STARBOARD ASSET MANAGEMENT

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Starboard Weekly Report Ending March 20, 2015

CHART OF THE WEEK

Patience word removed does not mean we will be impatient (Paraphrase of Yellen's actual quote)

As a consequence of the above meaningless quote the market moved 400 points

This is a pavlovian response orchestrated by the FED of give them what they want

Interest rates however did not go up - they dropped Hmmm….

Even gold went up and the dollar declined on the patience quote

Next day the dollar rose versus most major currencies

Confusing why $ would rise because higher rates very bad for economy

Economic control of Central Banks is ending since their major tool (interest rates) while at zero is no longer effective

This week's chart is the news media's word of the week, Patience. The volatility that this one word has caused is in fact meaningless. I thought it might be amusing to try and outline this week's events that patience created by using the letters contained in the word.

TECHNICAL
Although the stock market rallied quite a bit after this week's FED meeting, the action was as meaningless as Janet Yellen's quote. Neither the Dow nor the S&P went on to new highs. The NASDAQ and Small Cap Indexes made new highs, but they are not going any place if the two major indexes do not surge ahead with them. As mentioned above, gold and bond prices advanced on the news. Gold is potentially coming off a strong support level and can stage a meaningful rally from here. Bonds also had a rally after a large decline from their previous highs made in late January. The dollar is looking tired after rising more than 20% since last August. The dollar remains as one of the strongest chart pictures and after a pull back, it should continue its upward move.

FUNDAMENTAL
The amazing thing about this week's drama surrounding the word patience is that the FED is in no position to raise rates. They would create a further rally in the dollar and that could have major implications in Emerging Countries. Much of their debt, in dollar denominated bonds, have already created a lot of economic pain and could cause mass bankruptcy as the dollar gets a lot stronger. A financial web site, Zero Hedge, pointed out last week that the shadow banking area of hedge and mutual funds in the US has enormous leveraged and derivative exposure in government bonds. These positions have been building up since 2006 when the Federal Reserve last raised rates and higher rates would cause devastating losses. The dollar would get stronger if the FED raised rates because rates are much lower in Europe and Japan. Therefore, investors would buy higher yielding bonds in this country. They would have to buy dollars to do that, making the dollar rise. Our economy, especially international based corporations, are already suffering from a higher dollar. Forty six percent of S&P revenues come from outside the US. Chairperson Yellen has expressed concern about employment not being where the FED wants it to be. That, along with the lack of inflation, gives them no mandate to raise rates. If they do, it would create a dangerous political problem for them. If they raise rates, they would only aggravate a weaker employment situation. All of the above are serious cyclical reasons for not raising rates. In addition, there is an enormous structural issue of the aging baby boomers. They will have a huge effect on our economy in the near future as they stop consuming and become a non-productive force; and an expensive economic sector due to Social Security, Medicare and other social programs. Yet another reason is that if rates rose too much, the government could not afford the interest payments. So if the FED raises rates, it will be a mere token rise and nothing that should cause a 400 point change in the DOW.

ASIDE
An ounce of patience is worth a pound of brains. Now that the FED is shedding PATIENCE, perhaps ours will be rewarded. As we have witnessed these past few years, the Old Dutch proverb above is difficult to practice. However, I strongly believe that the long-term compensation will be worth our wait.