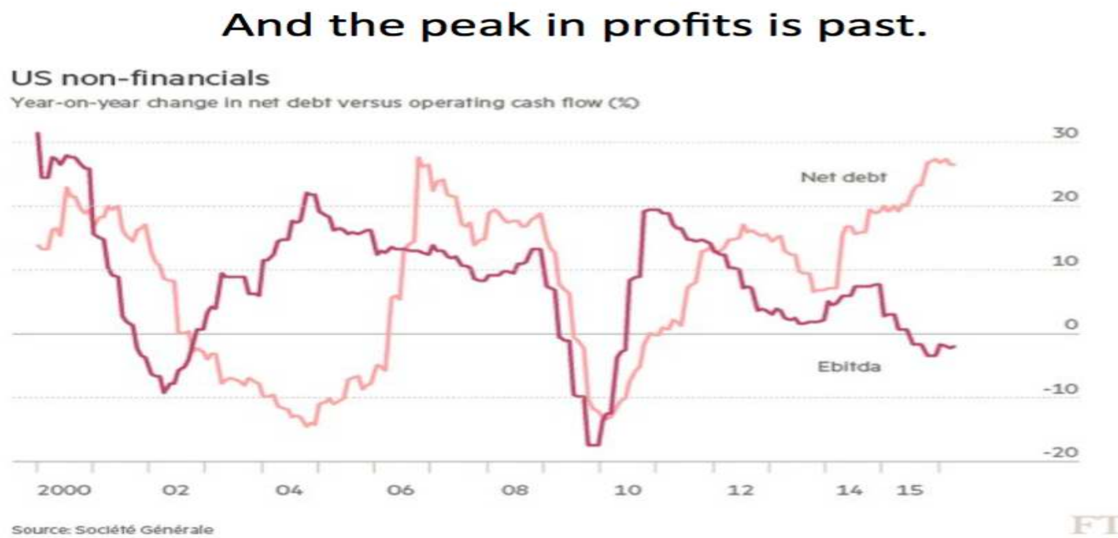
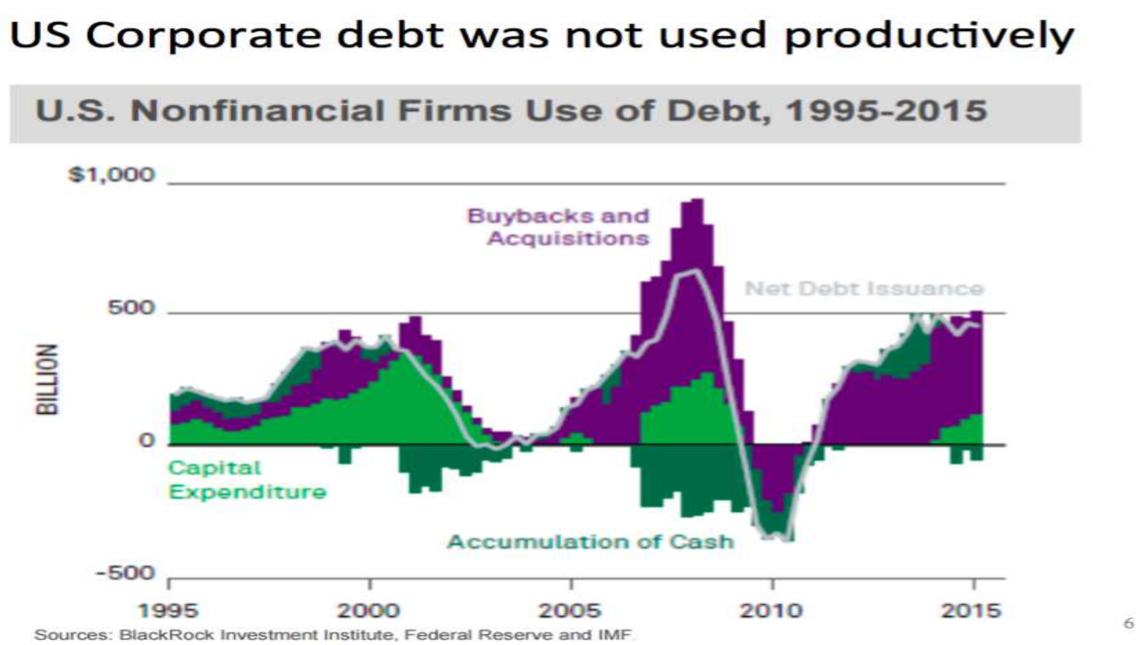
Starboard Weekly Report Ending May 13, 2016
Charts of the Week





The two charts above come from various sources noted on the bottom of each illustration. Both were used by Stanley Druckenmiller, while at a hedge fund conference, to make a bearish case about US corporate ownership. These are very worrisome signs and especially when compared to stock prices that are at or near all-time highs.

TECHNICAL

The top chart is a simple two-line comparison of a pair of vitally important corporate health indications. The top line is the debt that corporations have taken on yearly and is something that I have been railing about for 3 years. Note the borrowing growth over that time period and then go to the bottom chart and look at buybacks and acquisitions. That combination; i.e., borrowing to buy back their own stock or acquire others, is what this economy and the stock market have been celebrating throughout most of the so called recovery from the 2008 Great Recession. The bottom line of the top chart shows **E**arnings **B**efore **I**nterest **T**axes **D**epreciation **A**mortization **(EBITDA)** and is a true reflection of operating cash flow. Again, comparing that line with the green capital expenditure graph on the bottom, we get another frightening depiction of how little corporate executives have reinvested in the future for the benefit of stockholders.

FUNDAMENTAL

The nineteen-ninety representation on the bottom chart represents a healthy capital expenditure assessment (dark green). The buyback and acquisitions represented by the purple graph in the bottom chart has been a trend since the bottom of the 2000/03 bear market. However, since then management began using corporate cash to buy back their own company stock and that became pervasive. Aside from the damage inflicted by financial engineering on American corporations, buybacks have also created a tremendous poly-economic issue of an income gap. Since the discovery of financial engineering early in this century, we have had a greater income gap. If the income gap was productive for American corporations via more corporate cash being spent on capital expenditures, then it would be tolerable. That is not the case. Instead this gap is increasing management bonuses and that is destroying our economy from two perspectives; the one depicted in these charts and the concentration of wealth at the top which inhibits economic expansion. An even greater issue is that they are using debt to accomplish this future financial damage. Mr. Druckenmiller has been very successful in highlighting the macro causes of the past two bear markets and the above chart presentation is a good indication he will be spot on for a third time. Greed is always present at tops of economic cycles and today's corporate greed will create years of bearish pain. Conversely tomorrow's fear will bring opportunity.

ASIDE

"Greed is normally balanced by fear". Peter Schiff

The only comment I have on that quote is AMEN . . .