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The Kaufman Report

Trade what you see, not what you think.

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Monday August 15, 2011 **Closing prices of August 12, 2011**

This is an abbreviated issue of The Kaufman Report due to my father fracturing his hip Friday night and my spending a lot of the weekend at the hospital.

Stocks had an historic week last week as the recent volatility reached a crescendo. In our last report dated August 1st we commented on the whipsaw nature of the market and this past week set records for that with four consecutive 90% days that alternated between positive and negative.

We also said in that report we were cautious in the intermediate-term due to technical damage that had occurred, and far greater damage followed in the last two weeks. The worst of this was the breaking of the neckline of the head and shoulders pattern we discussed, which led to a breathtaking plunge for equities. In the process a Dow Theory sell signal was registered and the S&P 500 plunged through not only the widely watched 200-day moving average but also its 400-day moving average, an unusual and unwanted event. The 400-day is rarely tested during bull markets and usually provides support when it is.

Monday was a capitulation day as a record was set for negative market breadth on the NYSE. Volume was greater than twice the daily average, and we recorded 1335 13-week closing highs on the S&P 1500, the most we have ever recorded and surpassing the prior high of 1175 on 10/09/08. Stocks fell again Tuesday to 1101.54 on the S&P 500, finding support fractionally below 1101.73, which is the Fibonacci 38.2% retracement level of the entire bull market from March 2009. The S&P 500 bounced about 7% after hitting that level, printing a large hammer candle on the weekly chart. Hammers are bottoming candles.

In the short-term stocks remain oversold. Our proprietary options indicator, which hit 1.17 on 7/29 showing an extreme level of call buying, is down to 0.90, a level of pessimism in the range where stocks have found support during the recent bull market. In addition, assets in inverse ETFs have ballooned to extreme levels. This combined picture shows many market participants are positioned for continued downside, and extremes in sentiment are important contrary indicators. Still, investors need to remain cautious. *Even if Monday's capitulation evolves into an important bottom it would be typical to see it retested in a one to three week time frame.*

Technicians will all be watching the Fibonacci retracement levels of the recent plunge. These are 38.2% which is at 1195.31 and 50% at 1224.27

So far 458 of the S&P 500 have reported second quarter numbers. Of these 71.0% exceeded expectations, 8.7% were in line, and 20.3% disappointed. Current S&P 500 projected earnings for 2011 are just over $99, and the 2012 number is over $113. **These numbers have started to come down.** This projects 2012 earnings growth of 13.9% over 2011. **A 15 P/E based on these numbers equates to an S&P 500 of 1488 and 16.97.**

In the short-term stocks are still oversold although the 7% four day bounce off the bottom may need to be digested. European sovereign debt issues remain as a potential threat to equities, and we continue watching for signs of a global economic slowdown. As we have said since early April, this is a short-term trader's market. Based on the S&P 500 the short-term, intermediate-term, and the long-term trends are all down.

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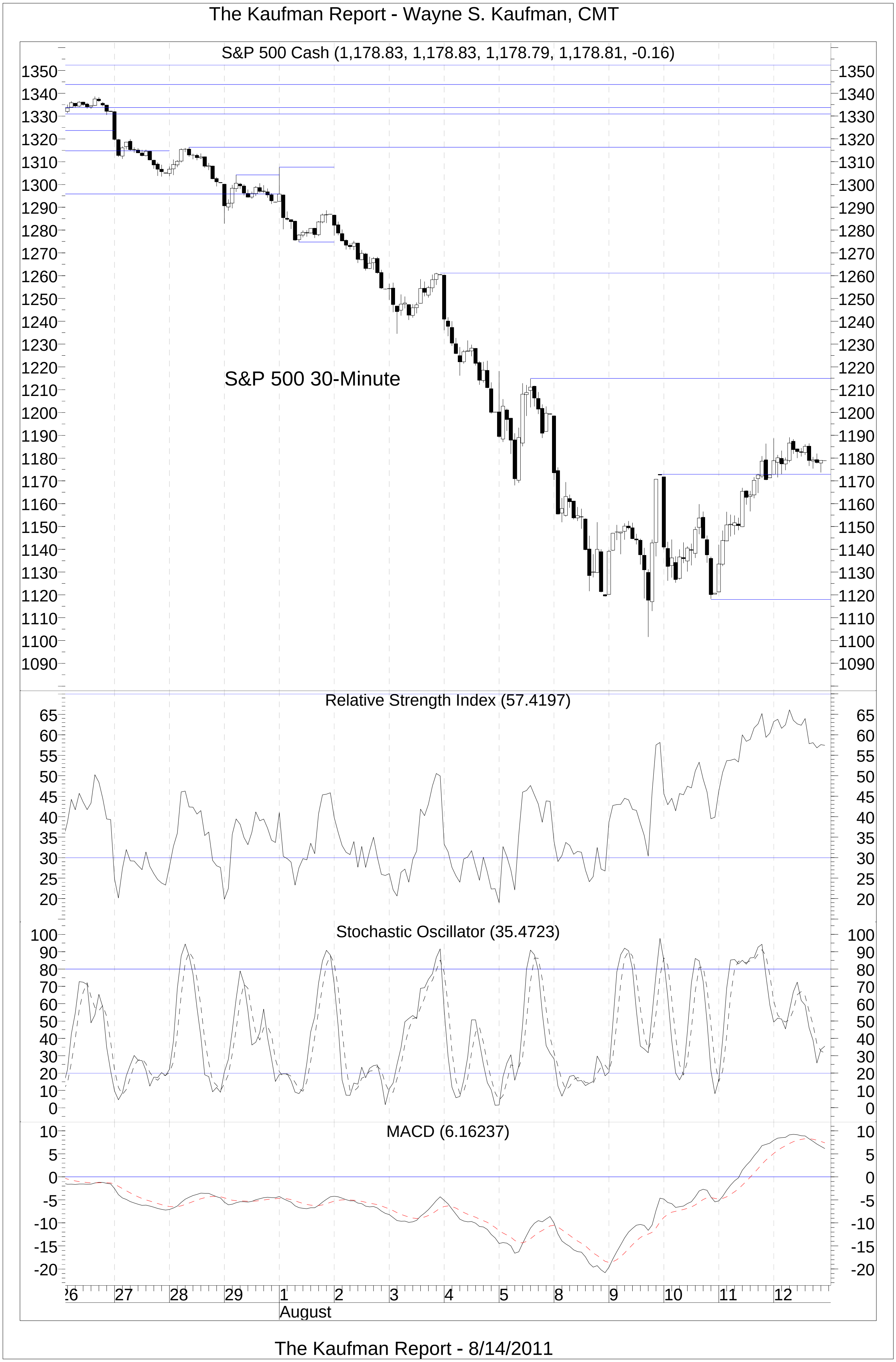

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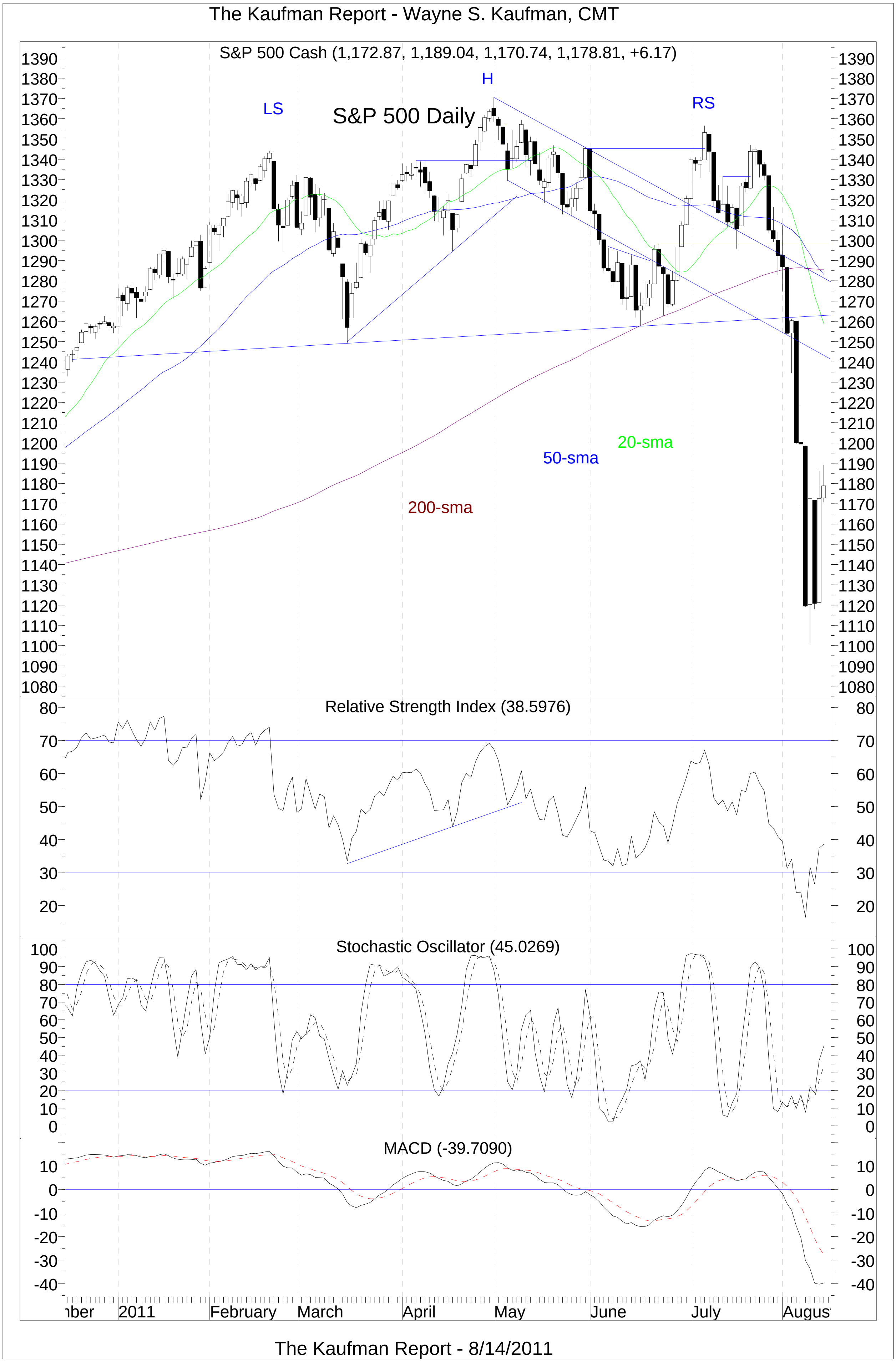
30-minute momentum indicators are mixed.



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On August 2nd the S&P 500 broke through the neckline of the head and Shoulders pattern. The following day it rallied up to it, which is not uncommon, then plunged dramatically. The downside target for the H&S pattern was the 1144 area and the index went way past that down to the 8/9 low of 1101.54. This was a mere fraction below 1101.73, the Fibonacci 38.2% retracement of the entire bull market from the March 2009 low. Friday's candle was a bearish shooting star. 1195.31 is the 38.2% retracement of the recent plunge. 1224.27 is the 50% retracement.

The RSI and the stochastic are positive and still at low levels. The MACD is not yet positive but is at a very low level.

The weekly chart of the S&P 500 printed a large hammer with the bottom at the 38.2% Fibonacci retracement level of the entire bull market from March 2009. The index has also trading below its 80-week moving average (approximately 400-day) for the first time since October 2009. The last time the index fell below this long-term moving average after a sustained period above it was January 2008.

Weekly momentum indicators are still negative.

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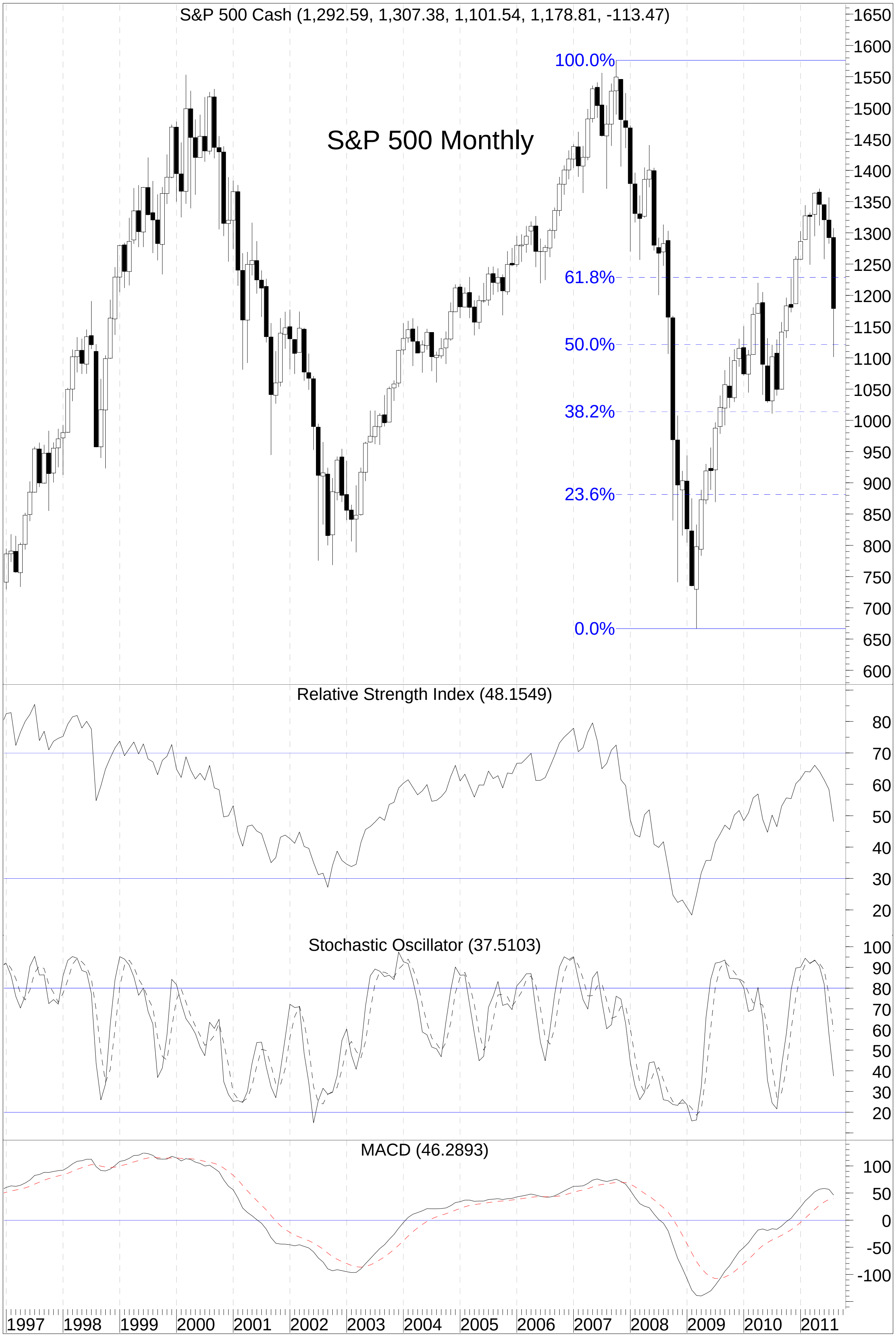

August is on its way to being the fourth down month in a row.

Monthly momentum indicators are negative.

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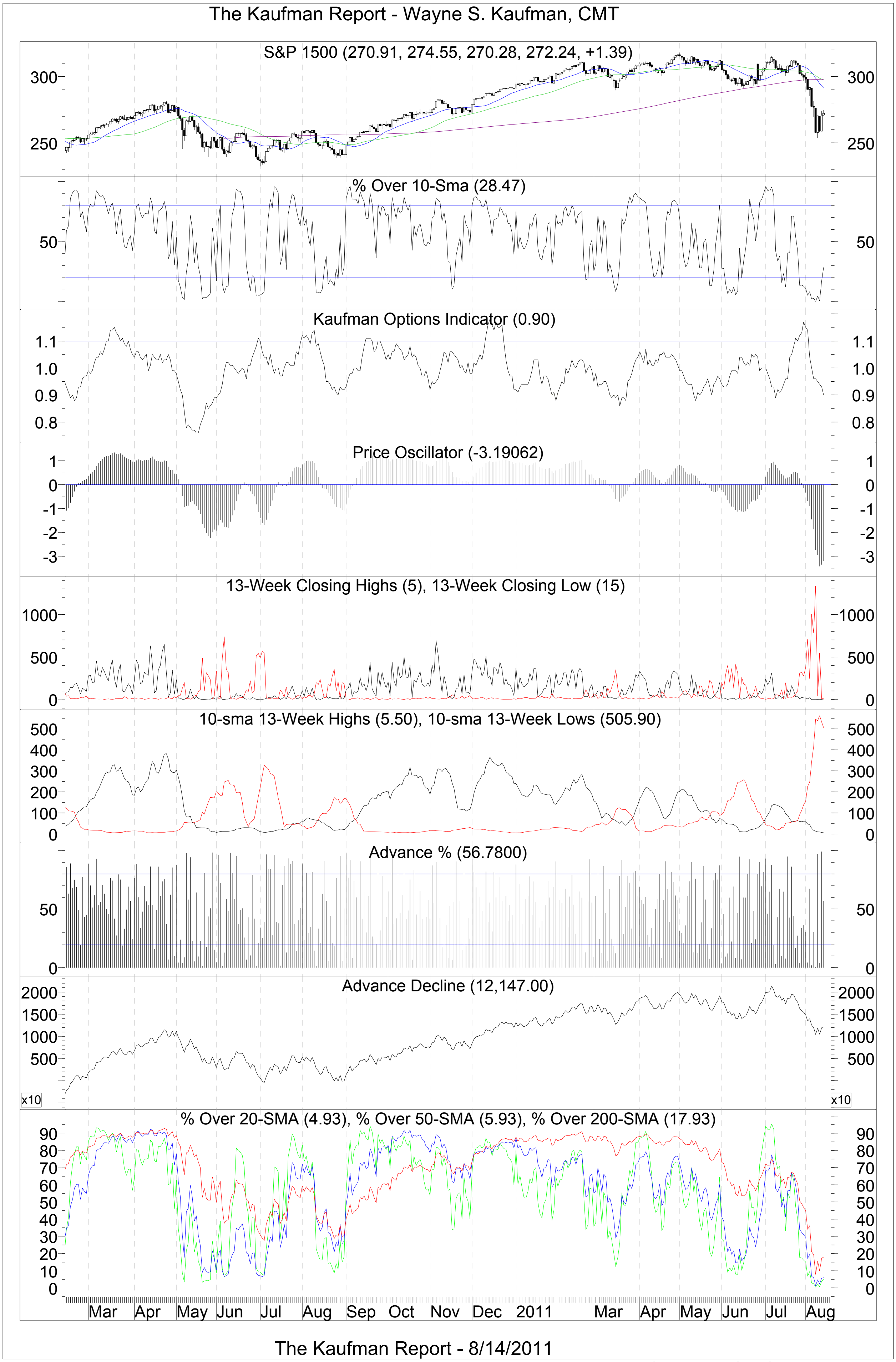

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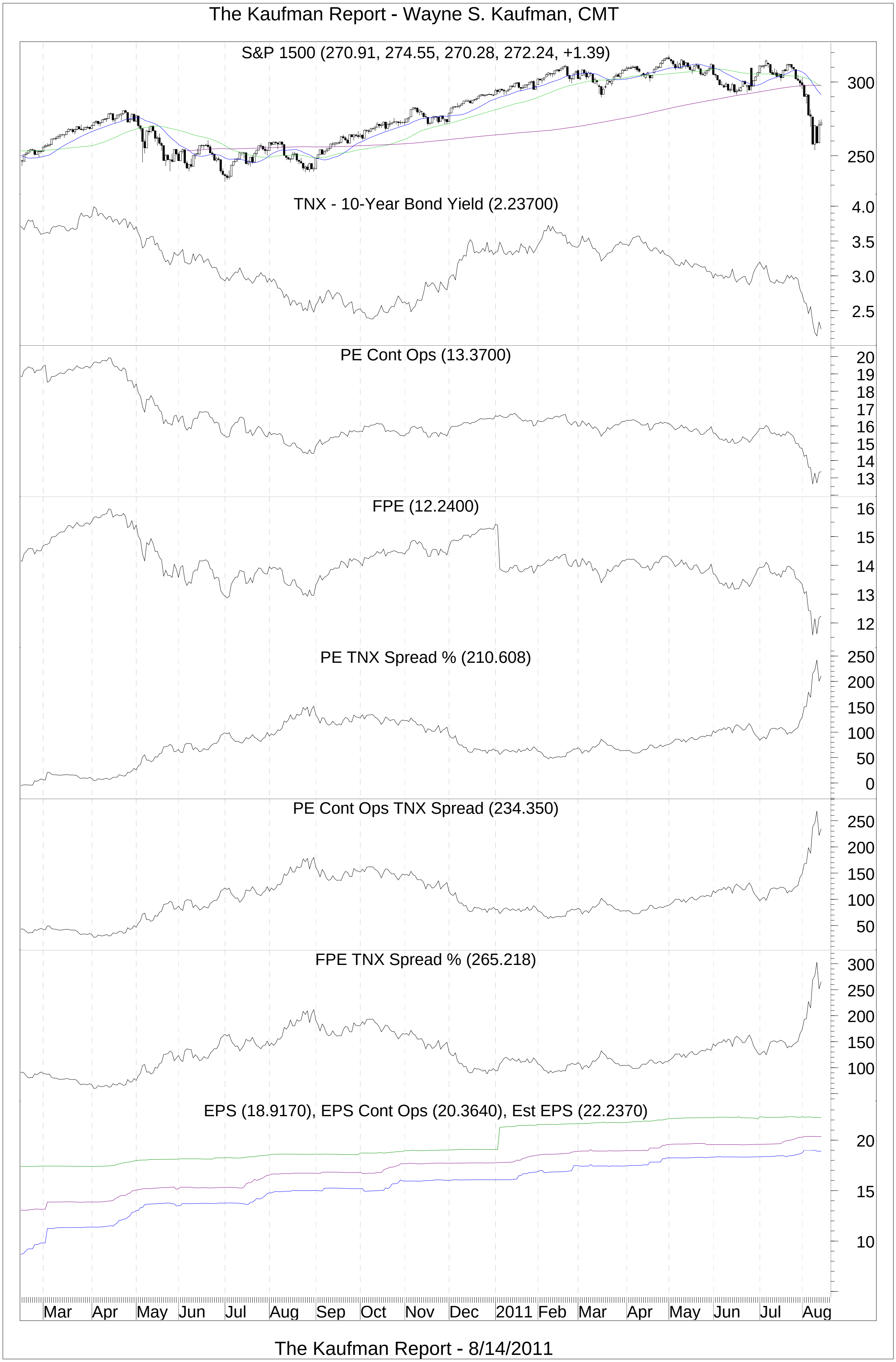
Our proprietary options indicator has moved from extreme optimism to levels of pessimism around where stocks have bottomed during the bull market.

Our price oscillator, a good indicator of trends, turned negative on July 29th.

1335 13-week closing highs on August 8th is the most we have ever recorded, surpassing the 1175 of 10/09/08.

Fridays's 56.78% of advancers broke a four day string of 90% days which alternated between positive or negative.

Breadth numbers are horrible.



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10-year bond yields got crushed in a flight to safety hitting their lowest levels since 1/2009.

P/E ratios have crashed as stocks plummeted.

Spreads between equity and bond yields have skyrocketed to multi-year highs reflecting stress in the financial system.

Aggregate earnings are still holding up with estimates coming down slightly. So far 458 of the S&P 500 have reported Q2 numbers. 71.0% beat estimates, 8.7% were in line, while 20.3% missed.

Pulling back from overbought levels. Still well above important moving averages. There is a bearish shooting star-like candle on the weekly chart.

Daily momentum indicators are still in the overbought zone.

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Oil is also bouncing from extreme oversold levels and is not far from resistance. It found support just below the May 2010 lows.

Daily momentum indicators are still at low levels.