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Starboard Weekly Report Ending February 19, 2016
Chart of the Week

This week's chart is a weekly depiction from StockCharts.com.
It is a comparison of the SPDR for Biotech (XLB) and the spot price of Gold.

TECHNICAL

Comparing two long-term price relationships into one is often a useful technical analysis exercise. This contrast is especially beneficial because of the uncorrelated nature of the two prices. Gold is a store of value, while biotech is a high risk area of investing money. While FED liquidity rained from 2012 through 2014, money poured into speculative assets that were led by biotech equities and oil driller junk debt. We can clearly see in the comparative chart above, how when matched to gold, biotech is tanking. The opposite was equally apparent while the FED was inflating the money supply. Another reason for comparing gold and biotech, especially gold equities (not depicted), is that speculative market participants like hedge funds shift in and out of both sectors as momentum dictates. The green line on the chart is the moving average and its momentum has shifted down, which is a further indication of money flowing out of Biotech.

FUNDAMENTAL

There is not a great deal of fundamental reason for the uncorrelated nature of the two sectors, other than a flight to quality that gold represents. One other fundamental reason to consider; however, is the fact that Biotech equities sell at huge price earning premiums. Many have no earnings at all and sell at astronomical evaluations based on the speculation that they might create the next great wonder drug. We own the small cap *inverse* of the Russell 2000 Index, which includes several biotech stocks. In a previous weekly report, I showed that eight of the top performing Russell index stocks were biotech's selling at an average of 80 times earnings. Even though the Russell 2000 is down 27.3% (bear market territory) it still continues to have a great deal of downside risk. Before the next back to normal chart phase ends, I believe that biotech's are capable of being down over 70% from last June's high.

ASIDE

"If only the human body could handle trauma as well as Biotechnology stocks do."
Alex Berenson

If this young American author is comparing physical trauma with mental, then youth has a different sense of mental trauma than this old timer. And this is especially true when I look at the historic 60 to 70% downside risk that can exist in biotech stocks.