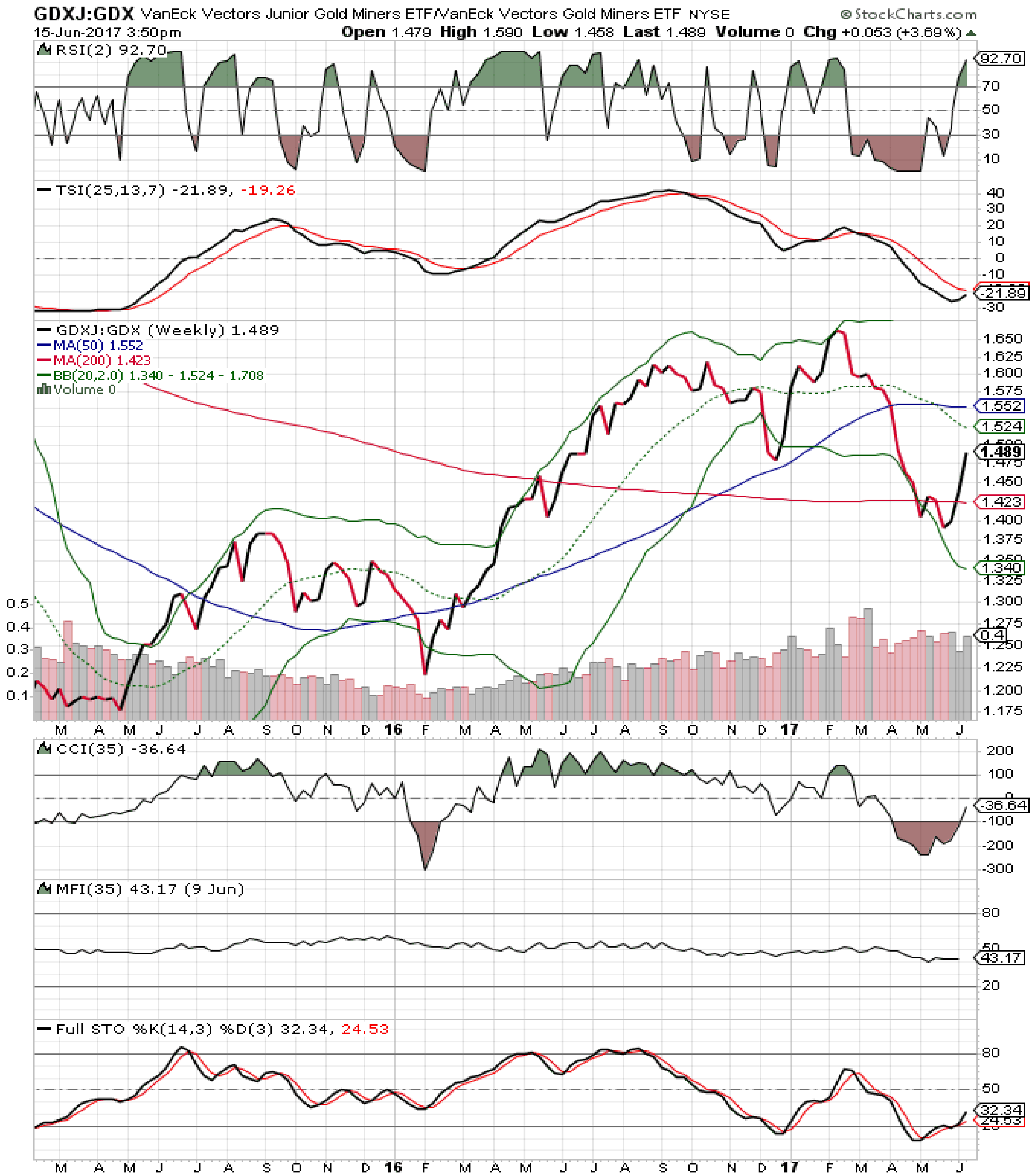
Starboard Weekly Report Ending June 16, 2017
Chart of the Week



On the chart above, the volatile Junior Gold Index GDXJ is being compared on a weekly basis with its less volatile large cap brother index the GDX. The large major gold companies are represented in the GDX. This week there are several additional supporting charts to enhance this analysis. The chart above is from StockCharts.com.

TECHNICAL

Please note how in past gold bull cycles the Junior Golds outperformed their larger cap brethren. Discussed below, there is a fundamental reason for the recent poor showing for the GDXJ. The drop from this February appears to have ended and could mark a very big turnaround in small cap gold stocks. The GDXJ 50 week is well above the 200 week (blue line over red) indicating a bullish comparison in favor of GDXJ. The 2 week RSI chart has changed. The TSI appears to be trending toward a crossover and the CCI and stochastics have also turned positive. When the technical picture coincides with a major fundamental change, it is screaming opportunity. From the early part of this year we have had an artificial cap on Junior Gold stocks that is about to be lifted.

FUNDAMENTAL

The Junior Gold stock index used by the GDXJ is being revamped and the new companies will be announced today. The liquidating of certain stocks in the index has created a cloud over Junior Miners, an asset class that has enormous upside. Since January 2016 the GDXJ has had a 270% increase of assets. They grew from 1.3 billion to 5 billion over that period. This ETF is a victim of their own success because of the small capitalization nature of Junior Miners and the fixation that US investors have on ETF's. Instead of seeking out opportunities themselves, Americans would rather rely on an index. In this case that index tendency backfired and instead of getting small cap opportunity they are getting larger cap holdings. The large cap GDX is now a portion of the supposed small cap index. When the stock and bond markets finally decline, we will be inundated with a whole host of problems caused by ETF's. It has often amazed me how Wall Street can take a good concept, such as ETF's, and then through excessive greed destroy it. The securitization of mortgages was the last great idea to blow up and we all know how that ended. Before the last chapter is written, the passive indexed investing of ETF's will likely make the mortgage problem look like a walk in the park by comparison.

ASIDE

"*Taste my tuna casserole – tell me if I put in too much hot fudge*." Woody Allen

VanEck, manager for the GDXJ, created a tuna casserole; then mixed in too much hot fudge. This casserole is likely what we will get a taste of when the ETF's unravel. The whole ETF indexing mess will surely backfire because Wall Street will do nothing but make lots of money.