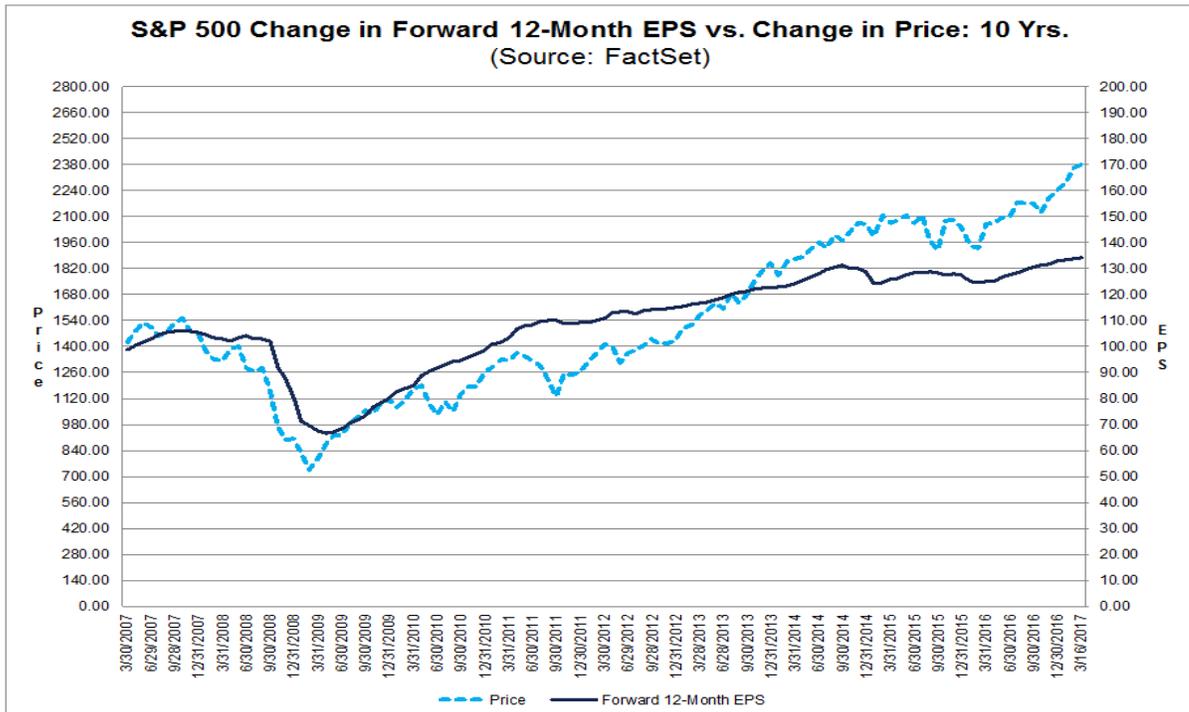
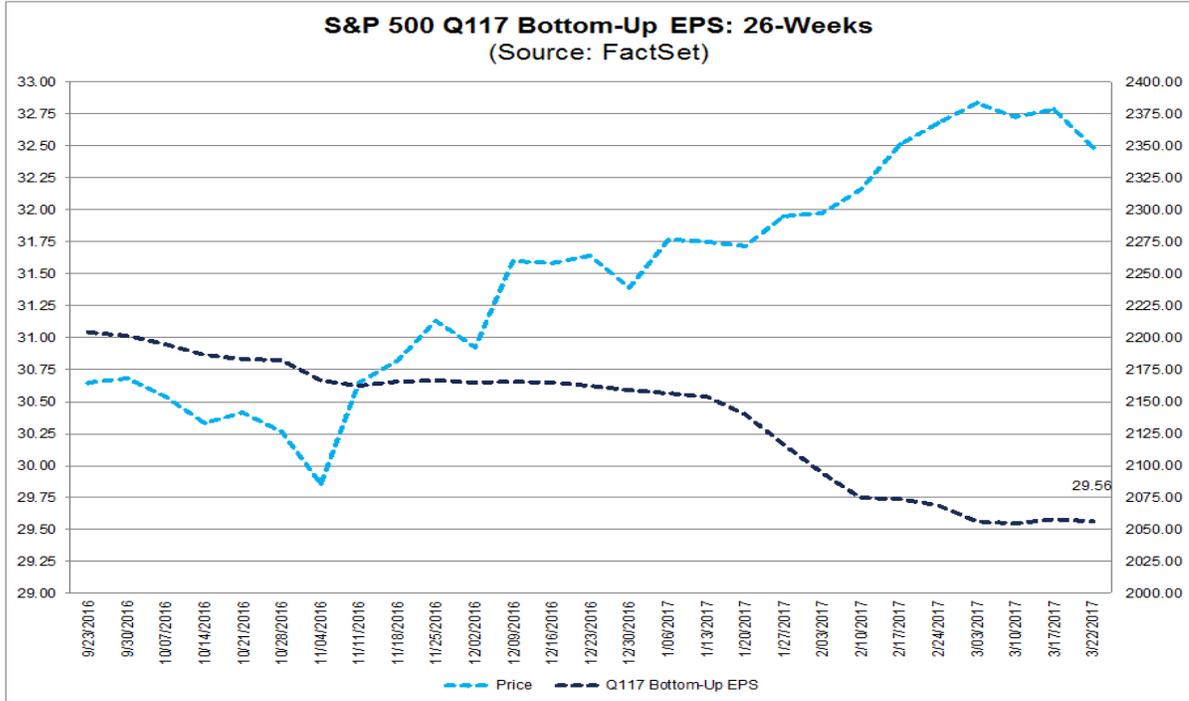


Starboard Weekly Report Ending March 24, 2017 Charts of the Week



This week we will view the real reason the market is declining (lack of earnings) and not the health bill fake news reason. Both charts were taken from the online website FactSet.

TECHNICAL

The top chart illustrates the real reason that the market is likely to decline further. On the bottom chart we see that the S&P price advanced since 2013 without a similar uptrend in earnings. The reason now for the difference is due to a tightening FED cycle versus low rates and quantitative easing that carried the market artificially higher since 2013. The market has a lot of declining to do in order to correspond to the earnings to price (reflected on the bottom chart from 2007 through 2013).

FUNDAMENTAL

Earnings are the most important reason for taking the risk of owning stocks. That is why so much ink is spent on price earnings multiples (PE). When PE's are elevated, like they are now, then investors are taking high risk for stock ownership. This is especially acute when earnings per share are declining while price is advancing. The live theater happening in Washington over health legislation does have some market relevance regarding Trump's political ability. Not passing health care reduces the likelihood of passing tax reduction regulation. A lower corporate tax is viewed as the only hope for better earnings in the future. From a stock market prospective, the health care news is all sensational and volatile but what is relevant is its effect on future earnings. Unfortunately, current estimates for earnings are for further weakness. Not good news when stock prices are this high.

ASIDE

"Any jerk can have short-term earnings. You squeeze, squeeze, squeeze, and the company sinks five years later." Jack Welch, retired General Electric CEO

When we look back on this market is when Mr. Welch will be considered a fortune teller.

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