STARBOARD
ASSET MANAGEMENT

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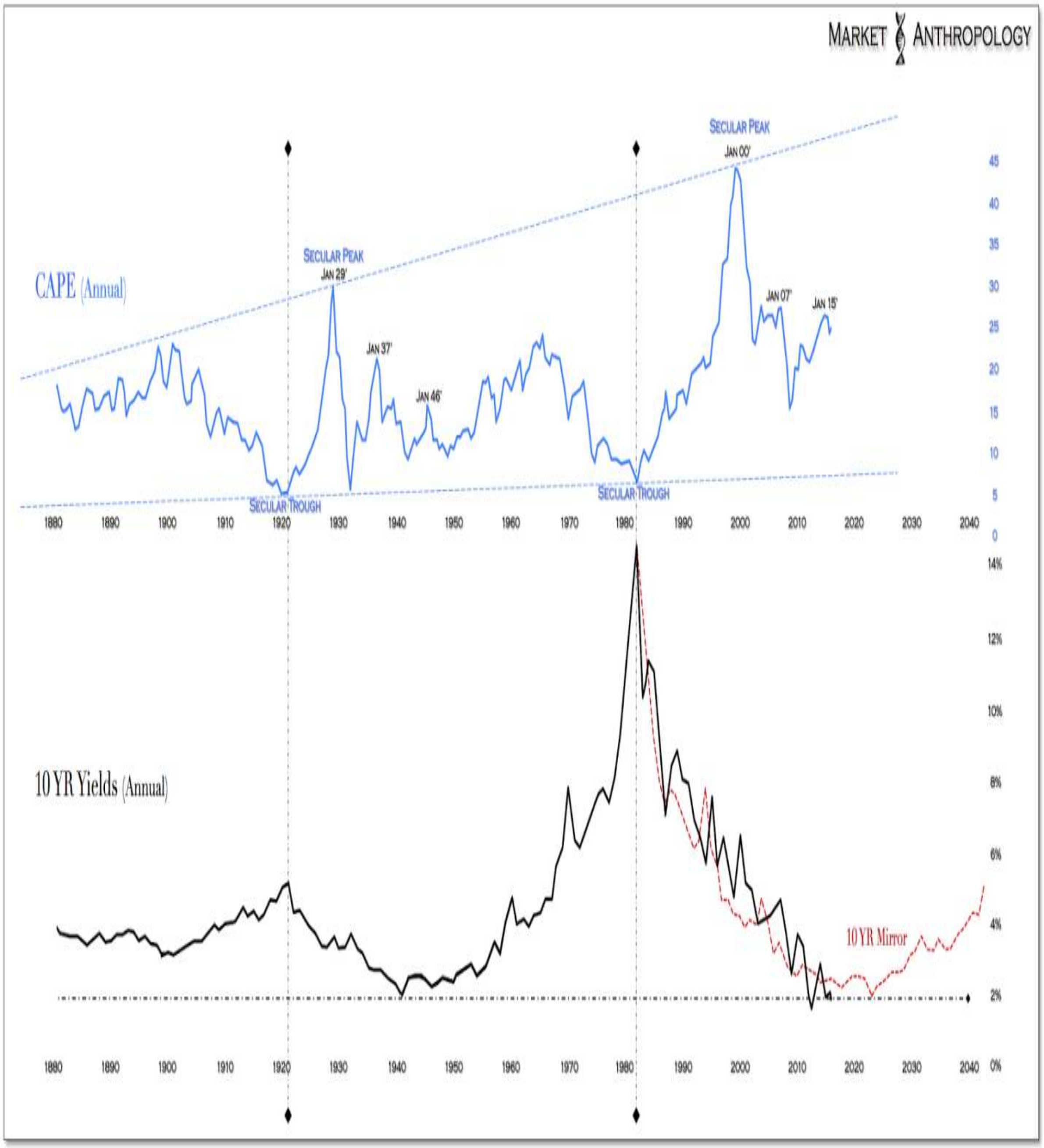
Starboard Weekly Report Ending March 11, 2016
Chart of the Week



This week's chart is from Market Anthropology and it is a very long-term view of the Cyclically Adjusted Price Earnings (CAPE) and the annual interest rate of the US 10 year bond. Both cycles are compared on a secular basis as well as a shorter-term cyclical basis.

TECHNICAL

Both graphs are great secular pictures of earnings and interest rates. There is a technical analysis concept that states; price extremes in one direction get equally severe moves in the opposite direction. These charts bring this concept into prospective. In 1929 and 2000, when earnings got to ridiculous levels of 30 to 45 times, they ultimately reverted back to 10 times. At this point you are probably thinking *in the long run we are all dead so tell me something that is useful to me today*. However, with CAPE we have arrived at the period of the long term picture when prices will accelerate to the downside. We are at 24 times earnings level on this chart and if we are headed toward 10 times over the next couple of years, as I believe we are, then you really want to pay attention to the risk that this chart projects. The bottom interest rate portion of the chart shows us in a bottoming position offset from the crazy highs of the 1980's. Market Anthropology is projecting continued low rates into the early part of the next decade. If they are correct then US Government debt will be a good place preserve capital despite its merger return.

FUNDAMENTAL

The current deflationary trend could persist into the next decade and put further pressure on stock prices and that would bring the CAPE annual number down toward 10 times earnings. It is difficult to envision rates rising anytime in the near future. The Central Banks of Japan and Europe recently resorted to negative interest rates. In her quarterly congressional hearing, Chairperson Yellen talked about imitating them. If that should happen, we could be in for a long period of low rates. A recent Wall Street Journal article pointed out that the 1930's deflation and subsequent depression was caused by excessive debt. It cited the fact from a McKinsey study stating that world debt is now 300% of World GDP. The servicing of that debt load is restraining economic growth and will continue to do so until it is restructured through inflation (not likely) or the sale of assets occurs to create the necessary deleveraging. It is difficult to manage money on a secular basis when the world is watching its wealth on a cyclical basis. Normal cycles are not able to function because our political and economic genius's continue borrowing to forestall deleveraging. However, using Market Anthropology (the detailed study of people), we can see their repetitive psychology over time and how it will win out economically despite artificial stimulus. Market history, on the other hand, is the study of those actions via technical analysis. This graphic illustration shows the secular and cyclical relationships and there long term consequences. Graphs like this week's CAPE and Government Interest Rates go a long way to create the sense of long term investment direction. Knowing the association of where we are in a given cycle reduces secular or long term portfolio risk. And more importantly, it tells us when to employ capital at reduced risk levels.

ASIDE

"Those who don't know history are doomed to repeat it." Edmund Burke
As far as I know Edmund and I are not related, but we sure do think alike!