

Starboard Weekly Report Ending December 30, 2016 Charts of the Week



This week's top chart is the daily history of the PIMCO long term US Government Zero Coupon ETF (ZROZ). The bottom chart is viewing the daily relative strength of the ZROZ to the S&P Index.

TECHNICAL

The reason for displaying the daily chart is to show the opportunity that exists to purchase the ETF at the current \$109 level. We owned the ZROZ for several years and we were stopped out of it this past summer at \$135. The weekly and monthly charts (not shown) still remain bearish. However, the short term daily chart strongly suggests a buy. Please note that the green arrows all indicate a turnaround from the sharp selloff following the November election. The 50 day average is not over the 200 in both charts which indicates that the up move could be short lived trading opportunity. The risk reward does indicate buying a partial position at current prices and if the weekly and monthly charts improve, I would then increase our position to a longer term hold.

FUNDAMENTAL

The ZROZ is an excellent way to participate in declining interest rates and it pays a 2.7% yield while you wait for rates to bottom. It is an investment vehicle that I like to use to get a return on our large cash positions. The movements of interest rates determine profitability of this ETF. I do not believe that rates have finished their decline despite the hype that surrounded Trump's election and the recent FED move to raise rates. In order for rates to move, the world needs GDP growth. The election and the FED rate move will not create any change in the current worldwide deflation. It can be argued that higher rates create a higher dollar, which is one of the major causes of the declining world economy. Much of the world is floundering in minus interest rates and struggling to break that cycle. Until overall world debt is addressed, it is very difficult to argue that rates will rise. Another reason to consider repurchasing ZROZ at these levels is the influx of new money into the markets at the beginning of each year from Pension Funds. Comparing the recent rise in rates against the newly elevated level for stocks, it is an easy decision favoring bonds. Another possibility is that a declining stock market in 2017 will create government bond buying as a safe haven.

ASIDE

"Change is the law of life. And those who look only to the past or present are certain to miss the future." John F. Kennedy

These are brilliant words for investors from this former President and they make a great resolve for 2017.

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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.