

Starboard Weekly Report Ending April 21, 2017
Chart of the Week

Fig. 2: SP500 vs profitability metrics: Earnings stalled and labor costs are eroding pricing power, just like 1999-2001?



Source: BLS, BEA, Bloomberg, Nomura, Note: NI stands for "National Income".

This very busy but compelling chart from sources listed above was taken from an Internet article on a blog by Macronomics.com. In your email, the entire article follows my Weekly Report and it is this week's lead article.

TECHNICAL

The black line of the chart above is the S&P index displaying how out of sync the market is with the national wealth. Another way of stating the same concept would be that the stock market is our *only* national wealth. The red line is labor cost indicating how poorly labor is fairing as a component of the economy. The grey line represents corporate profits participation. Both have declined since 2012 and coincide with my bearish investment posture since then. This irrational disconnect may be the longest in our stock market history and when it ends it will likely usher in an equally long downside period to correct the imbalances. Market tops often have a final surge similar to the recent tech bubble and the real estate bubble pinnacles. This time we have the ironic “Trumpflation” surge created by left over liquidity of the previous administration, but unfortunately the decline will be blamed on President Trump. The current topping process may not be finished as it appears there could be one more surge into the summer before exhausting itself.

FUNDAMENTAL

The disconnect that is displayed in the above chart, along with a slowing economy, is starting to gain the attention of Wall Street analysts. Goldman Sachs and Bank America Merrill Lynch (BAML) have issued warnings on the market topping. Goldman is concerned more with the lack of growth, while BAML is extremely bearish calling for a serious decline and taking shelter with increased gold holdings. This week’s chart indicates another driving concern of mine; i.e., the earnings gap that exists in this country. Income and earnings have clearly been declining badly for the middle class while stock prices have been climbing. The average American gets poorer while banks and corporate management becomes richer. This big piece of the pie to a smaller elite group is happening all over the world and it is at the core of universal political discontent. Our country needs an economic enema to purge this evil crony capitalism if we are truly going to make America great again.

ASIDE

“Planning is bringing the future into the present so that you can do something about it now”. Alan Lakein, a well-known time management author born 1938.

The future of the S&P is screaming caution and our portfolios are planned for the now.

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