STARBOARD
ASSET MANAGEMENT

Risk Management for nagivating your future.

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

These 2 charts from StockCharts.com look at the 5 year US Government Yield Index (FVX). The bottom chart compares the FVX with the relative strength of the spot gold price.

TECHNICAL

On the top chart the red line going back to July 2014 shows a clear resistance top at 18 which equates in yield terms to 1.8%. The recent bond rally in yield equivalent is stronger than the three previous spikes in yield. Two of the three earlier rallies also occurred at year end only to reverse into the New Year. The current surge seems more powerful due to the election publicity. Despite the 5 year move above 1.8%, the overbought indicators on the supporting charts are flashing reversal. The supporting charts are all very hyper-extended (see green circles) indicating a decline. Our bottom relative strength chart confirms how gold and rates move in lock step; please note the green circles versus the red to ratify the next likely direction. Whenever you get this type of sharp upside in price patterns they are normally followed by an equally acute downside. Volatility in one direction very often begets equal or greater volatility in the other. It could take until 2017 to happen, but when it does, look out below for bond yields as well as stock prices. This will happen along with a strong gold price increase that is much oversold and considerably the opposite of this week's charts.

FUNDAMENTAL

The relationship of interest rates above or below inflation is critical to the price of gold. Today we had a spike in the 5 year yield to 1.85% or up 0.75% on the day. This caused gold to drop greater than 2% and thus declining below 1200 per oz. Inflation is 1.64% and when 5 year rates decline below that number, or if inflation rises above yields, gold will rally. No matter who won the election, we were still likely to get the type of bond market action that we are now witnessing. Only the narrative would have changed. If the democrats won then bond rates would be rising due to FED action rather than the inflation talk we are getting with the Trump victory. We must not lose sight of the bigger picture, which is the world debt, and how it will constrain growth. Republican transitions have caused economic slowdowns or recessions every presidential cycle since Teddy Roosevelt. Deleveraging the current cycle will create tremendous stock market downside pressure and moderating to lower interest rates. Another consideration is that upside economic cycles do not begin when your currency is the priciest in the world. As Trump is gathering his team, especially the economic members, we will get a better picture how 2017 and 2018 will play out. It is my speculation that it will involve restructuring of the past 8 years. Those 8 years consisted of GDP growth through debt, not real organic growth.

ASIDE

"Entrepreneurs and their small enterprises are responsible for almost all the economic growth in the United States." Former President Ronald Reagan

Trump and his advisors would create sustained growth by putting into action Reagan's wise words. If we look at Reagan's growth results then we know it is the right course to take.