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ASSET MANAGEMENT

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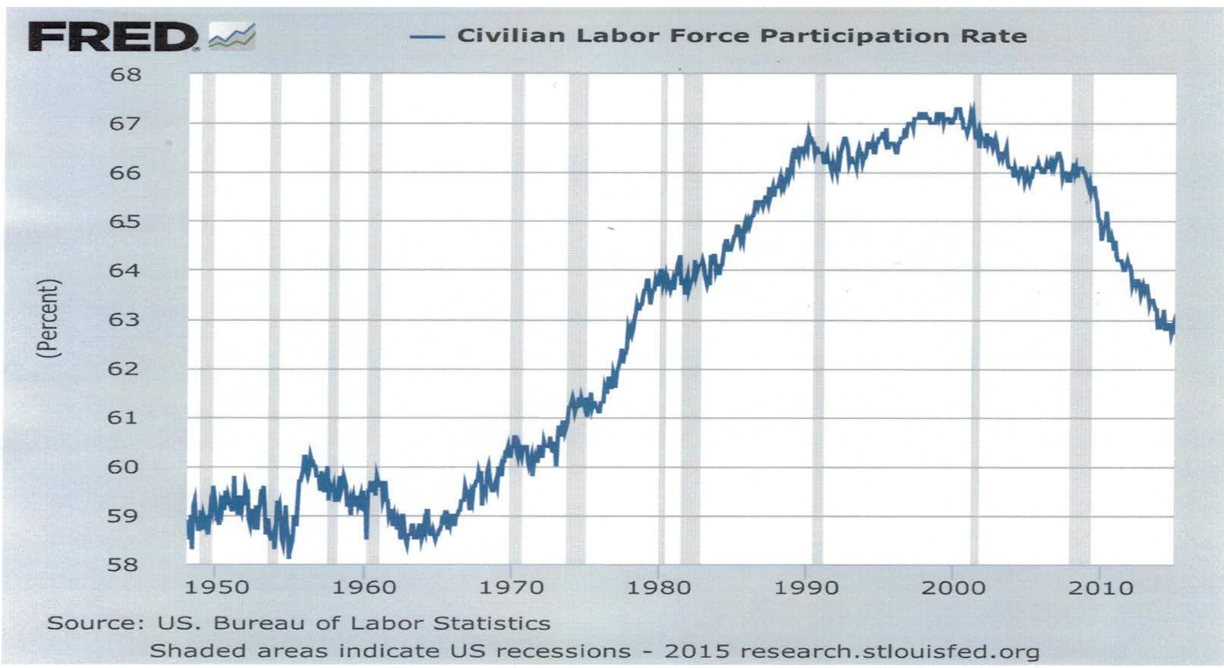
Starboard Weekly Report Ending February 20, 2015

Chart of the Week



The chart above is from the Federal Reserve Bank in St Louis, Mo. Try to make a mental picture of this chart because the next time Wall Street analysts and the talking heads falsely rave about how unemployment is improving, you will know otherwise. Their enthusiastic reporting is all about the monthly changes and no breakdown whatsoever on the total number of Americans that are actually employed.

TECHNICAL
There is not a great amount of technical analysis needed for this week's chart. However, it is worth pointing out that the grey shaded areas represent past recessions. Upon completion of the five recessions from 1970 to 2000, total employment rose. But since 2000, other than a slight increase before the 2008 recession, the trend has been straight down. Follow the 63% line across the chart and then compare it to the dates on the bottom axis. This exercise will illustrate that we are back to 1978 employment levels.

FUNDAMENTAL
The market reacts to improving unemployment numbers as if they were the main driver of an improving economy. Two weeks ago there was an improvement in the monthly comparison numbers and the bond market went ballistic. Interest rates shot up as if we were going to have an economic liftoff, the likes of which would force the FED to raise rates. The stock market also rose on the news, while gold declined. This week's chart exposes how meaningless these monthly numbers are. Employment is a very important aspect of economic recovery, but the truly meaningful number is the total percent of the population employed, as represented in this week's chart. The monthly US Bureau of Labor Statistics Report does not include those who have stopped looking for work or those who are beyond receiving unemployment benefits. Therefore, it creates an inaccurate representation. The most amazing thing about this chart is contrasting it to the monetary and fiscal stimulus that the government has created since 2008. It exposes as a complete farce, the Government's made-up decrease in unemployment from 10% in 2009 to 5.6% now. This chart is the most telling depiction of deflationary results of the real economy versus the artificial inducement of Quantitative Easing (QE).

ASIDE
The decline in employment has been occurring since 2000 with acceleration after 2008. So a good question would be; why hasn't this had an effect on the stock market to this point? And the answer; QE has forced money into the stock market and not into the general economy. QE has ended and now the economy has to stand on its own. As we can see from the long-term employment trend, it is not doing a very good job. Risk is the other take away from this chart. When the market catches up with the inevitable, the issue will be for how long and how far can it fall. This week's chart gives real meaning to the following Stephen Spielberg quote:
"Failure is inevitable - Success is elusive"