STARBOARD ASSET MANAGEMENT

Risk Management for nagivating your future.

Starboard Weekly Report Ending June 2, 2017
Charts of the Week

This week we have two different looks at longer-term government bonds. The top chart is the monthly price inverse 20 Year IShares ETF chart (TBF). The bottom chart is the 10 to 20 year monthly price of the IShares ETF (TLH). The graph years do not correspond since the TLH goes back to 2007.

TECHNICAL

These are completely opposite price histories, but it is interesting to note that the TBF is showing an advancing MACD chart while TLH is declining. On a monthly chart this has long term significance toward indicating a reversal in a long term trend. The TBF appears to have made a long term bottom last July 8th. The rally from the July floor has pulled back to 50% of its prior move and represents an attractive buying point. The bottom chart gives some indication of the potential move once interest rates finally reverse. Since 2007 the TLH has returned 100% upside as the 30 year interest rate fell from 5.3% to the current 2.8%. Government rates are indicating the end of the decline that has taken place over the past 35 years. The top government bond interest rate in the early 1980's was 14.59%. Should the next percentage cycle go to half that rate then the TBF could show 200% appreciation. The downside risk would be challenging the July low that is 2 points lower than the current price. This offers great risk reward possibilities.

FUNDAMENTAL

As a supplement to this report, your email has an attachment that is an internet report from Jim Grant of Grant's Interest Rate Observer. He has a very good long term chart under the page titled "Interest Famine". On this page he points out that, due to the 35 year decline in rates, very few investment professionals know what rising interest rates are like. That is why markets rarely move in one direction. Those that have only known lower rates (like bonds for the past 35 years) want to latch on to a bargain when prices drop. It is hard to find a fundamental catalyst to argue for higher rates since we keep getting bad economic news that indicate further deflation and even lower rates. When we ask where the growth and inflation will come from we need to look no further than to a falling dollar for the answer. A lower dollar will signal emerging market resurgence and higher commodity prices. Other than the dollar, the only economic factor holding back this emerging market turnaround is debt. Hopefully they can deleverage through growth and not debt reorganization.

ASIDE

"Leadership is, among other things, the ability to inflict pain and get away with it - short-term pain for long-term gain." George Will, Commentator

This rudimentary political ability has been replaced with governmental crises planning. Unfortunately, today's leaders will not inflict short term pain. Instead they would rather create "kick the can down the road" bubbles that eventually lead to a crisis. Examples of this type of leadership are Clinton's tech bubble, Bush's housing bubble and, soon to be upon us, Obama's Great Bubble.