

Starboard Weekly Report Ending October 14, 2016
Charts of the Week



The top chart is StockCharts.com's version of the actual changes in one month LIBOR*. The bottom chart is a relative strength comparison of 3 month LIBOR to the DOW. Both represent a long term depiction of the charts on a monthly basis.

*LIBOR is a benchmark rate that some of the world's leading banks charge each other for short-term loans. It stands for Intercontinental Exchange London Interbank Offered Rate and serves as the first step to calculating interest rates on various loans throughout the world.

TECHNICAL

The key take away from the top chart is that the LIBOR rate is about to break out. This is an important event since it dictates the direction of interest rates, which in turn affects the stock market as viewed in the bottom chart. All of the hoopla about the FED and interest rates is secondary to the LIBOR rate that banks charge each other. This rising rate represents tightening usually due to loan quality concerns on the part of major banks. The circled areas in the bottom chart represent historic comparisons to the recent spike in rates. As this rate rises it effects the cost of short term money along with margin rates; both major sources of funds to buy stocks. Unless this LIBOR rate reverses, we can expect a great deal of hurt from both the stock and bond markets throughout the world.

FUNDAMENTAL

The recent bond cycle of low rates is critical to the world economy and it is the vehicle that world bankers have used to stimulate stock and bond markets. Unfortunately, largely due to structural problems, the bankers have not been able to have the same stimulation effect on their economies. The bulls, who continue to insist that we do not have a bubble, have dismissed the recent LIBOR rates increase as merely being caused by changes in the money market investment rules. If money markets invest in only government bonds, they can continue employing a “don’t break the dollar” policy for their funds. According to the bubble bulls, this has caused large liquidation of commercial paper. Rates will normalize when the shift from commercial instruments to government bonds is complete. If the blue line in the top chart is broken, then most likely we can dismiss this bullish scenario and expect the end of the positive bond market that has been the engine for strong US markets.

ASIDE

“I defy gravity”. Marilyn Monroe

Ms. Monroe’s philosophy would have made her a great Central Banker.

Nothing on this Weekly Report should be interpreted to state or imply that past results are an indication of future performance. There are no warranties, expressed or implied, as to accuracy, completeness or results obtained from any information posted on this or any “linked” website. Any reference made to specific securities or any charts/graphs on the Weekly Report is not to be considered a recommendation. Every investment strategy has the potential for profit or loss.

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