

Starboard Weekly Report Ending August 4, 2017 Charts of the Week



The above chart is a weekly relative strength comparison of the DOW Jones Transportation Index (TRAN) to the Dow Jones Industrial Average (IDJX). Stock and supporting graphs are from StockCharts.com.

TECHNICAL

The circle on the main chart shows how weak the TRAN versus the INDX have been throughout the Trump rally. All of the above comparison indicators are also flashing tremendous near term weakness pertaining to the TRAN versus INDX. This dual long and short term non confirmation is a classic Dow Theory sell signal. The blue line on the main chart represents the 30 week moving average. It declined below the 200 week (red line) in March of 2016, which further illustrates that the Transports are in a bear market while the Dow Industrials continue to make new highs. Last week we looked at another non confirmation in the Russell 2000 Small cap index compared to the Dow. While the newspapers are full of headlines and Trump is gloating about the new 22,000 milestone, these serious non confirmations are telling us that the rally will not be long lived.

FUNDAMENTAL

The Dow Theory technical indicator has been around since the early 19 hundreds and it makes enormous fundamental economic sense. The Theory is a forecast telling us commerce is slowing down or picking up by tracking an index that focuses on the shipment of products. Today, many in the investment community believe that fundamental comparisons do not count any longer because the market is controlled by the High Frequency Traders (HFT). The HFT computer algorithm engine is fueled by Central Bank QE. They have caused enormous economic distortions for several years. However, QE is ending and when lower liquidity and higher rates occur the HFT capital will dry up. As the HFT's become less of a price supporting entity, the markets can go into a free fall looking for a new group of bidders. When the Dow finally declines below 10 times earnings versus 27 times today, that is when fundamentals take over again. And unfortunately that will mean much lower price levels for all stock and bond markets.

ASIDE

"There is nothing more deceptive than an obvious fact." Arthur Conan Doyle, the author of Sherlock Holmes

Sherlock Holmes would likely agree that the obvious fact of Dow 22,000 is deceptive.

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