STARBOARD ASSET MANAGEMENT

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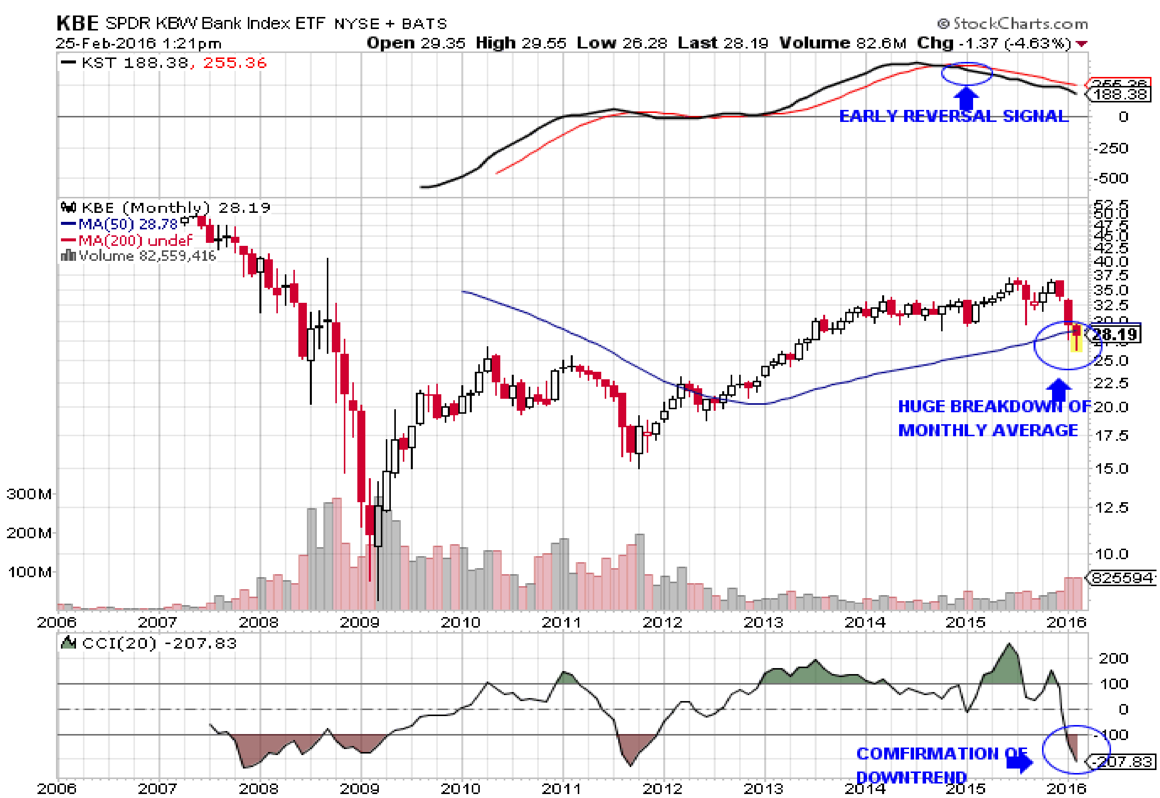
Starboard Weekly Report Ending February 26, 2016

Charts of the Week



The top chart was created by John Murphy of StockCharts.com (SC.C), while the bottom diagrams also are from SC.C, but with my notations.

TECHNICAL

When I look at both of the charts above, a beer commercial jingle from my younger days comes to mind, "Make the three ring sign and ask the man for Ballantine". There are three things going on in our top chart: the Interest Rate decline (green line) along with the relative strength relationship between the Bank Stock Index (KBE) and the S&P 500 Index (red line). This is a very powerful picture since it reflects what is truly driving this year's market. Interest rates drive the banks, and banks in turn have a big impact on what the market as reflected by the S&P does. The banks have other issues besides rates; such as the tremendous amount of bad oil loans they have on their books. I have made three rings on the bottom monthly chart indicating how weak the bank stocks have become on a longer term basis. The 50 month average is the "line in the sand" for banks and we just declined below it. Unless interest rates all of a sudden reverse or oil prices return between the $50 to $60 range, we can expect to see further decline in bank stocks with the market ratcheting lower alongside them.

FUNDAMENTAL

Away from the headline issues about interest rates and oil prices, the banks have more serious long-term political and economic problems. Earlier in his term Obama stated, in a meeting of bankers, "my Administration is the only thing between them and the pitch forks". His term has less than a year left and our new President, with the possible exception of Hillary, will not be as protective as Obama. The public seems fed up with the *too big to fail* institutions and are likely to call upon public officials to have them broken up. That would create serious short-term concerns, but would be much better for the economy longer term. The Dodd-Frank, Volcker Rule also creates serious profit making restrictions limiting bank profitability. Mamas, don't let your babies grow up to be bankers. I believe the severe problems they caused in the 2008/09 Great Recession will haunt "big" banks for several generations, much like what took place after the 1930's depression. Because of negative sentiment, the current downside could really feed upon itself and create a near depression in big banks shares.

ASIDE

"The issue which has swept down the centuries and which will have to be fought sooner or later is the people versus the banks." Lord Acton 1834-1902

Apparently what we are going through with the *too big to fail* banks is nothing new. According to Lord Acton, the world has been fighting bank issues for centuries. The banks are the gatekeepers of greed and when that greed finally becomes obvious, something will have to change.

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