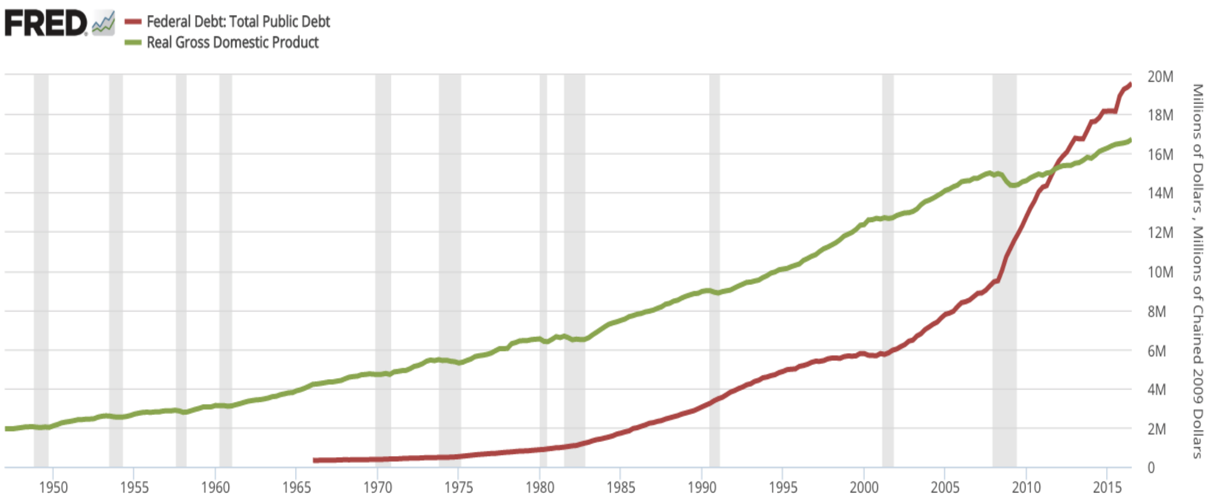
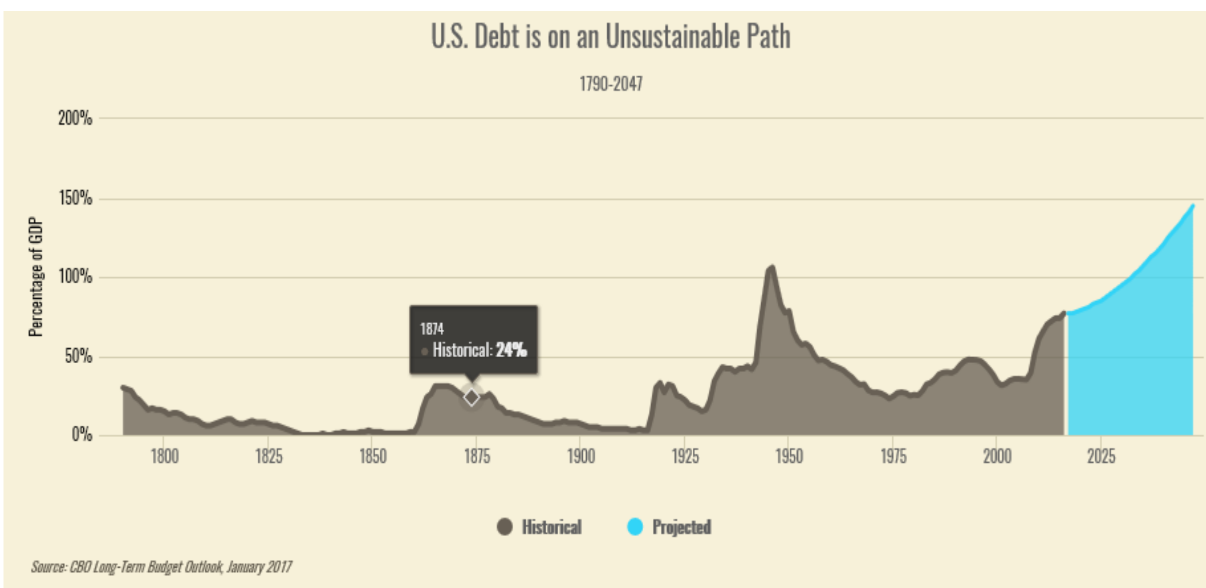
Starboard Weekly Report Ending August 18, 2017
Charts of the Week





Debt matters. (Eventually) These government debt charts were both produced by the Federal Government. The top chart is from the Federal Reserve Bank St. Louis (FRED) while the bottom chart is from the Congressional Budget Office (CBO).

TECHNICAL
These long-term charts are both straight forward depictions of a very serious government debt problem in this country. The red debt line on the top chart shows just how much the government is living beyond their means. The government debt is now at several trillion dollars above GNP, which is an unsustainable level. This will be particularly true when interest rates rise. The future projected level on the right hand side of the bottom chart is what Congress will be grappling with as they debate the debt ceiling that has to be finalized by September 30th. The big financial news this week was consumer consumption is on the rise; however, it is paled in comparison by the increase in consumer debt. Both the government and the US consumer are living well beyond their means. Attached to the weekly email is a summation of consumer debt indicating that we have surpassed consumer borrowing levels of the past recession. The current market selloff may be telling us that we have stretched the debt rubber band too far and the stock market is about to get stung from the snap back.

FUNDAMENTAL
There are many investors that are bullish and expect continuation of an up market. What they fail to realize is that the small amount of economic growth in consumption and employment that is driving the markets is due to leverage. Another fallacy with a continued bull market is when the FED QE deleveraging progresses the economy will then decline. Debt is driving the bus and it is about to hit a serious pothole, possibly brought on by Congressional debate on the debt ceiling or by the banks as they are burdened by debt delinquencies. The negative fundamentals caused by excessive debt could be the third leg of the stool for reasons why this market is about to decline. In the last two Weekly Reports we looked at non-participation from small cap companies and the decline in transportations. Now we have the third reason; Debt.

ASIDE
“Debt is future consumption denied”. Economist Eugen von Bohm-Bawerk

So, has the future arrived???