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The Kaufman Report

Trade what you see, not what you think.

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Monday April 5, 2010

Closing prices of April 1, 2010

Major indexes continued their levitation act last week with the Dow Jones Industrials, the S&P 500, and the Nasdaq 100 each posting fresh 52-week highs. The picture underneath the surface is not quite as rosy however, as some negative divergences exist and statistics of selling have begun to increase. This seems to be standard fare as equities work off the overbullish condition that we discussed two weeks ago. This type of activity is also not unusual ahead of an earnings season. Still, we will be on guard for any signs that the short-term increase in selling will morph into longer-term liquidation.

Therefore, in the short-term investors need to be careful with entry points. Longer-term we remain bullish for many reasons. Sellers have not been aggressive. We recently came through a period where investors shrugged off bad news and stocks moved higher. Unless catalysts arise which cause sellers to step off the sidelines, pullbacks should not be too deep, and the path of least resistance for stocks will remain higher. The economy continues to improve and many companies are revising their forecasts up.

Also, we have 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, we think this bull market still has a ways to go. However, we do think that the tone of the market is changing, with the initial blastoff phase of the bull market now complete. This means that selectivity will be more important, and the market will not bail investors out of their mistakes.

We have entered an important period. Obamacare is still dominating the news. The sovereign debt issue is still on the front pages. 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. At the end of April the homebuyer's tax credit is due to expire. Less widely discussed is an IMF report due in April on an international financial transaction tax. In addition, we now have to worry about the Bipartisan National Commission on Fiscal Responsibility and Reform, which may simply be a smokescreen with the purpose of helping the government raise taxes. We are about to enter 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: 19.48 FP/E: 15.52 Percent over 10-sma: 57.67%. Percent over 50-sma: 87.00%

13-Week Closing Highs: 225. 13-Week Closing Lows: 7. 52-week closing highs: 173.

Kaufman Options Indicator: 1.04. Put/Call Ratio: 0.903

New High Reversals: 15. New Low Reversals: 0.

Volume: +14% versus yesterday. 86% of the 10-day average. 87% of the 30-day average.

Up Stocks: 76.42%. Up Volume: 76.17%. Up Points: 84.63%. Up Dollars: 95.45%, 210% of 10-sma. Dn Dollars 12% of 10-sma.

Earnings: 497 of the S&P 500 have reported so far this earnings season. 72.5% have had positive surprises, 10.3% have been in line, and 17.2% have had negative surprises.

Federal Funds Futures project an 82.0% probability of no change to the current 0.25 % target rate and an 18.0% probability of a cut to 0.00% when the FOMC meets on 4/28. For the meeting of 6/23 the probabilities are 71.8% for no change, 15.1% for 0.50, and 13.1% for 0.00%.

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Indexes, Sectors, and Industry Groups

	Daily	WTD	MTD	QTD	YTD
Bank of New York Mellon ADR	1.79%	3.70%	1.79%	1.79%	1.28%
NYSE Composite	1.22%	2.08%	1.22%	1.22%	4.93%
S&P Midcap 400	0.94%	1.21%	0.94%	0.94%	9.72%
S&P Smallcap 600	0.87%	0.49%	0.87%	0.87%	9.26%
S&P 1500	0.76%	1.05%	0.76%	0.76%	6.10%
S&P 500	0.74%	1.06%	0.74%	0.74%	5.65%
Dow Jones Industrials	0.65%	0.79%	0.65%	0.65%	4.79%
Nasdaq Composite	0.19%	0.22%	0.19%	0.19%	5.88%
Nasdaq 100	0.06%	0.53%	0.06%	0.06%	5.34%

	Daily	WTD	MTD	QTD	YTD
Materials	1.80%	3.19%	1.80%	1.80%	4.25%
Energy	1.63%	4.02%	1.63%	1.63%	1.72%
Utilities	1.30%	2.28%	1.30%	1.30%	-3.37%
Telecom Services	0.96%	1.09%	0.96%	0.96%	-4.76%
Financials	0.92%	0.66%	0.92%	0.92%	11.85%
Consumer Discretionary	0.74%	0.50%	0.74%	0.74%	10.86%
Industrials	0.58%	1.37%	0.58%	0.58%	13.11%
Health Care	0.55%	0.49%	0.55%	0.55%	3.46%
Consumer Staples	0.50%	0.72%	0.50%	0.50%	5.57%
Information Technology	0.09%	-0.15%	0.09%	0.09%	1.76%

	Daily	WTD	MTD	QTD	YTD
Materials	1.80%	3.19%	1.80%	1.80%	4.25%
Energy	1.63%	4.02%	1.63%	1.63%	1.72%
Utilities	1.30%	2.28%	1.30%	1.30%	-3.37%
Consumer Services	1.12%	1.72%	1.12%	1.12%	10.67%
Diversified Financials	1.12%	0.35%	1.12%	1.12%	9.57%
Telecom Services	0.96%	1.09%	0.96%	0.96%	-4.76%
Media	0.89%	1.67%	0.89%	0.89%	9.24%
Automobiles & Components	0.80%	-4.71%	0.80%	0.80%	21.83%
Insurance	0.79%	1.81%	0.79%	0.79%	12.52%
Consumer Durables & Apparel	0.77%	0.40%	0.77%	0.77%	12.60%
Banks	0.76%	0.63%	0.76%	0.76%	19.53%
Food, Beverage & Tobacco	0.75%	0.79%	0.75%	0.75%	5.43%
Capital Goods	0.70%	1.41%	0.70%	0.70%	14.56%
Pharmaceuticals, Biotech & Life Sciences	0.58%	0.31%	0.58%	0.58%	2.23%
Real Estate	0.52%	-0.73%	0.52%	0.52%	9.99%
Health Care Equip & Services	0.51%	0.84%	0.51%	0.51%	5.94%
Retailing	0.40%	0.04%	0.40%	0.40%	9.85%
Commercial & Professional Services	0.26%	0.82%	0.26%	0.26%	3.43%
Semiconductors & Equipment	0.26%	0.04%	0.26%	0.26%	2.60%
Technology Hardware & Equipment	0.24%	0.47%	0.24%	0.24%	4.02%
Food & Staples Retailing	0.24%	0.84%	0.24%	0.24%	6.43%
Household & Personal Products	0.21%	0.46%	0.21%	0.21%	4.92%
Transportation	0.19%	1.35%	0.19%	0.19%	11.06%
Software & Services	-0.14%	-0.95%	-0.14%	-0.14%	-1.10%

INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	52L
South Korea EWY	51.61	3.22%	4.98%	3.22%	3.22%	8.33%	51.68	30.40
Sweden EWD	26.20	3.19%	2.94%	3.19%	3.19%	11.49%	26.26	14.98
China 25 FXI	43.27	2.78%	7.51%	2.78%	2.78%	2.39%	46.66	30.07
Netherlands EWN	20.96	2.75%	4.63%	2.75%	2.75%	2.44%	21.51	12.79
Taiwan EWT	12.88	2.63%	4.66%	2.63%	2.63%	-0.69%	13.46	8.44
MSCI Emerging Markets EEM	43.22	2.61%	5.37%	2.61%	2.61%	4.14%	43.47	26.33
Spain EWP	43.26	2.41%	2.98%	2.41%	2.41%	-9.95%	52.67	31.73
Vietnam VNM	25.75	2.34%	3.42%	2.34%	2.34%	1.02%	32.15	23.17
Singapore EWS	11.75	2.17%	3.32%	2.17%	2.17%	2.26%	11.90	6.62
France EWQ	25.57	2.04%	3.75%	2.04%	2.04%	-1.08%	27.32	17.35
Italy EWI	18.60	1.97%	3.49%	1.97%	1.97%	-4.66%	21.77	12.92
BRIC EEB	43.52	1.92%	5.28%	1.92%	1.92%	2.50%	44.90	25.25
Australia EWA	24.47	1.92%	2.66%	1.92%	1.92%	7.14%	24.57	13.55
United Kingdom EWU	16.58	1.91%	4.10%	1.91%	1.91%	2.35%	17.20	10.73
Canada EWC	28.42	1.83%	3.17%	1.83%	1.83%	7.94%	28.43	16.93
Latin America ILF	49.15	1.82%	5.31%	1.82%	1.82%	2.85%	50.25	27.36
Brazil EWZ	74.95	1.78%	6.23%	1.78%	1.78%	0.46%	80.93	40.17
Hong Kong EWH	16.56	1.66%	3.38%	1.66%	1.66%	5.75%	16.63	10.92
Germany EWG	22.23	1.65%	4.00%	1.65%	1.65%	-0.94%	23.40	15.66
Austria EWO	20.06	1.57%	4.09%	1.57%	1.57%	2.56%	23.59	12.43
Japan EWJ	10.60	1.53%	3.58%	1.53%	1.53%	8.83%	10.60	8.09
Switzerland EWL	23.39	1.26%	3.04%	1.26%	1.26%	5.08%	23.57	15.11
Malaysia EWM	11.82	1.20%	4.40%	1.20%	1.20%	11.30%	11.82	7.35
Belgium EWK	13.17	1.15%	2.43%	1.15%	1.15%	3.21%	13.95	8.11
Mexico EWW	53.90	0.99%	3.41%	0.99%	0.99%	10.29%	54.37	28.84

S&P 500 Cash (1,177.95, 1,178.10, 1,177.95, 1,178.10, +0.21)



The 30-minute chart of the S&P 500 shows that pullbacks continue to be met by buyers.

Momentum indicators are not yet overbought.

S&P 500 Cash (1,171.23, 1,181.43, 1,170.69, 1,178.10, +8.67)



Daily momentum indicators are showing negative divergences.



We have had another strong rally following the early February bullish engulfing candle on the weekly chart which was accompanied by a positive stochastic crossover from an oversold level.

Weekly momentum indicators are at high or overbought levels.

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Monthly momentum indicators are not overbought.

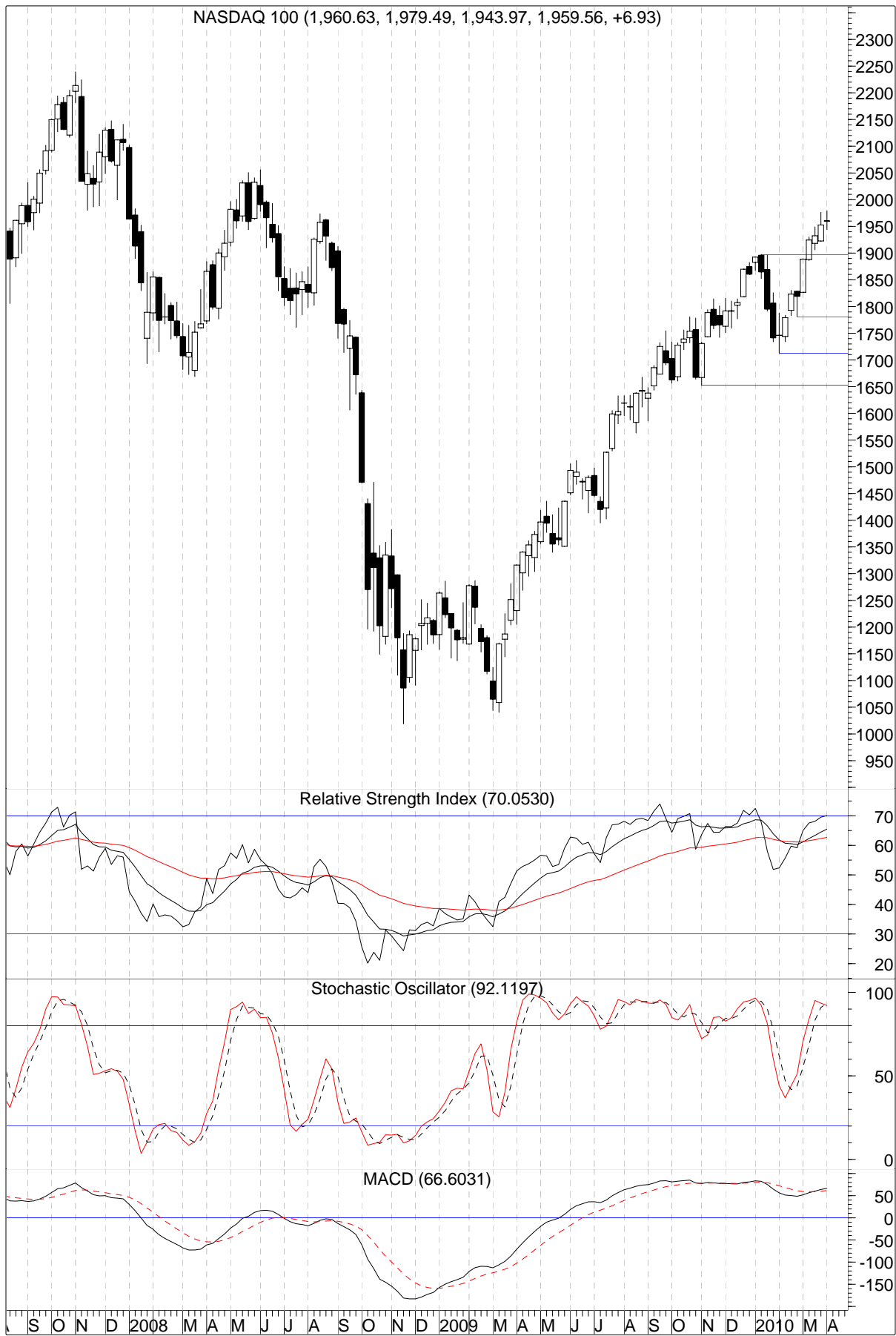
NASDAQ 100 (1,968.44, 1,979.49, 1,943.97, 1,959.56, +1.22)



Daily candles on the Nasdaq 100 show it is running into resistance at these levels.

Daily momentum indicators look topy.

NASDAQ 100 (1,960.63, 1,979.49, 1,943.97, 1,959.56, +6.93)



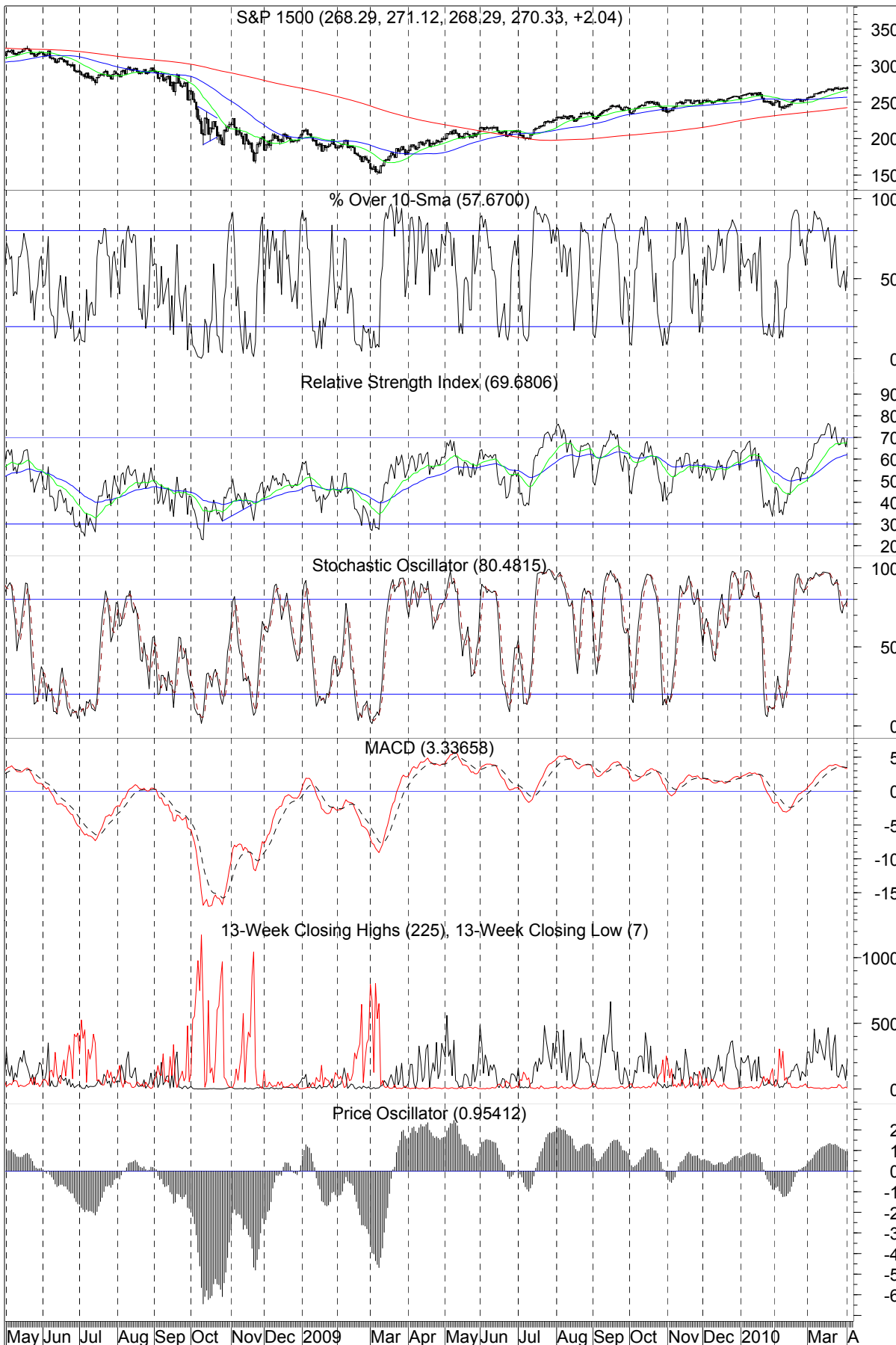
The weekly chart of the Nasdaq 100 printed a doji candle. Doji are signs of indecision frequently seen at turning points.

Weekly momentum indicators are at high or overbought levels.

NASDAQ 100 (1,968.44, 1,979.49, 1,943.97, 1,959.56, +1.22)



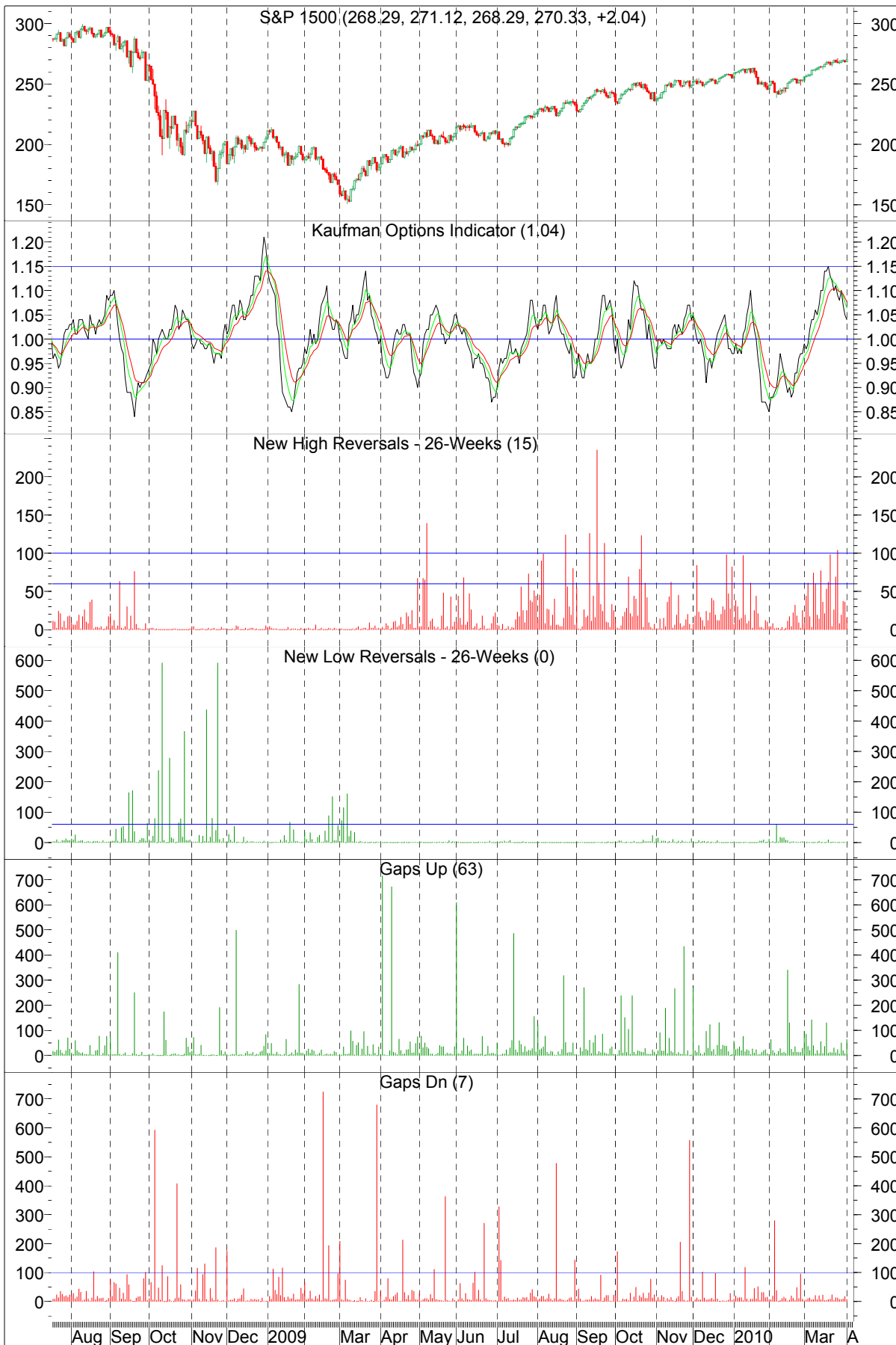
Monthly momentum indicators for the Nasdaq 100 don't seem problematic, although the stochastic is in the overbought zone.



We have a negative divergence in the percent over 10-sma.

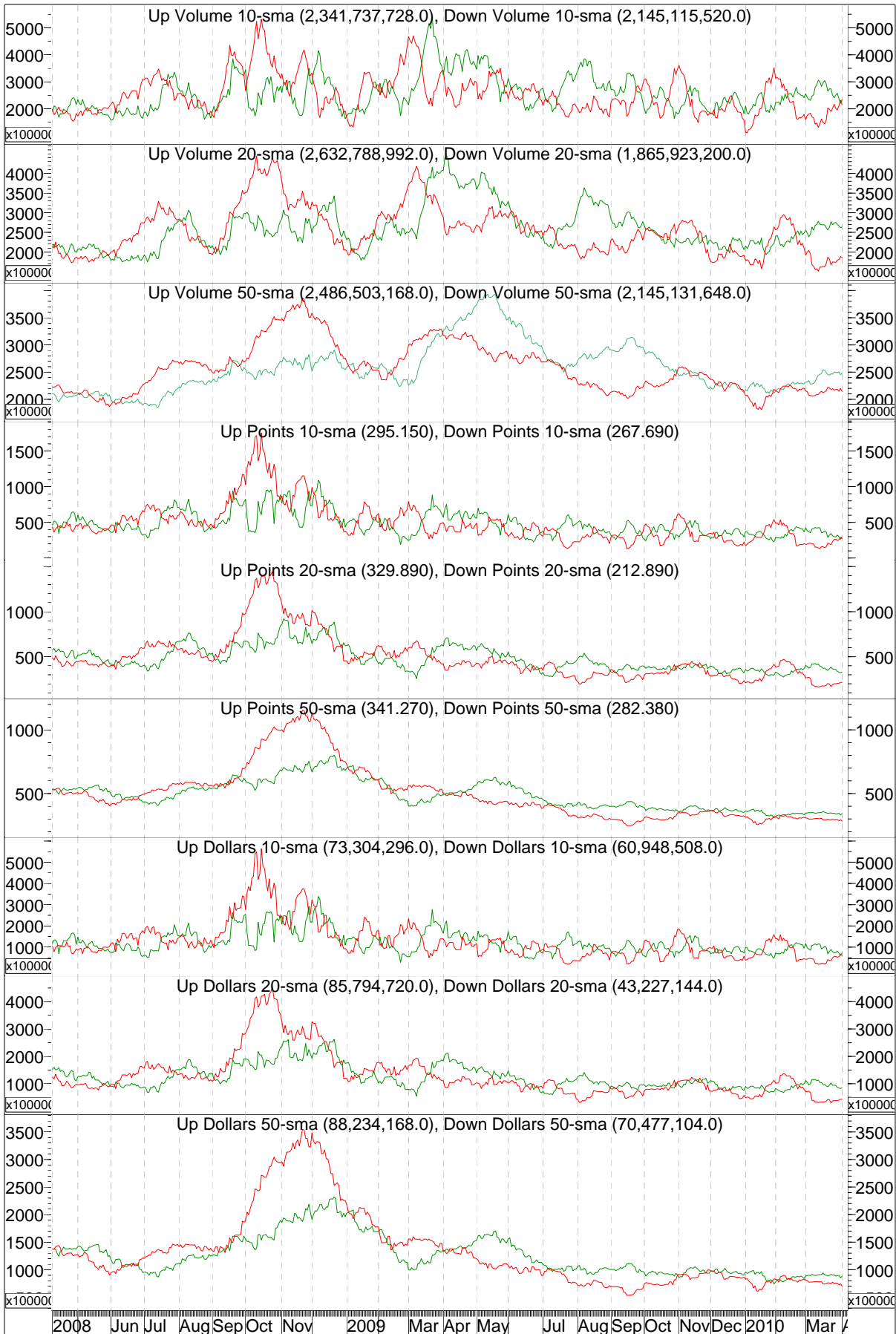
13-week highs continue to overpower the few 13-week lows.

Our price oscillator remains in positive territory.

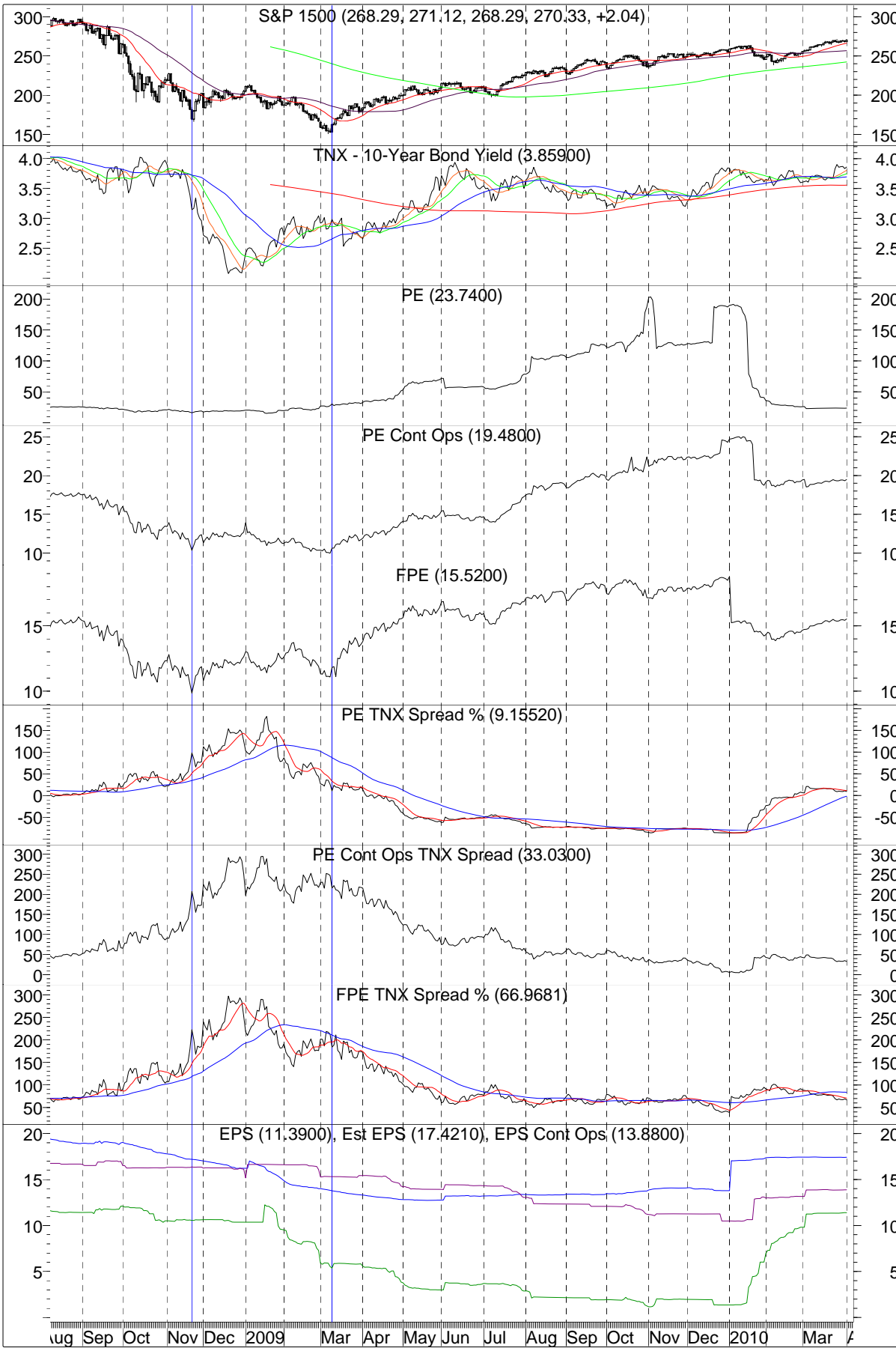


After hitting the overbullish 1.15 level on 3/18 our proprietary options indicator has moved down to 1.04. We prefer to see it under 1.00, which shows the pessimism needed for a strong rally.

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Our statistics of supply (red) versus demand (green) show there has been a pickup in selling while buyers have stepped back a little. This is not unusual ahead of an earnings season. Still, we will be watching for any signs that liquidation is entering the picture.

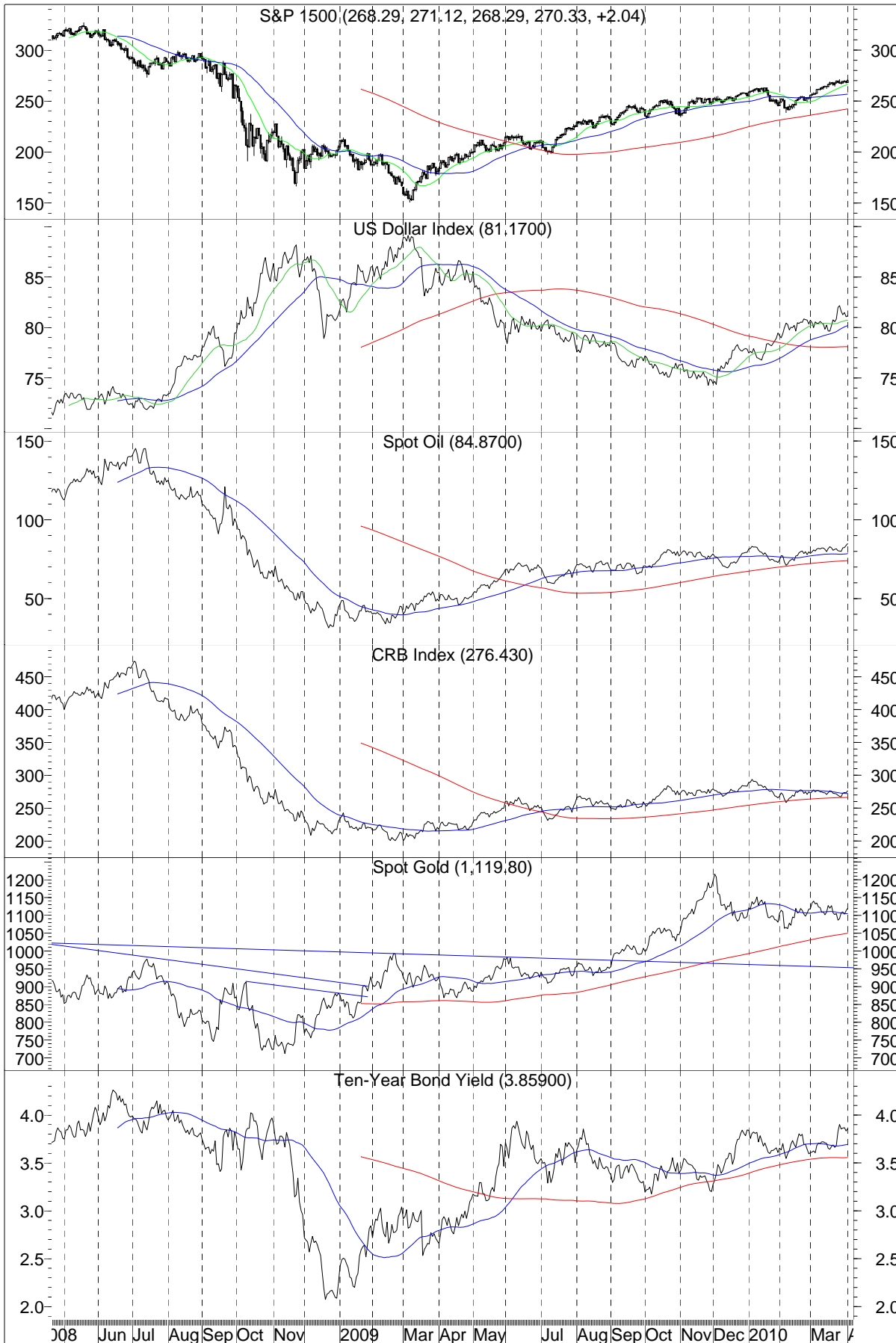


Bond yields are in an up trend. A move over 4.00 will trigger a debate between bulls who say rates rise as the economy improves and bears who say it will kill the rally in stocks. Depending on other factors we are in the bull camp.

P/E ratios remain stable and fairly range bound.

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

Earnings continue to flatline. This will change as we enter earnings season shortly.



The U.S. Dollar Index remains in an up trend and has pulled back from overbought levels. It is nearing overbought levels on the weekly chart which will make it difficult to break through resistance which is not far overhead.

Crude oil has broken out to its highest level since October 2008 and is not yet overbought.

Two weeks ago we said sentiment for gold had turned bearish, which might be setting it up for a rally. It bottomed on 3/24 and has moved back above its 20 and 50-sma. There is plenty of resistance not far above, while sentiment has become more neutral.