

Monday February 7, 2011

Closing prices of February 4, 2011

Stocks enjoyed a strong week last week as they shook off the situation in Egypt along with various negative technical issues. The S&P 500 was up 2.7% for the week, with the Nasdaq Composite leading major indexes with a 3.07% gain. **For the S&P 500 it was the highest weekly close since June 2008, while the Nasdaq 100 had its highest weekly close since February 2001.**

Last week we said that fear had returned based on our proprietary options indicator, which was showing a level of pessimism not seen since 8/31. We said good rallies can start when investors become fearful. During the week it got as low as 0.88 on Tuesday, showing options buyers positioning for a pullback. Since then it has bounced to 0.95, and if continued call buying pushes the indicator over 1.00, which shows bullishness, we will get concerned.

The negative technical issues mentioned in the first paragraph still exist. There are numerous negative divergences such as the percentage of stocks over various moving averages, and the decreasing number of stocks making new highs as indexes make new highs. For example, the S&P 1500 made a new high Friday, but only 219 stocks in the index made new 13-week closing highs. This compares to 316 on 2/1, and 361 on 1/18. **In other words, the rally is becoming more selective and fewer stocks are leading the charge. Therefore, a pullback can occur at any time. It would be no surprise for it to happen in February, which has a track record as a weak month.**

Earnings season is now well underway with 311 of the S&P 500 having reported so far. Of those, 71.1% have exceeded expectations, 7.1% have been in line, and 21.8% have disappointed. Last quarter 19% of the S&P 500 had worse than expected earnings, the highest percentage since 19.1% in Q2 2009. 70.7% beat estimates last quarter, a respectable number, but still the lowest since Q1 2009. Therefore, in spite of our opinion that this bull market still has a ways to go, we are watchful for deteriorating trends that could change the current positive outlook.

We have been saying for quite a while that we were hoping for a replay of January 2010, when aggregate reported and projected earnings jumped up dramatically. So far projections are following that script, and if the balance of earnings season follows the current trend higher equity valuations will remain attractive.

The recent move higher of interest rates has the potential to change this picture, as could the possible rise in other cost inputs. This earnings season will give us an idea if company profit margins are starting to be pressured and forecasts in jeopardy. If not, it will be difficult to argue that equities are overvalued. Currently S&P 500 projected earnings for 2011 are about \$96. **A conservative 14 P/E using \$96 puts the S&P 500 at 1344. The current S&P 500 P/E is 16.06. A 15 P/E on \$96 would put the index at 1440.** Should first quarter earnings season follow the recent trend and beat estimates handily, those numbers will move higher. Based on current trends this possibility seems reasonable. Estimates for 2012 are now north of \$109, projecting earnings growth of 13.5%. A 15 P/E on \$109 equates to 1635 on the S&P 500, almost 25% higher than current levels.

We have left the best three-month period for stocks as January ends, but we are still in the best 6-month period. Unfortunately, February is the weakest of the six. **As far as the presidential cycle, we have left year two and entered 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 remain up. Pullbacks that are without intensity should be viewed as entry points for investors. Investors need to be alert for sector rotation as earnings reports come in.

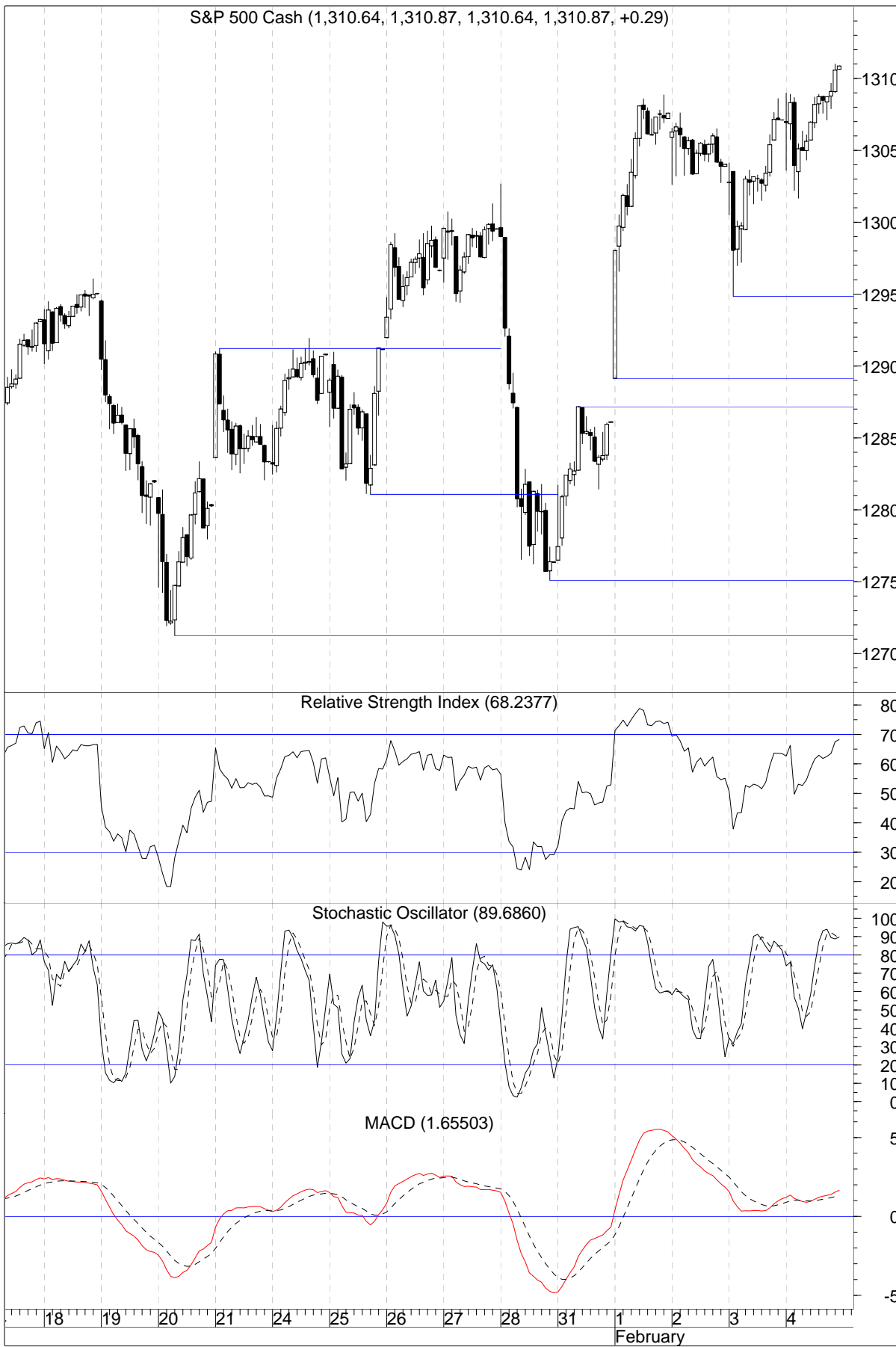
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S&P 500 Cash (1,310.64, 1,310.87, 1,310.64, 1,310.87, +0.29)

The S&P 500 recorded another new high Friday.



Only the stochastic is overbought among the 30-minute momentum indicators.



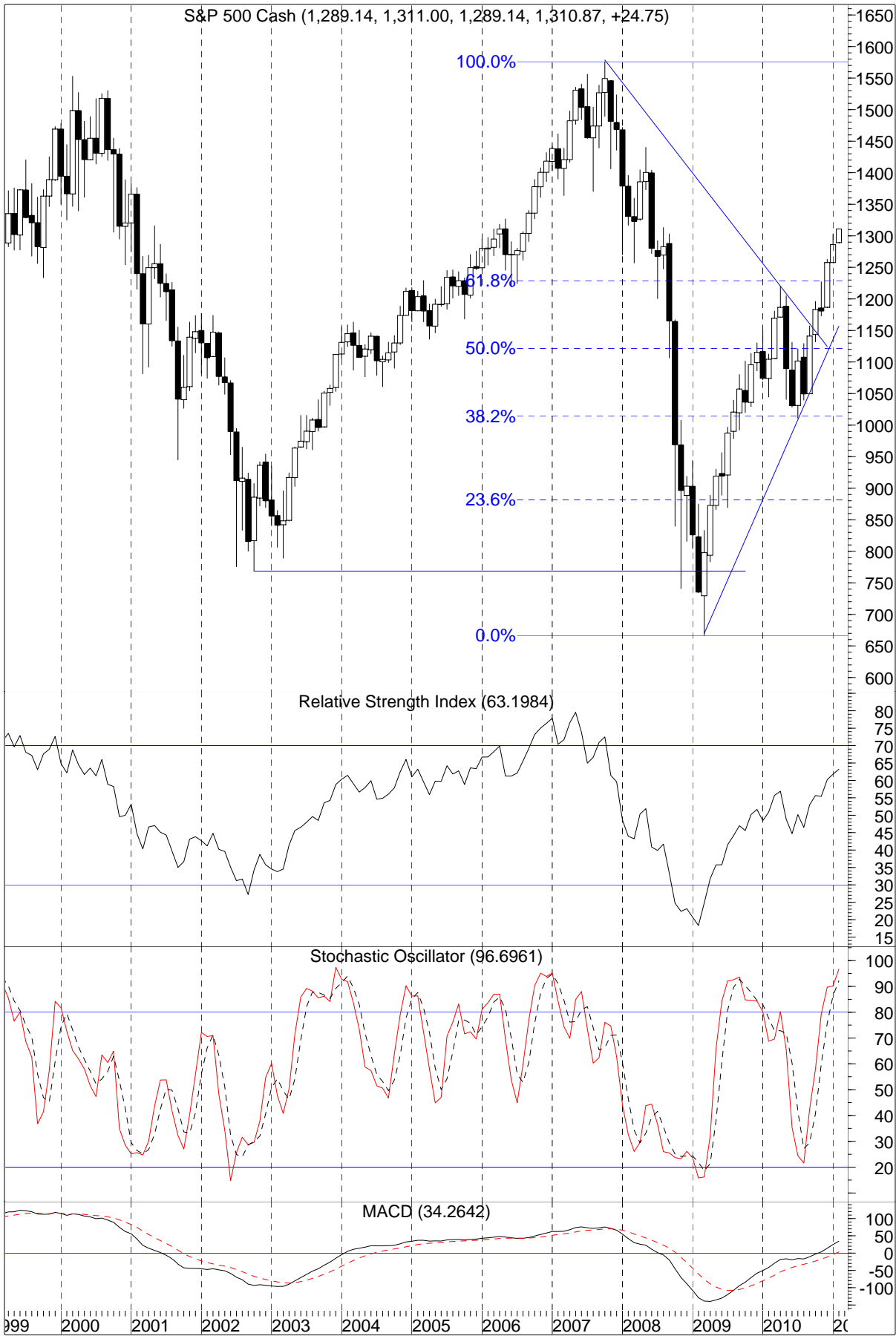
The S&P 500 closed below its 20-sma for one session and then bounced back. It hasn't visited its 50-sma since November.

The daily RSI is showing a negative divergence while the stochastic is overbought.



The weekly chart of the S&P 500 shows it is at resistance from August 2008 and made the highest weekly close since June 2008.

The weekly RSI is in the overbought zone, the stochastic is dropping from the overbought zone, and the MACD is at a high level but has not yet turned down.



The monthly chart of the S&P 500 shows it surpassed the Fibonacci 61.8% retracement level of the recent bear market. The next important level is 1361.50, which is the 76.4% retracement.

Monthly momentum indicators are still pointing up, with only the stochastic at overbought levels.

NASDAQ 100 (2,324.18, 2,338.66, 2,318.27, 2,338.20, +15.13)



The Nasdaq 100 made a fresh 52-week high Friday. It closed below its 20-sma for one session before bouncing back.

Momentum indicators are showing a negative divergence but the MACD seems about to make a positive crossover.



NASDAQ 100 (2,274.22, 2,338.66, 2,258.05, 2,338.20, +67.69)

The Nasdaq 100 made a fresh weekly closing high, its highest since 2/2/2001.

Relative Strength Index (71.4199)

Weekly momentum indicators remain at high levels.

Stochastic Oscillator (83.4481)

MACD (92.9472)

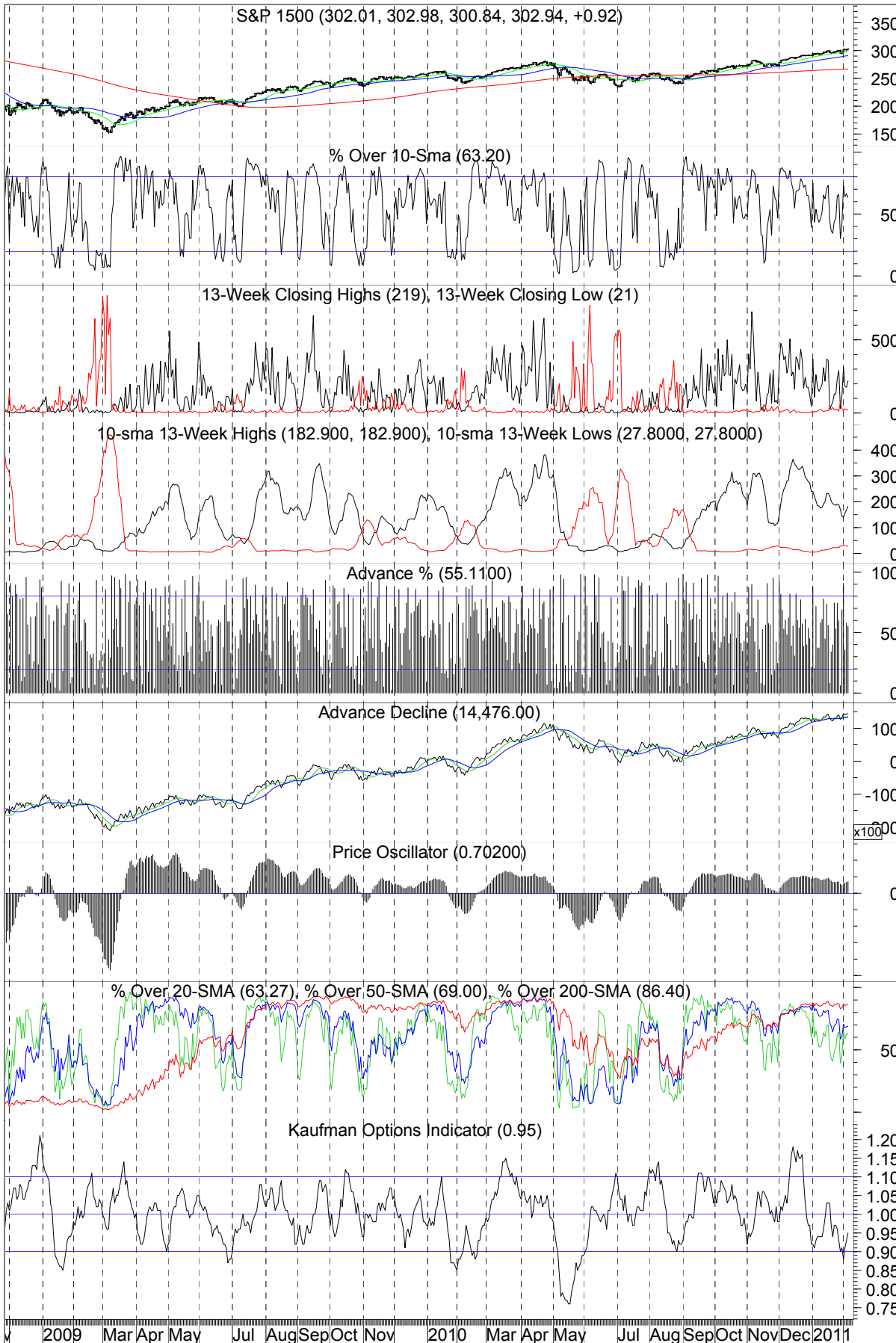
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NASDAQ 100 (2,298.37, 2,338.66, 2,296.74, 2,338.20, +56.29)



The monthly chart of the Nasdaq 100 shows it is around the 38.2% Fibonacci retracement level of the bear market of 2000 - 2002.

Monthly momentum indicators are at high levels but have not yet turned down.



In spite of multiple new highs in the S&P 1500 the percent over 10-sma has not been over 80% since 12/10, a negative divergence.

Another negative divergence is the shrinking number of new highs, 219 Friday versus 316 on 2/1 and 361 on 1/18.

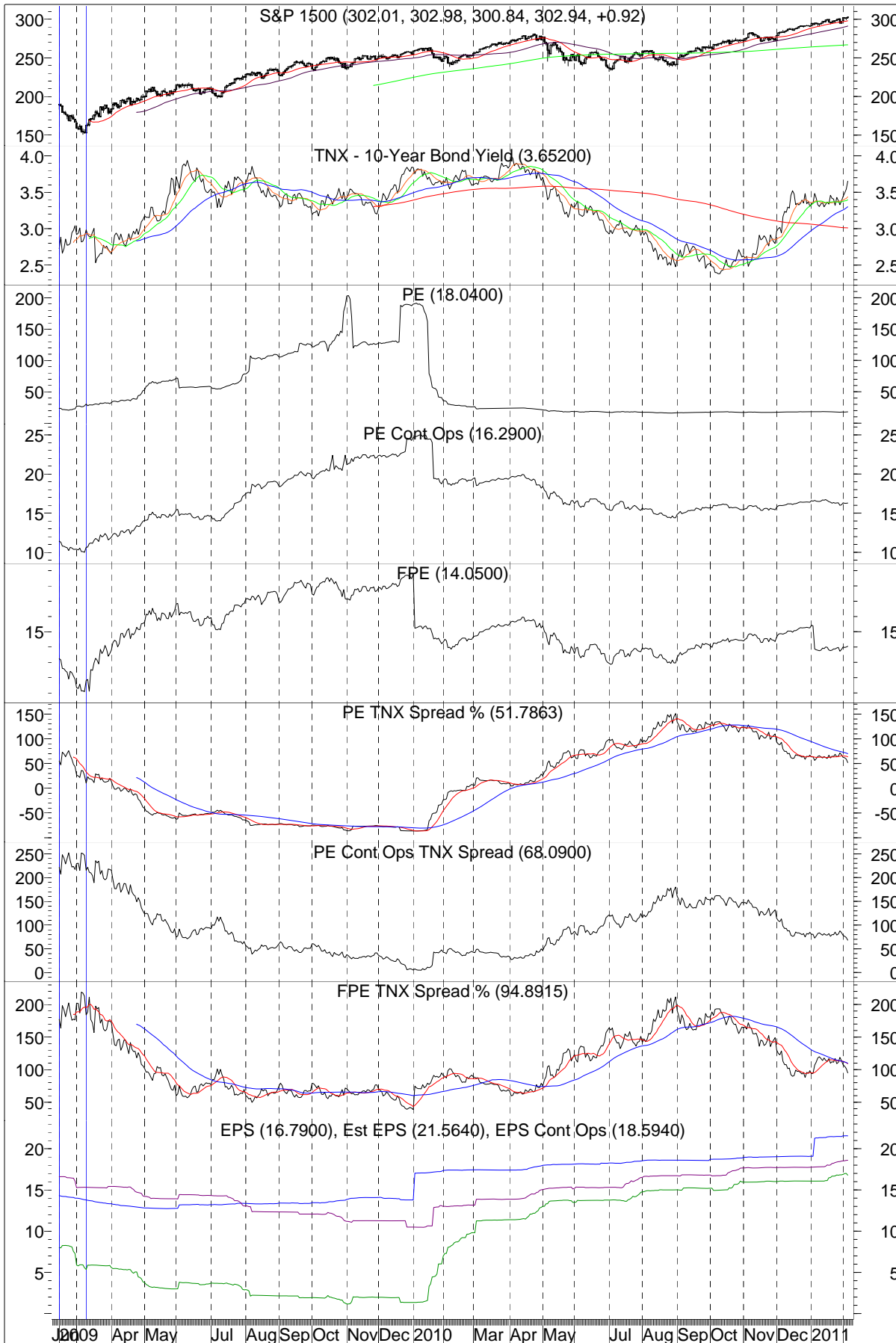
Breadth has been weak until Tuesday's 90.69% day.

The Advance Decline line made a new high Tuesday, pointing to higher prices in the future. This doesn't mean there won't be pullbacks.

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

Negative divergences here too.

Our proprietary options indicator hit 0.88 on Tuesday, showing pessimism. It bounced to 0.95 but shouldn't be a problem until moving well over 1.00 and showing bullishness.



We have been commenting on the tight range of the 10-year bond yield and saying a breakout would target 4%. That breakout occurred last week. Stocks can rise in tandem with rates, but a sharp spike may be unnerving to investors.

P/E ratios have been steady.

Spreads between bond and stock yields are narrowing, but are still at levels where equities should be attractive.

311 of the S&P 500 have reported earnings so far. 71.1% have exceeded estimates, 7.1% have been in line, and 21.8% have disappointed.

Indexes, Sectors, and Industry Groups

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Nasdaq Composite	2769.30	0.56%	3.07%	3.07%	2.56%	4.39%	4.39%	2769.70	2/4/2011	2061.14	7/1/2010
Nasdaq 100	2338.20	0.65%	2.98%	2.98%	2.47%	5.43%	5.43%	2338.66	2/4/2011	1700.04	7/1/2010
S&P Midcap 400	944.95	0.56%	2.97%	2.97%	2.18%	4.16%	4.16%	945.78	2/4/2011	681.91	2/5/2010
Bank of New York Mellon ADR	145.46	-0.40%	2.83%	2.83%	1.73%	3.80%	3.80%	146.74	2/2/2011	109.79	5/25/2010
NYSE Composite	8288.50	-0.01%	2.80%	2.80%	1.83%	4.07%	4.07%	8300.76	2/2/2011	6355.83	7/1/2010
S&P 1500	302.94	0.31%	2.72%	2.72%	1.95%	4.14%	4.14%	302.97	2/4/2011	232.54	7/1/2010
S&P 500	1310.87	0.29%	2.71%	2.71%	1.92%	4.23%	4.23%	1311.00	2/4/2011	1010.91	7/1/2010
S&P Smallcap 600	424.22	0.16%	2.62%	2.62%	1.95%	2.04%	2.04%	426.29	1/14/2011	309.16	2/5/2010
Dow Jones Industrials	12092.15	0.25%	2.27%	2.27%	1.68%	4.45%	4.45%	12092.42	2/4/2011	9614.32	7/2/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Materials	246.29	0.03%	4.58%	4.58%	2.94%	2.79%	2.79%	247.10	2/4/2011	168.44	7/1/2010
Energy	552.51	-0.31%	4.19%	4.19%	1.59%	9.03%	9.03%	557.15	2/2/2011	365.74	7/1/2010
Information Technology	433.57	0.75%	3.52%	3.52%	2.85%	7.17%	7.17%	433.57	2/4/2011	323.47	7/1/2010
Consumer Discretionary	301.75	0.66%	2.94%	2.94%	2.84%	2.10%	2.10%	303.26	1/27/2011	222.51	2/5/2010
Industrials	318.71	0.29%	2.48%	2.48%	1.54%	5.84%	5.84%	319.32	2/2/2011	232.54	7/6/2010
Financials	223.52	-0.04%	2.27%	2.27%	1.28%	4.07%	4.07%	230.45	4/15/2010	178.83	8/25/2010
Health Care	373.66	0.49%	2.18%	2.18%	2.04%	2.43%	2.43%	379.04	3/22/2010	318.89	7/1/2010
Telecom Services	125.93	0.02%	1.87%	1.87%	1.73%	-2.18%	-2.18%	132.76	1/5/2011	98.67	5/6/2010
Consumer Staples	301.99	0.53%	0.99%	0.99%	1.25%	-0.52%	-0.52%	306.25	1/26/2011	260.65	7/1/2010
Utilities	161.40	-0.57%	0.32%	0.32%	0.23%	1.29%	1.29%	164.42	10/20/2010	138.57	5/25/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Media	213.85	0.23%	5.40%	5.40%	5.31%	7.85%	7.85%	213.86	2/4/2011	150.49	2/5/2010
Materials	246.29	0.03%	4.58%	4.58%	2.94%	2.79%	2.79%	247.10	2/4/2011	168.44	7/1/2010
Technology Hardware & Equipment	472.98	1.08%	4.48%	4.48%	3.62%	8.80%	8.80%	472.98	2/4/2011	350.49	8/27/2010
Energy	552.51	-0.31%	4.19%	4.19%	1.59%	9.03%	9.03%	557.15	2/2/2011	365.74	7/1/2010
Semiconductors & Equipment	372.44	1.35%	3.64%	3.64%	3.25%	10.30%	10.30%	372.50	2/4/2011	262.69	8/31/2010
Banks	154.94	0.22%	3.51%	3.51%	2.12%	4.13%	4.13%	165.92	4/21/2010	115.69	8/31/2010
Consumer Durables & Apparel	170.36	1.29%	3.11%	3.11%	2.46%	1.07%	1.07%	174.61	12/22/2010	124.75	2/5/2010
Consumer Services	466.55	0.31%	2.88%	2.88%	2.25%	-0.25%	-0.25%	479.39	12/7/2010	363.27	2/5/2010
Health Care Equip & Services	386.29	0.84%	2.80%	2.80%	2.64%	7.57%	7.57%	387.40	2/4/2011	296.30	8/31/2010
Software & Services	552.53	0.30%	2.69%	2.69%	2.09%	4.97%	4.97%	554.57	1/27/2011	410.27	7/1/2010
Capital Goods	347.75	0.25%	2.67%	2.67%	1.71%	7.46%	7.46%	348.06	2/2/2011	250.06	7/6/2010
Insurance	194.96	0.80%	2.48%	2.48%	2.11%	3.58%	3.58%	195.17	2/1/2011	156.79	5/25/2010
Transportation	331.48	0.32%	1.98%	1.98%	0.96%	0.26%	0.26%	342.02	1/18/2011	239.94	2/5/2010
Real Estate	127.39	-0.75%	1.87%	1.87%	0.22%	5.65%	5.65%	128.47	2/3/2011	84.72	2/10/2010
Telecom Services	125.93	0.02%	1.87%	1.87%	1.73%	-2.18%	-2.18%	132.76	1/5/2011	98.67	5/6/2010
Pharmaceuticals, Biotech & Life Sci	337.32	0.31%	1.85%	1.85%	1.73%	-0.09%	-0.09%	352.33	3/23/2010	299.26	7/1/2010
Diversified Financials	348.77	-0.43%	1.74%	1.74%	0.73%	3.99%	3.99%	382.07	4/15/2010	278.07	8/31/2010
Food, Beverage & Tobacco	347.24	0.47%	1.72%	1.72%	1.45%	-1.47%	-1.47%	356.38	12/20/2010	293.85	2/5/2010
Retailing	507.22	1.05%	1.71%	1.71%	1.85%	-0.23%	-0.23%	516.57	1/3/2011	379.61	7/1/2010
Commercial & Professional Service	148.60	0.80%	1.38%	1.38%	0.97%	2.11%	2.11%	150.14	1/26/2011	122.63	6/8/2010
Utilities	161.40	-0.57%	0.32%	0.32%	0.23%	1.29%	1.29%	164.42	10/20/2010	138.57	5/25/2010
Household & Personal Products	376.28	1.02%	0.12%	0.12%	1.26%	-0.51%	-0.51%	390.72	1/25/2011	339.42	5/6/2010
Food & Staples Retailing	199.28	0.17%	0.12%	0.12%	0.76%	1.83%	1.83%	203.40	1/26/2011	162.45	7/1/2010
Automobiles & Components	115.45	0.62%	-1.06%	-1.06%	-0.45%	-2.28%	-2.28%	130.31	1/13/2011	74.25	6/29/2010

INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Turkey TUR	62.26	2.94%	6.81%	3.78%	-5.97%	-5.97%	79.00	11/9/2010	44.40	5/6/2010
Australia EWA	25.86	0.90%	4.99%	3.98%	1.65%	1.65%	26.36	2/1/2011	18.26	5/25/2010
United Kingdom EWU	18.09	-0.11%	4.37%	3.02%	4.15%	4.15%	18.14	2/2/2011	13.25	5/25/2010
Indonesia IDX	27.16	2.11%	4.28%	4.50%	-6.68%	-6.68%	31.05	11/9/2010	19.73	5/25/2010
Russia RSX	40.12	0.12%	3.94%	2.63%	5.83%	5.83%	40.85	1/18/2011	26.06	5/25/2010
Japan EWJ	11.35	0.00%	3.79%	3.84%	4.03%	4.03%	11.37	2/3/2011	9.15	6/7/2010
Canada EWC	32.21	0.00%	3.73%	2.94%	3.90%	3.90%	32.50	2/4/2011	22.75	5/6/2010
Italy EWI	18.45	-0.05%	3.52%	1.77%	12.64%	12.64%	19.04	4/14/2010	13.21	6/7/2010
Thailand THD	60.37	1.12%	3.46%	3.02%	-6.56%	-6.56%	68.70	11/9/2010	37.65	2/5/2010
South Africa EZA	67.07	0.42%	3.38%	2.26%	-10.19%	-10.19%	75.27	1/3/2011	23.00	5/6/2010
Netherlands EWN	22.06	-0.14%	3.13%	1.61%	4.60%	4.60%	22.31	2/1/2011	16.64	5/25/2010
Mexico EWW	62.04	-1.01%	3.08%	2.11%	0.19%	0.19%	63.46	1/18/2011	44.70	2/5/2010
South Korea EWY	63.14	0.14%	2.82%	2.83%	3.19%	3.19%	63.73	2/2/2011	40.65	5/25/2010
Taiwan EWT	16.01	0.45%	2.64%	2.84%	2.51%	2.51%	16.03	2/2/2011	10.81	6/8/2010
Emerging Markets EEM	46.50	-0.03%	2.51%	1.50%	-2.40%	-2.40%	48.59	11/9/2010	35.19	5/25/2010
Malaysia EWM	14.54	0.80%	2.49%	2.34%	1.13%	1.13%	14.98	1/13/2011	10.18	2/5/2010
Spain EWP	41.79	-0.92%	2.37%	-0.19%	13.75%	13.75%	45.29	4/14/2010	29.85	6/8/2010
Hong Kong EWH	19.60	0.56%	2.24%	2.14%	3.59%	3.59%	20.24	11/8/2010	14.08	5/21/2010
Belgium EWK	13.57	-0.37%	2.21%	1.19%	3.35%	3.35%	14.52	11/4/2010	8.93	5/6/2010
France EWQ	26.13	-0.23%	2.03%	0.50%	6.87%	6.87%	26.74	2/1/2011	19.24	5/25/2010
Austria EWO	22.66	-0.26%	1.99%	0.49%	1.48%	1.48%	23.18	2/1/2011	14.91	6/8/2010
China 25 FXI	42.87	0.45%	1.96%	0.75%	-0.51%	-0.51%	47.99	11/8/2010	36.24	5/6/2010
BRIC EEB	45.09	-0.81%	1.66%	0.45%	-2.28%	-2.28%	48.27	11/9/2010	23.23	5/6/2010
Germany EWG	25.39	-0.20%	1.54%	0.87%	6.06%	6.06%	25.76	2/1/2011	17.97	5/25/2010
Latin America ILF	51.43	-1.34%	1.50%	0.12%	-4.51%	-4.51%	54.83	11/5/2010	39.18	5/25/2010
India IFN	29.81	-1.71%	1.38%	-0.13%	-15.10%	-15.10%	36.88	11/8/2010	23.97	5/25/2010
Singapore EWS	13.88	0.65%	1.08%	1.02%	0.22%	0.22%	14.56	11/9/2010	10.37	2/5/2010
Sweden EWD	31.92	0.06%	0.56%	-0.96%	2.21%	2.21%	32.94	1/27/2011	19.00	5/6/2010
Switzerland EWL	24.92	-0.52%	0.56%	0.65%	-0.64%	-0.64%	25.30	2/1/2011	18.70	5/25/2010
Chile ECH	71.08	0.35%	-0.27%	-0.39%	-10.70%	-10.70%	80.35	12/20/2010	27.26	5/6/2010
Brazil EWZ	72.05	-1.71%	-0.69%	-1.57%	-6.91%	-6.91%	81.55	11/4/2010	57.03	5/25/2010
Vietnam VNM	28.19	-0.81%	-0.95%	-2.79%	7.68%	7.68%	30.34	12/13/2010	21.81	8/25/2010
Israel EIS	56.83	0.04%	-2.06%	-0.14%	-6.10%	-6.10%	61.79	1/19/2011	45.00	5/6/2010