

Monday December 21, 2009

Closing prices of December 18, 2009

Quadruple-witching options expiration last week did little to change the tight trading range equities have been locked in since early October. Both bulls and bears seem to lack conviction at this time. Every market participant is now watching for a breakout in either direction with the expectation of a sharp move in the direction of the breakout. That seems like a good setup for a head fake. The key question is whether the recent lackluster equities market is from money managers locking in their gains for the year, or if it's a sign of problems to come.

There have been many times when we have characterized the market environment as being a short-term trader's market. That couldn't be truer than it is now. Sellers come in at the top of the recent range, and buyers enter at the bottom. Investors have become more selective, which we have been pointing out for many weeks. For example, the S&P 500 has dropped below its 20-day moving average while the Nasdaq 100 made a post-March weekly closing high last week. We have also discussed the low volume environment which has created a condition where news can cause sharp moves in either direction.

Sellers are still not aggressive, and seasonality is positive, but sentiment based on options buyers is showing bullishness. Recent call buying shows an expectation of a Santa Claus rally. Too much optimism is a negative, although it is not yet at extreme levels. Still, it makes us a little cautious. In summary, we continue to follow the primary trend of the market, which remains up, and we remain hopeful that shortly stocks will begin an end of the year rally.

The recent strength in the Dollar has not hurt equities overall, but it highlighted sector rotation taking place. Investors need to be cognizant of sector rotation at this time. Dollar strength has hurt the ADR Index, which is the worst performing major index in December. We are happy to see the rebound in small and mid-caps, with both the best performing major indexes for December. We said three weeks ago we were hoping to see the January Effect and a Santa Claus Rally, and strength in small-caps says investors are showing more willingness to take risk, which is something a healthy market needs.

**Therefore, with volume low and news able to create sharp moves in either direction, this remains a bifurcated short-term trader's market. We repeat our advice of the last few weeks that positions investors don't have a good reason to hold onto should be considered as a source of funds. Based on the S&P 500 the short-term trend is down, while the intermediate-term and long-term trends are up. Traders should not hesitate to rotate out of lagging sectors and stocks and into leaders.**

#### **S&P 1500 Data:**

Percent over 10-sma: 61.33%. Percent over 50-sma: 65.53%

13-Week Closing Highs: 146. 13-Week Closing Lows: 25. 52-week closing highs: 97.

Kaufman Options Indicator: 1.01 Put/Call Ratio: 0.975. New High Reversals: 12. New Low Reversals: 6

Volume: +34% versus yesterday. 160% of the 10-day average. 180% of the 30-day average.

Up Stocks: 67.23%. Up Volume: 78.50%. Up Points: 72.62%. Up Dollars: 85.95%, 160% of 10-sma. Dn Dollars 130% of 10-sma.

### **IMPORTANT DISCLOSURES**

I, Wayne S. Kaufman, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

**THE INFORMATION PROVIDED IN THIS PUBLICATION IS FOR INFORMATIONAL PURPOSES ONLY. INVESTORS SHOULD CONSIDER THIS REPORT AS ONLY A SINGLE FACTOR IN MAKING THEIR INVESTMENT DECISION. THIS INFORMATIONAL REPORT IS NOT AN OFFER TO SELL OR A SOLICITATION TO BUY ANY SECURITY IN ANY JURISDICTION WHERE SUCH AN OFFER OR SOLICITATION WOULD BE ILLEGAL. THIS REPORT HAS BEEN PREPARED AS A MATTER OF GENERAL INFORMATION. IT IS NOT INTENDED TO BE A COMPLETE DESCRIPTION OF ANY SECURITY OR COMPANY MENTIONED, AND IS NOT AN OFFER TO BUY OR SELL ANY SECURITY. ALL FACTS AND STATISTICS ARE FROM SOURCES BELIEVED TO BE RELIABLE, BUT ARE NOT GUARANTEED AS TO ACCURACY. ADDITIONAL INFORMATION ON THESE SECURITIES AND COMPANIES IS AVAILABLE UPON REQUEST. SECURITIES, FINANCIAL INSTRUMENTS OR STRATEGIES MENTIONED HEREIN MAY NOT BE SUITABLE FOR ALL INVESTORS. THIS MATERIAL DOES NOT TAKE INTO ACCOUNT YOUR PARTICULAR INVESTMENT OBJECTIVES, FINANCIAL SITUATIONS OR STRATEGIES. BEFORE ACTING ON THE MATERIALS HEREIN, YOU SHOULD CONSIDER WHETHER IT IS SUITABLE FOR YOUR PARTICULAR CIRCUMSTANCES AND, IF NECESSARY SEEK PROFESSIONAL ADVICE. INVESTMENTS INVOLVE RISK AND AN INVESTOR MAY INCUR EITHER PROFITS OR LOSSES. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE. TRADING AND INVESTMENT DECISIONS ARE THE SOLE RESPONSIBILITY OF THE READER.**

	Daily	WTD	MTD	QTD	YTD
Nasdaq 100	1.64%	0.85%	2.26%	5.14%	49.17%
Nasdaq Composite	1.45%	0.98%	3.13%	4.21%	40.24%
S&P Smallcap 600	1.11%	2.32%	5.85%	2.25%	20.78%
S&P 1500	0.60%	-0.13%	1.10%	4.15%	22.81%
S&P 500	0.58%	-0.36%	0.62%	4.29%	22.06%
S&P Midcap 400	0.51%	1.27%	4.40%	3.45%	32.81%
NYSE Composite	0.32%	-0.55%	-0.09%	2.54%	23.09%
Dow Jones Industrials	0.20%	-1.36%	-0.15%	6.35%	17.69%
Bank of New York Mellon ADR	0.05%	-1.52%	-1.76%	0.63%	29.26%

	Daily	WTD	MTD	QTD	YTD
Information Technology	1.56%	1.05%	2.78%	7.51%	55.67%
Financials	1.39%	-0.92%	-2.87%	-4.88%	13.38%
Consumer Discretionary	0.53%	0.04%	3.60%	7.83%	37.78%
Utilities	0.45%	-0.51%	6.15%	7.02%	7.75%
Energy	0.28%	0.30%	-2.22%	3.74%	9.90%
Health Care	0.26%	-0.25%	1.60%	8.20%	16.72%
Telecom Services	0.22%	-2.32%	2.62%	3.88%	0.71%
Materials	0.10%	-0.90%	-1.57%	3.76%	40.96%
Industrials	-0.19%	-0.64%	1.38%	5.04%	17.57%
Consumer Staples	-0.30%	-2.05%	-1.29%	3.56%	10.50%

	Daily	WTD	MTD	QTD	YTD
Banks	2.41%	1.42%	-4.39%	-3.07%	-8.98%
Automobiles & Components	2.19%	3.16%	4.07%	18.78%	112.44%
Software & Services	1.96%	2.04%	3.30%	12.63%	53.41%
Semiconductors & Equipment	1.86%	0.46%	5.67%	3.67%	48.96%
Diversified Financials	1.52%	-2.10%	-3.87%	-7.36%	26.70%
Technology Hardware & Equipment	1.15%	0.40%	1.56%	4.61%	59.42%
Consumer Services	0.96%	1.84%	1.46%	4.49%	18.78%
Consumer Durables & Apparel	0.75%	0.94%	1.97%	2.16%	31.00%
Real Estate	0.65%	1.01%	4.09%	7.82%	18.53%
Pharmaceuticals, Biotech & Life Sciences	0.53%	-0.24%	0.83%	6.76%	10.96%
Utilities	0.45%	-0.51%	6.15%	7.02%	7.75%
Media	0.37%	-0.29%	8.34%	9.78%	35.02%
Energy	0.28%	0.30%	-2.22%	3.74%	9.90%
Commercial & Professional Services	0.26%	-1.71%	2.05%	3.31%	9.19%
Telecom Services	0.22%	-2.32%	2.62%	3.88%	0.71%
Insurance	0.19%	-0.72%	-1.13%	-4.60%	9.43%
Materials	0.10%	-0.90%	-1.57%	3.76%	40.96%
Retailing	0.09%	-1.32%	1.22%	7.84%	45.77%
Transportation	-0.01%	-0.43%	1.96%	10.18%	19.67%
Household & Personal Products	-0.21%	-1.70%	-1.81%	6.26%	6.39%
Food & Staples Retailing	-0.25%	-3.46%	-3.13%	0.83%	3.84%
Capital Goods	-0.28%	-0.59%	1.16%	3.83%	17.84%
Health Care Equip & Services	-0.29%	-0.27%	3.21%	11.14%	30.61%
Food, Beverage & Tobacco	-0.36%	-1.55%	-0.16%	3.59%	16.39%

### INTERNATIONAL ETFs

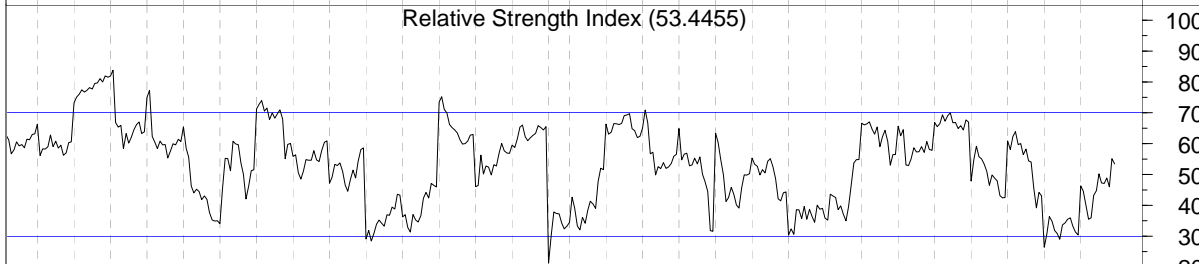
	Daily	WTD	MTD	QTD	YTD
Vietnam VNM	1.07%	1.10%	-7.02%		
Germany EWG	0.68%	-0.32%	-1.47%	-0.09%	15.35%
Australia EWA	0.63%	-1.91%	-3.43%	-0.31%	60.81%
Switzerland EWL	0.50%	-0.23%	-0.86%	0.83%	18.12%
Canada EWC	0.43%	0.35%	-0.81%	0.86%	47.45%
Brazil EWZ	0.34%	-4.93%	-3.49%	9.11%	110.92%
MSCI Emerging Markets EEM	0.27%	-2.45%	-0.39%	3.73%	61.63%
Spain EWP	0.23%	-1.96%	-5.36%	-3.24%	27.97%
South Korea EWY	0.22%	-3.20%	3.47%	-3.08%	64.18%
United Kingdom EWU	0.12%	-1.00%	-1.41%	3.42%	30.94%
Malaysia EWM	0.09%	-0.65%	-1.57%	5.42%	46.64%
Taiwan EWT	0.08%	-1.95%	0.82%	0.08%	62.45%
Netherlands EWN	0.00%	-0.39%	0.45%	1.20%	35.92%
Singapore EWS	0.00%	-0.52%	1.06%	6.79%	62.84%
Sweden EWD	-0.09%	-3.86%	-4.87%	-0.52%	48.14%
France EWQ	-0.20%	-1.57%	-1.55%	-1.96%	21.64%
Japan EWJ	-0.20%	-0.81%	3.24%	-0.70%	3.03%
Italy EWI	-0.21%	-1.66%	-2.63%	-5.83%	17.27%
BRIC EEB	-0.22%	-3.34%	-2.44%	7.01%	80.42%
Mexico EWW	-0.24%	-0.38%	3.42%	13.44%	53.55%
Latin America ILF	-0.60%	-4.60%	-2.86%	8.37%	82.57%
Austria EWO	-0.60%	-3.67%	-6.40%	-9.39%	52.69%
China 25 FXI	-0.62%	-5.01%	-5.03%	1.42%	42.66%
Hong Kong EWH	-0.64%	-4.05%	-2.02%	0.13%	49.86%
Belgium EWK	-1.01%	-3.15%	-3.71%	-2.23%	45.48%

S&P 500 Cash (1,103.14, 1,103.14, 1,102.39, 1,102.47, -0.68)

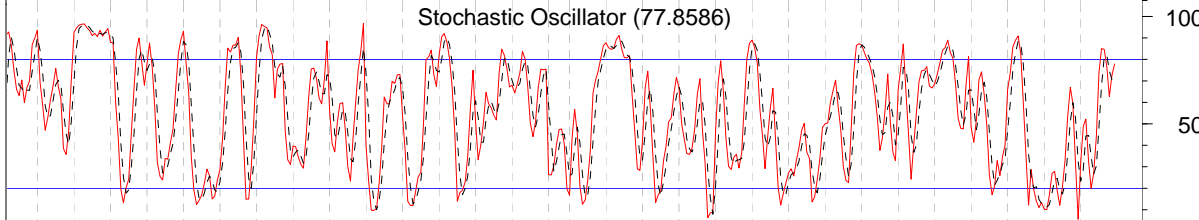


The S&P 500 remains in a very tight range.

Relative Strength Index (53.4455)

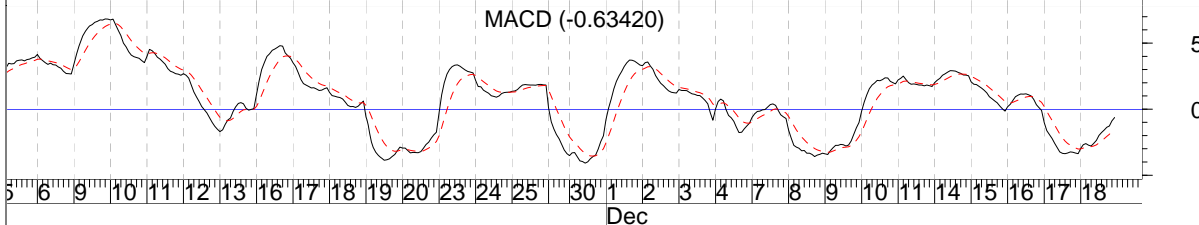


Stochastic Oscillator (77.8586)



Momentum indicators on the 30-minute chart are mixed.

MACD (-0.63420)



5 6 9 10 11 12 13 16 17 18 19 20 23 24 25 30 1 2 3 4 7 8 9 10 11 14 15 16 17 18  
Dec

S&P 500 Cash (1,097.86, 1,103.74, 1,093.88, 1,102.47, +6.39)



The S&P 500 has fallen back under its 20-sma.

Momentum indicators are slightly negative.



The S&P 500 printed a spinning top candle last week, a sign of the tug of war between the bulls and bears.

Negative divergences and a negative stochastic crossover add up to a slightly negative picture for momentum indicators.

NASDAQ 100 (1,794.12, 1,808.26, 1,790.14, 1,807.36, +29.09)



Unlike the S&P 500, the Nasdaq 100 remains above its 20-sma.

Momentum indicators are neutral.

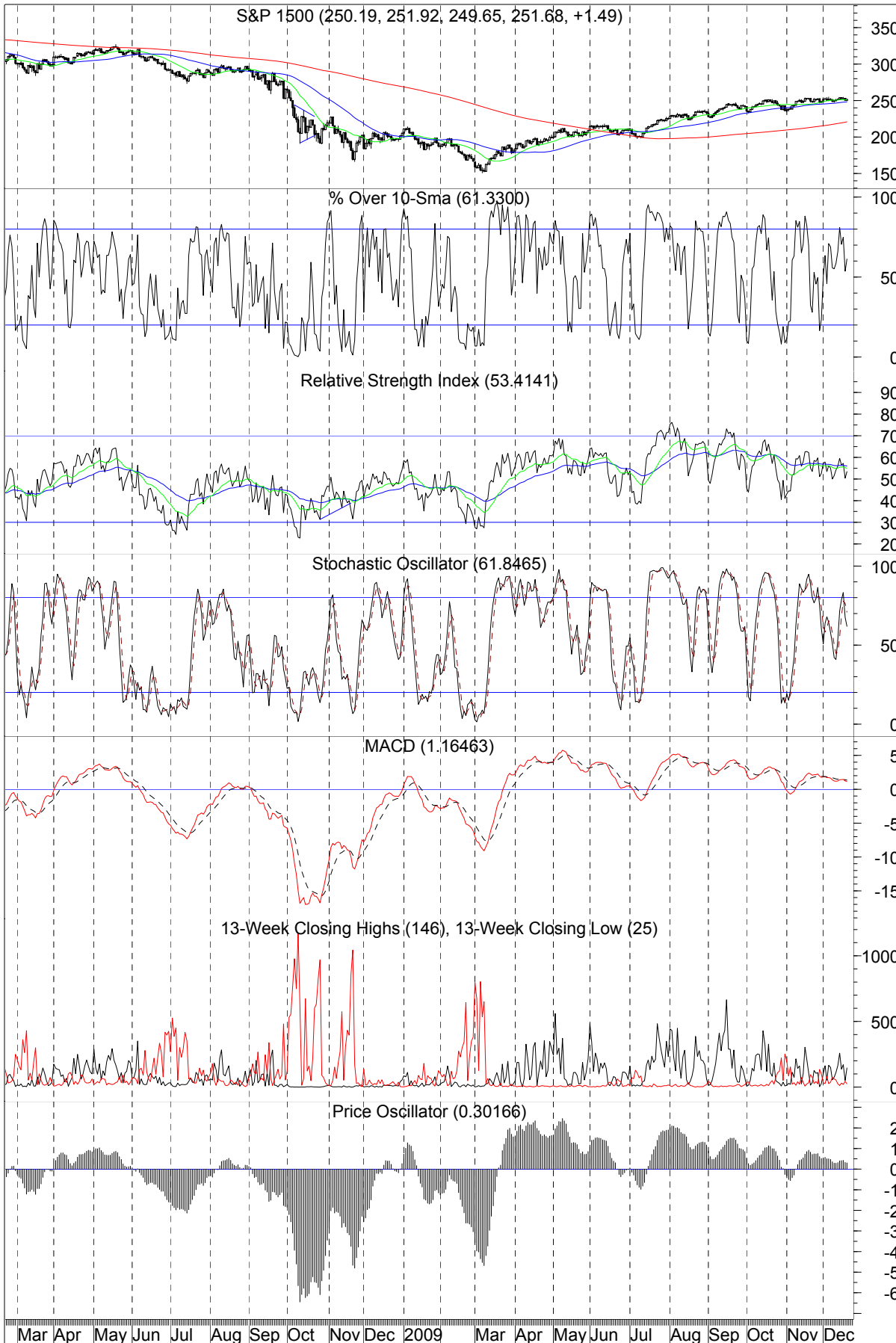
NASDAQ 100 (1,802.28, 1,814.49, 1,777.08, 1,807.36, +15.30)



The weekly chart of the Nasdaq 100 shows it made a post-March closing high last week.

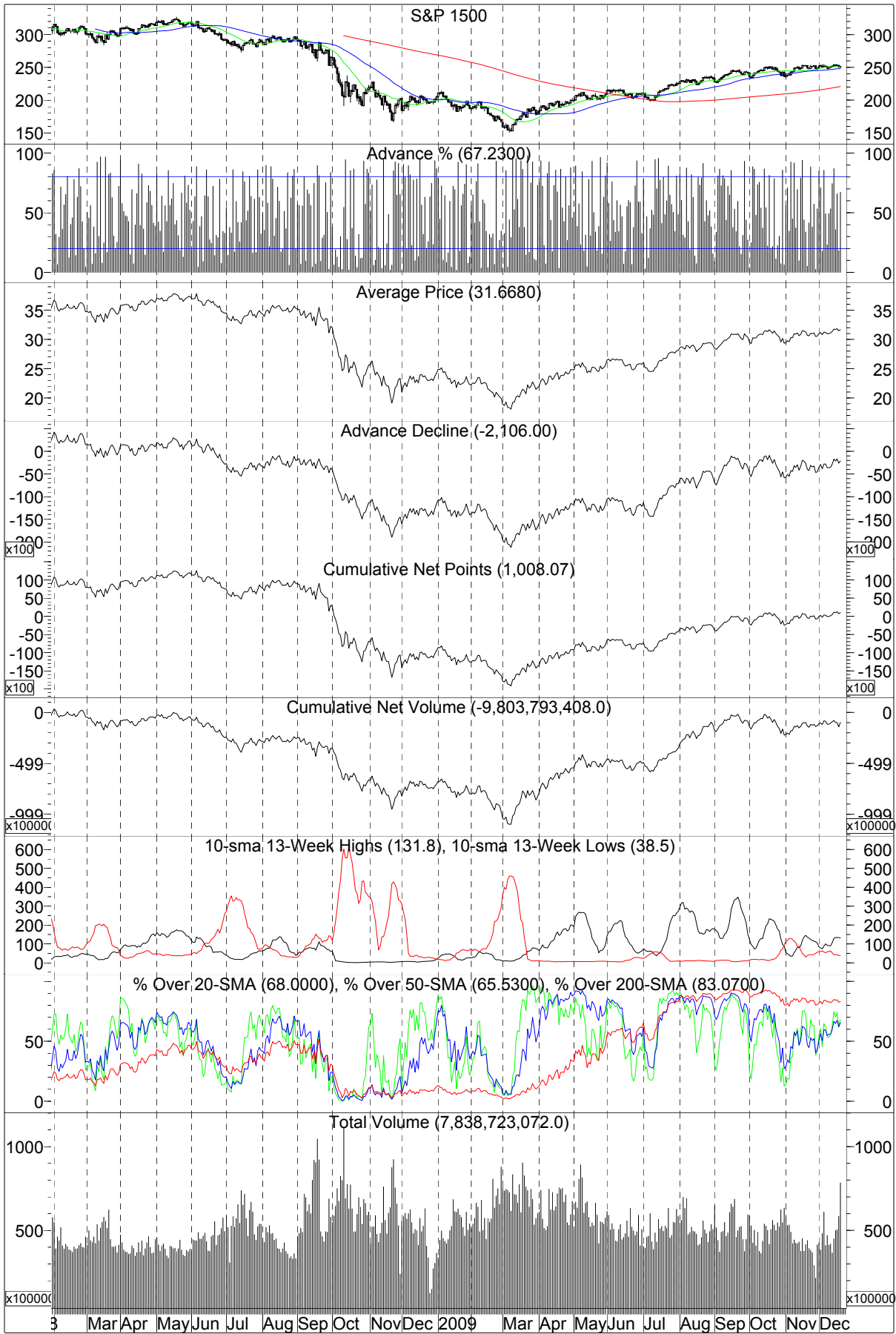
Momentum indicators are neutral to slightly positive.





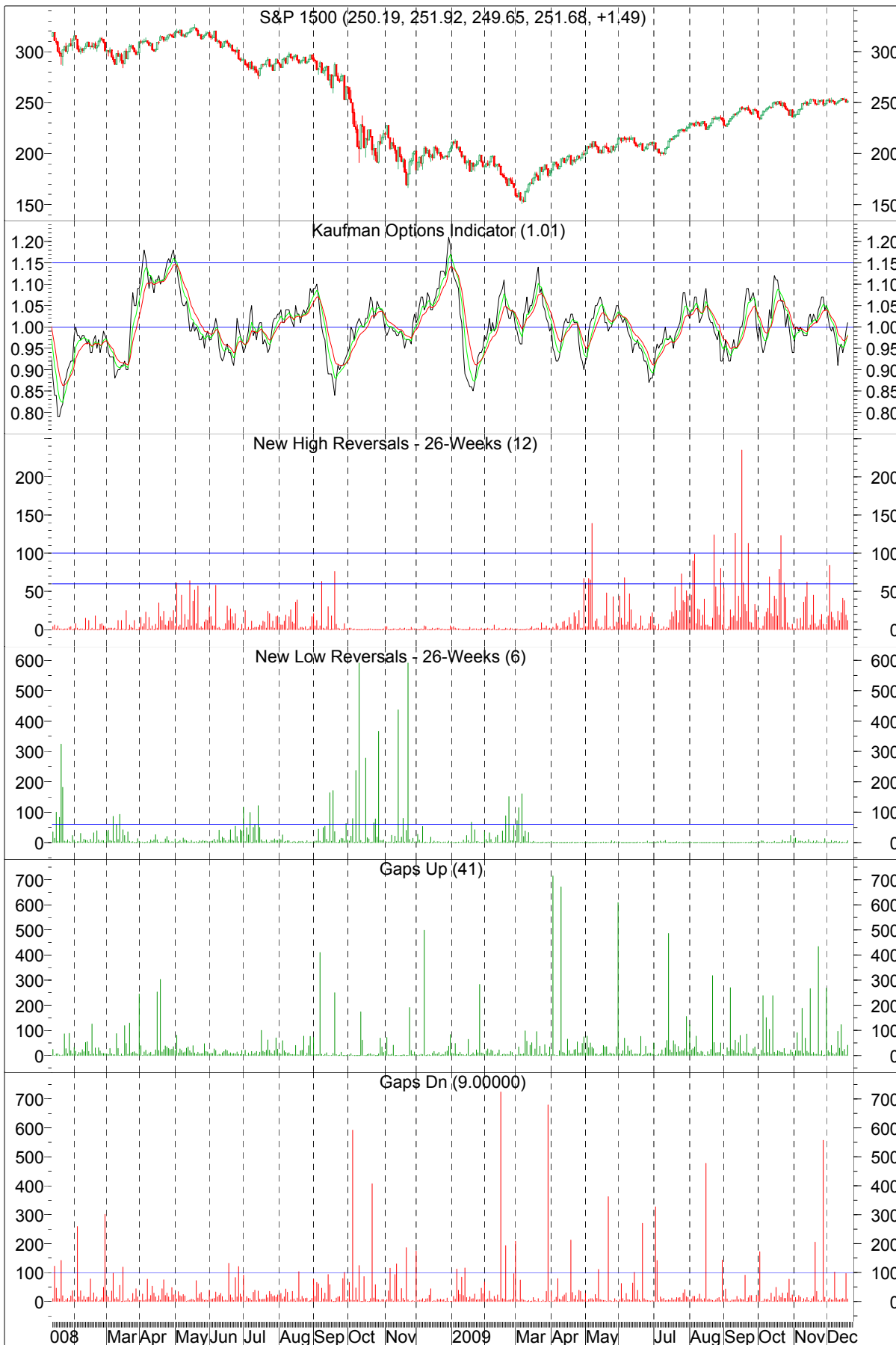
Momentum indicators are neutral.

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



Volume numbers last week were skewed by options expiration and Citigroup.

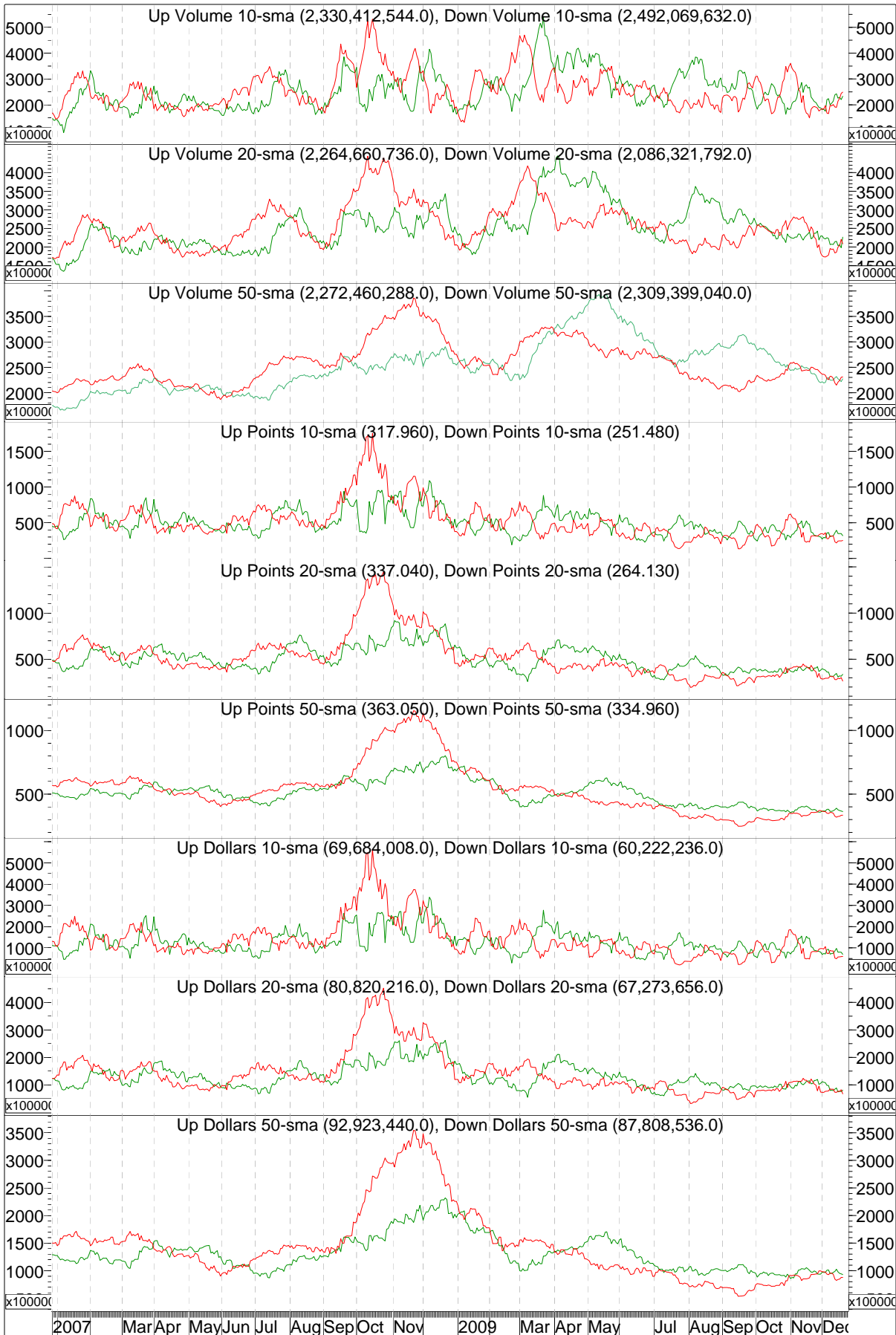
The Kaufman Report - Wayne S. Kaufman, CMT

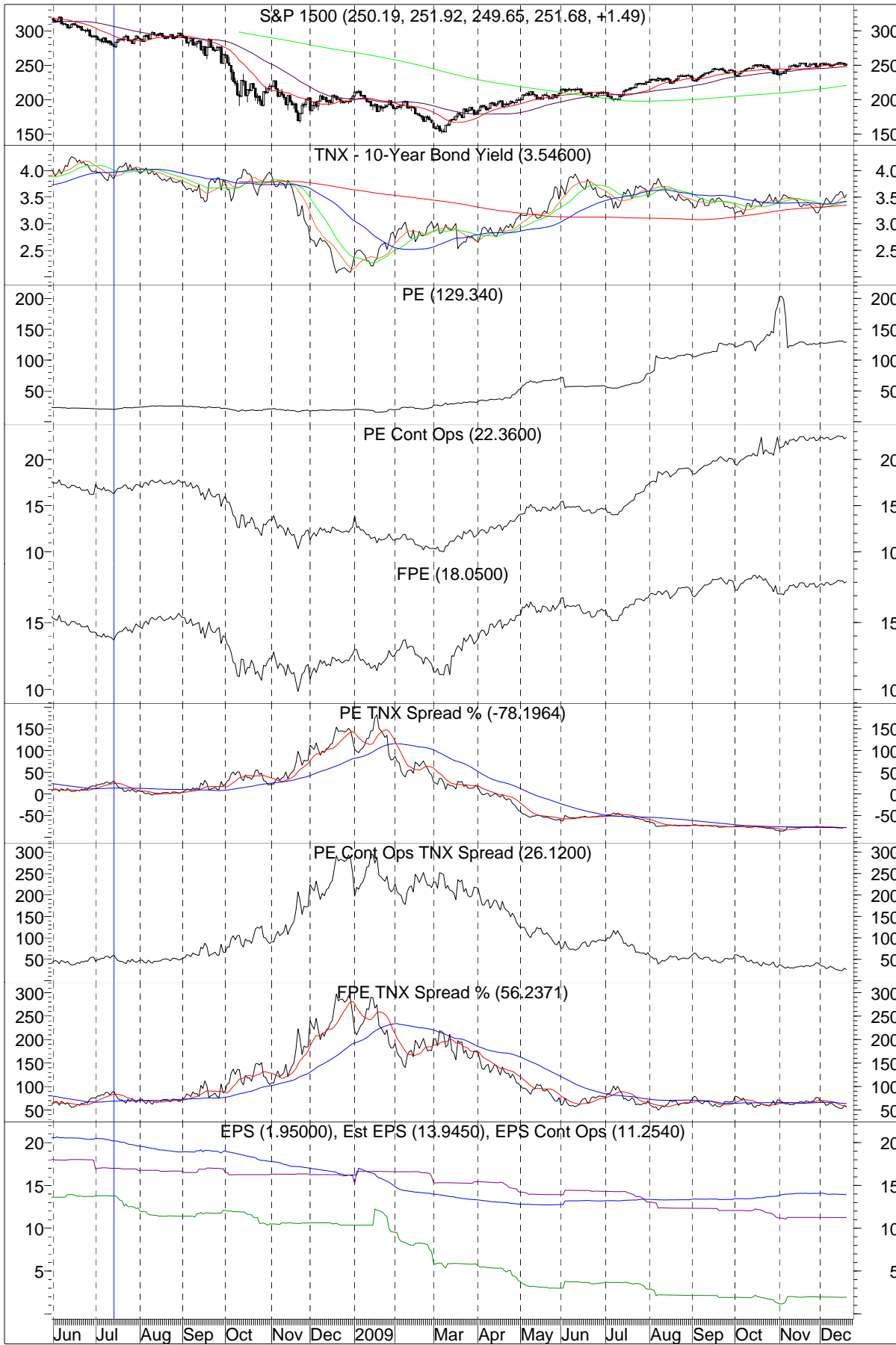


Our proprietary options indicator has moved back above the neutral level showing that options buyers believe there will be a Santa Claus rally. We prefer to see pessimism.

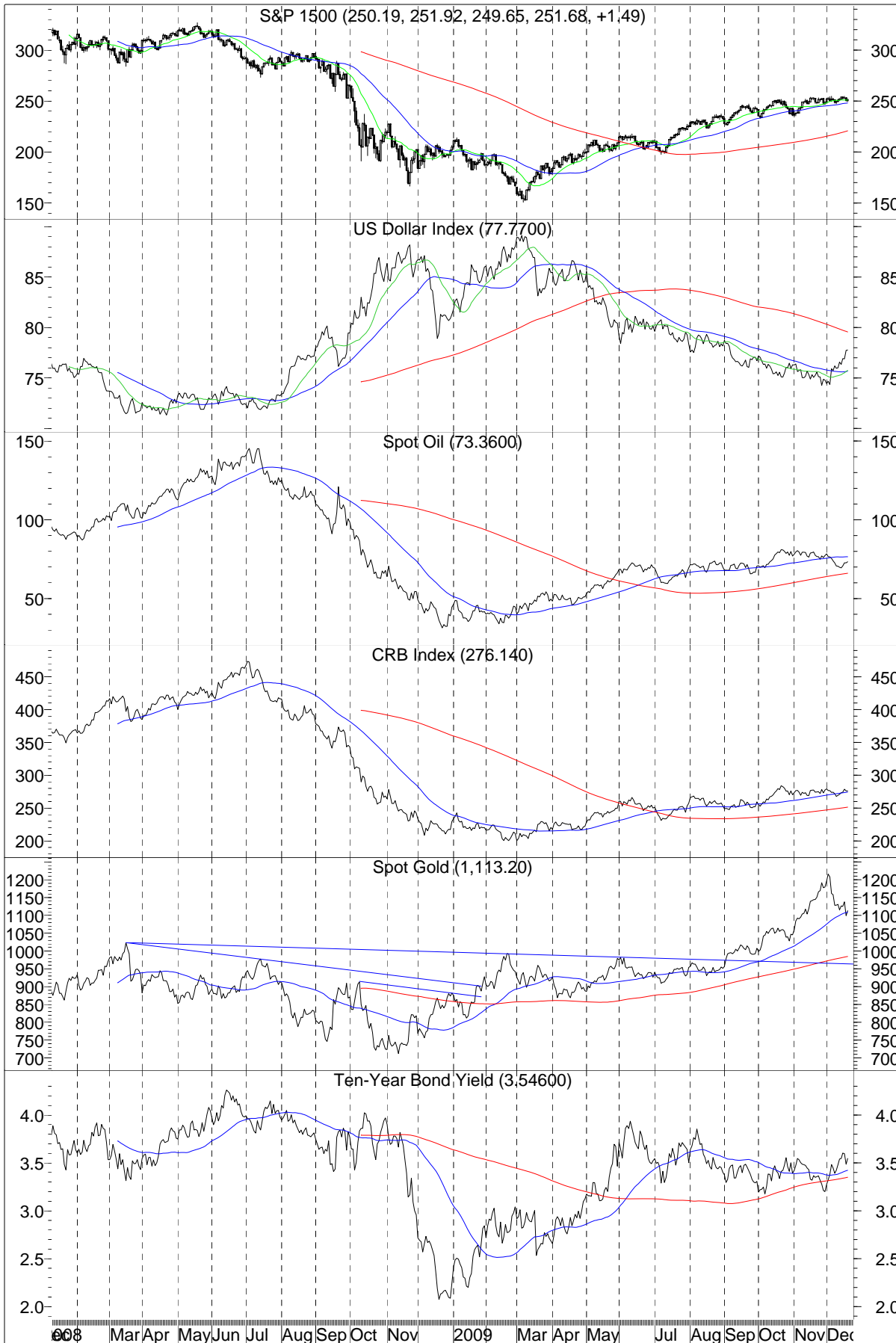
The Kaufman Report - Wayne S. Kaufman, CMT

Our statistics of supply (red) and demand (green) show that neither buyers nor sellers have much conviction at this time.





P/E ratios, spreads between equity and bond yields, and earnings metrics have all been flat lining. This will change dramatically in January.



The amazing inverse correlation between equities and the U.S. Dollar Index has finally been broken. The Dollar is rising while stocks go sideways. Last week we noted resistance at the 77 - 78 area, and the next stop would be 80 - 82 area. The Dollar is getting overbought on the daily chart but not on the weekly.

Crude oil bounced from oversold levels last week but is now entering a resistance area.

Gold continues its descent from extreme overbought levels. It is not yet oversold, although we will be watching for an entry point in the near-term.