

Monday April 26, 2010

Closing prices of April 23, 2010

Good earnings and economic news last week trumped the Friday April 16th Goldman Sachs induced selloff and major U.S. indexes powered to fresh 52-week highs. The S&P 500 closed at its highest level since September 2008, and the Dow Jones Industrials are on their longest weekly winning streak in six years.

There was good news in the housing market with the rise in new home sales the biggest in 47 years. Some market watchers were quick to point out that this was due to government tax credits expiring shortly. This is true, but there is no disputing the strong durable goods number which handily beat estimates and was up the most since December 2007. Durable goods is a leading indicator. It is a sign of a pickup in business spending and a good predictor of future manufacturing.

Earnings reports continue to come in nicely with 80.3% of the 173 S&P 500 stocks reporting so far beating estimates. Combined with the good economic news this pushed 647 of the S&P 1500 to print fresh 13-week closing highs, the most since 665 on 9/16/09. There were 514 52-week closing highs, by far the most since we started recording this statistic in 2004.

The good earnings reports are helping equity valuations remain at levels which should be supportive for stocks in spite of a continuous overbought condition. This overbought condition does leave stocks vulnerable to pullbacks, but with sellers on the sidelines for the most part and our statistics of market breadth all making new highs and confirming the new highs in the S&P 1500, we don't think any pullbacks will be too deep.

We recently entered the second year of this bull market, and we are still well shy of the average length of prior bull markets. We are also well shy of the average percentage gain seen by prior bull markets. Therefore, as we have been saying for a while, we think this bull market still has a ways to go.

Still, there are many issues of concern to investors in addition to the Goldman Sachs investigation and impending regulation of the financial markets. The sovereign debt issue is still on the front pages, with Greece teetering on the brink of default and with Portugal doing its best to catch up with Greece as a problem for the EU. At the end of March the Fed ended its \$1.25 trillion program of purchasing mortgage backed securities backed by Fannie Mae, Freddie Mac, and Ginnie Mae, so there may be liquidity concerns. At the end of April the homebuyer's tax credit is due to expire. There is increasing talk of the United States adopting a VAT tax, which would be as disastrous here as it has been in Europe, and cap and trade is back in the news. Most important of all, we are in earnings season for the first quarter.

Based on the S&P 500 the short-term, intermediate-term, and the long-term trends are up. Investors need to be careful with entry points, aware of sector rotation, and should not hesitate to move out of lagging stocks and sectors and into leaders.

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S&P 1500 Data: (Data available daily at John Thomas Financial)

P/E: 19.35 FP/E: 15.80 Percent over 10-sma: 83.27%. Percent over 50-sma: 90.67%

13-Week Closing Highs: 647, most since 665 on 9/16/09. 13-Week Closing Lows: 5. 52-week closing highs: 514, most in years.

Kaufman Options Indicator: 1.03. Put/Call Ratio: 0.707

New High Reversals: 45. New Low Reversals: 5.

Volume: -12% versus yesterday. 95% of the 10-day average. 110% of the 30-day average.

Up Stocks: 75.42%. Up Volume: 59.54%. Up Points: 81.83%. Up Dollars: 90.24%, 144% of 10-sma. Dn Dollars 33% of 10-sma.

Earnings: 173 of the S&P 500 have reported so far this earnings season. 80.3% have had positive surprises, 9.2% have been in line, and 10.4% have had negative surprises.

Federal Funds Futures project an 86.0% probability of no change to the current 0.25 % target rate and a 14.0% probability of a cut to 0.00% when the FOMC meets on 4/28. For the meeting of 6/23 the probabilities are 75.9% for no change, 12.1% for 0.50, and 12.0% for 0.00%.

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The 30-minute chart of the S&P 500 shows it broke the neckline of the head & shoulders pattern Monday but quickly reversed to negate the pattern by moving above the right shoulder. There is a saying that there is nothing more bullish than a failed bearish signal and that proved true in this case as the S&P 500 printed a fresh 52-week high on Friday.

30-minute momentum indicators are at overbought levels.

S&P 500 Cash (1,207.87, 1,217.28, 1,205.10, 1,217.28, +8.61)



The daily chart of the S&P 500 shows it found support at the 20-sma twice last week on its way to new highs.

The RSI has a negative divergence.

Daily momentum indicators are at overbought levels.



The weekly chart of the S&P 500 shows it is at the highest level since September 2008. Also, the 80-week moving average has turned up for the first time since May 2008. This was the last piece of the puzzle with price and the 20, 40, and 80-week moving averages all lined up bullishly.

Weekly momentum indicators are overbought.

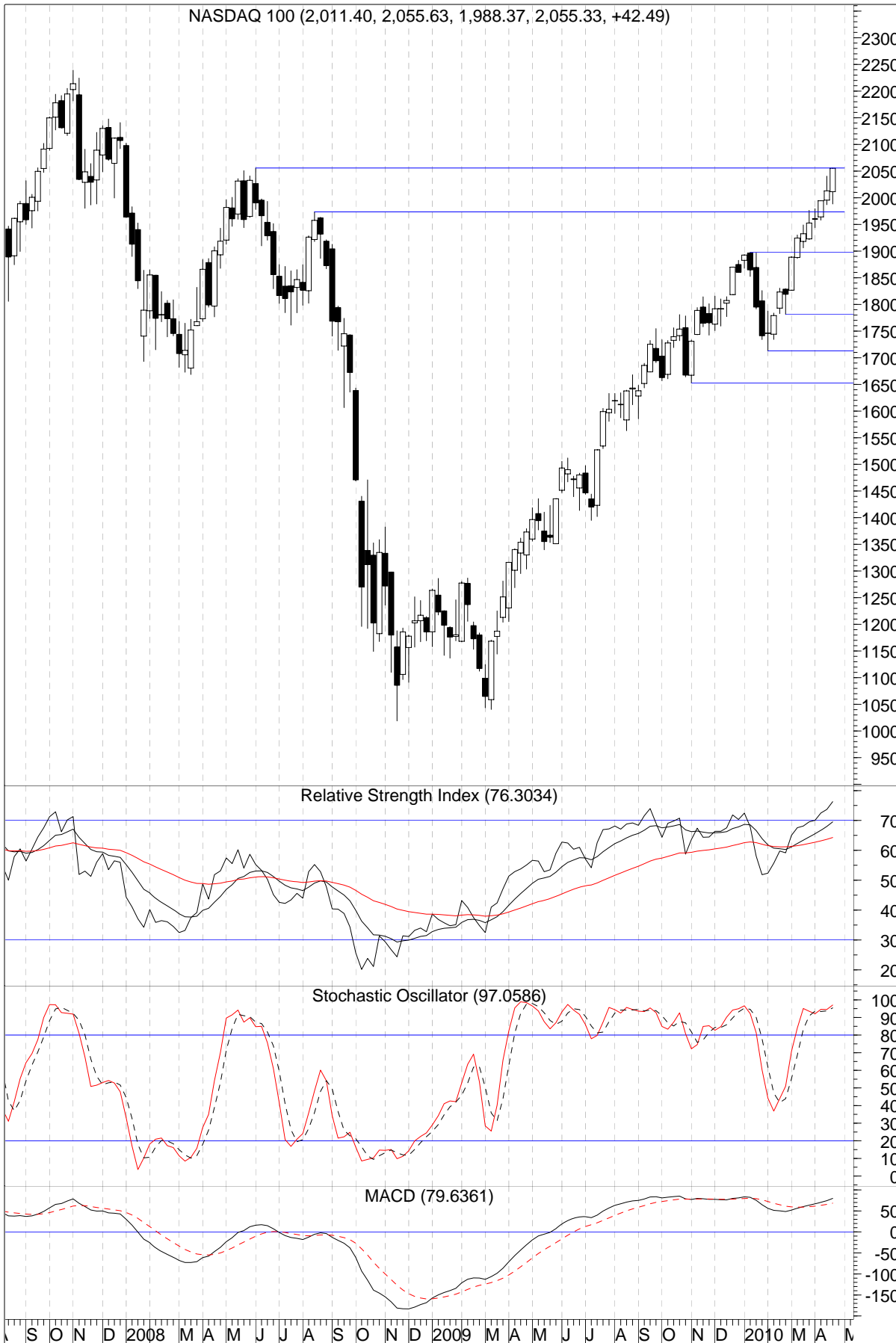
NASDAQ 100 (2,042.80, 2,055.63, 2,036.99, 2,055.33, +10.17)



The daily chart of the Nasdaq 100 shows it has consistently traded above its 20-sma.

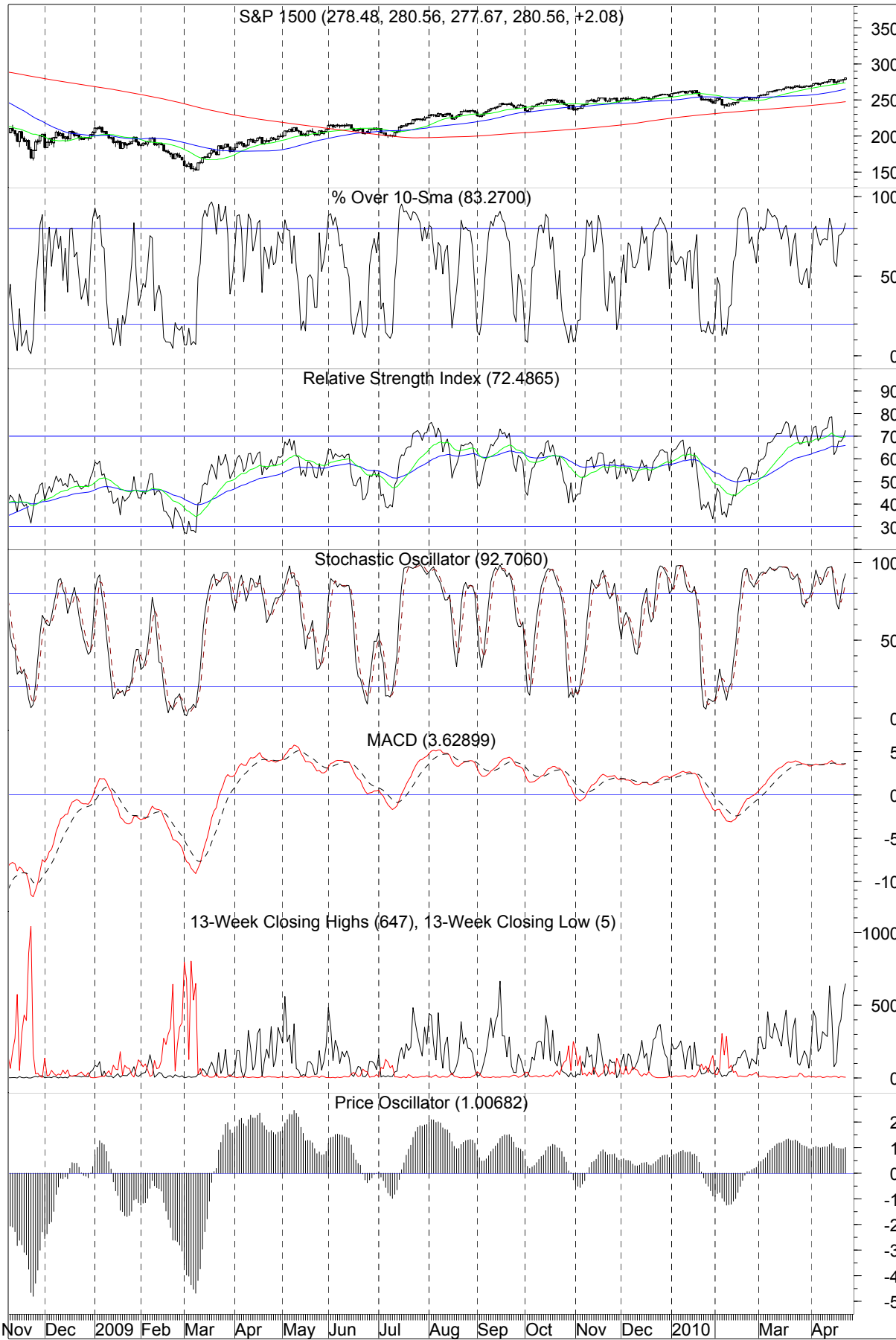
Daily momentum indicators are at overbought levels.

NASDAQ 100 (2,011.40, 2,055.63, 1,988.37, 2,055.33, +42.49)



The weekly chart of the Nasdaq 100 shows it closed at the highest level since December 2008.

Weekly momentum indicators are overbought.

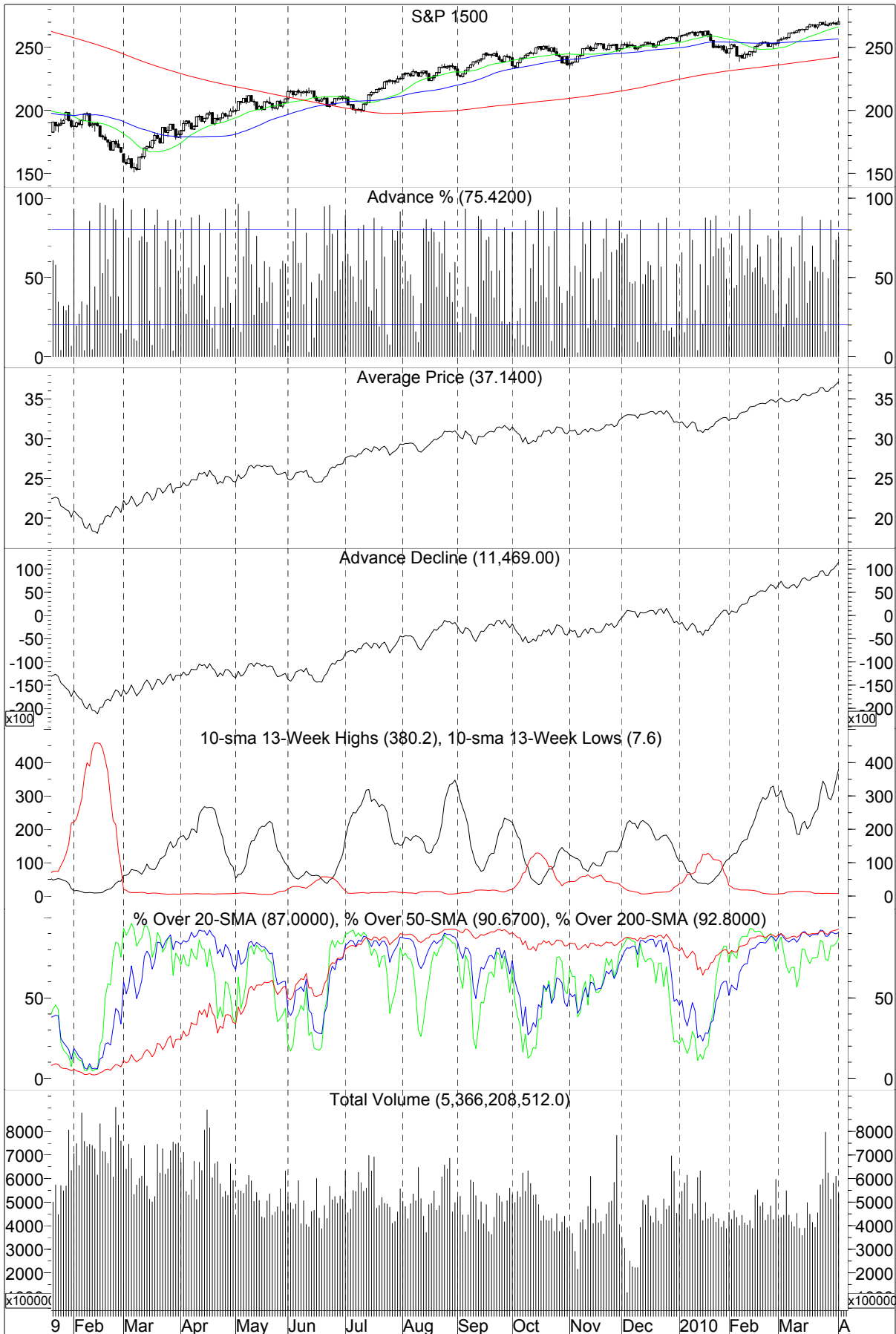


83.27% of stocks are over their own 10-sma.

Momentum indicators are at overbought levels with a negative divergence on the RSI.

647 13-week closing highs Friday was the most since 665 on 9/16/09.

Our price oscillator, a good indicator of trends, remains in positive territory.



75.42% of stocks traded higher Friday.

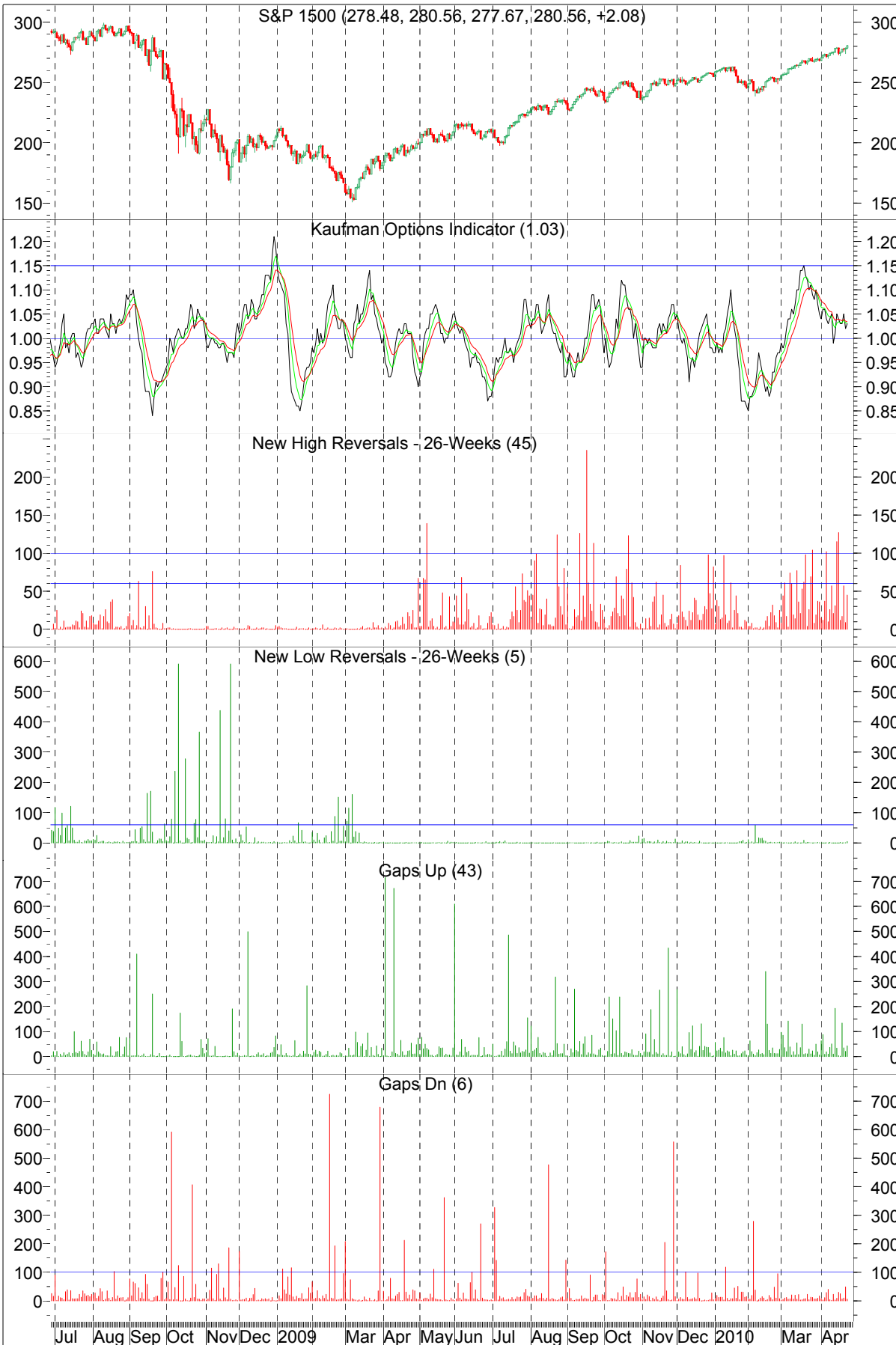
Average price per share of the S&P 1500 is the highest since June 2008.

The AD line and all of our statistics of market internals are at new highs, confirming the new high on the S&P 1500 and pointing to higher prices in the future.

The 10-day average of 13-week closing highs is breaking out.

The percentages of stocks over important moving averages remains at very high levels.

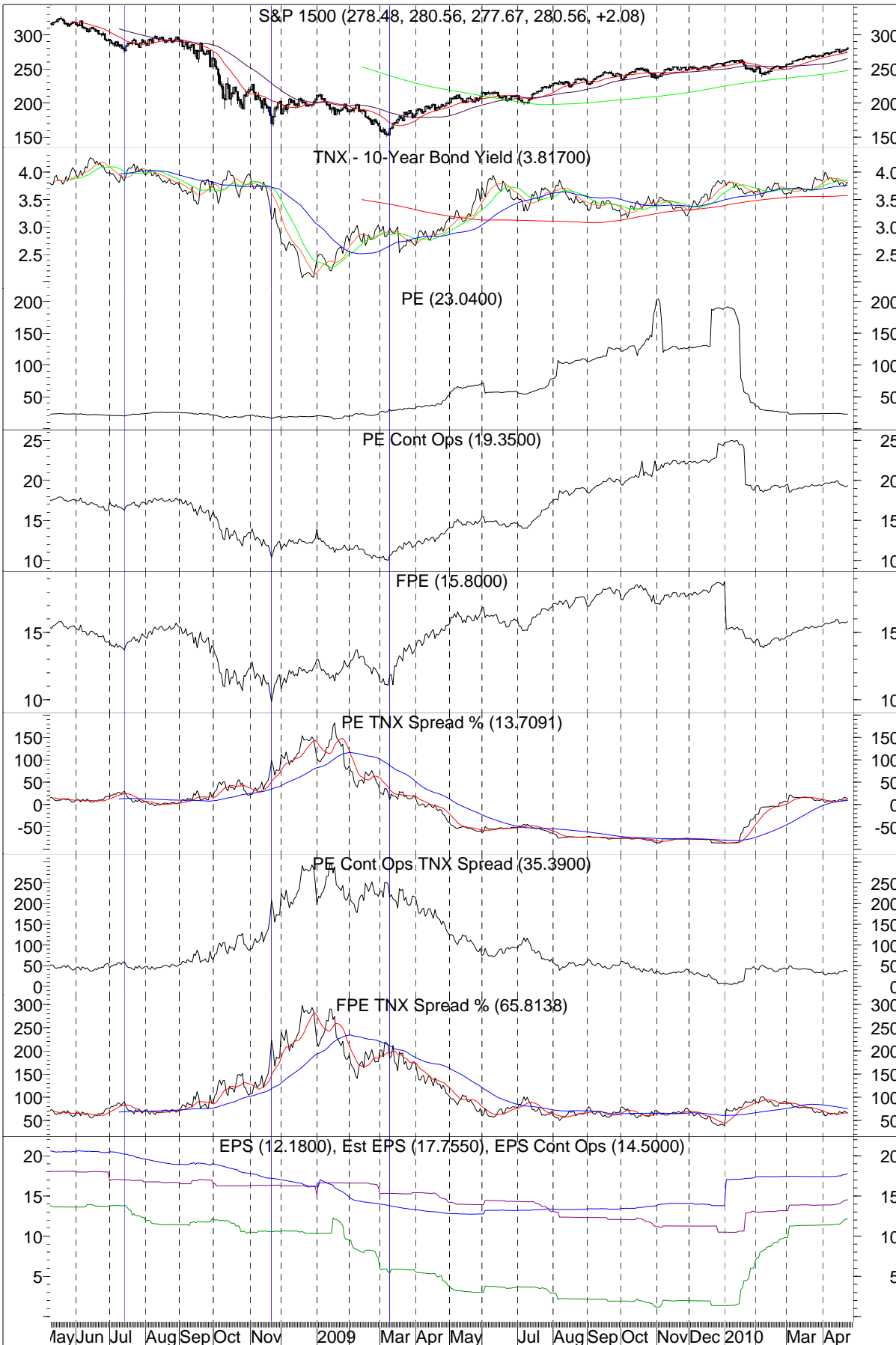
The Kaufman Report - Wayne S. Kaufman, CMT



Our proprietary options indicator is showing optimism but not extreme levels.



Our statistics of supply (red) versus demand (green) are all showing positive crossovers for all time frames. The statistics for down points and dollars show sellers remain reticent, with the 50-day averages making new lows. Down volume numbers are rising, but that is probably being skewed by high volume in some lower priced stocks like Citigroup, which by itself is averaging over 700 million shares traded daily.

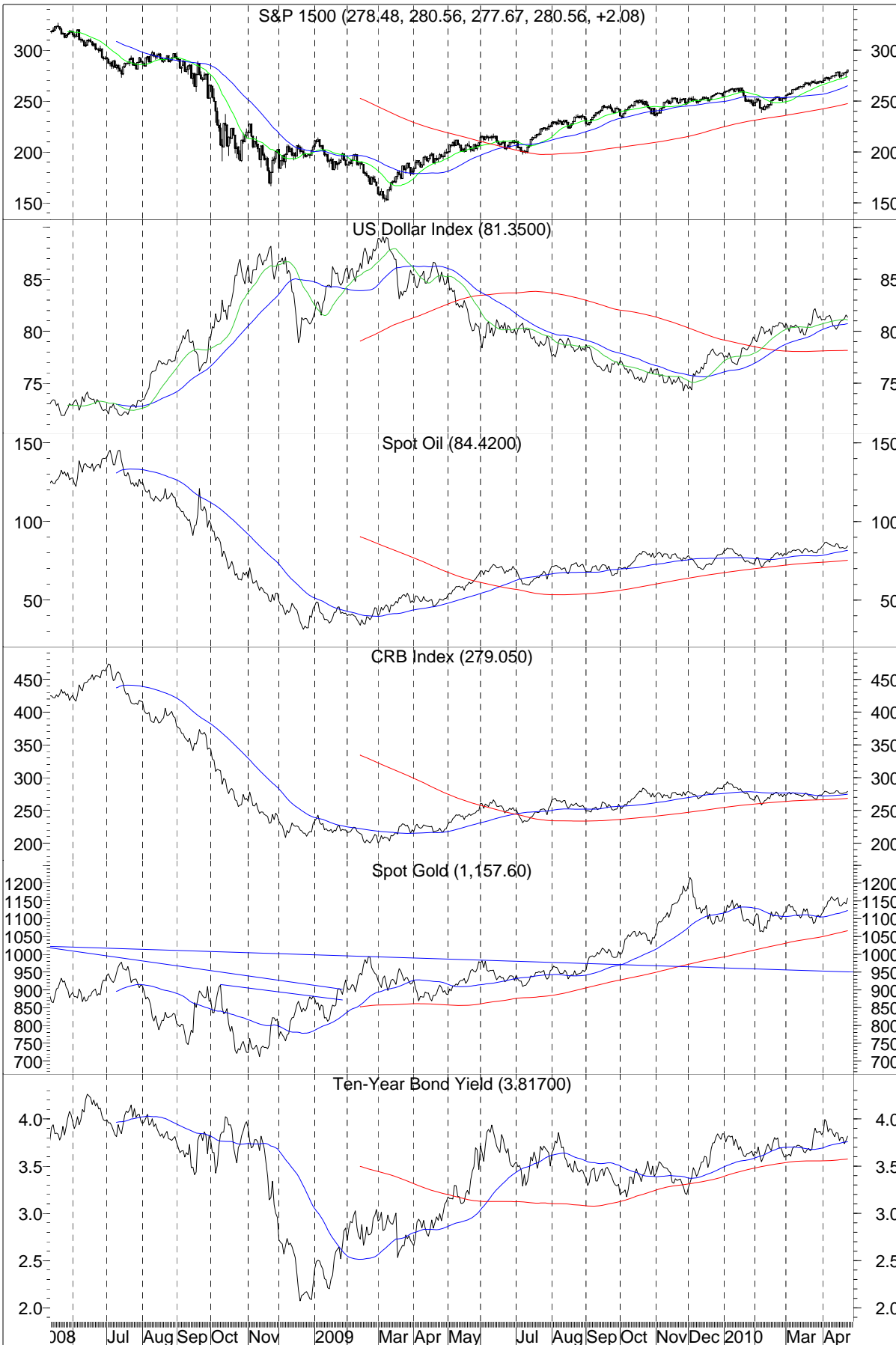


The 10-year bond yield bounced off its 50-sma Friday. Momentum indicators are neutral.

P/E ratios remain in their recent ranges.

Spreads between bond and equity yields remain at levels which should be supportive to stocks.

Our metrics of earnings have all started to turn up. Hopefully this will continue the next few weeks of earnings season.



The U.S. Dollar Index gapped up at the open Friday but closed lower on the day. It remains under long-term resistance but is in an up trend. Momentum indicators are mostly neutral but oversold on an intra-day basis.

Crude oil is bouncing off its 50-sma and closed above its 20-sma (not shown). Daily and weekly momentum indicators are neutral.

Gold bounced off multiple trend lines last week and seems poised to move higher. Key levels are 1162, the closing high of 4/9, and 1170, the intra-day high of 4/10. Surpassing these would target the December highs.