

## Starboard Weekly Report Ending November 10, 2017 Charts of the Week



The top charts by Kimble Charting Solutions are a study showing the gap between the cap weighted and the equal weighted on the S&P and NASDAQ 100 indexes. The bottom chart was produced by Macro Mavens and from 1981 it compares gold to the S&P *stated value* versus a *real store of value* in gold.

## **TECHNICAL**

The S&P and the DOW (not shown) in the top chart are cap weighted; meaning that stocks in the index are weighted higher based on the value of their outstanding shares. Therefore, as the index rises, the larger components have a bigger bearing on the indexes movement. A stock such as Apple, with a 900 billion capitalization, can cause wide swings in the direction of an Index. There are other technology companies similar to Apple, like the so called FANG group of stocks, that are also causing this huge gap between equal weight (one vote per company) and capitalization weighted members of these two indexes. Not only does the cap weighting of the market indexes overstate the current rally, but the actual real value of the full move is also false when compared to gold as a store of value. The bottom chart is a wonderful depiction of Federal Reserve asset inflation caused by the massive amounts of quantitative easing (QE) since 2002.

## **FUNDAMENTAL**

Our Central Bank has been the QE maestro in creating a financial world where nearly every economic asset is selling at inflated prices. One minor exception is commodity prices where lack of demand proves that elevated stock prices are not based on real commercial growth; otherwise commodity prices would also be much higher. Cap weighted indexes tend to feed on themselves in a system where the big get bigger and more and more overpriced. As ETF investors buy an increasing amount of popular indexes, this bigness problem is compounded. These overvalued issues, along with the depression of volatility that we reviewed in the last two Weekly Reports, are setting the market up for a crash scenario. The question is not if, but when?

## **ASIDE**

*“The first step towards getting somewhere is to decide that you are not going to stay where you are.”* Unknown Author

Starboard’s decision is not to stay invested in an economic world fraught with enormous over-leveraged risk. Our destination is protection from the “Everything Bubble” that is soon likely to burst.

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**Please note:** It is the client’s responsibility to notify Starboard of any changes that would in any way influence their financial requirements.

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