STARBOARD ASSET MANAGEMENT

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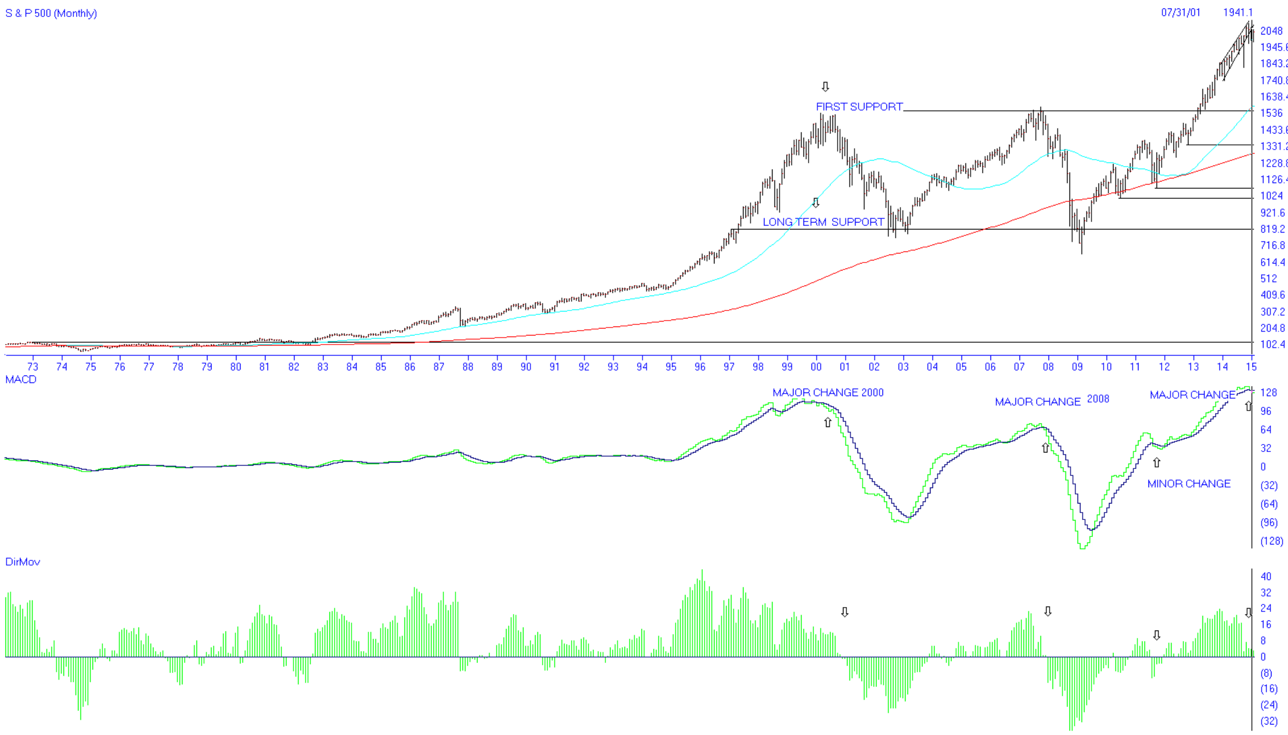
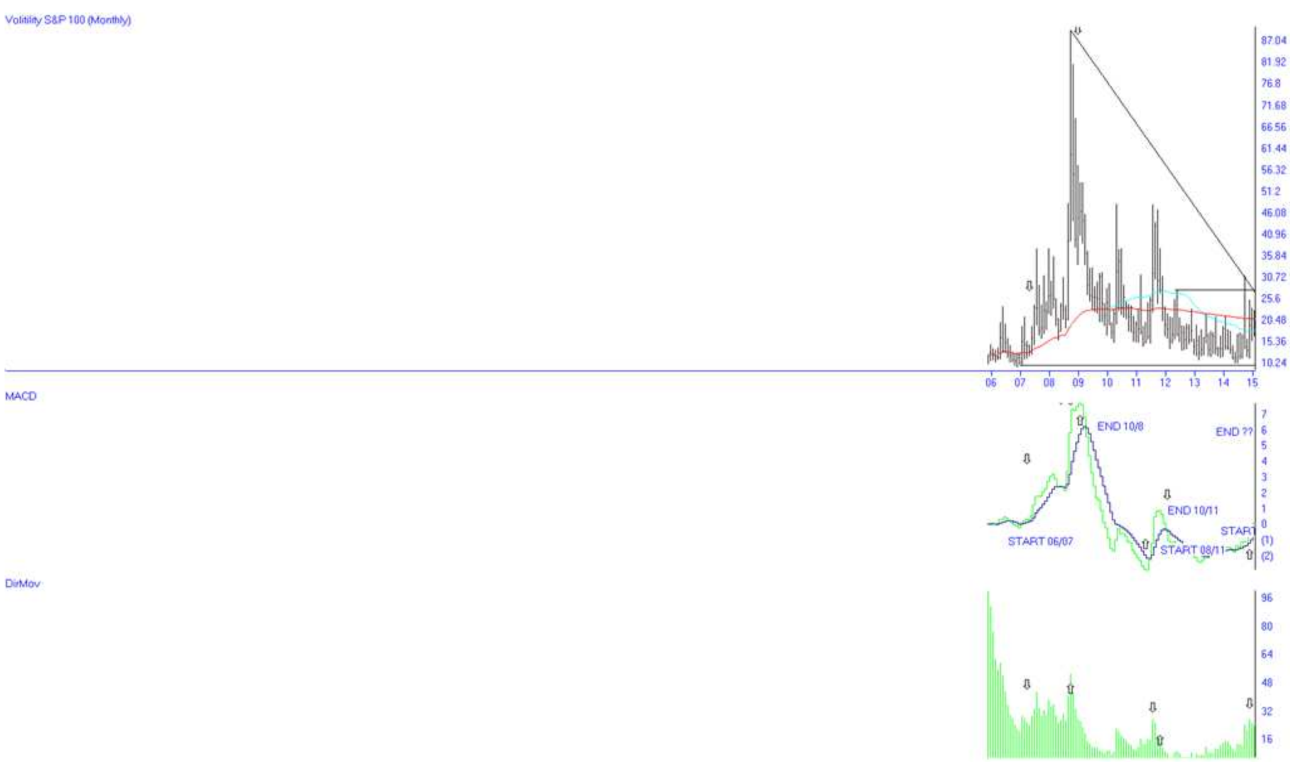
Starboard Weekly Report Ending February 6, 2015

Charts of the Week





This week's two charts, separated by the dark dash line, from Starboard's AIQ Charting Service represent a long term monthly view of the S&P, along with the Moving Average Convergence Divergence (MACD) and Directional Movement (DM). The bottom chart is a long term look of the VIX, which is the volatility of the S&P. It also has the MACD and the DM.

TECHNICAL

There is plenty of information on these charts and the biggest takeaway is the overextended position of the S&P. This combined with the recent price breakdowns, the monthly MACD downside crossover and extreme volatility, all make for a recipe of a major sell off. The black horizontal lines represent long term support levels. These points are anywhere from down 26% to the bottom possibility of 816 on the S&P, which is 61% from the high of 2,093 made on December 26, 2014. This chart goes back to 1973 and allows us to see the long bull market of 1983 to 2000, and then the structural bear market trending since 2000. Over the long term, in this type environment, markets have peak and trough movements like we have had since the year 2000. I am convinced that a new final down leg will begin this year. The only question in my mind is how far and how long it will extend to the downside. The good news is, once it ends, we will start a long term recovery into the next structural bull market. The bottom chart of the VIX (S&P volatility) and supporting MACD & DM are a strong indication that a selloff is approaching. This chart only goes back to 2006, but we clearly see how increased volatility during the past two declines resulted in mayor and minor bear cycles. The recent insane volatility started in October 2014 and if it breaks out of a recent high of 31.06, the bear market will ensue.

FUNDAMENTAL

How could this happen when everything appears to be recovering nicely and when everybody in Wall Street and Washington are so upbeat? We only need the two words of debt and deflation to answer the question. We are masking real growth in favor of perceived over leveraged economic strength based on asset inflation. This new debt deflation bubble will soon burst to create the technical analysis downsides described above. The current GDP recovery is the most anemic annual growth from the bottom of a recession since records have been kept on such statistics. However, today's stock market is at the second highest level from a recession bottom since 1896. The only market to beat this was the 1929 top. The false hope from this superficial market will require huge downside price adjustments in order to bring our economy back on solid footing. From that point, we will have deleveraged to start a new bull cycle. We can only hope that a new cycle will be built on real low-leverage organic growth that takes advantage of the many economic and political blessings we enjoy as a nation.

ASIDE

Over 225 years ago, Thomas Jefferson said the following: "*Never spend your money before you have it*" and "*I believe that banking institutions are more dangerous to our liberties than standing armies*". Today our inept politicians have central bankers do their bidding. The damage these banking institutions can inflict on our liberties would make Jefferson's quote seem remarkably insightful.