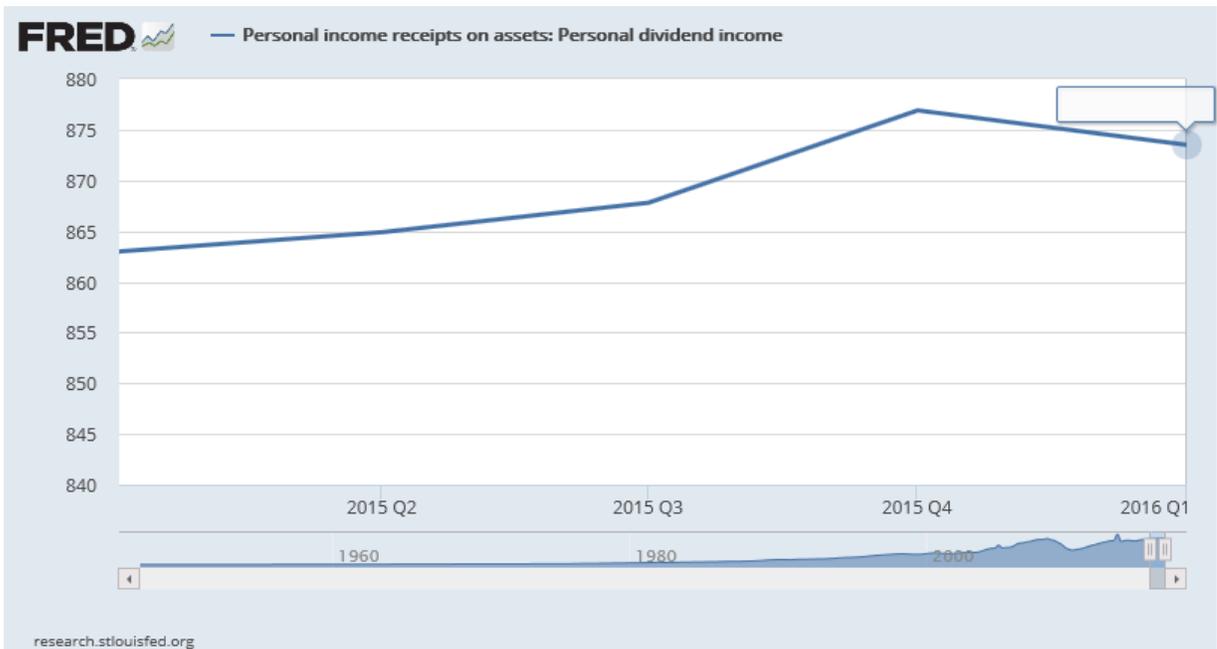
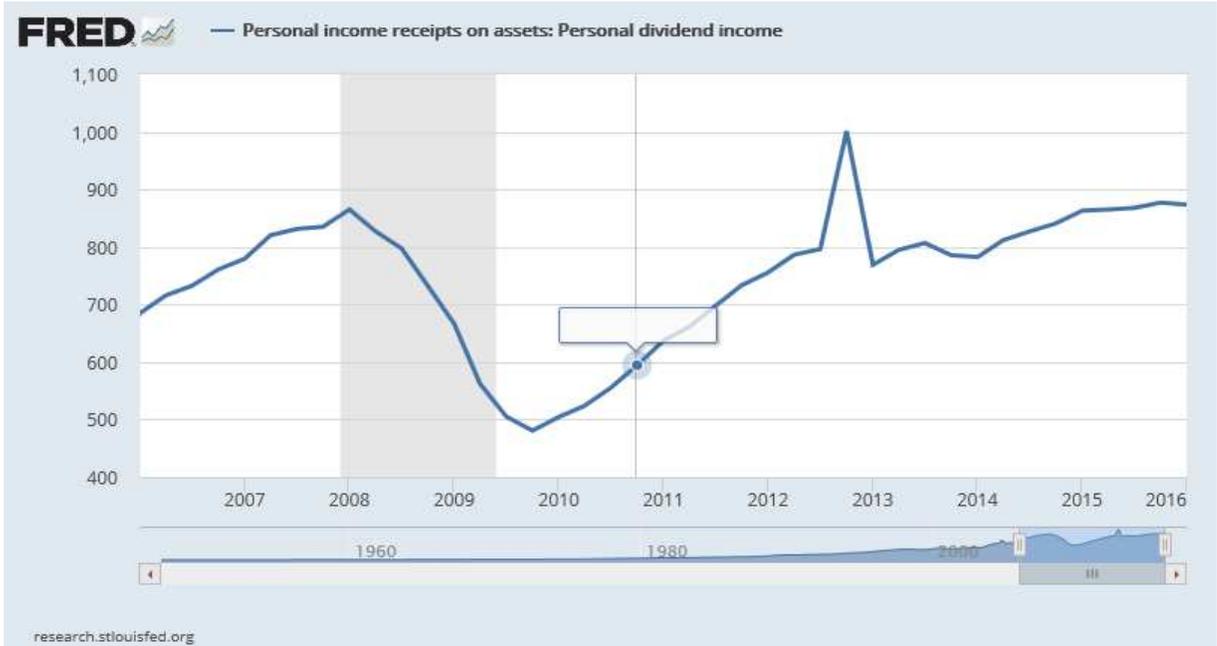
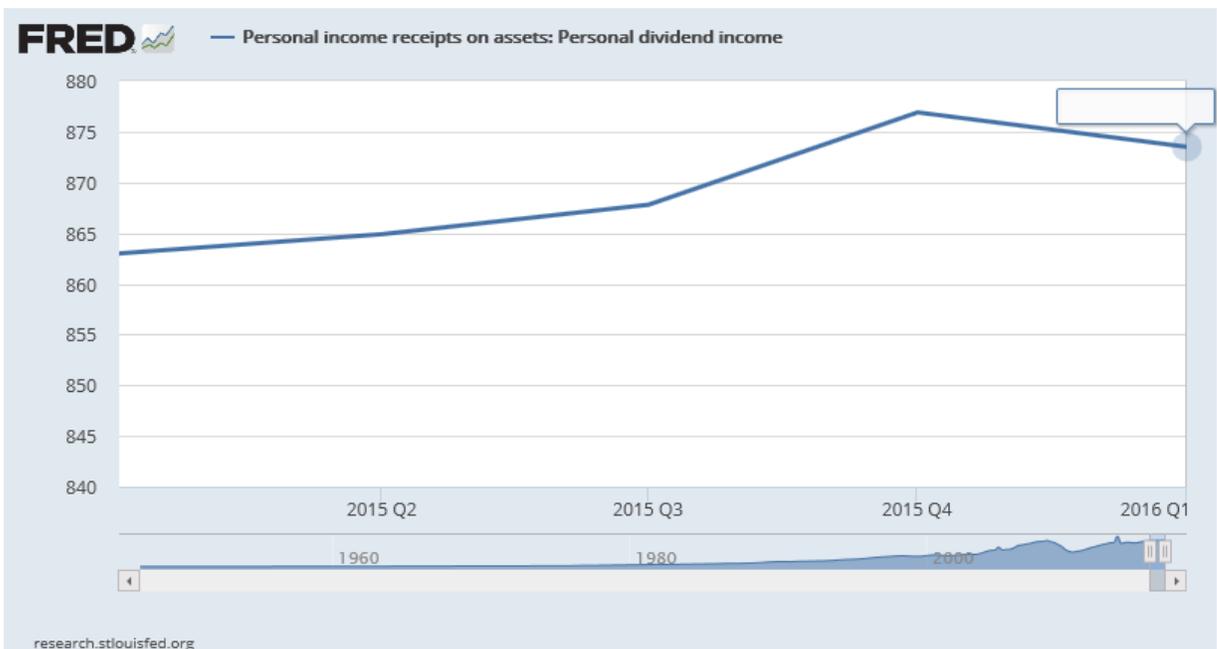
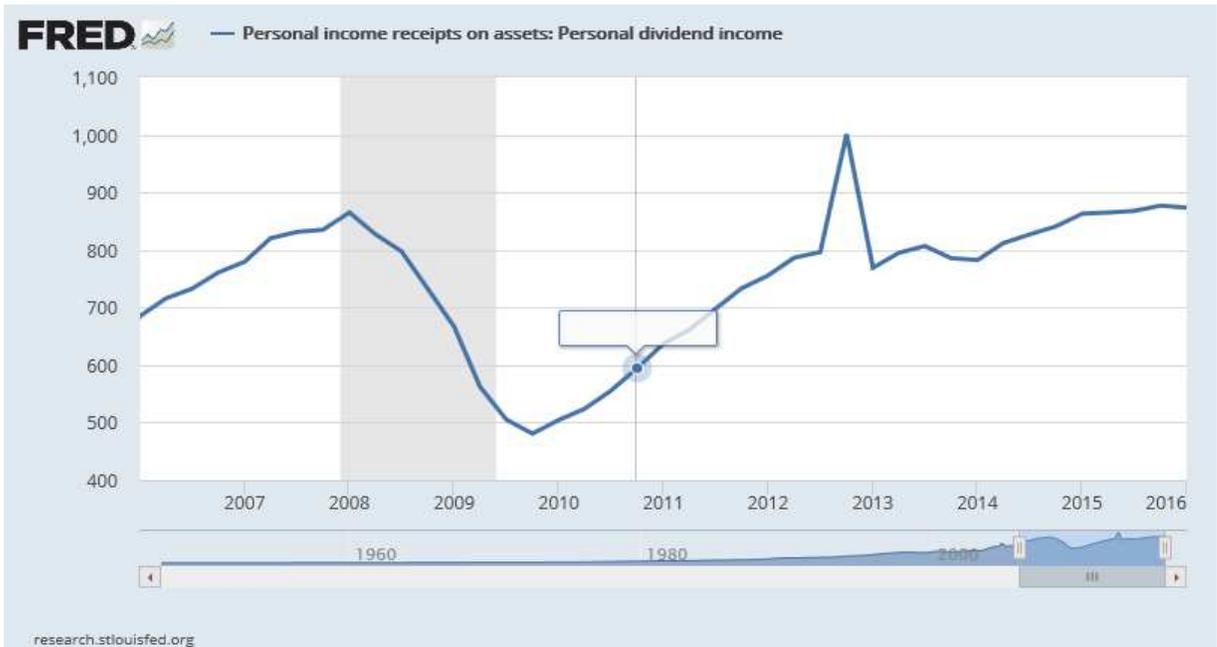


Starboard Weekly Report Ending April 29, 2016
Charts of the Week



The above charts come from the Federal Reserve Economic Data (FRED). Both reflect the trend of dividends that were paid to the IRS. The top chart is a full 10 year picture, while the bottom chart is from 2015 Q2 up until 2016 Q1.

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TECHNICAL

The top chart shows that the high in dividend payments took place in the latter part of 2012 during this illustrated 10 year cycle. Since then they have trended sideways to downward. The bottom chart reflects the downward movement of payments over the past year. Dividends are one of the major reasons to own common stocks. Over a 20 year rolling basis, they make up close to two-thirds of total return on common stock portfolios. These charts are not a technical analysis study; however, it is interesting that they coincide with many secular technical analysis bearish conclusions. These fundamental charts clearly display the major reason for owning common stocks (dividends) has been missing from the market since late 2012. Dividends are very important for portfolio total return. As a long term investor, it is reassuring to know our negative secular assessment of the economy and the market are verified by the dividend trend.

FUNDAMENTAL

Dividends are a issue of fact, while earnings can be fabricated through financial engineering. Dividends are declared according to management's assessment of cash flow from revenues. Recently much of that cash flow has gone to buybacks instead of dividends. As you can see, these charts confirm the buyback tendency since dividends have declined while stock prices have risen. Short-term buybacks are good for management but a long term detriment to stockholders. This week's news regarding Apple Inc.'s decline in revenue may signal the beginning of the end of this self-servicing financial engineering. From a management prospective, it is very difficult justifying anything but hoarding cash when revenues are declining. Revenue decline will likely be a continued international event. As it persists, stock prices will be driven to depressed levels where dividend yields will once again be worth the risk. That situation recently occurred in the oil sector where we were able to get a double-digit yield return in Enbridge Energy Partners. When you have a defensive investment posture like we do, then you always have cash to take advantage of high dividend opportunities.

ASIDE

"Do you know the only thing that gives me pleasure? It's to see my dividends coming in."
John D. Rockefeller

Today's management gets their pleasure from stock options instead of dividends. If they had to focus on dividends as an incentive compensation replacement, then stockholders could experience the same pleasure as Rockefeller.

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