Starboard Weekly Report Ending March 10, 2017
Charts of the Week

720GLOBAL	1995-1999	2012-2016
GDP Growth	4.08%	1.90%
GDP Trend	2.30%	1.80%
Productivity Growth	1.84%	0.49%
Federal Debt (Trln$)	5.36	17.47
Federal Debt : GDP	60.23%	101.40%
Personal/Corp. Debt (Trln$)	15.493	41.11
Personal/Corp. Debt : GDP	156.09%	220.13%
Govt. Deficit (% of GDP)	-0.33%	-3.29%
10-Year Tsy. Rate	6.05%	2.13%
Fed Funds	5.38%	0.18%
S&P 500 3yr Earnings Growth	7.53%	-3.84%
S&P 500 5yr Earnings Growth	9.50%	0.49%
S&P 500 10yr Earnings Growth	7.74%	0.89%

Both the chart and the fact table shown above were taken from internet articles and pose a very important question: is the recent market highs in the top chart justified when viewed against the weak economic fact table listed above?

TECHNICAL

The blue spaced line is the 200 day moving average and it is a widely accepted mean point for stock market cyclical movements. Most cycles have been above the mean except for two episodes, the China scare in 2015 and the start-off dip in 2016. Otherwise, the S&P has traded close to the 200 day mean point. The most consistent rule in economics is "reversion to the mean". It says that all things cyclical will always return to the mean price. The further the reversion, the greater the risk. When viewed from the upside on the top chart, we have an 8% decline to the mean. When declines occur below the mean then the opposite takes place as a gain from the cycle bottom. Today's S&P is riding on emotional pricing, not economic facts. There are many alarming comparisons in the above fact table but the most daunting is number five: Debts to GDP. This percentage reflects the ability of a country to pay its debts based on its growth of domestic product. It is based on the logic that you must have growth to pay debt; otherwise, default is likely.

FUNDAMENTAL

As concerning as the stock market is, the bond market is much more worrisome. We have had a bull bond market for 35 years and it may have seen its high on July 7, 2016. Since then bonds are down over 16%. If short term rates exceed longer rates (10 year versus 30 year) and they are now less than 0.60% between them, we would see the huge rise in yields and an implosion of bond prices. We are likely facing two bubbles; one in the stock market and another in the bond market. So where does an investor hide to protect assets? It should not be holding stocks or bonds like the majority of Americans, but using our anti-bubble investments of choice; cash, gold and inverse stock and bond investments. We do not have a bond market hedge; however, I am monitoring the relative strength of the short term government versus the long term and if it breaks out, then it is my intention to add an inverse bond holding to client portfolios. Federal Reserve interest rate rises have been rare in only two in the past ten years. However, the third hike is likely next week and this will put additional pressures on the declining bond market. If we get continued stress on rates or anything remotely resembling the 6.05% rate shown on line nine in the table above, then the US as well the rest of world would be in a serious default situation. It will be a sad irony if Trump succeeds in growing our economy and rates continue to rise because then he could be blamed for a financial tragedy that would exceed the great depression of the 30's.

ASIDE

"Bubbles are best identified by credit excesses, not valuation excesses. And there's no bigger credit excess than in China." James Chanos, New York Investment Advisor

The ongoing issue on when the market will top is based on when it will determine how many trillions is actually excessive. When this is finally decided, rates will skyrocket.