

Monday December 13, 2010

Closing prices of December 10, 2010

Stocks rallied again last week as the negative issues concerning investors remained benign while one of the issues, the potential Obama tax increase, was resolved as the President and Republicans reached an agreement not to raise taxes. The S&P 500 was up 1.28% for the week and is up 5.07% for the month, so far sustaining December's reputation as one of the best months for equities. Major indexes recorded new 52-week highs with the exception of the Dow Jones Industrials and the Bank of New York Mellon ADR index.

We are in a period of strong seasonality. Soon we should start to get hints about first quarter 2011 earnings. Along with more improving economic news that could provide a catalyst for stocks to end the year on an up note. **Sellers remain on the sidelines, so unless major negative news appears the path of least resistance for stocks should be higher.**

We are becoming concerned about too much bullishness. Our proprietary options indicator is up to 1.12, showing that options buyers have become very optimistic. This leaves stocks vulnerable to pullbacks. Friday is a quadruple-witching options expiration so volatility during the week will not be a surprise. The FOMC meeting Tuesday could contribute some drama. A pullback would erase some of the bullishness and would fit in with the usual pattern of mid-December tax-loss selling and set the stage for a Santa Clause rally.

We have continually stressed that valuations for equities were very attractive. They still are, but the recent move higher of interest rates has the potential to change this picture should it continue much longer. Spreads between bond and equity yields have narrowed but remain at levels where stocks are attractive versus bonds. Interestingly, in spite of aggregate current earnings moving higher as companies reported third quarter numbers, aggregate estimates have barely budged. With Q3 earnings season over we need to see projections for 2011 move higher at some point. We are hoping to see a replay of January 2010 when reported and projected earnings leaped higher. Currently S&P 500 projected earnings for 2011 are in the \$96 - \$97 range. **A 14 P/E using \$96.50 puts the S&P 500 at 1351.**

We are now in a period of positive seasonality for equities. **November through January is historically the best three-month period of the year. As far as the presidential cycle, we will soon be leaving year two and entering year three. Since 1939 the Dow Jones Industrial Average has not had a single down year three, with the average gain being 16.6%. In addition, based on the S&P 500 since 1914, from the low of year two to the high of year three the average move has been 49.2%. Through the last seven presidential cycles since 1982, the average low-to-high move has been 50.06%. From this year's S&P 500 low of 1010 that would equate to a move to 1500 sometime in 2011. We are not forecasting that, just highlighting that it is difficult to be very bearish in the face of such strong historical patterns.**

Based on the S&P 500 the short-term, intermediate-term, and long-term trends are up. Pullbacks that are without intensity should be viewed as entry points for investors.

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S&P 500 Cash (1,239.59, 1,240.40, 1,239.59, 1,240.40, +0.57)



The S&P 500 made another new high Friday.

30-minute momentum indicators are at high or overbought levels.

S&P 500 Cash (1,233.85, 1,240.40, 1,232.58, 1,240.40, +7.40)



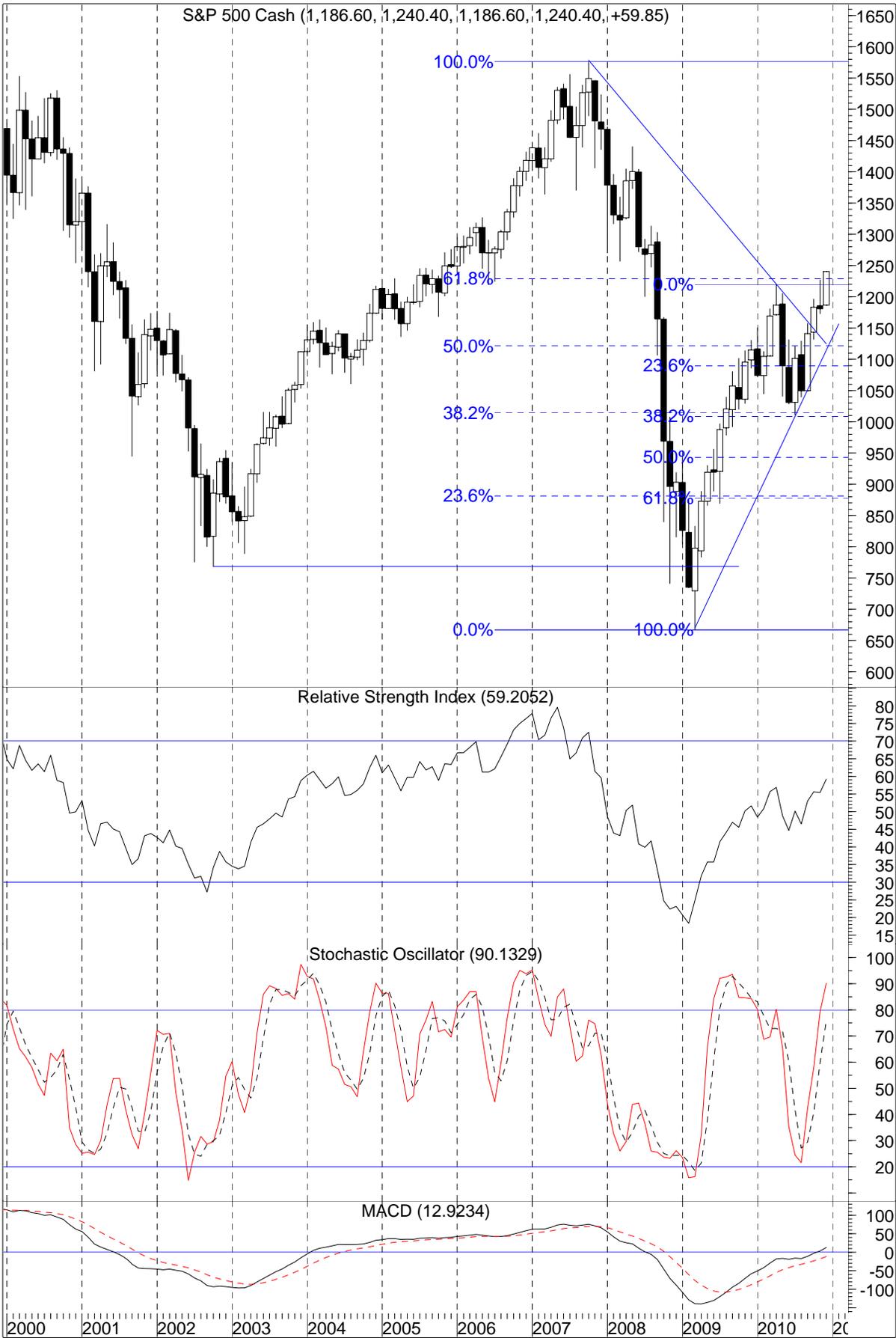
The S&P 500 has been on a tear since the start of December and is up 5.07% month-to-date.

Daily momentum indicators are at high levels but still look positive.



The weekly chart of the S&P 500 shows it broke through the resistance zone last week and is at the highest level since September 2008.

Weekly momentum indicators still look good although negative divergences are developing.



The monthly chart of the S&P 500 shows it has moved above the 61.8% retracement level which was resistance in November. The next important level is 1361.50, which is the 76.4% retracement level of the entire bull market.

Monthly momentum indicators still look good with only the stochastic just entering the overbought zone.

NASDAQ 100 (2,206.47, 2,217.48, 2,199.69, 2,215.34, +13.77)

The Nasdaq 100 made new closing and intra-day highs Friday.



Daily momentum indicators still look OK.

NASDAQ 100 (2,192.12, 2,217.48, 2,182.99, 2,215.34, +24.17)



The weekly chart of the Nasdaq 100 shows it is at the highest level since November 2007.

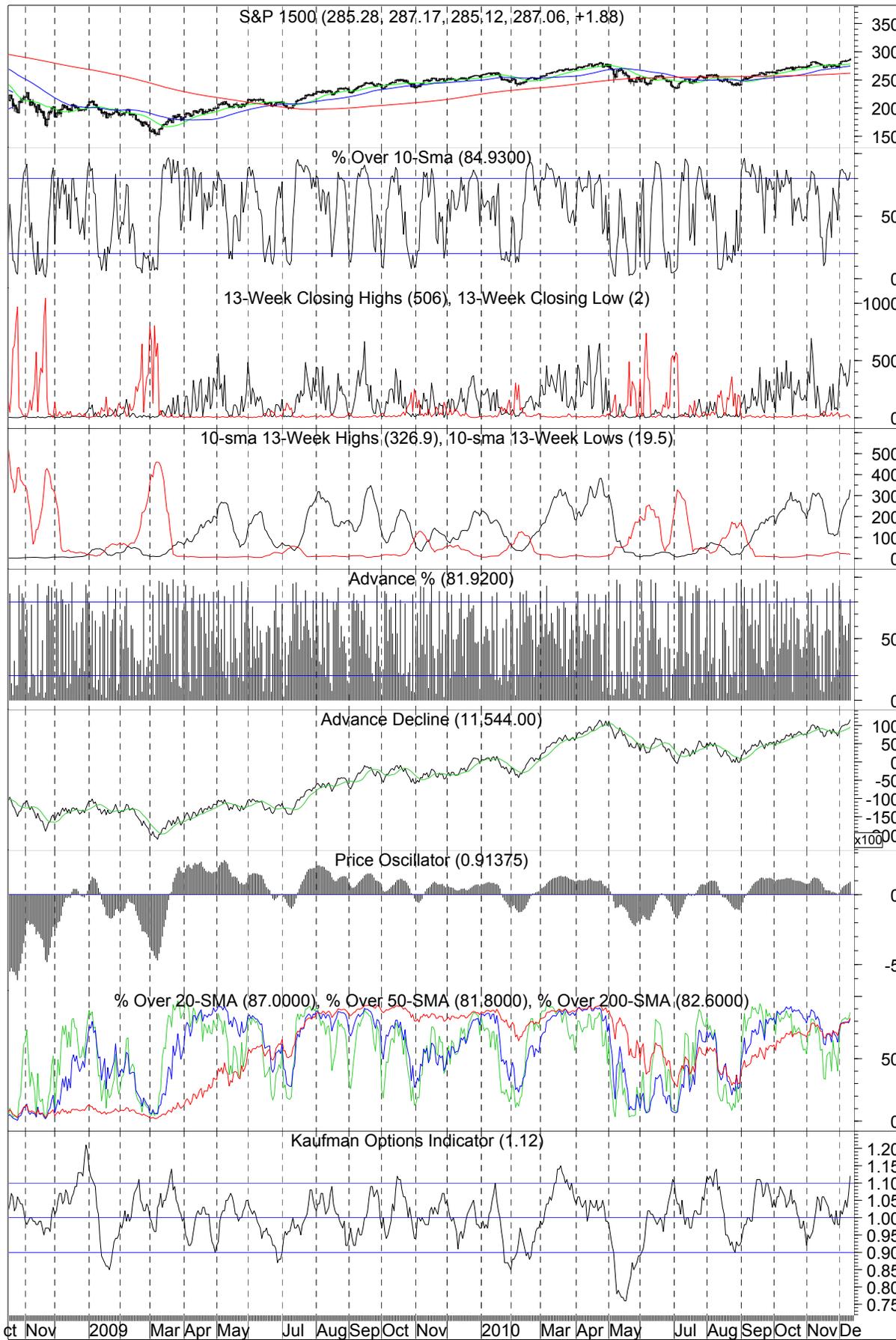
Weekly momentum indicators are at high levels but look OK.

NASDAQ 100 (2,150.64, 2,192.89, 2,150.64, 2,191.17, +73.84)



The monthly chart of the Nasdaq 100 shows it continues to consolidate just under the October 2007 highs. A move over the 2007 high will put the index at its highest level since 2001. The 38.2% retracement level from the March 2000 top is 2331.31.

Momentum indicators are at high levels.



The percent over 10-sma remains overbought at 84.93%.

506 13-week closing highs Friday was the most since 538 on 11/15. It is less than the 692 of 11/4, showing increasing selectivity.

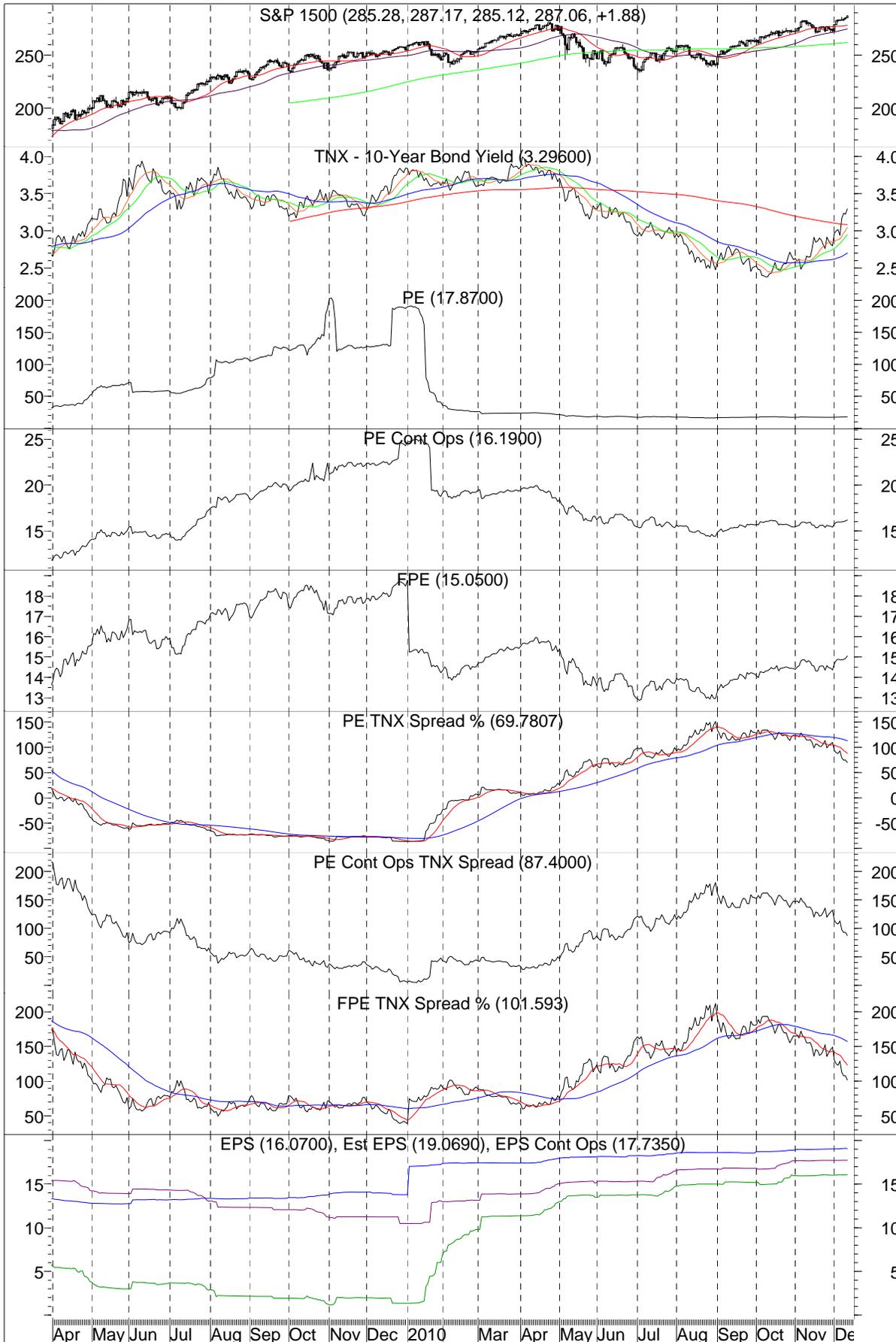
The 10-sma of 13-week closing highs is the highest since 356.7 on 4/27. It hit 382.0 on 4/26.

81.92% of stocks advanced on Friday.

The S&P 1500 AD line made a new high Friday, surpassing the April highs.

Our price oscillator, a good indicator of trends, remains in positive territory after bouncing off the neutral line.

Our proprietary options indicator is showing a high level of optimism among options buyers. At 1.12 it is the highest since 1.14 on 8/10. Too much bullishness leaves stocks vulnerable.



10-year bond yields are above their 200-sma for the first time since April. They are overbought on the daily but not the weekly chart. The weekly RSI is at a level where they have topped in the past.

P/E ratios have been rising as stocks move higher with very little earnings being reported.

Spreads between bond and equity yields are narrowing as bond yields and equities move higher in tandem.

Earnings metrics continue to flat line with a very slight upside bias. We are hoping for a replay of January 2010 when they made a sharp move higher. If so valuations will be compelling.

Indexes, Sectors, and Industry Groups

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
S&P Smallcap 600	411.83	1.18%	2.51%	2.51%	6.54%	14.86%	23.81%	412.23	12/10/2010	309.16	2/5/2010
Nasdaq Composite	2637.54	0.80%	1.78%	1.78%	5.58%	11.35%	16.23%	2639.41	12/10/2010	2061.14	7/1/2010
S&P Midcap 400	899.04	1.04%	1.39%	1.39%	5.45%	12.09%	23.72%	899.65	12/10/2010	681.91	2/5/2010
S&P 1500	287.06	0.66%	1.33%	1.33%	5.16%	9.20%	12.67%	287.15	12/10/2010	232.54	7/1/2010
S&P 500	1240.40	0.60%	1.28%	1.28%	5.07%	8.69%	11.24%	1240.40	12/10/2010	1010.91	7/1/2010
Nasdaq 100	2215.34	0.63%	1.10%	1.10%	4.63%	10.88%	19.08%	2217.48	12/10/2010	1700.04	7/1/2010
NYSE Composite	7823.30	0.53%	0.93%	0.93%	5.28%	7.45%	8.88%	7825.82	12/7/2010	6355.83	7/1/2010
Bank of New York Mellon ADR	137.30	0.37%	0.40%	0.40%	5.82%	3.52%	0.70%	142.74	11/4/2010	109.79	5/25/2010
Dow Jones Industrials	11410.32	0.35%	0.25%	0.25%	3.67%	5.77%	9.42%	11451.53	11/5/2010	9614.32	7/2/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Financials	211.67	0.88%	3.77%	3.77%	9.03%	9.57%	9.23%	230.45	4/15/2010	178.83	8/25/2010
Telecom Services	125.25	0.62%	2.04%	2.04%	4.68%	3.06%	9.26%	125.37	11/4/2010	98.67	5/6/2010
Information Technology	404.87	0.50%	1.44%	1.44%	5.31%	10.06%	9.21%	407.81	11/9/2010	323.47	7/1/2010
Industrials	296.06	1.03%	1.26%	1.26%	5.76%	9.32%	21.84%	296.54	12/10/2010	232.54	7/6/2010
Consumer Staples	300.08	0.12%	0.91%	0.91%	2.63%	4.10%	9.40%	301.80	11/4/2010	260.65	7/1/2010
Health Care	361.05	0.92%	0.59%	0.59%	3.27%	2.06%	-0.32%	384.95	1/20/2010	318.89	7/1/2010
Materials	229.87	0.83%	0.45%	0.45%	5.68%	13.68%	15.04%	232.23	12/7/2010	168.44	7/1/2010
Energy	488.94	0.36%	0.35%	0.35%	5.10%	16.62%	13.72%	495.24	12/7/2010	365.74	7/1/2010
Consumer Discretionary	295.07	0.33%	0.21%	0.21%	3.83%	11.97%	25.52%	297.69	12/7/2010	222.51	2/5/2010
Utilities	156.62	0.40%	-0.70%	-0.70%	0.99%	-1.73%	-0.87%	164.42	10/20/2010	138.57	5/25/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Banks	145.42	0.87%	5.50%	5.50%	12.75%	15.92%	16.01%	165.92	4/21/2010	115.69	8/31/2010
Diversified Financials	332.30	1.08%	4.70%	4.70%	10.63%	11.10%	3.34%	382.07	4/15/2010	278.07	8/31/2010
Insurance	185.96	0.48%	2.63%	2.63%	6.18%	4.18%	12.84%	189.97	4/26/2010	156.79	5/25/2010
Commercial & Professional Service	142.57	0.90%	2.43%	2.43%	6.21%	5.33%	6.54%	144.95	4/26/2010	122.63	6/8/2010
Telecom Services	125.25	0.62%	2.04%	2.04%	4.68%	3.06%	9.26%	125.37	11/4/2010	98.67	5/6/2010
Software & Services	526.91	0.77%	1.74%	1.74%	6.42%	11.42%	6.10%	527.25	12/10/2010	410.27	7/1/2010
Capital Goods	316.91	1.29%	1.50%	1.50%	6.23%	9.29%	21.34%	318.38	4/30/2010	250.06	7/6/2010
Consumer Durables & Apparel	169.87	0.35%	1.30%	1.30%	4.64%	12.51%	29.57%	170.14	12/10/2010	124.75	2/5/2010
Technology Hardware & Equipment	431.51	0.40%	1.28%	1.28%	4.00%	6.45%	10.77%	446.70	11/9/2010	350.49	8/27/2010
Food, Beverage & Tobacco	350.61	0.06%	1.03%	1.03%	2.82%	4.34%	14.40%	351.97	11/4/2010	293.85	2/5/2010
Health Care Equip & Services	355.48	1.24%	0.99%	0.99%	4.41%	7.20%	2.38%	371.77	1/20/2010	296.30	8/31/2010
Household & Personal Products	371.19	0.30%	0.93%	0.93%	2.83%	3.14%	2.89%	383.05	3/23/2010	339.42	5/6/2010
Semiconductors & Equipment	345.64	-0.13%	0.86%	0.86%	5.14%	16.07%	10.67%	349.14	12/9/2010	262.69	8/31/2010
Food & Staples Retailing	191.76	0.07%	0.61%	0.61%	1.96%	4.47%	4.75%	196.37	3/30/2010	162.45	7/1/2010
Media	196.15	0.65%	0.50%	0.50%	3.97%	10.02%	19.90%	197.48	11/4/2010	150.49	2/5/2010
Materials	229.87	0.83%	0.45%	0.45%	5.68%	13.68%	15.04%	232.23	12/7/2010	168.44	7/1/2010
Pharmaceuticals, Biotech & Life Sci	334.13	0.76%	0.39%	0.39%	2.71%	-0.39%	-1.65%	359.71	1/20/2010	299.26	7/1/2010
Energy	488.94	0.36%	0.35%	0.35%	5.10%	16.62%	13.72%	495.24	12/7/2010	365.74	7/1/2010
Retailing	509.17	0.14%	0.29%	0.29%	3.82%	11.20%	23.85%	514.85	12/7/2010	379.61	7/1/2010
Transportation	330.68	0.02%	-0.03%	-0.03%	3.76%	10.62%	29.73%	332.37	12/7/2010	239.94	2/5/2010
Automobiles & Components	117.27	-0.10%	-0.65%	-0.65%	5.33%	30.38%	50.85%	119.39	12/7/2010	72.96	12/10/2009
Utilities	156.62	0.40%	-0.70%	-0.70%	0.99%	-1.73%	-0.87%	164.42	10/20/2010	138.57	5/25/2010
Consumer Services	470.07	0.37%	-0.71%	-0.71%	2.49%	9.49%	26.88%	479.39	12/7/2010	356.59	12/10/2009
Real Estate	116.96	0.91%	-1.13%	-1.13%	1.86%	4.86%	24.19%	123.44	11/5/2010	84.72	2/10/2010

Commodities/Intermarket

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
10-Year Bd Yield	32.96	2.26%	9.25%	17.84%	30.95%	-14.23%	40.13	4/5/2010	23.34	10/8/2010
Cotton	136.97	0.75%	3.38%	16.73%	36.34%	76.60%	151.95	11/10/2010	71.81	2/5/2010
Zinc	2273.75	-0.86%	2.80%	7.88%	3.76%	-12.98%	2699.00	1/7/2010	1656.00	6/8/2010
Copper	411.20	0.61%	2.75%	7.49%	12.30%	21.48%	415.45	12/9/2010	279.00	6/7/2010
Lead	2375.25	-0.62%	2.37%	7.23%	4.36%	-3.71%	2631.00	11/11/2010	1693.00	6/3/2010
Coffee	209.60	2.47%	2.29%	4.17%	13.57%	45.86%	221.45	11/10/2010	134.45	5/20/2010
Nickel	23980.00	1.59%	2.03%	3.98%	2.52%	28.41%	24401.00	10/13/2010	20723.00	8/31/2010
Orange Juice	160.80	-1.08%	1.93%	6.91%	0.47%	12.45%	171.50	12/8/2010	135.70	4/8/2010
Natural Gas	4.42	-0.41%	1.54%	5.67%	2.86%	-34.74%	7.14	12/17/2009	3.85	11/15/2010
Wheat	832.00	-1.39%	1.20%	11.60%	15.20%	37.63%	854.00	12/7/2010	503.00	6/11/2010
U.S. Dollar Index	80.10	0.09%	0.92%	-1.34%	1.76%	2.88%	88.71	6/7/2010	75.63	11/4/2010
Corn	574.25	0.00%	0.13%	5.56%	12.99%	27.68%	617.50	11/9/2010	356.75	6/29/2010
Commodit. Index	314.91	-0.37%	-0.40%	4.48%	9.78%	11.13%	320.74	12/7/2010	247.25	5/25/2010
Aluminum	2309.25	-1.29%	-0.56%	1.33%	-2.46%	-0.81%	2533.00	4/14/2010	1934.00	6/7/2010
Brent Crude	90.48	-0.56%	-1.04%	5.31%	9.05%	7.74%	93.14	5/4/2010	72.26	5/25/2010
Heating Oil	245.75	-0.38%	-1.22%	5.73%	6.76%	7.41%	252.35	5/3/2010	199.76	5/25/2010
Sugar	29.13	1.46%	-1.27%	5.74%	24.06%	38.38%	33.39	11/11/2010	14.56	5/7/2010
Gold	1384.90	-0.57%	-1.54%	-0.09%	5.60%	25.13%	1432.50	12/7/2010	1061.80	2/5/2010
Crude Oil	87.79	-0.66%	-1.59%	4.38%	7.31%	3.97%	93.29	5/3/2010	72.06	5/25/2010
Cocoa	2887.00	-4.09%	-1.66%	2.85%	1.62%	-11.98%	3477.00	12/16/2009	2626.00	9/13/2010
Lean Hogs	75.15	-0.99%	-1.90%	-0.82%	-3.47%	8.76%	81.38	9/21/2010	66.00	1/27/2010
Soybeans	1273.00	-0.66%	-2.14%	2.41%	14.09%	24.59%	1348.50	11/12/2010	897.25	6/9/2010
Silver	28.61	-0.74%	-2.33%	1.39%	30.78%	68.42%	30.75	12/7/2010	14.88	2/5/2010
Live Cattle	103.95	-0.65%	-2.33%	-2.28%	2.16%	14.99%	107.33	12/7/2010	88.98	12/15/2009

INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Vietnam VNM	28.33	1.91%	4.89%	12.96%	15.87%	11.14%	29.88	12/7/2010	21.81	8/25/2010
Israel EIS	58.97	0.92%	3.40%	6.08%	7.39%	8.40%	60.68	3/26/2010	45.00	5/6/2010
United Kingdom EWU	17.39	0.58%	1.81%	7.61%	6.30%	7.35%	17.95	11/4/2010	13.25	5/25/2010
Austria EWO	21.32	0.33%	1.38%	11.22%	8.20%	9.00%	21.90	11/4/2010	14.91	6/8/2010
Taiwan EWT	14.98	0.33%	1.35%	6.32%	10.55%	15.50%	15.00	12/7/2010	10.81	6/8/2010
France EWQ	24.51	0.04%	1.20%	8.98%	2.17%	-5.18%	27.32	1/11/2010	19.24	5/25/2010
South Korea EWY	57.95	0.05%	1.12%	7.37%	8.34%	21.64%	58.06	12/10/2010	40.65	5/25/2010
Malaysia EWM	14.10	-0.21%	1.00%	3.52%	2.62%	32.77%	14.41	11/5/2010	10.18	2/5/2010
Netherlands EWN	20.55	0.44%	0.78%	8.85%	1.13%	0.44%	21.75	11/4/2010	16.64	5/25/2010
Switzerland EWL	24.13	0.33%	0.75%	6.25%	5.74%	8.40%	24.75	11/5/2010	18.70	5/25/2010
Australia EWA	25.20	0.76%	0.60%	7.14%	6.15%	10.33%	26.36	1/11/2010	18.26	5/25/2010
Russia RSX	36.85	0.68%	0.38%	7.31%	13.28%	18.15%	37.40	12/7/2010	26.06	5/25/2010
Spain EWP	38.61	-0.13%	0.29%	11.69%	-5.02%	-19.63%	50.22	12/16/2009	29.85	6/8/2010
Italy EWI	16.47	0.24%	0.24%	9.00%	-1.96%	-15.58%	20.54	1/11/2010	13.21	6/7/2010
Singapore EWS	13.76	-0.29%	0.22%	2.99%	4.08%	19.76%	14.56	11/9/2010	10.37	2/5/2010
South Africa EZA	71.90	0.26%	0.04%	7.76%	6.96%	28.46%	72.99	11/9/2010	23.00	5/6/2010
Canada EWC	30.50	0.76%	0.00%	3.99%	8.81%	15.84%	30.99	12/7/2010	22.75	5/6/2010
Mexico EWW	60.55	0.75%	-0.21%	2.45%	14.27%	23.90%	61.61	12/7/2010	44.71	2/5/2010
Chile ECH	78.07	0.00%	-0.41%	1.88%	5.47%	42.49%	79.82	11/9/2010	27.27	5/6/2010
Japan EWJ	10.58	-0.28%	-0.59%	2.97%	6.98%	8.57%	10.71	4/15/2010	9.15	6/7/2010
Indonesia IDX	89.24	-0.88%	-0.63%	6.01%	3.04%	43.54%	93.14	11/9/2010	59.19	5/25/2010
Belgium EWK	13.21	0.84%	-0.68%	6.76%	-0.53%	3.53%	14.52	11/4/2010	8.93	5/6/2010
Germany EWG	24.06	0.46%	-0.74%	6.79%	9.36%	7.22%	24.92	11/4/2010	17.97	5/25/2010
Thailand THD	65.69	0.14%	-0.76%	4.49%	5.85%	54.60%	68.70	11/9/2010	37.65	2/5/2010
Hong Kong EWH	19.21	0.26%	-0.93%	1.69%	5.90%	22.67%	20.24	11/8/2010	14.08	5/21/2010
Emerging Markets EEM	46.59	0.44%	-1.17%	4.04%	4.07%	12.27%	48.62	11/9/2010	35.21	5/25/2010
Latin America ILF	52.23	0.66%	-1.77%	2.19%	3.34%	9.29%	54.87	11/5/2010	39.21	5/25/2010
India IFN	37.10	1.28%	-1.98%	4.27%	2.01%	20.85%	40.94	11/8/2010	26.61	5/25/2010
BRIC EEB	45.22	0.78%	-2.08%	2.24%	1.12%	6.50%	48.27	11/9/2010	23.23	5/6/2010
China 25 FXI	43.43	0.16%	-2.23%	0.21%	1.42%	2.77%	47.99	11/8/2010	36.24	5/6/2010
Sweden EWD	29.79	0.64%	-2.36%	5.01%	2.83%	26.77%	30.78	11/4/2010	19.00	5/6/2010
Brazil EWZ	75.63	0.89%	-3.22%	1.04%	-1.71%	1.37%	81.77	11/4/2010	57.18	5/25/2010
Turkey TUR	67.06	-1.03%	-5.09%	0.18%	-4.24%	24.42%	79.00	11/9/2010	44.40	5/6/2010

