

Starboard Weekly Report Ending October 27, 2017 Charts of the Week



\$VIX Volatility Index - New Methodology INDX
 27-Oct-2017, 14:08 ET, weekly, O: 10.25, H: 13.20, L: 9.93, C: 9.94, Chg: -0.03 (-0.30%)
P&F Pattern Double Top Breakout on 16-Oct-2017
 Scaling: Traditional [Reversal: 3]

(c) StockCharts.com



The top chart from Bloomberg represents volatility of the ten year yield. The bottom StockCharts.com point and figure is a repeat of last week's VIX chart with 3 additional x's.

TECHNICAL

The volatility of the 10 year US Treasury Bond is also trading at all-time lows, the same as the VIX index. As these charts depict, both bonds and stocks are prone to volatility spikes. If yields take off, that would be a verification of bond market yields making a bottom in July of 2016. Like stocks, we could see an upside explosion in bond yields which would be a most unwelcome event for the trillions of debt created in the past cycle. The bottom chart was repeated from last week but now showing us three more X's (in green). Because of the base formed on the bottom chart since July, when it breaks above 17 then we are likely to be witnessing the end of this eight year bull market. There is an attached email of a white paper on volatility from Artemis Capital Management that has several additional charts reflecting the tremendous compression of volatility, especially over the past five years.

FUNDAMENTAL

The Artemis paper makes several heady arguments for big spikes in volatility, but in their view the most serious is the buyback programs of American corporations. In my view, these buyback abuses are the main reason for not owning companies that are pursuing this strategy. Unfortunately that leaves very little to invest in since most US companies, especially those in the DOW and the S&P, are executing buyback programs. When companies use cash flow for buying their shares, rather than reinvesting cash into compounding future growth, then they are eliminating the major reason for stock ownership. Artemis's views agree with mine; that this huge suppression of volatility will end badly.

ASIDE

"Any business that makes nothing but money is a poor business." Henry Ford

It is what they do with their money that makes them a good business. For decades due to option programs and company stock buybacks, US businesses through self-serving cash and debt management have made money; especially for themselves while becoming poor businesses.

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