John Thomas Financial
14 Wall Street, 23rd Floor
New York, New York 10005
wskaufman@johnthomasbd.com
www.kaufmanreport.com

The Kaufman Report

Trade what you see, not what you think.

Wayne S. Kaufman, CMT
Chief Market Analyst
(800) 257-1537 Toll Free
(212) 299-7838 Direct

Tuesday February 16, 2010 **Closing prices of February 12, 2010**

Last week stocks bounced from oversold levels. We think the firming of prices can continue in the short-term due to the recent change in market sentiment to pessimistic and the bullish engulfing candle printed on the weekly chart of the S&P 500. Still, the technical damage we discussed the last two weeks remains, and there are resistance levels which must be broken before we can change from neutral and resume our previously bullish stance.

Unfortunately we are entering a period where economic and political visibility is limited. Earnings season is 75% over, sovereign debt issues continue to dominate the headlines, and the political climate remains contentious at best. Therefore, while there are companies with good fundamentals and good charts, we continue to classify this as a trader's market until proven otherwise.

<u>**In summary, based on the S&P 500 the short-term and intermediate-term trends are down, while the long-term trend remains up. This is a short-term trader's market, with adept traders able to trade long or short depending on conditions. 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.**</u>

<u>**S&P 1500 Data:**</u> <u>P/E: 18.84 Percent over 10-sma: 63.2%. Percent over 50-sma: 36.20%</u>
<u>13-Week Closing Highs: 91. 13-Week Closing Lows: 45. 52-week closing highs: 56</u>
<u>Kaufman Options Indicator: 0.91 Put/Call Ratio: 0.955 New High Reversals: 2. New Low Reversals: 8</u>
<u>Volume: +3% versus yesterday. 93% of the 10-day average. 92% of the 30-day average.</u>
<u>Up Stocks: 63.14%. Up Volume: 40.98%. Up Points: 68.39%. Up Dollars: 53.78%, 42% of 10-sma. Dn Dollars 39% of 10-sma.</u>

<u>Earnings</u>: 380 of the S&P 500 have reported so far this earnings season. 72.4% have had positive surprises, 10.0% have been in line, and 17.6% have had negative surprises.

<u>Federal Funds Futures</u> project a 60.7% probability of no change to the current 0.25 % target rate and a 39.3% probability of a cut to 0.00% when the FOMC meets on 3/16. For the meeting of 4/28 the probabilities are 58.3% for no change, 34.8% for 0.00%, and 6.9% for 0.50%.

The 30-minute chart of the S&P 500 shows it has broken the down trend line from January 19th. There is resistance at the 1080 area and then a resistance zone from 1093 to 1105.

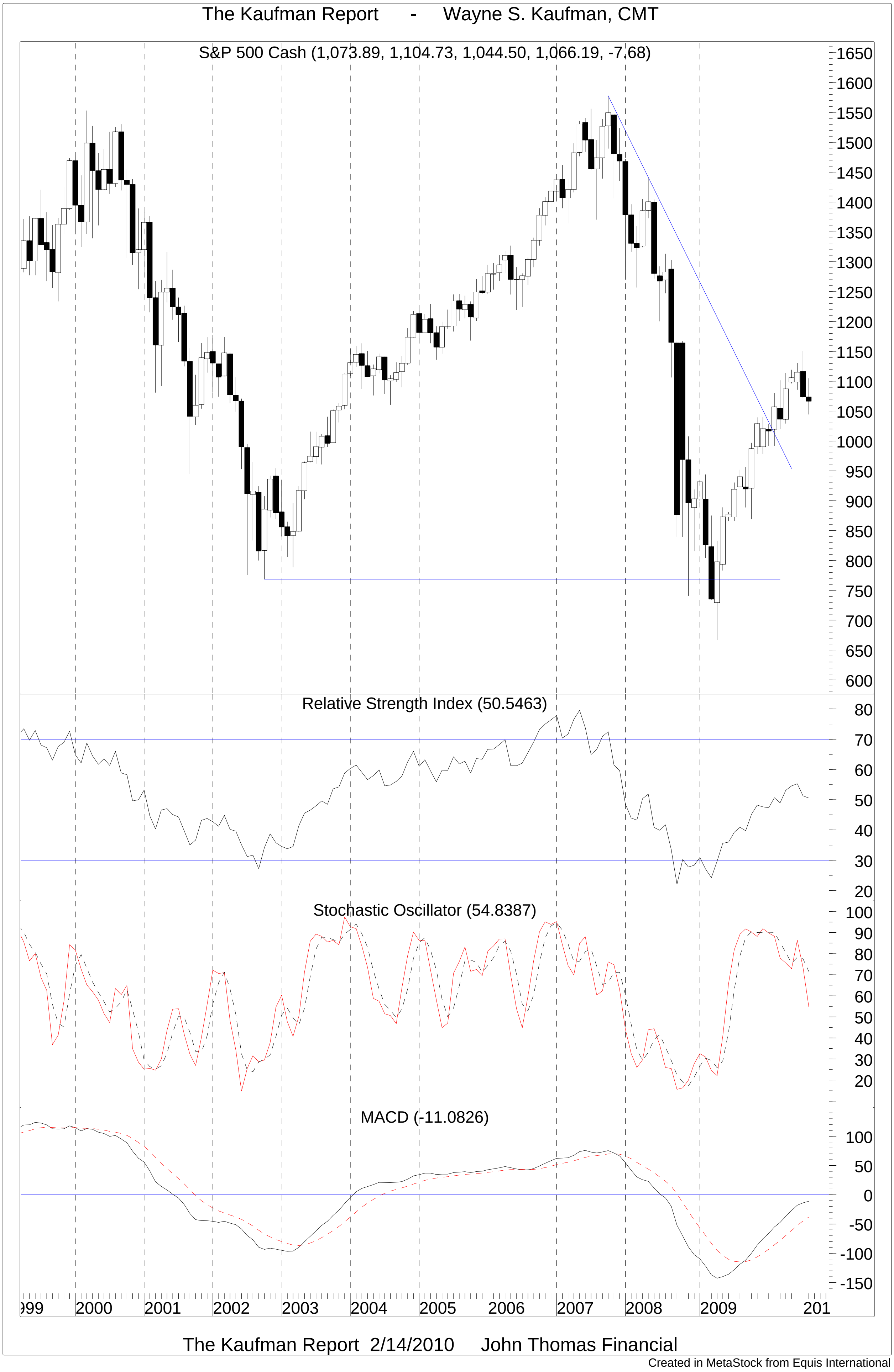
Intra-day momentum indicators are neutral.

The daily chart of the S&P 500 shows the hammer candle printed on 2/5 has become at least a short-term bottom. Hammers are bottoming candles. There is plenty of resistance up to 1105.

Daily momentum indicators don't tell us too much, but the MACD is at a low level.

The 20, 40, and 80-week moving averages recently lined up bullishly for the first time since March 2008. Unfortunately the index is now below the 20-week for the third week in a row after being above it since March 2009. The good news is there is a bullish engulfing candle on the weekly chart.

The stochastic on the weekly chart is oversold.



In January the monthly chart printed a bearish engulfing candle.

The monthly stochastic is showing a negative crossover.

The Kaufman Report - Wayne S. Kaufman, CMT

The Kaufman Report 2/14/2010 John Thomas Financial

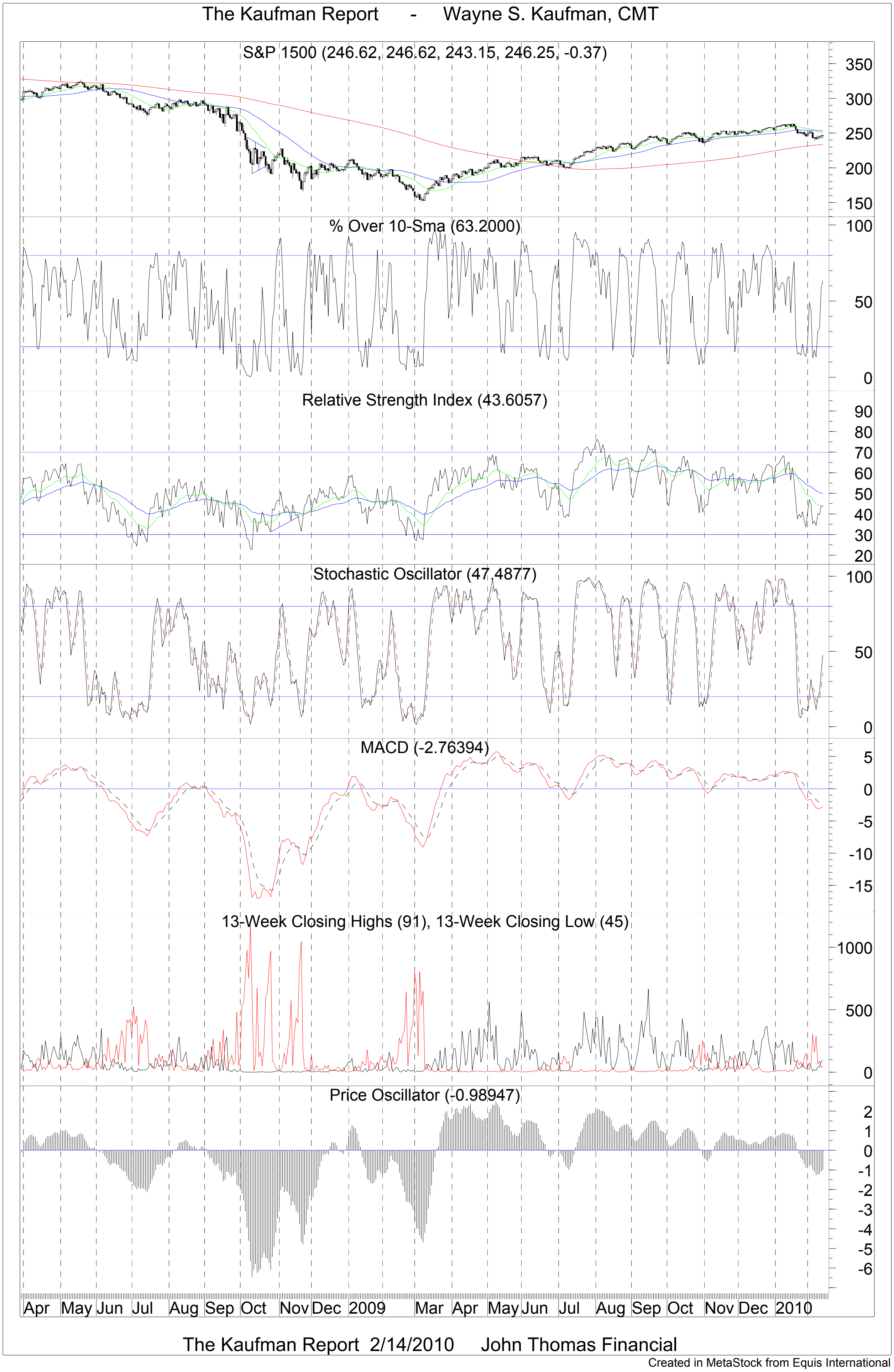
Created in MetaStock from Equis International

The weekly chart of the Nasdaq 100 printed a doji candle in the week ending 2/5. Doji are candles of indecision frequently seen at at bottoms. Last week the NDX rallied.

Weekly momentum indicators still don't look great.

After printing a hammer candle on 2/5 (hammers are bottoming candles) the Nasdaq 100 has rallied. It is now just under its 20-sma (green).

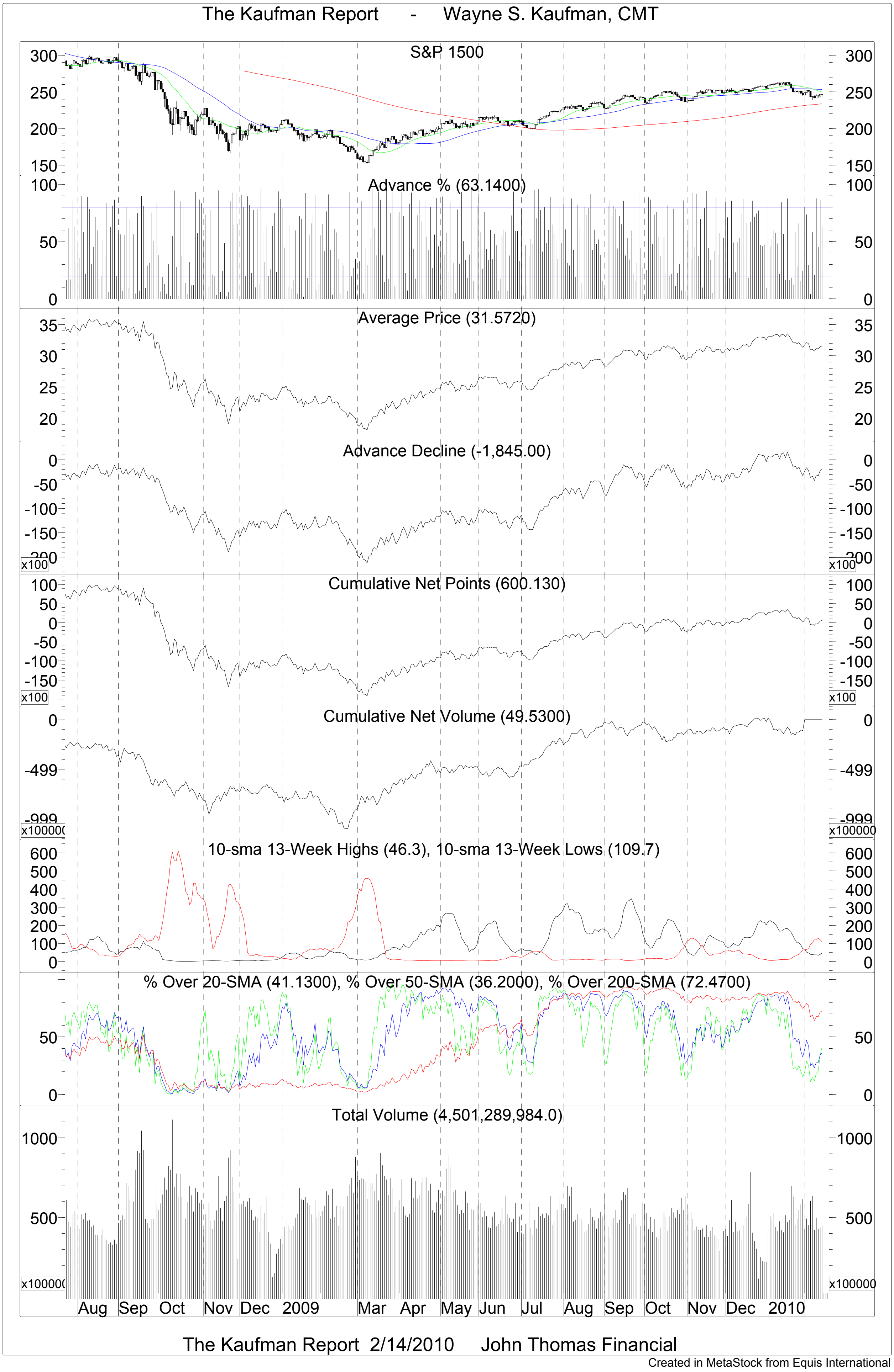
Daily momentum indicators are turning up from low levels.



After hitting 8.7% intra-day on 2/5 the percent over 10-sma is now at 63.2%.

The RSI and stochastic have turned up from low levels, while the MACD seems about to make a positive crossover.

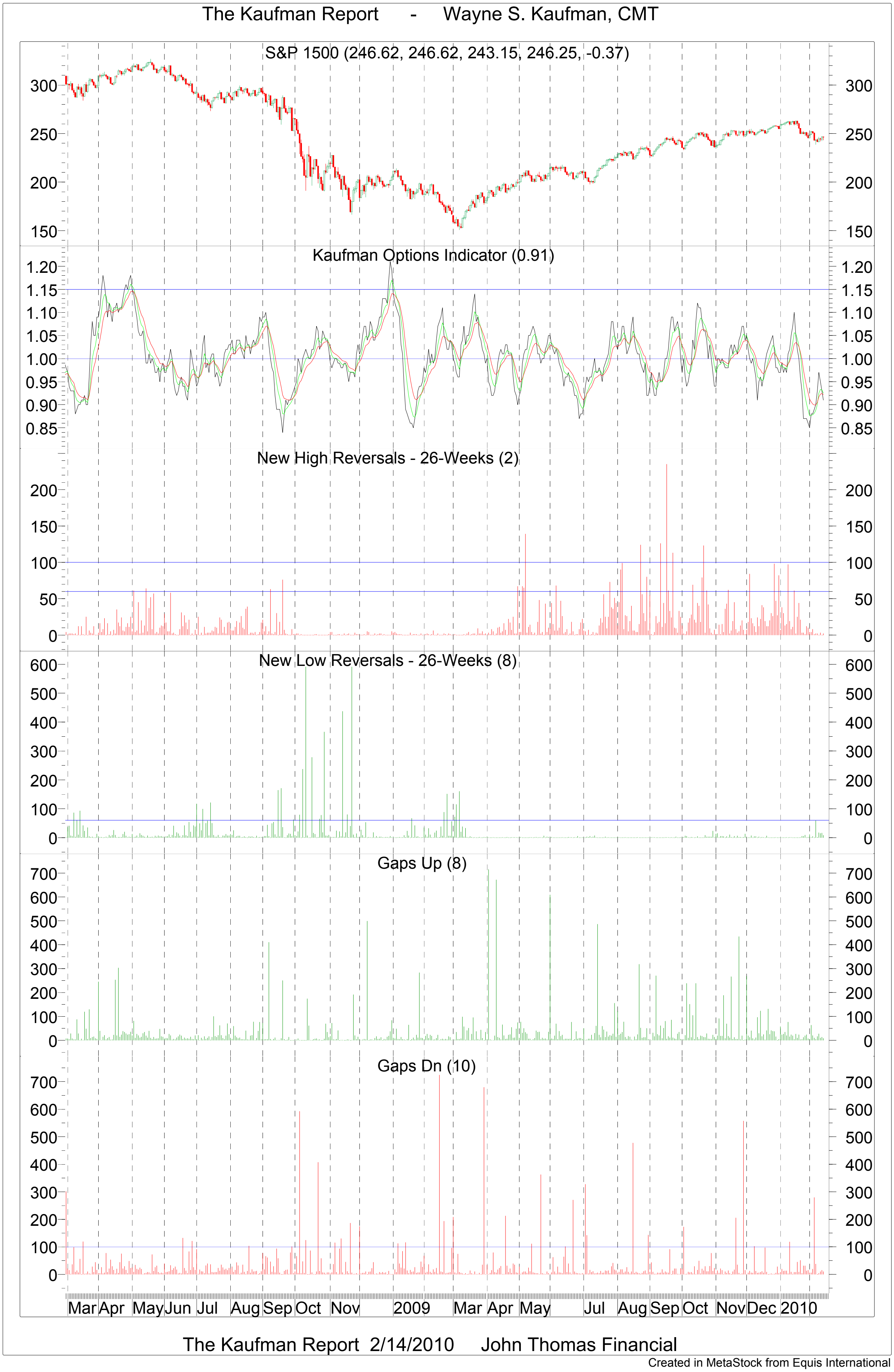
Our price oscillator, a good indicator of trends, remains in negative territory after becoming the most negative since March 9, 2009.



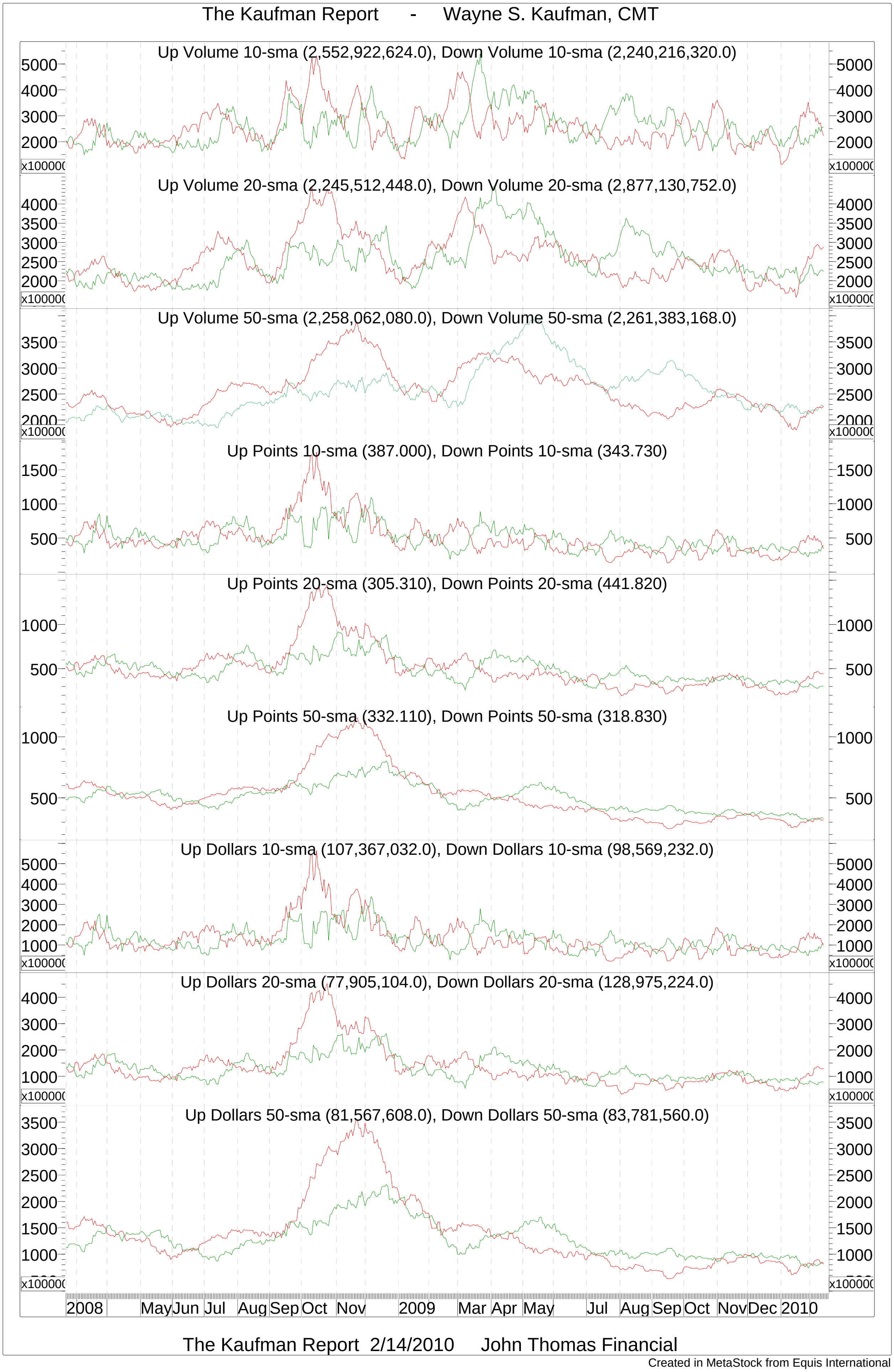
63.14% of stocks advanced Friday.

The 10-sma of 13-week closing lows remains above its counterpart of highs.

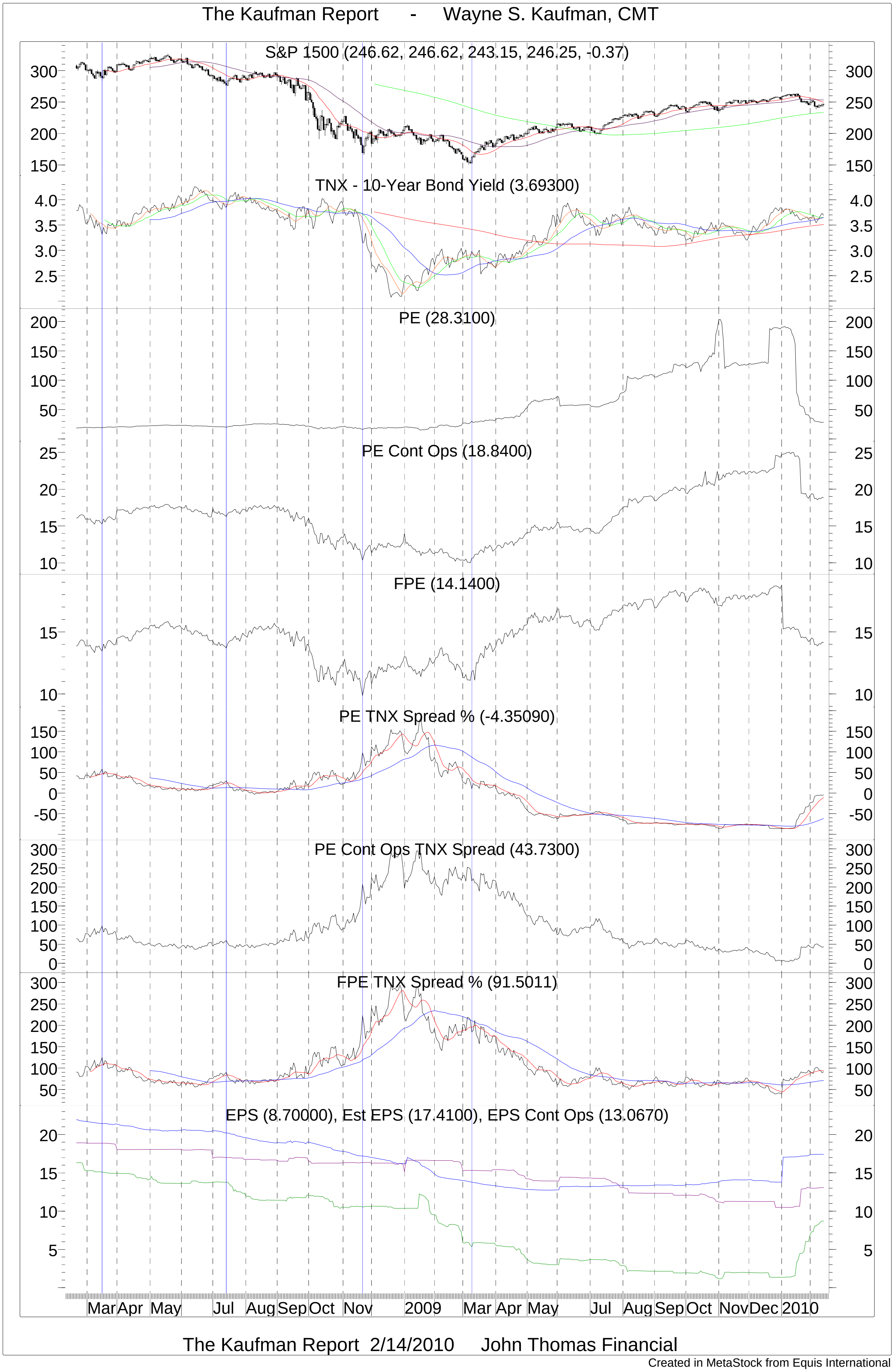
Lots of work needs to be done here to get back to bull market levels.



Our proprietary options indicator remains at low levels showing pessimism. This makes it difficult for stocks to drop sharply in the short-term.

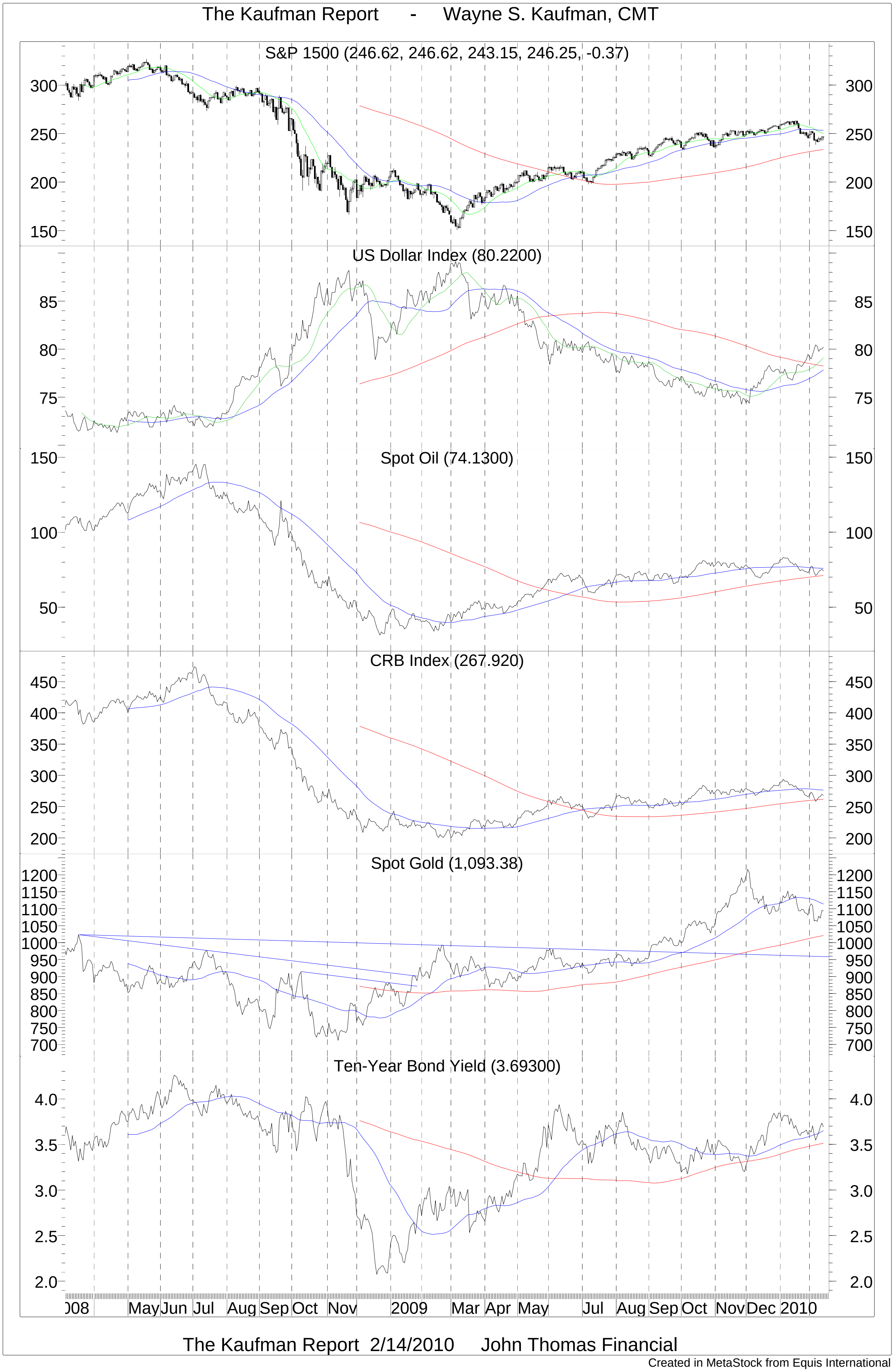


Our statistics of supply (red) versus demand (green) show some improvements in the 10-sma numbers, although it appears more of the improvement is from sellers backing away than from any big increase in buying enthusiasm.



P/E ratios have dropped dramatically recently.

Earnings have been improving. Forecast earnings numbers actually bottomed in May.



The U.S. Dollar Index remains strong and is above all important moving averages. The 50-sma (78.01) is about to cross over the 200-sma (78.07) for the first time since May 2009. It is now in the 80 - 82 resistance zone we targeted after the 78 zone. There is some resistance at the 83 area, then at 86 - 87.

Crude oil remains under its 50-sma. Further U.S. Dollar strength will not help oil bulls.

Gold is also below its 50-sma and above its 200-sma. As with oil, dollar strength will be a headwind for gold.