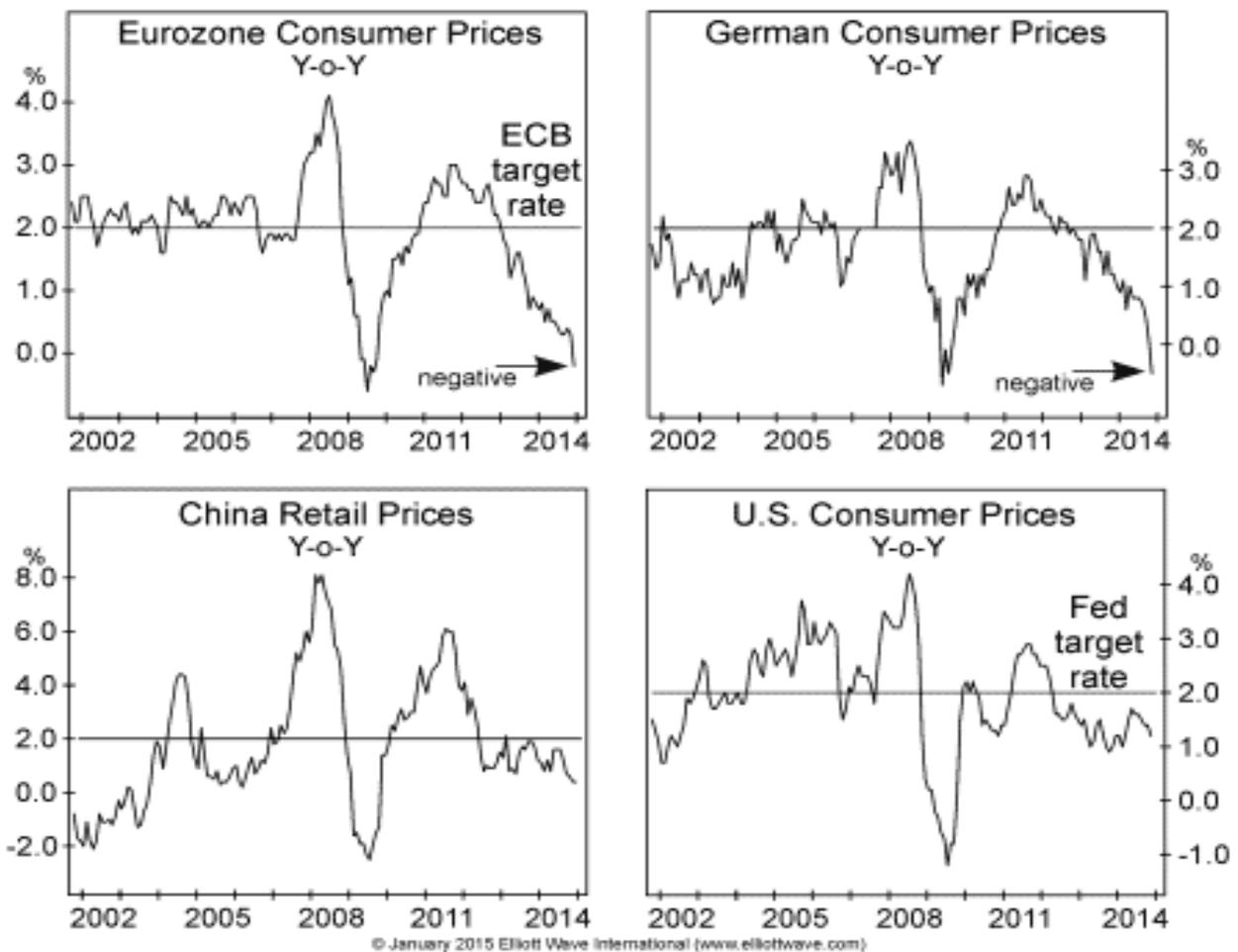


Starboard Weekly Report Ending February 27, 2015

Charts of the Week

**QUANTITATIVE EASING IS FAILING**



This week's headline and charts come from The Elliott Wave Letter. They show the countries that represent the world's primary growth engines, all of which are in a deflationary mode based on a decline in consumer prices.

## TECHNICAL

Each chart has one thing in common. They show a seriously declining picture; especially over the past 3 years. The US is the only one that is not showing a lower low in its current downward slope. Since all four charts show the same trend, while their respective Central Banks have practiced Quantitative Easing (QE), it is easy to conclude that QE has not worked. Additional proof that the QE is not working is illustrated on the US chart. This shows that consumer price declines coincided with The FED's launching of its last stimulus program.

## FUNDAMENTAL

What falling prices you might ask yourself because it does not seem like anything has been getting cheaper. The widely followed government statistics show prices are actually declining. For analytical purposes, business decisions are based on this data, regardless of it not representing reality. If you hold cash in a period of declining prices, you get a rate of return commensurate with the price descent. Your money buys more in the future rather than at today's higher price. Consumers wait to make purchases and that is very bad for businesses and the economy in general. This buy later mindset causes a recession that if allowed to continue, can later snowball into depression. That is why Central Banks and governments are so aggressive in fighting deflation. This week's declining price charts clearly show that QE is the cause of deflation and not the cure. The difficulty for all Central Bankers, who are trying to remedy deflation, is that they are using cyclical means to fight structural economic issues. An illustration of this problem in the US is our demographic concerns and how they affect our productivity. Our economic and political leaders must realize that all of the QE and fiscal stimulus will not work if we do not address real issues; such as tax and social program reforms. Debt is another huge deflation issue facing the developed world. When prices are declining, there is less money to repay the interest and principal on borrowings. This problem is especially acute in the southern Eurozone. The amount of debt that the Euro Central Bank has issued to countries like Spain, who have deflation and 25% unemployment, is really alarming. One economic entity not failing throughout this deflationary period is the US stock market.

## ASIDE

This time 6 years ago, all of us were wishing for the 2008/09 bear market to end. On March 6<sup>th</sup> of 2009, the S&P made its bottom at 666 and has since risen 218% to 2119. Six from a biblical perspective represents the devil and man's weakness. We are coming up on the 6<sup>th</sup> birthday of the 666 bottom, a number that in a biblical context represented the end of the human weakness fear. Could this year's devilish number 6 anniversary mean the end of the S&P 666 rally and thus using its number 6 demonic powers to end another evil, the current stock market greed?

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**Please note:** It is the client's responsibility to notify us of any changes that would influence their financial needs.