

Starboard Weekly Report Ending June 10, 2016
Charts of the Week



This week's chart is Pimco's 25 Year Zero Coupon US Treasury Index ETF (ZROZ) and was provided by StockCharts.Com

TECHNICAL

This ETF has been a pleasant surprise throughout 2016. It was recently mentioned as one of the top 10 performing ETF's for this year. However, it may be reaching a top as the two key supplemental weekly charts circled in red are indicating. The old high in ZROZ took place in January 2015 at 138.99. Then it quickly dropped to 100 and it is now moving back toward the former high. I do not believe that it can move beyond the old high; therefore, I plan to sell our position north of 136 and move the proceeds to cash.

FUNDAMENTAL

Other than a toppy looking weekly chart, there are several reasons to consider the sale of ZROZ. I have been using this investment to offset the weak yield that money markets offer. I used 10 to 20% of your cash in ZROZ to try and get an offsetting higher rate of return on cash. When our original allotment was bought at 88, it was paying a dividend of 4%. Upon selling half of our total position at a 39% gains earlier this year, and because that was 10% of total cash, we were able to create an approximate 3.9% annual yield on our entire cash position. That was in addition to a 4% cash dividend yield, thus giving us 7.9% total return on the entire cash positions. Our current ZROZ position represents about another 10% of the portfolio. This was bought at a higher cost of \$129, so the contemplated sale will represent a smaller gain; however, the dividend has been 3.2%. If we are successful selling at \$136 then we would have created about 0.80% annual total return on our entire cash position. Our country's decline in rates to near zero, along with the negative rates in Europe and Japan, is setting up for an enormous rate spike sometime in the future. That rise may take years to occur, but today's meager yield returns do not justify the risk of owning bonds. Even though cash barely earns anything, it is a better alternative to losing capital. Our new portfolio strength from gold also allows us to carry more cash since any decline in the dollar will be hedged by the yellow metal. The resulting inflation from a falling dollar can also lead to higher rates and lower bond prices.

ASIDE

"One day we will have more inflation, and our bonds will bleed like a pig. The only reason for buying long bonds is short-term or as a desperate haven for terrorized investors. But the potential to make longer-term real money is naught." Jeremy Grantham

It is reassuring to have one of the great investment minds of the modern era share our portfolio objective.

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Please note: It is the client's responsibility to notify Starboard of any changes that would in any way influence their financial requirements.