

Starboard Weekly Report Ending October 21, 2016 Charts of the Week



Above are 2 weekly *StockCharts.com* charts on the Russell 2000 relationships. The top one is a relative strength comparison between a Russell 2000 Inverse Fund (RWM) and the S&P. The second chart is the actual Russell 2000 Index (RUT)

TECHNICAL

Keep in mind that in the top chart we are looking at an inverse relationship to the actual Russell Index depicted in the bottom chart. Therefore, the 2 charts are total opposites. The RWM is poised for a very strong rally that may take until the New Year to unfold, but when this occurs it will have been worth waiting for. The CCI chart at the top of the RWM clearly shows (via the blue arrow) an uptrend starting, while the RUT–CCI shows a decline from the top (accented with a blue circle). Please note the slope of the bottom two KST charts (black & red line charts). Their steepness denotes likely volatility in its next move. The last decline in the Russell average was 26.92%, with the decline starting from a lower steepness level. The potential high slopping level of the current position suggests a greater downside than the previous decline. Another reason we can expect a big move in the Inverse RWM is that the relative strength is trading lower than when the last RUT top was made. It is a noteworthy sign that the Russell Index made a lower high, which is a very bearish long term indicator. A lower high, accompanied with a lower relative strength low, indicates a huge decline is in the offing.

FUNDAMENTAL

The indicators seem to be lining up for a big change right after the election. The FED will have followed orders to keep the market up until elections and after that they can relax until the next interest rate charade. If the market does not get spooked from the election, it is possible that another interest rate farce can keep the market up until year end. However, their interest rate narrative may have already been discounted. The more likely scenario is a hard drop starting before the election and gathering momentum afterwards. The charts above suggest that we are very close to an impending severe market drop. Market activity continues to be quite choppy and the type of hourly change activity taking place puts me in mind of the feeder bands that precede a hurricane. Maybe I'm being paranoid about such things; however, we south Floridians know that hurricane risk is nothing to take lightly... no more so than an approaching bear market.

ASIDE

"The main purpose of the stock market is to make fools of as many men as possible."

Bernard Baruch, renowned Wall Street investor from the 1920's.

The next major decline will once again prove Mr. Baruch's premise to be accurate.

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