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KELLEHER FINANCIAL ADVISORS

August 9, 2024

From **Neil Cataldi**, Chief Investment Officer, Starboard Advisors, a Division of KFA

We at Starboard hope this letter finds you well. We are writing to provide an update on the recent volatility and weakness observed in the financial markets over the past week. Several factors have contributed to this turbulence, and we would like to share our perspective on these developments and how they may impact your investments.

Last week, the Federal Reserve opted to leave interest rates unchanged, aligning with market expectations. However, the Bank of Japan took a different approach, raising interest rates for the second time this year. This move is particularly significant as it affects the "carry trade," a strategy where investors borrow money at near-zero rates in Japan, convert it to US dollars, and invest in US markets. As Japanese interest rates rise, this strategy becomes less favorable and is now unwinding, contributing to the recent market downturn.

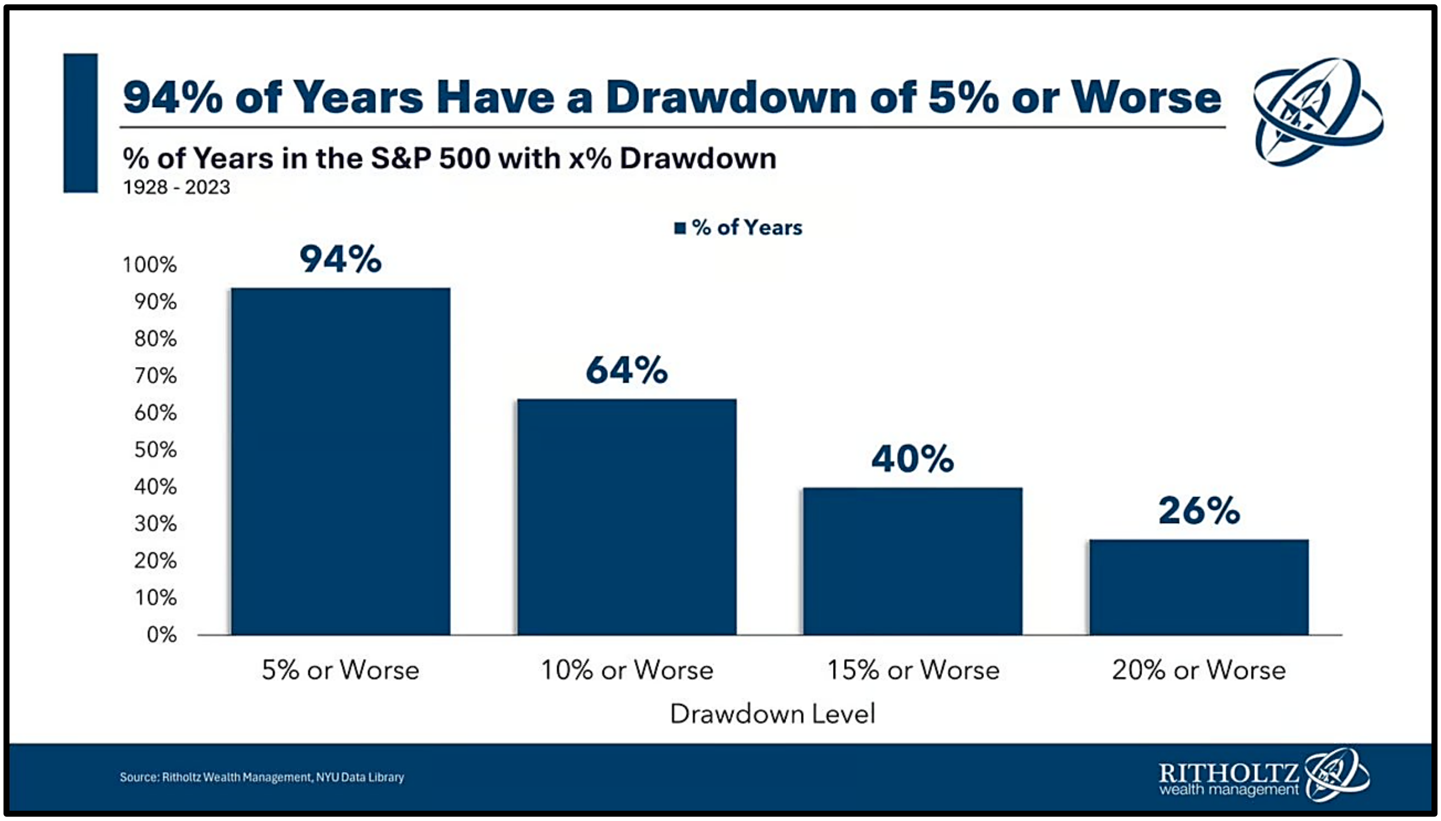
The main catalyst for Monday's decline was this unwind leading to a crash in Japanese markets overnight, which subsequently influenced our markets to follow suit. Despite the recent volatility, US corporate earnings remain robust, with nearly 10% growth expected this year. Economic data has also shown resilience, although the jobs report released last Friday may have been skewed downward due to temporary disruptions, such as the hurricane in Texas, which significantly impacted employment figures.

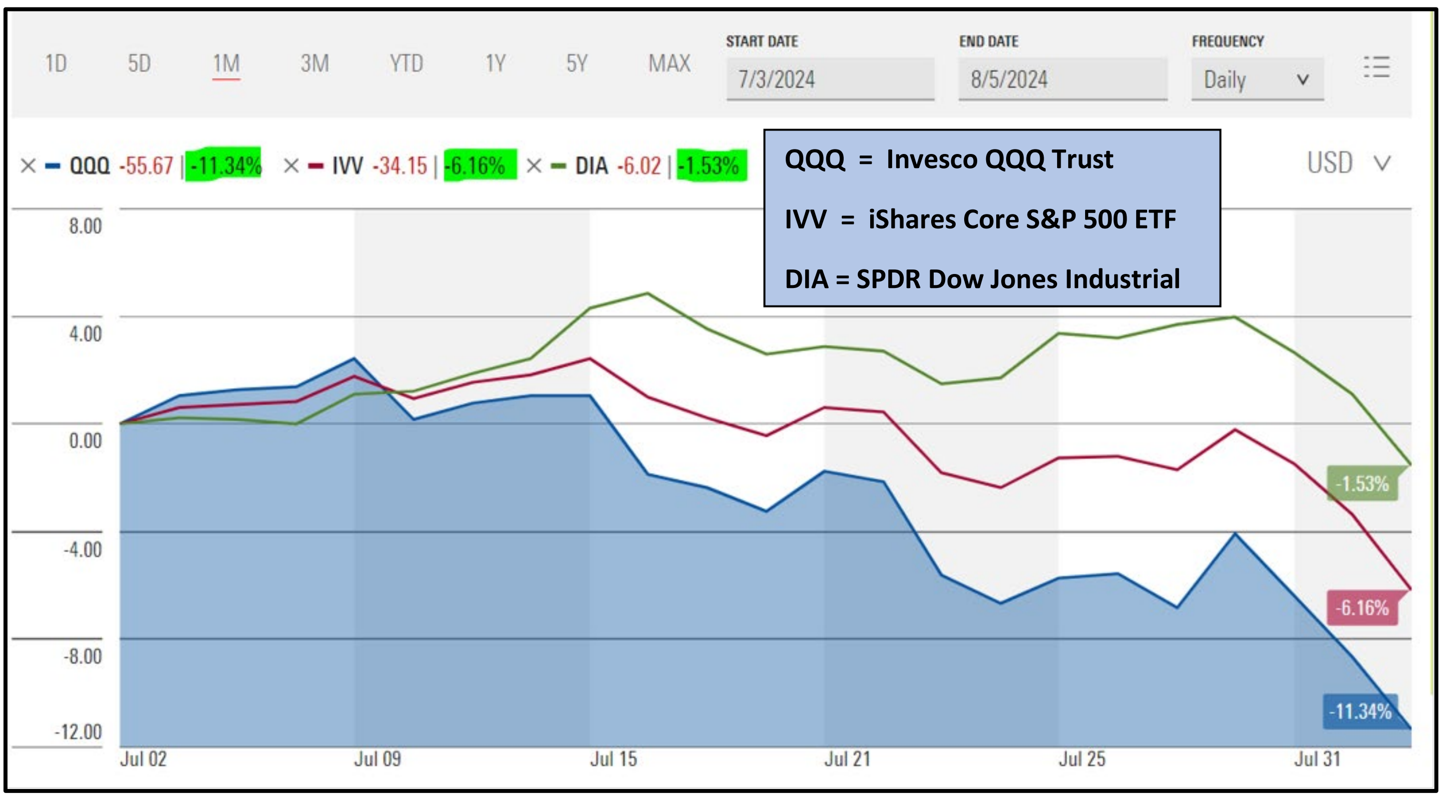
While we anticipate a deceleration in economic growth due to higher interest rates, there are few signs of a recession through August 2024. The major market indices are in fact still higher this year by nearly 10% despite the recent weakness. The chart below shows US market index performance over the past month. The steepest declines have occurred in the Nasdaq (blue line) which is notable given the strong outperformance observed during the first half of this year.

Our philosophy is built on a long term perspective with a focus on high quality investments. Cycles and drawdowns are a natural part of the market process. A 5% drawdown in any calendar year has a 94% chance of happening and a 10% drawdown in any calendar year has a 64% chance of happening (see image below). Drawdowns are thus very normal. Our core investment strategy continues to focus primarily on profitable large cap companies with a growth focus, alongside US Government Treasury bills, which have recently offered yields exceeding 5%.

While it is too early to predict the outcome of these current events, historical patterns suggest that holding quality assets during volatile periods often results in positive long-term returns. Rest assured, we remain vigilant in monitoring the markets and managing your investments to navigate these challenging times.

Please feel free to reach out if you would like to discuss the current events further or if there is anything we can do to assist you during this period.





Source: Morningstar 8/5/24