

Starboard Weekly Report Ending January 22, 2016 Charts of the Week



The main chart on top is a weekly one from Stock Charts.com of ZROZ Pimco’s Zero Coupon ETF. There are also two supporting graphs below it. The first is a moving average with volume and the second graph on the bottom is a depiction of money flow in and out of the ETF.

TECHNICAL

We sold half of our ZROZ positions this past week. Rather than reporting on the stock market carnage earlier this week, I thought it important to look at why we sold this bond position into strength. For some time now we have had an open order in to sell ZROZ at 119 and mid week it executed at that price. The top chart shows the value of technical analysis that reports the supply and demand effects of price volatility. There are several important technical representations to note. First is the orderly rise from 83.15 to 135.33 followed by the up down more volatile performance from that high. The more erratic activity has a series of lower highs, which indicates that in each rally there are fewer buyers and it is a sign of supply demand weakness. The bottom support graph is also showing strong signs of weakness where we see less money flowing into the ETF since the July low. The recent rally received considerably less flow than past rallies. Despite all the negative technical information, if stock prices continue to crack as expected, then prices of the ETF can still shoot higher. US government bonds are a safe haven, but if they rise further I will sell the remaining position because of the deteriorating supply demand dynamics.

FUNDAMENTAL

When long term rates got to almost four percent in December of 2013 the price of ZROZ was at its low of 81.86. The high in our chart is 135.33, which represented a bit over 65% return. In order to duplicate that return then interest rates would have to go to zero, which is possible. However, that is at today's price the total limit for capital appreciation for ZROZ. The majority of our purchases were at 88, providing a 4 percent yield to the holder. The return now for ZROZ is 2.86 percent, although better than the meager yields of cash in money markets. The lower return, combined with limited appreciation, made it prudent to sell half of our position. I believe we will find that the market has further selling routs which could create further upside spikes but I do not think ZROZ will exceed the old high. Therefore, it is my intention to sell the rest of our position near the old highs. I will also be placing a stop order at 109 so as to protect from downside risk.

ASIDE

“Be moderate in prosperity, prudent in adversity.” Periander

The stock market was not around when this ancient Greek leader created this very wise quote. Today, our investment prudence in adversity will continue to create long term portfolio rewards. Our moderate defensive posture during the recent market prosperity will prove as worthwhile in the present as it was for Periander in ancient Greece.

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Please note: It is the client's responsibility to notify Starboard of any changes that would in any way influence their financial requirements.