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ASSET MANAGEMENT

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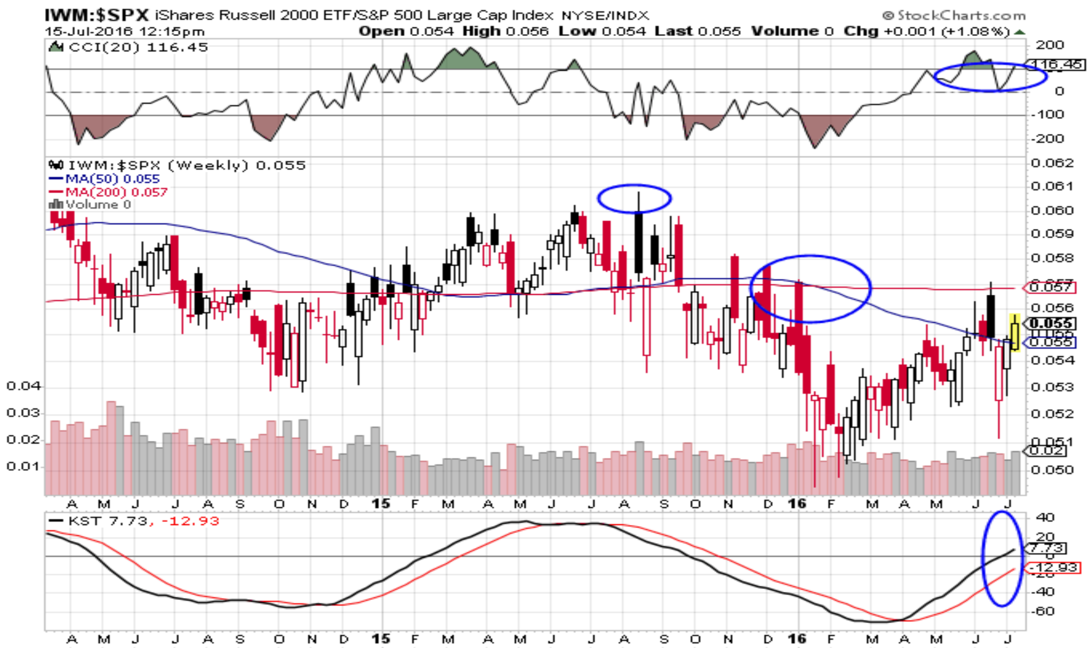
Starboard Weekly Report Ending July 15, 2016
Charts of the Week



Above we have two weekly relative strength StockChart.com illustrations that are polar opposites on the risk scale. On the top one we are looking at the speculative Russel 2000 Small Cap Index ETF (IWM) which is lagging the S&P. The bottom picture shows us the conservative 20 Year Treasury Bond ETF (TLT) that has been much stronger than the S&P throughout 2016. Both divergences are not good barometers for continuation of the market rally.

TECHNICAL

There is a lot of hoopla surrounding the S&P and Dow trading at new highs; however, these weekly relative strength charts above show that the excitement will be short lived. The first chart indicates how weak the Russell 2000 is compared to the large cap S&P Index. This type of longer-term weekly divergence is a strong fact in favor of the rally not lasting. The generals cannot lead by themselves without the troops following. The media speculation on where this move is coming from is corporate buybacks and European hedging against the effects of Brexit. My take is that July option exploration is a frequent peak for markets. The small caps represent a broader speculative portion and illustrate a broad interest in bull markets. We can see on the relative strength of the IWM to the S&P chart that we have not had strength since August of 2015. Recently the relationship has the 50 week crossing below the 200 week. The bottom weekly relative strength chart gives us a picture of how the S&P index is trading versus the 20 year bond ETF and as mentioned above, is the opposite end of the small cap speculative spectrum. Historically, when stocks are strong then bonds are weak, but history has not meant much in this seven year bull market. That leads to the scariest question in investing: Is it different this time? No, I don't think so because economic and market cycles have not been outlawed but only delayed by an accommodating FED.

FUNDAMENTAL

Markets often have binge tops and we are in one presently. How high it can go is anybody's guess because it is very much overbought which should cause this up leg to end shortly. The big question will be; can it pull back and consolidate and then try for even higher levels into August. I don't think so. However, I also did not think it could make the recent new highs. As we get into silly season this fall it should be much lower as the market cannot sustain 26 times earnings with meager growth numbers that are being reported. Gold and Bonds have been telling us since the beginning of this year that something is amiss but stocks refuse to get the message. Eventually they will and as I have repeated numerous times in this missive; when they do it will be ugly. The current opportunity for making money with inverse indexes (short the markets), other than gold, may be one of the best opportunities that I have seen since 2000.

ASIDE

"Change brings opportunity." Nido Qubein

The words of this motivational speaker clearly depicts the opportunity in being short the United States stock markets and in particular the small caps.

There will not be a Weekly Letter until August 5th as I will be on vacation. However, the office will be open.