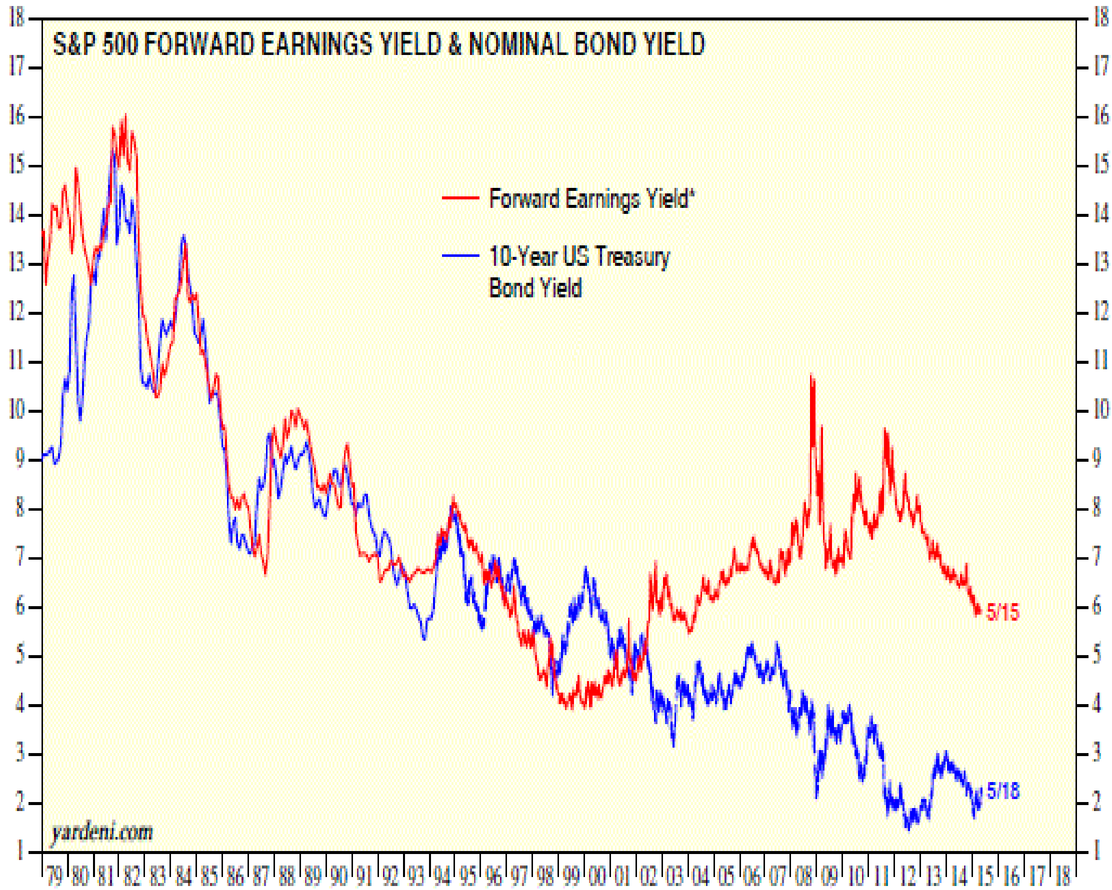
STARBOARD
ASSET MANAGEMENT

Risk Management for nagivating your future.

Starboard Weekly Report Ending May 29, 2015

Chart of the Week



* Forward consensus expected earnings divided by S&P 500 stock price index. Monthly through April 1994, then weekly.
Source: Thomson Reuters I/B/E/S and Board of Governors of the Federal Reserve System.

This week's chart is from Thomson Reuters and Board of Governors of the Federal Reserve System by way of Dr. Ed Yardeni.

TECHNICAL

This chart is for the "*this time it is different*" crowd. And may God bless you because if this chart gets back in sync, only the Almighty will be able to help you. Forward earnings yield is arrived at by dividing earnings into the price of a stock and this chart is the aggregate of the S&P 500 earnings yield. The purpose of this chart's comparison is to determine the differential in risk between the 10 year Treasury Bond and the yield that stocks produce. The stock yield is an inverse relationship and similar to bonds in that when price goes up, yield drops. And thus, the chart has a declining red line from 2012. Note how from the early 1980's through 2000 the two lines are in tandem. Then there is a separation in 2000 and beyond which is largely due to the artificial suppression of interest rates by the FED. The 10 year US Treasury will tend to trade in line with FED policy, although it can deviate. This is a glaring example of the effects that the academic geniuses from Central Banks have had on the equity and bond markets. Note how each time that the red line spiked up, due to the inverse nature of this chart, the blue line declined. This is what I expect to happen again and sooner than later. When stocks fall, the rate on the government bonds will also fall causing a flight to quality rally in bonds. In my opinion, this will happen regardless of what the FED does with short-term interest rates.

FUNDAMENTAL

I believe that the US stock market is in a long-term structural bear market that began in 2000. This chart puts into prospective the reason why another down cycle is on the horizon. A healthy and growing economy needs fluctuating interest rates to provide a barometer for rate of return decisions. If corporations cannot gauge the return on future investments, then they do not invest. Instead, they borrow at cheap interest to buy their own stock because they have more confidence buying their own company projections than buying into the future growth of an artificially suppressed economy. The growth fundamentals of this economy are awful, especially with today's downward revision of 1st Quarter GDP to a negative number. The rate of change of economic growth is now approaching recession levels. Unless we get a big growth spurt in the 2nd Quarter, the economy and market are doomed.

ASIDE

"Put all your eggs in one basket and watch that basket". Mark Twain

We are taking this advice literally by watching our basket of Inverse Holdings (market short), US Treasury Zero Coupons, Gold and Cash. This is not a market to be broadly diversified into many eggs.