STARBOARD
ASSET MANAGEMENT

Risk Management for nagivating your future.

Starboard Weekly Report Ending January 27, 2017
Charts of the Week

Today's charts are two different ways to look at the Russell Small Cap Index (RUT). On the top chart, we have the Inverse ETF for the Index (RWM). Then on the bottom chart we have a relative strength comparison of the actual RUT Index and the DOW. Both of these weekly depictions are taken from StockCharts.com.

TECHNICAL

The RWM is our main hedge against what I view as excessive market risk. Weakness in the RUT is indicative of what is really happening in the markets because it is an index of 2000 stocks; unlike just 30 on the DOW. Despite what the media and the Wall Street cheerleaders are raving about, these charts clearly demonstrate that all of the partying about a 20,000 DOW is not anything to get excited about. If the small caps do not get invited to the party, it will not last very long. The top RWM Weekly chart is indicating that the inverse RWM is making a bottom, while the bottom chart displays a weak relative comparison between the DOW and RUT. The RUT strength continues to decline from the December 9th top as the DOW parties on. This is not conducive of a market ready to climb higher. Instead, it is just a matter of a short period of time before this weak relation reverses the DOW excitement.

FUNDAMENTAL

The longer the key indexes are stretched then the more bearish their actual reversal will be. My persistent, but early bearish calls, have been based on a constantly deteriorating growth environment taking place while the market continues to defy gravity. The downside risk is my concern and managing that risk is my motivation. In all markets, it is customary for participants to exchange value for securities; that value has always reverted to a mean price. Historically, the longer the return to the mean takes, then the worse the threat to one's portfolio due to serious price collapse. The reason that annualized returns are below 3% so far this century is that we had two serious bear markets. Because stocks historically now have extremely high risk fundamentals; such as price to earnings, price to book value, and price to revenues, they represent a huge risk. This risk has reached the same levels as the 2000 and 2008 highs and will ultimately cause similar downside resolve. These fundamental metrics will return to a level where they represent long term value. Higher analyzed returns are acquired by waiting for value to revert to its mean. When the foot soldiers, symbolized by the Russell 2000 (RUT) don't follow the Generals of the DOW, then it is only a short time before this diversion causes a reversion to the mean and it leads to a down cycle for the entire market.

ASIDE

"Partying is such sweet sorrow." American Author Robert Byrne
Until the troops join the party of Generals, we can only expect "sweet sorrow".