

Monday December 27, 2010

Closing prices of December 23, 2010

**We want to wish all of our readers and their families a happy, healthy, and prosperous 2011!**

Not much changed last week as major indexes made new highs again and volume continued to be light. **The S&P 500 printed its best weekly close since 8/29/2008 while the Nasdaq 100 had its best weekly close since 2/9/2001!** December has been very strong with the S&P 500 up 6.46%, while the S&P Smallcap 600 is leading major indexes with a gain of 8.62%. We like to see strength in small and mid-caps because it shows a willingness on the part of investors to assume risk along with an abundance of liquidity.

**Equities have continued their levitation act in spite of increasing selectivity on the part of investors, momentum indicators that remain overbought, and overbullishness on the part of options buyers.** The selectivity can be seen by the 360 13-week closing highs made on Thursday, compared to the 437 on 12/21, 506 on 12/10 and 692 on 11/4. Options buyers are not quite as optimistic as they were on 12/14 when our proprietary options indicator hit 1.18, the highest reading since 12/31/2008, but at the current 1.09 it still leaves equities vulnerable to a sharp pullback.

**In spite of the increased selectivity, sellers remain on the sidelines.** Even though 13-week closing highs show a negative divergence by decreasing as indexes make new highs, the number of 13-week closing lows is also decreasing, showing a lack of sellers. Therefore, even though a pullback can occur at any time, unless major negative news appears the path of least resistance for stocks should be higher.

**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 unless earnings also move higher. Spreads between bond and equity yields have narrowed but remain at levels where stocks are attractive versus bonds, and are still at levels where stocks are at better valuations than at the April high. Projected earnings have been nudging up recently, and 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 \$97 range. **A conservative 14 P/E using \$97 puts the S&P 500 at 1358.** Should first quarter earnings season follow the recent trend and beat estimates handily, those numbers will move higher.

We remain 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 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. Investors need to be alert for sector rotation as we head into the new year.**

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S&P 500 Cash (1,256.75, 1,256.78, 1,256.75, 1,256.77, +0.04)



The S&P 500 made another new high Thursday.

30-minute momentum indicators are neutral.

S&P 500 Cash (1,257.53, 1,258.59, 1,254.05, 1,256.77, -2.07)



The S&P 500 printed a doji candle Friday. Doji are signs of indecision frequently seen at turning points.

Daily momentum indicators are at high or overbought levels.



The S&P 500 printed its highest weekly close since 8/29/08.

Weekly momentum indicators are at high or overbought levels, and near levels where the index topped in April.



So far the strong December is looking good on the monthly chart. The S&P 500 has surpassed the Fibonacci 61.8% retracement level of the bear market. The next important level is 1361.50, which is the 76.4% retracement level.

Monthly momentum indicators are still looking good, with only the stochastic entering overbought territory.

NASDAQ 100 (2,232.84, 2,235.11, 2,225.29, 2,230.27, -5.64)



The Nasdaq 100 made another new high Thursday, but it has printed a series of spinning top candles on the daily chart. In addition, Thursday's candle was a doji. These candles all suggest a short-term turning point may be at hand.

Daily momentum indicators are at high or overbought levels and seem ready to roll over.



The weekly chart of the Nasdaq 100 shows it came close to the intra-week high of 11/2/2007 which was 2239.23. It printed 2238.92 last week. It did, however, surpass that week's close, and printed the best weekly close since 2/9/2001.

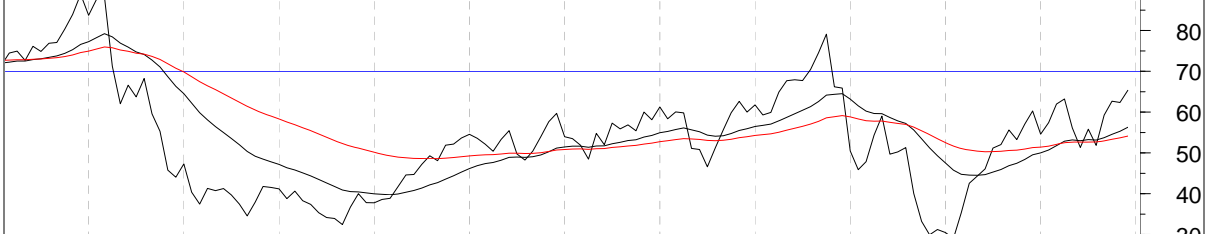
Weekly momentum indicators are at overbought or high levels, with only the RSI not yet at the level seen in April.

NASDAQ 100 (2,150.64, 2,238.92, 2,150.64, 2,230.27, +112.94)



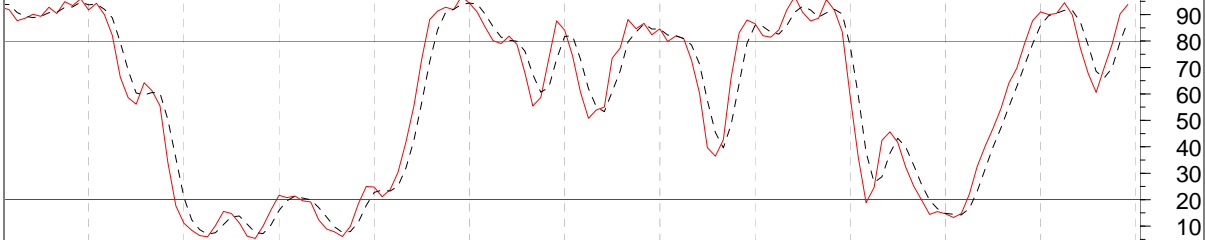
The monthly chart of the Nasdaq 100 shows it is challenging the monthly high of October 2007.

Relative Strength Index (65.3312)

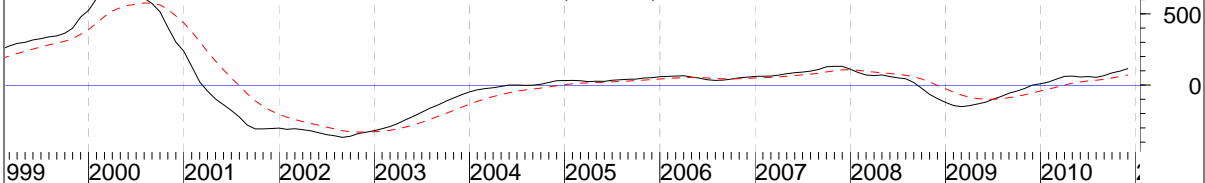


Monthly momentum indicators are at high or overbought levels, but the RSI is not yet overbought and is still well below the level it hit in 2007.

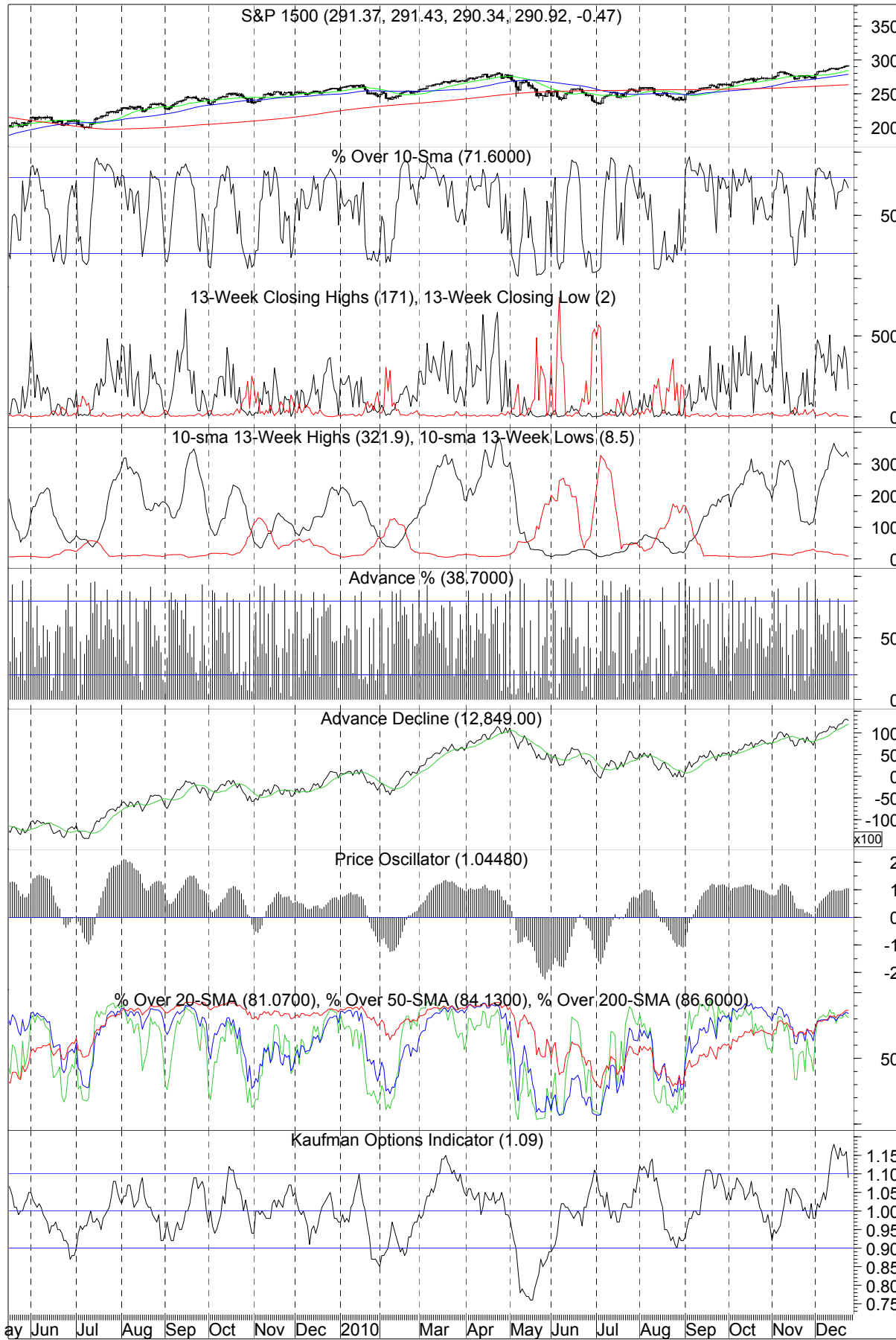
Stochastic Oscillator (93.8101)



MACD (116.015)







In spite of new highs on indexes the percent over 10-sma hasn't hit the levels of early December.

13-week closing highs have been decreasing even as indexes made new highs.

In spite of fewer new highs, new lows are also decreasing, showing a lack of sellers.

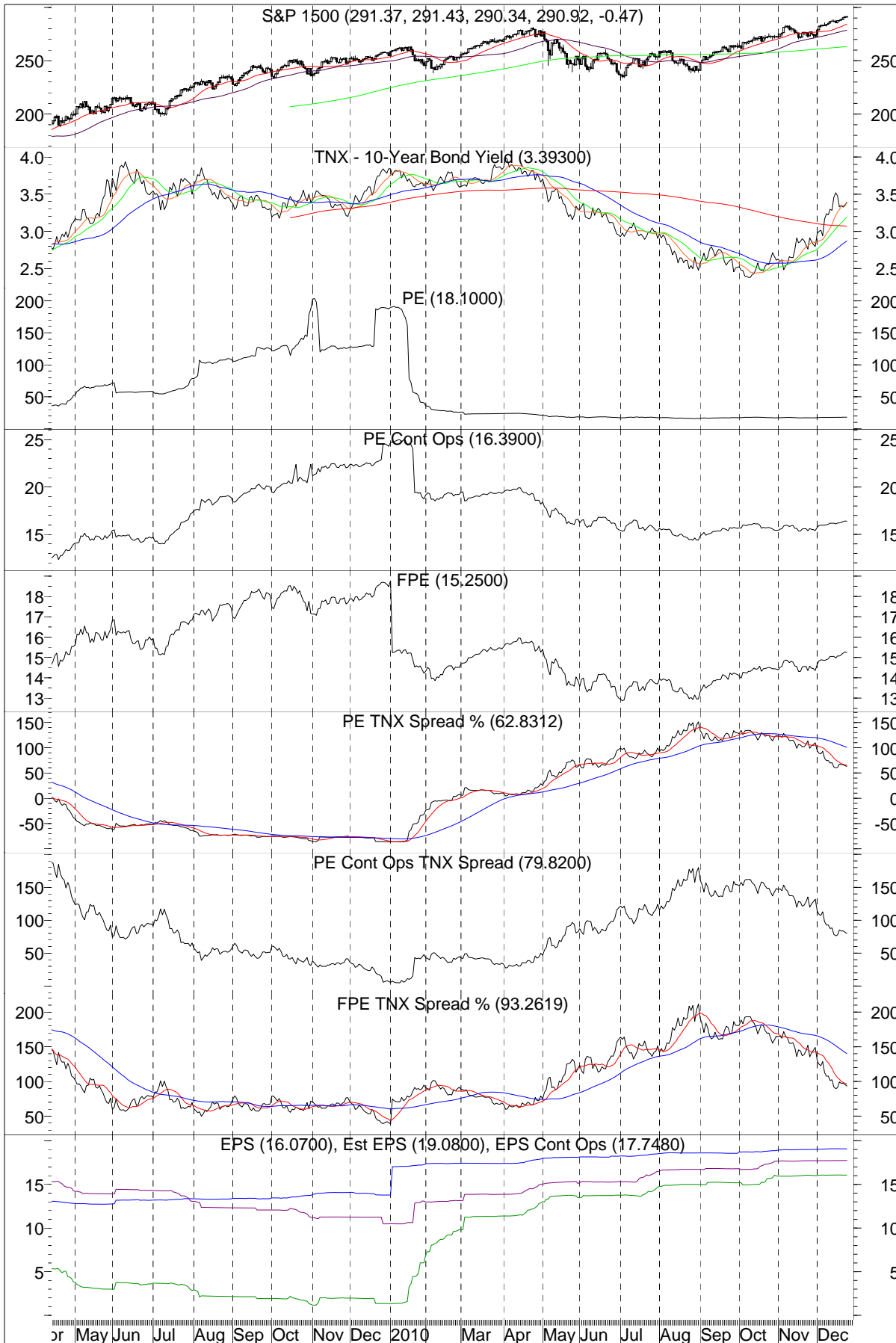
Breadth has not been that strong in December, with only three days above 80% of advancers.

Still, the S&P 1500 AD line made a new high Thursday, confirming the index high and pointing to higher prices in the future.

Our price oscillator remains in positive territory.

While some indicators point to increasing selectivity, the percent over 200-sma is 86.6%, the best level since early May. The highest of this bull market was 92.8% on 4/23.

After hitting the highest level since 12/31/2008, our proprietary options indicator is diving lower. Moves like this can precede weakness in equities.



10-year bond yields are in an up trend but remain near the overbought zone on the daily chart with the RSI still at the level where rates topped on the weekly chart.

P/E ratios have moved higher recently as stocks moved up with only a smattering of earnings reports.

Spreads between bond and equity yields have narrowed dramatically but are still at levels where stocks should be attractive versus bonds. They are also still well above levels where stocks topped in April, meaning they are a better value than they were at the April top.

Projected earnings have been edging higher. We are hoping for a replay of January 2010 when they made a sharp move higher. If so valuations will be very attractive.

## Indexes, Sectors, and Industry Groups

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
NYSE Composite	7925.38	-0.08%	1.15%	1.09%	6.65%	8.85%	10.31%	7934.89	2010-12-22	6355.83	2010-07-01
S&P Smallcap 600	419.88	-0.11%	1.11%	1.72%	8.62%	17.11%	26.23%	421.75	2010-12-22	309.16	2010-02-05
Bank of New York Mellon ADR	138.78	0.01%	1.11%	0.69%	6.96%	4.64%	1.78%	142.74	2010-11-04	109.79	2010-05-25
S&P 1500	290.92	-0.16%	1.04%	1.14%	6.57%	10.67%	14.18%	291.58	2010-12-22	232.54	2010-07-01
S&P 500	1256.77	-0.16%	1.03%	1.12%	6.46%	10.13%	12.70%	1259.39	2010-12-22	1010.91	2010-07-01
S&P Midcap 400	910.79	-0.19%	0.90%	1.15%	6.83%	13.55%	25.34%	915.18	2010-12-22	681.91	2010-02-05
Nasdaq Composite	2665.60	-0.22%	0.86%	1.07%	6.70%	12.54%	17.47%	2675.26	2010-12-22	2061.14	2010-07-01
Dow Jones Industrials	11573.49	0.12%	0.71%	0.65%	5.16%	7.28%	10.98%	11580.84	2010-12-23	9614.32	2010-07-02
Nasdaq 100	2230.27	-0.25%	0.54%	0.55%	5.33%	11.62%	19.89%	2238.92	2010-12-22	1700.04	2010-07-01

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Financials	213.62	-0.77%	2.35%	2.64%	10.04%	10.58%	10.24%	230.45	2010-04-15	178.83	2010-08-25
Energy	501.98	0.29%	2.29%	2.14%	7.90%	19.73%	16.75%	502.37	2010-12-23	365.74	2010-07-01
Materials	237.99	0.39%	1.83%	2.58%	9.42%	17.70%	19.11%	238.39	2010-12-23	168.44	2010-07-01
Telecom Services	127.81	0.26%	1.13%	0.80%	6.81%	5.16%	11.49%	127.89	2010-12-23	98.67	2010-05-06
Utilities	159.74	0.08%	0.90%	1.25%	3.00%	0.23%	1.11%	164.42	2010-10-20	138.57	2010-05-25
Consumer Discretionary	297.29	-0.39%	0.82%	0.93%	4.61%	12.81%	26.47%	299.03	2010-12-22	222.51	2010-02-05
Industrials	300.67	-0.22%	0.79%	0.46%	7.40%	11.02%	23.74%	301.33	2010-12-22	232.54	2010-07-06
Information Technology	405.10	-0.17%	0.49%	0.62%	5.37%	10.12%	9.28%	407.81	2010-11-09	323.47	2010-07-01
Health Care	366.92	0.00%	0.09%	0.13%	4.95%	3.72%	1.30%	384.95	2010-01-20	318.89	2010-07-01
Consumer Staples	304.56	-0.03%	-0.14%	0.09%	4.16%	5.65%	11.03%	305.42	2010-12-21	260.65	2010-07-01

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Banks	148.00	-0.82%	3.33%	3.85%	14.74%	17.97%	18.07%	165.92	2010-04-21	115.69	2010-08-31
Real Estate	118.84	-0.41%	2.73%	3.71%	3.50%	6.54%	26.18%	123.44	2010-11-05	84.72	2010-02-10
Diversified Financials	333.10	-0.94%	2.53%	2.60%	10.89%	11.37%	3.59%	382.07	2010-04-15	278.07	2010-08-31
Energy	501.98	0.29%	2.29%	2.14%	7.90%	19.73%	16.75%	502.37	2010-12-23	365.74	2010-07-01
Materials	237.99	0.39%	1.83%	2.58%	9.42%	17.70%	19.11%	238.39	2010-12-23	168.44	2010-07-01
Media	199.31	-0.36%	1.76%	1.89%	5.64%	11.79%	21.84%	200.08	2010-12-22	150.49	2010-02-05
Telecom Services	127.81	0.26%	1.13%	0.80%	6.81%	5.16%	11.49%	127.89	2010-12-23	98.67	2010-05-06
Insurance	188.41	-0.53%	1.11%	1.38%	7.58%	5.56%	14.33%	189.97	2010-04-26	156.79	2010-05-25
Capital Goods	323.30	-0.19%	1.06%	0.80%	8.37%	11.50%	23.79%	323.94	2010-12-23	250.06	2010-07-06
Retailing	511.83	-0.03%	0.97%	0.76%	4.36%	11.78%	24.50%	514.85	2010-12-07	379.61	2010-07-01
Utilities	159.74	0.08%	0.90%	1.25%	3.00%	0.23%	1.11%	164.42	2010-10-20	138.57	2010-05-25
Technology Hardware & Equipmen	433.93	-0.25%	0.79%	0.67%	4.58%	7.05%	11.40%	446.70	2010-11-09	350.49	2010-08-27
Consumer Services	470.93	-0.45%	0.79%	1.12%	2.68%	9.70%	27.11%	479.39	2010-12-07	363.27	2010-02-05
Software & Services	529.31	-0.07%	0.71%	0.96%	6.91%	11.93%	6.59%	531.56	2010-12-22	410.27	2010-07-01
Household & Personal Products	381.89	0.23%	0.55%	0.96%	5.80%	6.12%	5.86%	383.05	2010-03-23	339.42	2010-05-06
Food & Staples Retailing	194.79	0.14%	0.27%	0.03%	3.57%	6.12%	6.40%	196.37	2010-03-30	162.45	2010-07-01
Health Care Equip & Services	360.66	-0.14%	0.12%	0.82%	5.93%	8.76%	3.87%	371.77	2010-01-20	296.30	2010-08-31
Pharmaceuticals, Biotech & Life Sci	339.84	0.07%	0.07%	-0.20%	4.47%	1.31%	0.03%	359.71	2010-01-20	299.26	2010-07-01
Transportation	329.35	-0.38%	-0.03%	-0.87%	3.34%	10.17%	29.21%	332.37	2010-12-07	239.94	2010-02-05
Commercial & Professional Service	145.30	-0.10%	-0.13%	0.25%	8.25%	7.35%	8.59%	146.06	2010-12-21	122.63	2010-06-08
Automobiles & Components	118.20	-1.11%	-0.21%	-0.20%	6.17%	31.41%	52.05%	120.31	2010-12-21	74.25	2010-06-29
Food, Beverage & Tobacco	353.75	-0.20%	-0.58%	-0.24%	3.75%	5.27%	15.42%	356.38	2010-12-20	293.85	2010-02-05
Semiconductors & Equipment	336.22	-0.30%	-1.11%	-0.76%	2.27%	12.91%	7.65%	349.14	2010-12-09	262.69	2010-08-31
Consumer Durables & Apparel	169.88	-1.04%	-1.38%	-0.59%	4.65%	12.51%	29.58%	174.61	2010-12-22	124.75	2010-02-05

### INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
India IFN	39.28	0.98%	5.29%	10.40%	8.00%	27.95%	40.94	2010-11-08	26.61	2010-05-25
BRIC EEB	45.90	-0.28%	1.97%	3.78%	2.64%	8.10%	48.27	2010-11-09	23.23	2010-05-06
Russia RSX	37.47	-0.48%	1.20%	9.11%	15.19%	20.13%	37.67	2010-12-22	26.06	2010-05-25
Mexico EWW	61.39	-0.26%	1.02%	3.87%	15.85%	25.62%	61.62	2010-12-22	44.71	2010-02-05
South Korea EWY	58.71	-0.15%	1.00%	8.78%	9.76%	23.24%	58.89	2010-12-21	40.65	2010-05-25
Latin America ILF	52.71	-0.17%	0.94%	3.13%	4.29%	10.30%	54.87	2010-11-05	39.21	2010-05-25
Switzerland EWL	24.82	-0.40%	0.90%	9.29%	8.76%	11.50%	24.94	2010-12-22	18.70	2010-05-25
Emerging Markets EEM	46.61	-0.11%	0.60%	4.09%	4.11%	12.31%	48.62	2010-11-09	35.21	2010-05-25
South Africa EZA	72.63	0.86%	0.57%	8.86%	8.05%	29.77%	72.99	2010-11-09	23.00	2010-05-06
Austria EWO	21.43	-0.88%	0.52%	11.79%	8.75%	9.56%	21.90	2010-11-04	14.91	2010-06-08
Hong Kong EWH	18.83	-0.79%	0.32%	-0.32%	3.80%	20.24%	20.24	2010-11-08	14.08	2010-05-21
Sweden EWD	30.62	-0.20%	0.23%	7.93%	5.70%	30.30%	30.95	2010-12-21	19.00	2010-05-06
Canada EWC	30.50	0.52%	0.13%	3.98%	8.80%	15.83%	30.99	2010-12-07	22.75	2010-05-06
Japan EWJ	10.75	-0.07%	0.00%	4.67%	8.75%	10.37%	10.85	2010-12-14	9.15	2010-06-07
China 25 FXI	42.60	-1.27%	0.00%	-1.71%	-0.51%	0.80%	47.99	2010-11-08	36.24	2010-05-06
Indonesia IDX	83.82	-1.64%	-0.07%	-0.43%	-3.22%	34.82%	93.14	2010-11-09	59.19	2010-05-25
Netherlands EWN	20.45	-0.15%	-0.24%	8.32%	0.64%	-0.05%	21.75	2010-11-04	16.64	2010-05-25
Germany EWG	24.04	0.00%	-0.25%	6.70%	9.27%	7.13%	24.92	2010-11-04	17.97	2010-05-25
Italy EWI	16.35	-0.06%	-0.31%	8.21%	-2.68%	-16.20%	20.54	2010-01-11	13.21	2010-06-07
Turkey TUR	65.86	0.95%	-0.34%	-1.61%	-5.95%	22.19%	79.00	2010-11-09	44.40	2010-05-06
Malaysia EWM	13.98	0.36%	-0.37%	2.64%	1.75%	31.64%	14.41	2010-11-05	10.18	2010-02-05
United Kingdom EWU	17.25	0.13%	-0.41%	6.75%	5.44%	6.48%	17.95	2010-11-04	13.25	2010-05-25
Australia EWA	25.20	0.44%	-0.83%	7.14%	6.15%	10.33%	26.36	2010-01-11	18.26	2010-05-25
Brazil EWZ	74.50	-0.12%	-1.07%	-0.47%	-3.18%	-0.15%	81.77	2010-11-04	57.18	2010-05-25
Belgium EWK	12.97	0.00%	-1.08%	4.82%	-2.33%	1.65%	14.52	2010-11-04	8.93	2010-05-06
France EWQ	24.37	-0.33%	-1.23%	8.36%	1.58%	-5.73%	27.32	2010-01-11	19.24	2010-05-25
Taiwan EWT	15.04	0.20%	-1.31%	6.74%	11.00%	15.96%	15.33	2010-12-17	10.81	2010-06-08
Israel EIS	58.85	0.26%	-1.49%	5.86%	7.18%	8.18%	60.68	2010-03-26	45.00	2010-05-06
Chile ECH	78.37	-0.37%	-1.57%	2.27%	5.88%	43.04%	80.38	2010-12-20	27.27	2010-05-06
Singapore EWS	13.24	-0.45%	-1.85%	-0.90%	0.15%	15.23%	14.56	2010-11-09	10.37	2010-02-05
Thailand THD	63.57	0.03%	-2.36%	1.11%	2.43%	49.61%	68.70	2010-11-09	37.65	2010-02-05
Vietnam VNM	26.18	-2.53%	-3.52%	4.39%	7.08%	2.71%	30.34	2010-12-13	21.81	2010-08-25
Spain EWP	36.69	-0.78%	-3.63%	6.13%	-9.74%	-23.63%	50.16	2010-01-06	29.85	2010-06-08