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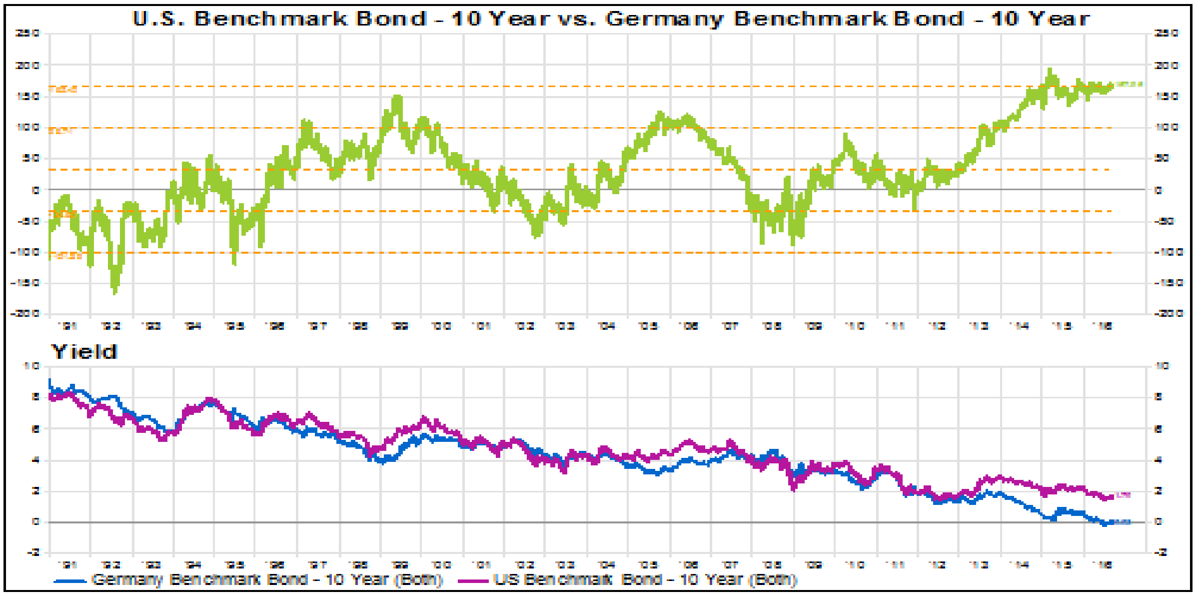
Starboard Weekly Report Ending September 23, 2016
Charts of the Week



These long-term charts are from two different sources, but they offer related comparative relationships. The top chart from GaveKal research is a comparison of US to German bonds. The bottom monthly StockCharts.com depiction matches the relative strength of the ETF iShares 10-20 yr Treasury bond (TLH) against the Dow Jones Industrial Average (INDU).

TECHNICAL

The orange dotted lines across the top Chart make it quite busy. They are there to show the standard deviation up and down from 30 basis points and that is the average for the period shown. We are at a historically high level when comparing the yield relationship since 1990. The bottom part of this same chart shows how this relationship has been fairly consistent up until 2014. The top chart from GaveKal had the following commentary attached to it: "*Today, the topic du jour seems to be the impending rise in U.S. rates and the bursting of the multi-decade bond bubble. Before we get too worked up over the chances for an aggressive sell-off in government bonds, let's consider the following chart."* The second chart links the price of the intermediate Treasury Bond TLH with the Dow and is highlighted by 4 circles and channel lines. The circles indicate periods when the stock market rose at a stronger rate than bond prices. Keep in mind that as the prices of bonds fall, yields rise. Thus, when the relationship of the TLH to the Dow falls, then interest rates are rising and stock prices also rise. The four circles are normal cyclical bond stock correlations. However, the past two year's channel (straight blue lines) show how the FED has controlled this usual supply-demand relationship. It is more than a coincidence that both studies show a change happening in the beginning of 2014. What we are seeing is world central banks working in concert to keep rates low to stimulate stock prices.

FUNDAMENTAL

We can only hope that world bankers do not inflict severe economic damage by the time the central bank regulator Genie stops working and that all developed markets are allowed to function normally again. Today's interest rate controls seem to have historical irony in play between Nixon's wage and price controls and the present administration's deflation fighting policies. When Nixon released his controls then inflation grew and it is very likely that Obama's vote getting scheme will have the same result. The irony is that he is fighting deflation. Mark Twain's memorable quote comes to mind: *"history never repeats itself but it often rhymes"*. Janet Yellen recently stated: *"We're struggling with what is the new normal in this economy"*. I'm afraid the new normal is government control at all cost. The current administration and the likely continuation of the same come November, will use every short-term means at their disposal to create favorable voter environment regardless of long-term consequences. The entire developed world is struggling economically. They have over borrowed in order to mask structural problems. With interest rates no longer a viable recovery tool, in the words of Ms. Yellen, they will have to *struggle with this new normal*.

ASIDE

"Normal people... believe that if it ain't broke, don't fix it. Engineers believe that if it ain't broke, it doesn't have enough features yet." Scott Adams (Cartoonist creator of Dilbert)

Chairperson Yellen, along with the world's central banking geniuses, has been arduously applying this engineering "new normal".