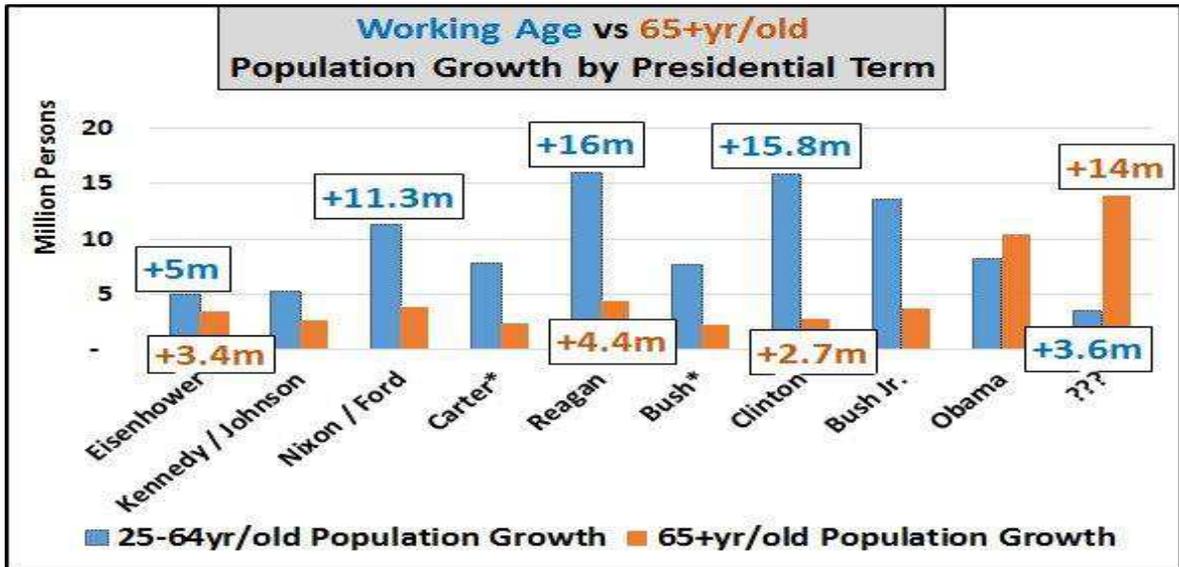
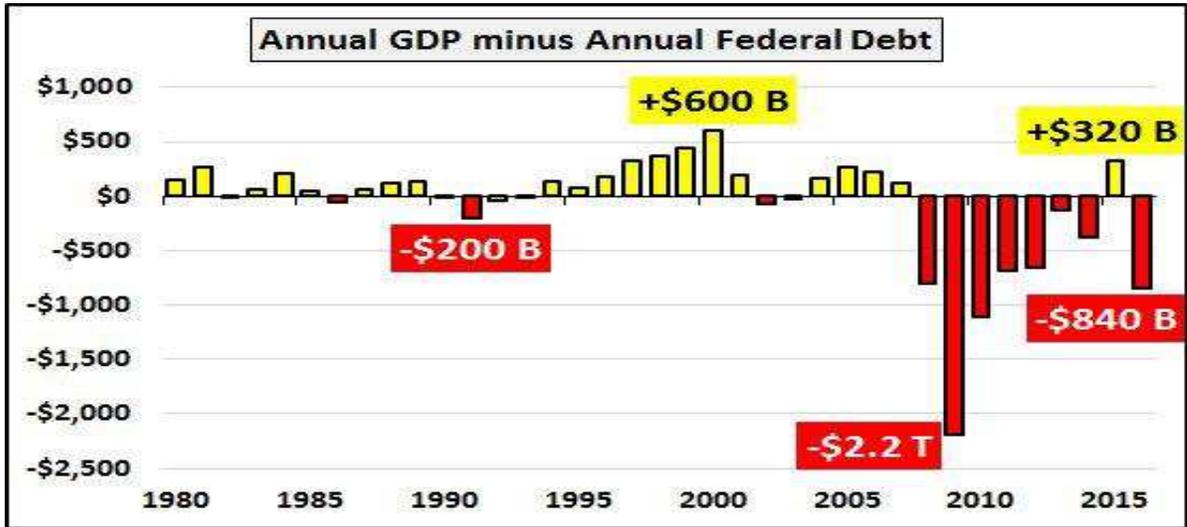


Starboard Weekly Report Ending November 18, 2016
Charts of the Week



The two charts above were taken from ZeroHedge.com and were submitted to them by Chris Hamilton from Econinica Blog.

TECHNICAL

There is not a great deal to analyze technically on the two charts above, except to point out how serious they are from a macro-economic perspective. The information in the top chart verifies my position that the entire stock market rally has been driven by debt and not by growth. The bottom chart explains why there is no growth in GDP. It shows that we have a demographic problem in this country; i.e., an aging population that does not consume at the same rate as they did in past decades. Historically since Nixon, when the White House turned over from Democrat to Republican, the beginning of the new administration involves market setbacks for the first two years followed by a strong rebound. The most recent of these was George W. Bush where the market dropped 36% over his first two years.

FUNDAMENTAL

When you combine these two chart depictions with 20 trillion in debt, it is easy to ascertain the risk in owning common stocks. Before we can rejoice about a pro-growth Trump administration, the markets must purge themselves from the debt and QE excesses of the past 9 years. The government bond market is sending a signal that higher rates are coming. As government bonds move all rates higher, especially corporate rates, we face some serious stock market difficulties. The most concerning is corporate buy backs. Share purchases by S&P 500 companies are already on the decline. Higher rates could create the opposite effect where companies have to sell in order to shore up their balance sheets. This is especially the case for those companies that borrowed to buy their shares. Historically a political left to right transition brings major economic change and the markets will begin to adjust to this very soon. When markets are built on leverage and start to decline, it is like one giant margin call of panic selling.

ASIDE

“Political work is the life-blood of all economic work”. Mao Zedong

Unlike Mao’s China, the US has democratic political work and we must now deal with the peoples vote to shift our balance of power. As in the past, it will create a big change that is marked by a difficult period of transition.

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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.