

Monday February 1, 2010

Closing prices of January 29, 2010

After a terrific start for 2010 which included 52-week highs on major indices, stocks have suffered through an eight session plunge. The sudden drop has created technical damage which will probably take some time to repair. For example, January printed key reversals on the monthly charts of both the S&P 500 and Nasdaq 100. Along the way multiple price support levels have been broken, and these will now be resistance on any move back up.

In our last report on January 11<sup>th</sup>, we noted that investors were becoming more selective, a trend we had commented on for a while, and that low volume created an environment where news was able to cause sharp moves in either direction. We also pointed out that sellers remained on the sidelines, and that even though demand for stocks was not as strong as we would have liked, there were no catalysts motivating sellers at that time. That changed shortly thereafter. After making new highs January 19<sup>th</sup>, stocks began the current move lower accompanied by various reasons investors had become spooked. These included China reigning in liquidity, fears of default on Greece's debt, Obama's proposed bank tax, worse than expected jobless numbers, the stronger U.S. Dollar Index, fear of Bernanke not being confirmed, a negative reaction to the State of the Union Address, and fear of a slowdown in the recently revived economy.

We don't think corporate earnings can be blamed, since 222 of the S&P 500 have reported with 77.5% of companies having positive surprises and 13.5% negative. This is only slightly weaker than last quarter, when about 80% had positive surprises. We also don't think this will be a major top in stocks, due to market breadth statistics making new highs as the indexes did. Still, investors need to be on guard for the possibility of further deterioration in the short or intermediate-term. Many indicators have reached levels where stocks have bottomed during other weak periods since the March lows. Exceeding those levels will be a red flag and a reason to be more defensive.

Certainly there are headwinds coming. At the end of March the FED ends 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. These and some of the previously listed issues contribute to a lack of visibility for investors.

This lack of visibility is exacerbated by the Obama administration. Business owners and managers are unable to project future costs for taxes or health care. The administration has shown a disregard for contracts and deals it makes. One example is giving equity in GM to the UAW instead of to senior bond holders who were entitled. Another is the recent bank bashing. The government initially made a deal with the banks that after they paid back the TARP money (which some of them didn't want to begin with) they could go about their business. It didn't work out that way as the government, after the fact, pressed its case that banks should forever be beholden to the government. The editor of this newsletter is a cardiac patient with a stent in an artery, the result of a heart attack. When the doctors inserted the stent and opened up the artery it may have saved his life. The doctors were paid for the service. If Obama was one of the doctors, would he be knocking on the editor's door every year asking for more money? After all, according to his logic, without the medical intervention the patient would have died. Therefore, he owes forever. Investors will probably have little faith in President Obama until he can answer a very basic question: When is a deal a deal?

**In summary, based on the S&P 500 the short-term and intermediate-term trends are down, while the long-term trend remains up. Short-term indicators are getting oversold, with many at levels where stocks have bottomed since March. We are watching for further deterioration, and remind investors of our warning from fall 2008, that a market that doesn't respond to oversold conditions can be dangerous.**

**S&P 1500 Data:** P/E: 18.75 Percent over 10-sma: 13.60%. Percent over 50-sma: 32.53%

13-Week Closing Highs: 27. 13-Week Closing Lows: 154. 52-week closing highs: 14

Kaufman Options Indicator: 0.86 Put/Call Ratio: 1.00 New High Reversals: 10. New Low Reversals: 2

Volume: +6% versus yesterday. 112% of the 10-day average. 136% of the 30-day average.

Up Stocks: 24.07%. Up Volume: 28.33%. Up Points: 15.07%. Up Dollars: 6.64%, 26% of 10-sma. Dn Dollars 110% 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
Dow Jones Industrials	-0.52%	-1.04%	-3.46%	-3.46%	-3.46%
S&P Smallcap 600	-0.94%	-2.40%	-3.45%	-3.45%	-3.45%
S&P 500	-0.98%	-1.64%	-3.70%	-3.70%	-3.70%
S&P 1500	-1.01%	-1.75%	-3.66%	-3.66%	-3.66%
NYSE Composite	-1.05%	-2.09%	-4.19%	-4.19%	-4.19%
Bank of New York Mellon ADR	-1.29%	-3.14%	-6.53%	-6.53%	-6.53%
S&P Midcap 400	-1.35%	-2.61%	-3.28%	-3.28%	-3.28%
Nasdaq Composite	-1.45%	-2.63%	-5.37%	-5.37%	-5.37%
Nasdaq 100	-1.70%	-3.00%	-6.41%	-6.41%	-6.41%

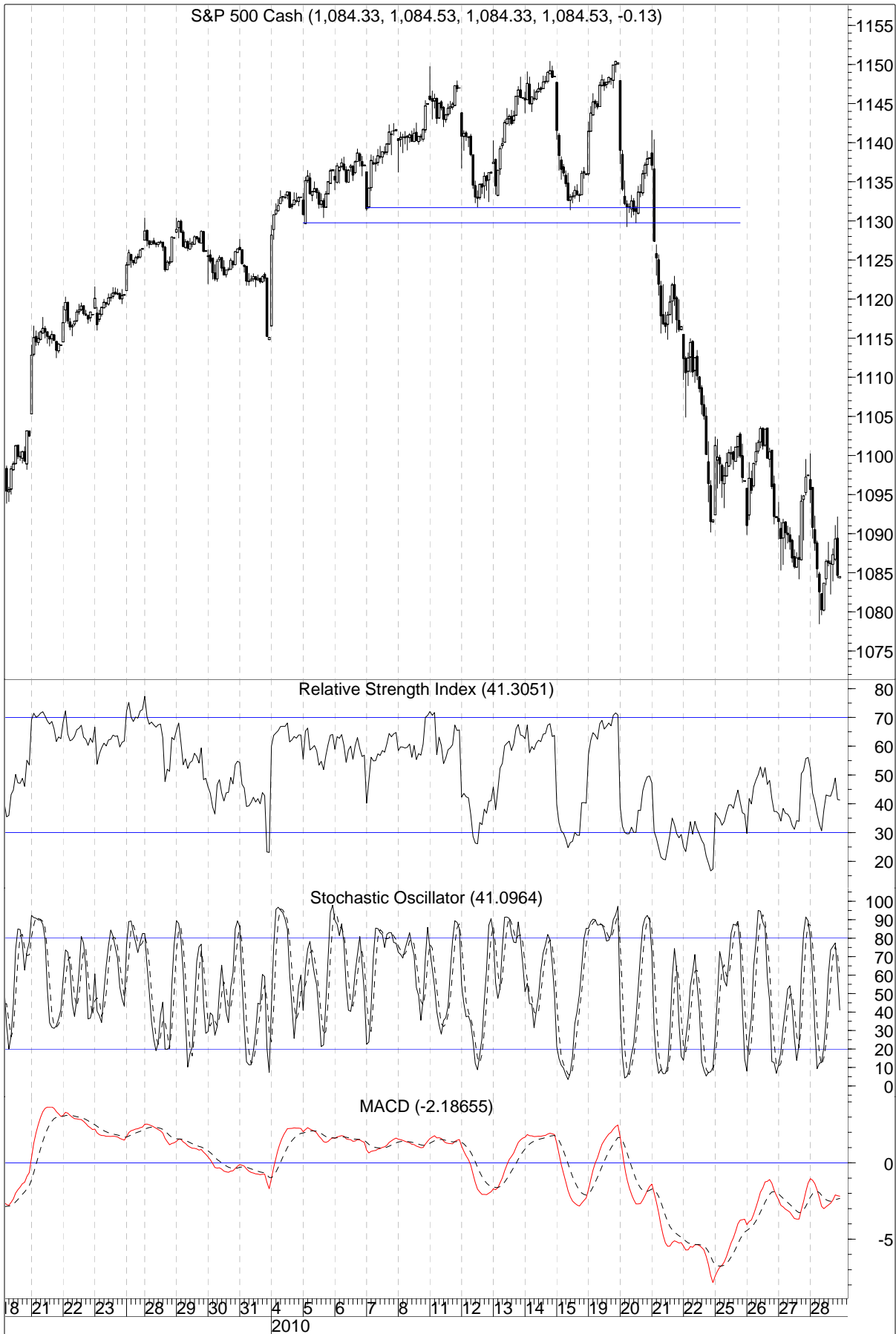
	Daily	WTD	MTD	QTD	YTD
Consumer Staples	-0.23%	-0.15%	-1.25%	-1.25%	-1.25%
Telecom Services	-0.38%	-1.13%	-9.32%	-9.32%	-9.32%
Health Care	-0.48%	-1.07%	0.42%	0.42%	0.42%
Consumer Discretionary	-0.56%	-0.42%	-2.95%	-2.95%	-2.95%
Utilities	-0.59%	-1.26%	-5.10%	-5.10%	-5.10%
Financials	-0.71%	-0.01%	-1.48%	-1.48%	-1.48%
Industrials	-0.96%	-1.63%	-1.21%	-1.21%	-1.21%
Energy	-1.40%	-2.84%	-4.51%	-4.51%	-4.51%
Materials	-1.44%	-4.35%	-8.66%	-8.66%	-8.66%
Information Technology	-2.05%	-3.68%	-8.45%	-8.45%	-8.45%

	Daily	WTD	MTD	QTD	YTD
Food & Staples Retailing	0.63%	-0.12%	0.09%	0.09%	0.09%
Media	0.38%	-0.55%	-5.67%	-5.67%	-5.67%
Banks	-0.05%	2.37%	8.90%	8.90%	8.90%
Retailing	-0.22%	0.47%	-3.32%	-3.32%	-3.32%
Household & Personal Products	-0.24%	0.77%	-0.07%	-0.07%	-0.07%
Pharmaceuticals, Biotech & Life Sciences	-0.27%	-0.75%	0.58%	0.58%	0.58%
Telecom Services	-0.38%	-1.13%	-9.32%	-9.32%	-9.32%
Insurance	-0.39%	0.29%	0.26%	0.26%	0.26%
Real Estate	-0.52%	-0.08%	-6.42%	-6.42%	-6.42%
Utilities	-0.59%	-1.26%	-5.10%	-5.10%	-5.10%
Food, Beverage & Tobacco	-0.62%	-0.62%	-2.43%	-2.43%	-2.43%
Capital Goods	-0.84%	-1.31%	-0.18%	-0.18%	-0.18%
Health Care Equip & Services	-0.90%	-1.71%	0.10%	0.10%	0.10%
Diversified Financials	-1.12%	-1.05%	-5.01%	-5.01%	-5.01%
Consumer Durables & Apparel	-1.14%	-0.03%	-1.89%	-1.89%	-1.89%
Commercial & Professional Services	-1.21%	-2.75%	-5.04%	-5.04%	-5.04%
Consumer Services	-1.29%	-2.19%	-0.62%	-0.62%	-0.62%
Transportation	-1.34%	-2.49%	-3.68%	-3.68%	-3.68%
Energy	-1.40%	-2.84%	-4.51%	-4.51%	-4.51%
Materials	-1.44%	-4.35%	-8.66%	-8.66%	-8.66%
Software & Services	-1.76%	-2.98%	-7.84%	-7.84%	-7.84%
Technology Hardware & Equipment	-2.08%	-4.38%	-8.54%	-8.54%	-8.54%
Semiconductors & Equipment	-2.91%	-3.32%	-10.06%	-10.06%	-10.06%
Automobiles & Components	-3.53%	-0.36%	3.97%	3.97%	3.97%

### INTERNATIONAL ETFs

	Daily	WTD	MTD	QTD	YTD
Vietnam VNM	0.20%	-0.53%	-4.08%	-4.08%	-4.08%
Malaysia EWM	0.19%	-2.46%	-0.66%	-0.66%	-0.66%
Sweden EWD	0.13%	-0.66%	-3.32%	-3.32%	-3.32%
Taiwan EWT	-0.33%	-2.32%	-6.94%	-6.94%	-6.94%
Hong Kong EWH	-0.34%	-1.50%	-6.58%	-6.58%	-6.58%
China 25 FXI	-0.39%	-1.85%	-9.23%	-9.23%	-9.23%
Singapore EWS	-0.55%	-2.60%	-6.18%	-6.18%	-6.18%
Spain EWP	-1.01%	-3.83%	-10.30%	-10.30%	-10.30%
Canada EWC	-1.01%	-2.62%	-7.18%	-7.18%	-7.18%
MSCI Emerging Markets EEM	-1.09%	-3.47%	-7.76%	-7.76%	-7.76%
Italy EWI	-1.12%	-3.73%	-9.28%	-9.28%	-9.28%
Germany EWG	-1.17%	-2.56%	-9.36%	-9.36%	-9.36%
United Kingdom EWU	-1.22%	-1.62%	-4.75%	-4.75%	-4.75%
Belgium EWK	-1.26%	0.96%	-1.57%	-1.57%	-1.57%
Netherlands EWN	-1.26%	-0.37%	-3.82%	-3.82%	-3.82%
France EWQ	-1.28%	-3.06%	-7.81%	-7.81%	-7.81%
Japan EWJ	-1.40%	-3.35%	1.03%	1.03%	1.03%
Austria EWO	-1.42%	-4.10%	-3.89%	-3.89%	-3.89%
Mexico EWW	-1.50%	-2.78%	-5.87%	-5.87%	-5.87%
BRIC EEB	-1.64%	-4.28%	-10.86%	-10.86%	-10.86%
South Korea EWY	-1.79%	-4.78%	-4.62%	-4.62%	-4.62%
Switzerland EWL	-1.98%	-1.32%	-4.36%	-4.36%	-4.36%
Latin America ILF	-2.14%	-4.01%	-10.82%	-10.82%	-10.82%
Brazil EWZ	-2.52%	-5.07%	-13.30%	-13.30%	-13.30%
Australia EWA	-2.68%	-4.45%	-7.62%	-7.62%	-7.62%

S&P 500 Cash (1,084.33, 1,084.53, 1,084.33, 1,084.53, -0.13)



The 30-minute chart of the S&P 500 shows multiple support levels broken recently.

Positive divergences have developed on the 30-minute chart, so a bounce is expected at any time.

S&P 500 Cash (1,087.61, 1,096.45, 1,071.59, 1,073.87, -10.66)



The daily chart of the S&P 500 shows price support and trend line support has been broken. The index closed Friday in the gap from early November.

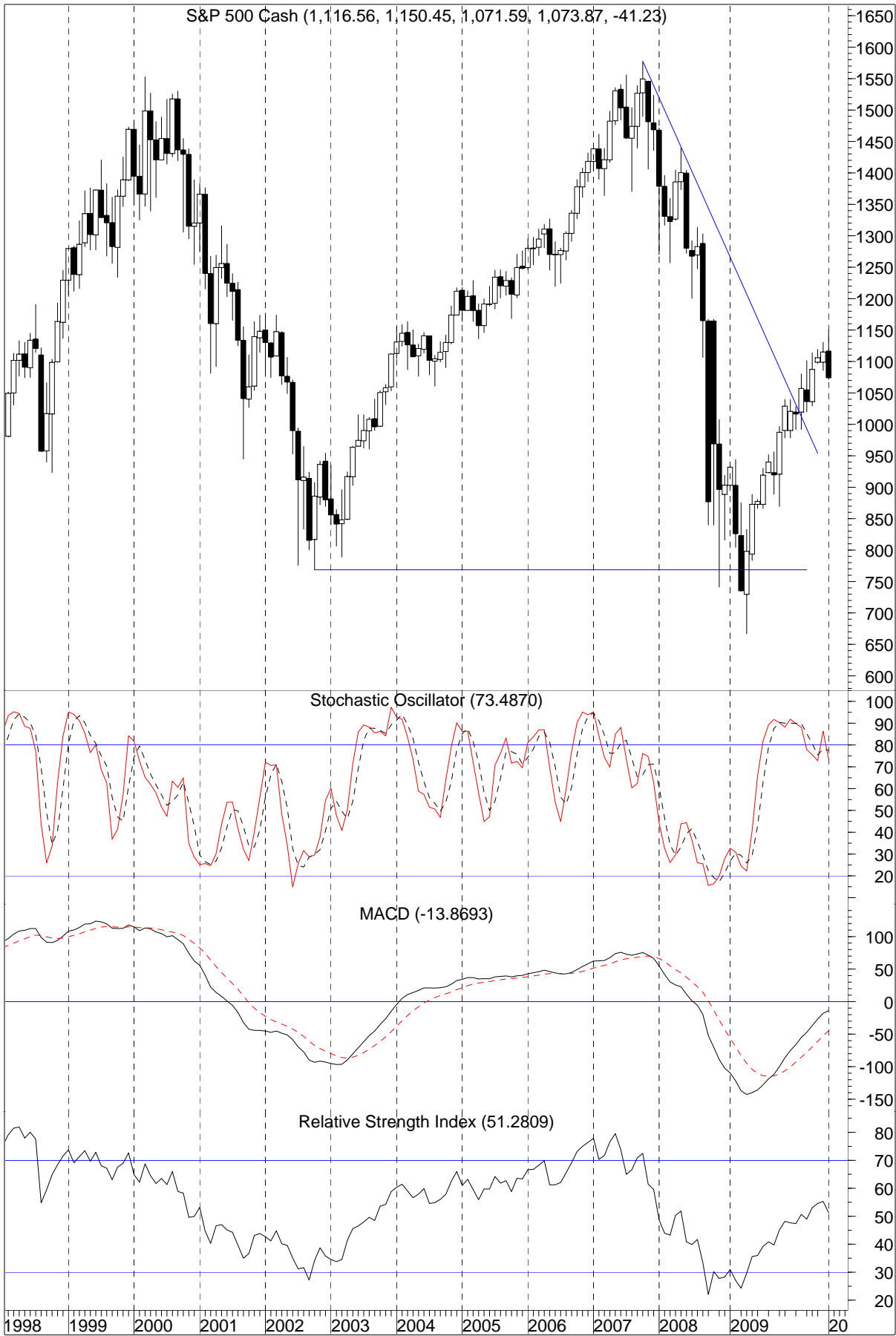
Daily momentum indicators are at low or oversold levels.

S&P 500 Cash (1,092.40, 1,103.69, 1,071.59, 1,073.87, -17.89)



The good news is the 20, 40, and 80-week moving averages of the S&P 500 recently lined up bullishly for the first time since March 2008. Unfortunately the index has closed below the 20-sma for the first time since March 2009.

Weekly momentum indicators have turned down from high levels.



The monthly chart of the S&P 500 shows it printed a key reversal in January. This is when a new high is made but it is accompanied by a lower close.

The stochastic has turned down from the overbought zone, but the other monthly momentum indicators are not at extreme levels.

NASDAQ 100 (1,787.14, 1,789.93, 1,734.03, 1,741.04, -30.06)



The daily chart of the Nasdaq 100 shows it fell below the breakout area from December, sliced through the trend line from August, and is currently in the gap from early November.

Daily momentum indicators are at low or oversold levels but have not turned up yet.



NASDAQ 100 (1,806.60, 1,825.95, 1,734.03, 1,741.04, -53.78)



The weekly chart of the Nasdaq 100 shows a sharp move lower after the bearish engulfing candle printed three weeks ago.

Weekly momentum indicators have turned down from high levels and look like there is further downside potential.

NASDAQ 100 (1,882.69, 1,897.49, 1,734.03, 1,741.04, -119.27)



The monthly chart of the Nasdaq 100 shows January printed a bearish engulfing candle. This is the opposite of the bullish engulfing candle printed in March 2009. January was also a key reversal month, which means a new high was made during the month but there was a lower close than the prior month.

S&P 1500 (247.98, 250.74, 244.95, 245.47, -2.51)

% Over 10-Sma (13.6000)

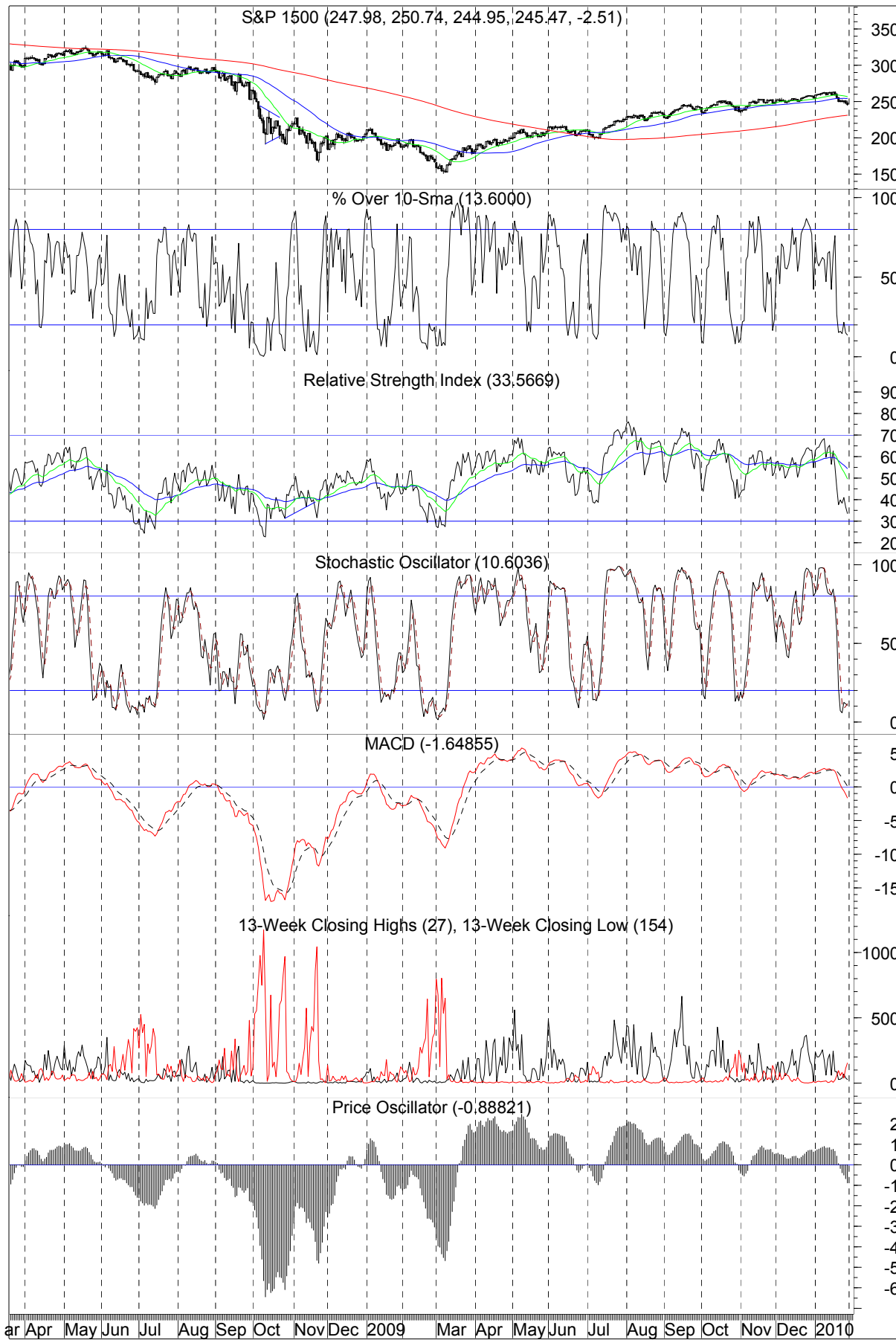
Relative Strength Index (33.5669)

Stochastic Oscillator (10.6036)

MACD (-1.64855)

13-Week Closing Highs (27), 13-Week Closing Low (154)

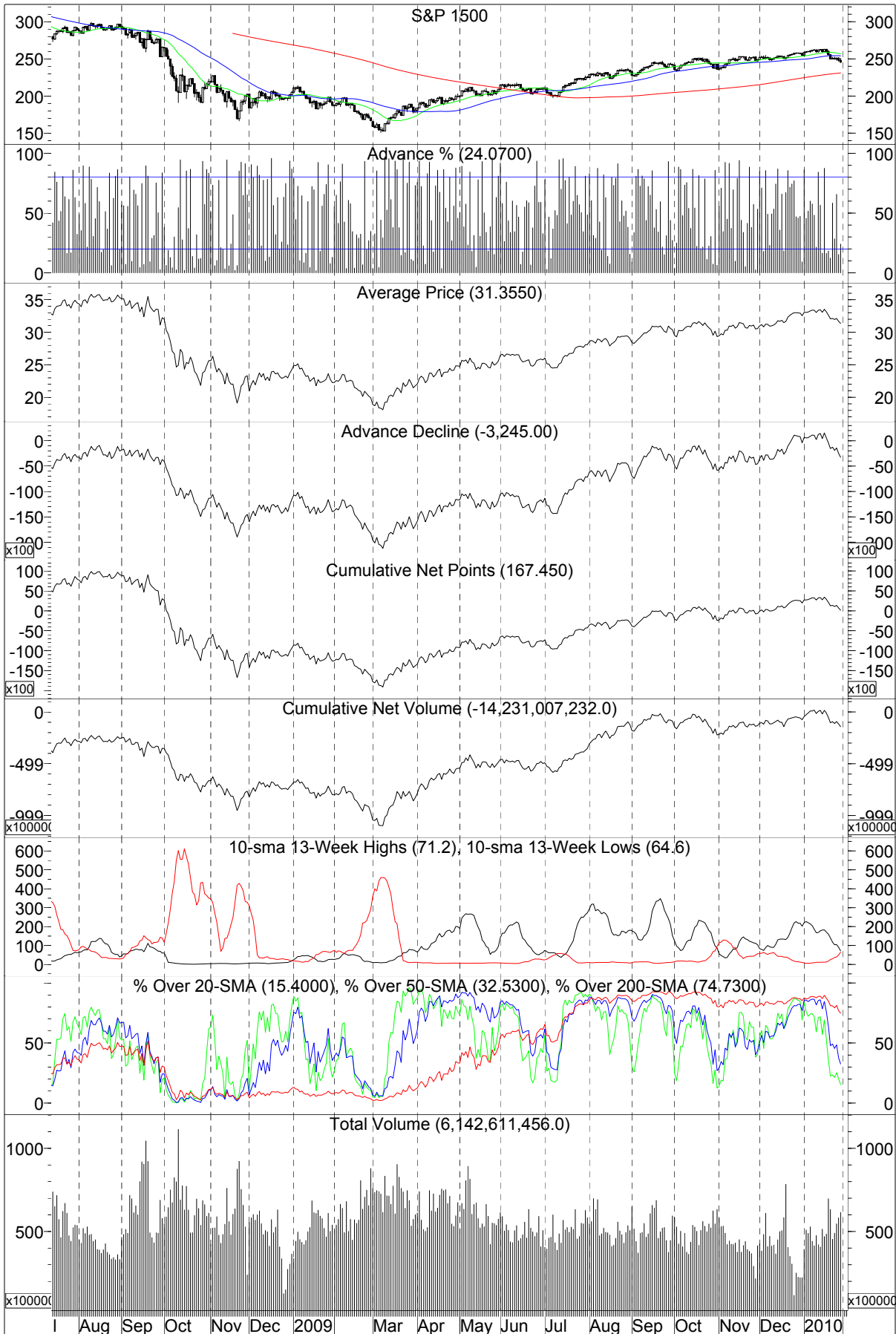
Price Oscillator (-0.88821)



The percent over 10-sma is very low at 13.6%.

New 13-week closing lows have been outpacing 13-week closing highs.

Our price oscillator, a good indicator of trends, is in negative territory. It is in the general vicinity of where it bottomed during the two other weak periods since the March bottom. We would rather not exceed those levels.

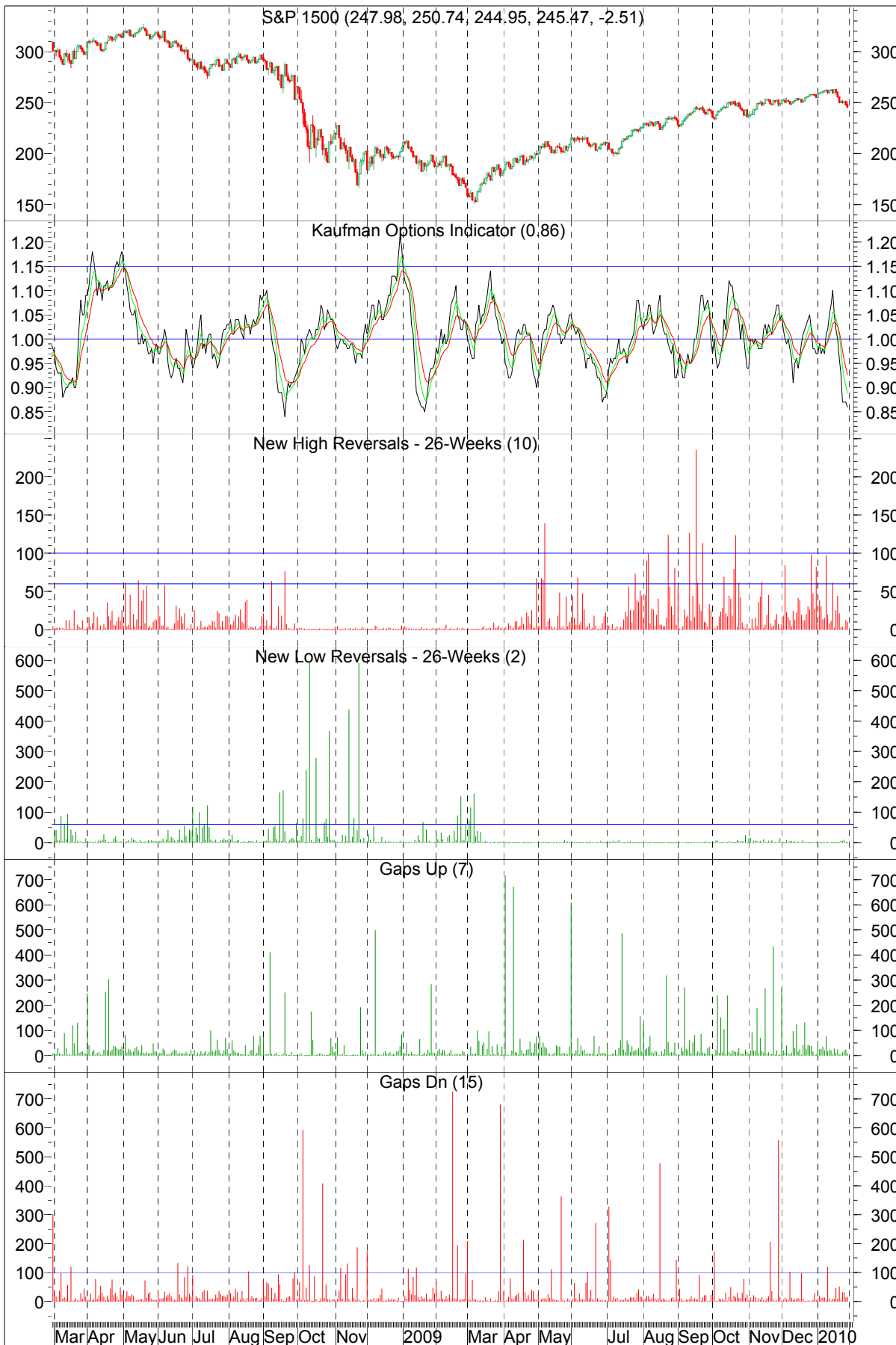


Since Jan. 19th only two sessions have had positive breadth.

All of our statistics of market internals hit new highs recently, which argues against this being more than a short or intermediate-term top.

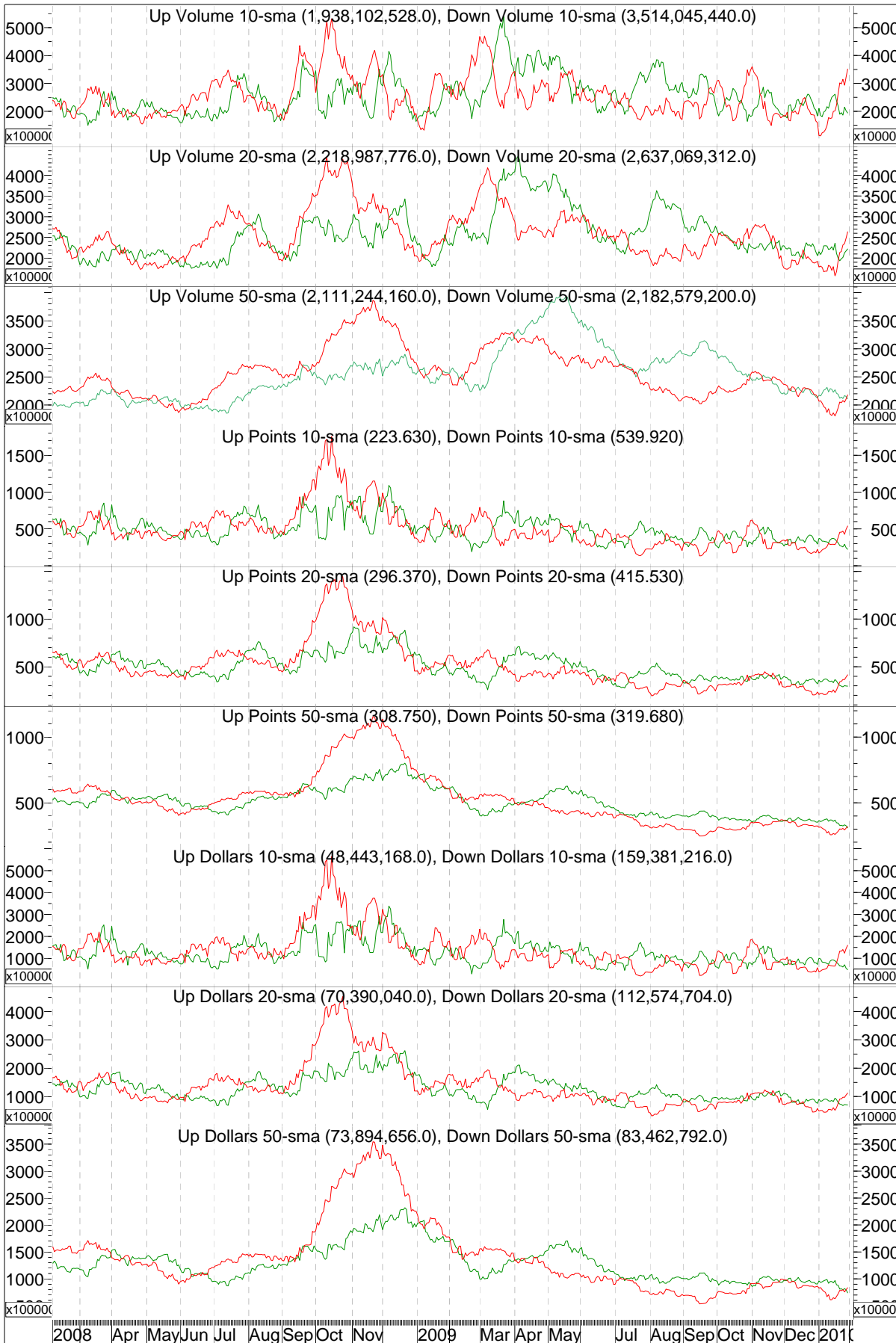
The percent of stocks over their own 20 and 50-sma are in the areas where they have bottomed since the March lows.

Volume has been negative recently, increasing on down days and receding on up days.

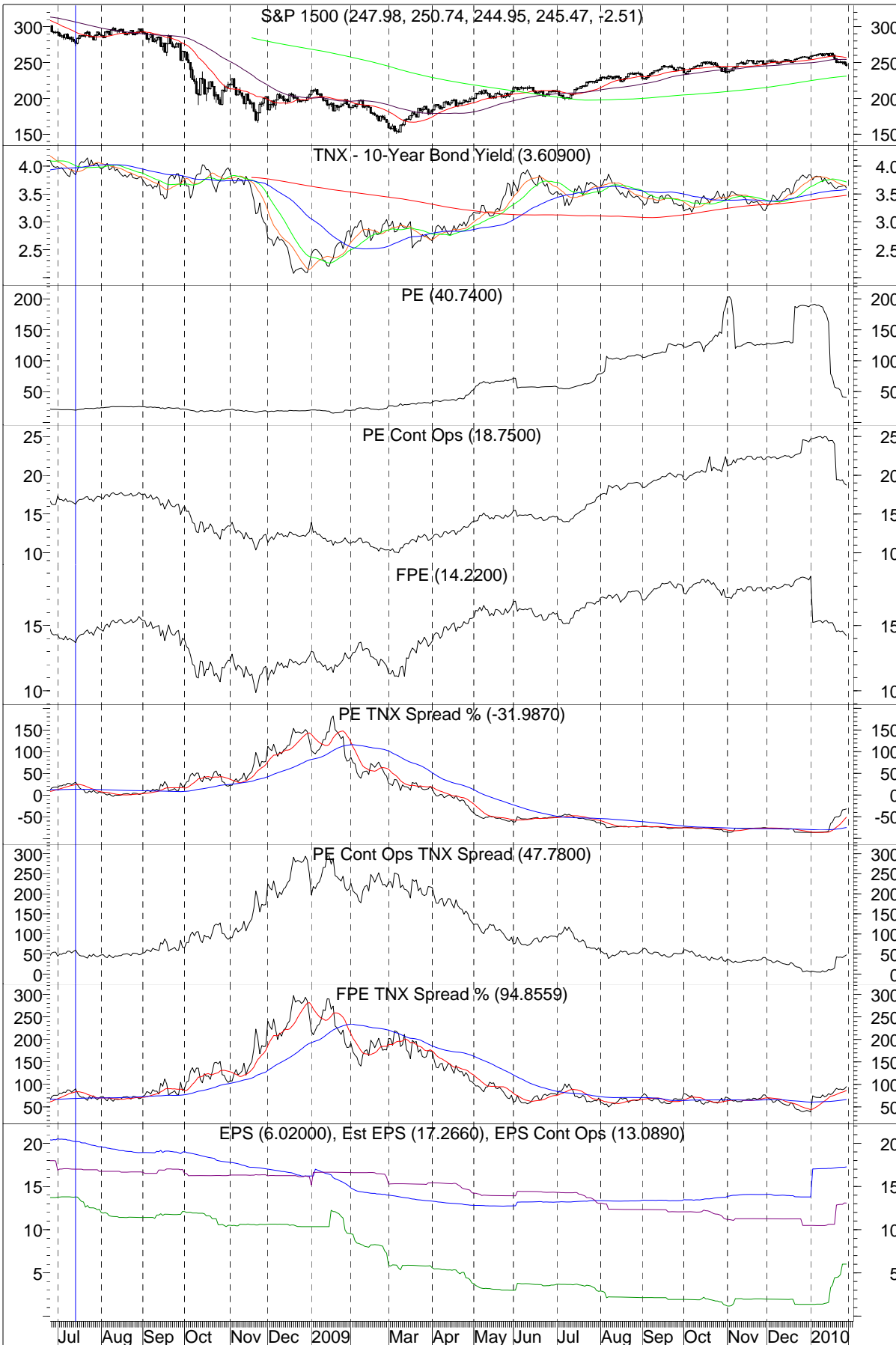


Our options indicator is at its lowest level since January 2009. This degree of pessimism is usually good for at least a short-term bottom.

The Kaufman Report - Wayne S. Kaufman, CMT



A look at our statistics of supply (red) versus demand (green) shows negative crossovers for all time frames. The selling statistics are similar to many of our other indicators in that they have not yet exceeded levels seen during other periods of weakness during the rally off the March lows.



P/E levels have dropped dramatically.

Spreads between equity and bond yields are widening again.

EPS numbers for all of our metrics have finally started to rise again.