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# The Kaufman Report

**Trade what you see, not what you think.**

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**Monday February 8, 2010** **Closing prices of February 5, 2010**

Last week we discussed technical damage that had taken place as equities plunged, and we said it would probably take some time to repair. We also said we were watching for further deterioration, and resurrected our warning from fall of 2008 that a market that does not respond to oversold conditions is dangerous. Stocks bounced early in the week only to resume the move lower Wednesday and Thursday, culminating in a bungee-jump day Friday as stocks melted down early but rebounded to close higher on the day.

We also said last week that many indicators had hit levels where they had bottomed during the rally off the March lows, and exceeding those levels would be a red flag. Unfortunately, that did happen and investors need to become more defensive. The bottom line is that statistics of supply are increasing, while statistics of demand for equities remains muted. When supply exceeds demand, that is a prescription for lower prices, and to become bullish we need to see a catalyst that will bring buyers back from the sidelines.

Why have they become reticent? A lack of visibility. The sovereign debt issue will take some time to resolve. 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. Add to this an administration that is anti-business and has an economics team with a dismal record of projecting unemployment numbers.

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 patient'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?

Even the staunch Obama supporters at the New York Times questioned this in an editorial on February 7th when they stated "On the need for more taxes, Mr. Obama has been less than candid, pledging never to raise taxes on anyone making less than $250,000." If the ultra-liberal New York Times makes comments like that, how are the entrepreneurs who are the real job creators going to have any confidence in putting their capital, time and energy at risk?

**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 alert 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.**

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**S&P 1500 Data:** P/E: 18.74 Percent over 10-sma: 17.73%. Percent over 50-sma: 26.80%
13-Week Closing Highs: 19. 13-Week Closing Lows: 159. 52-week closing highs: 11
Kaufman Options Indicator: 0.90 Put/Call Ratio: 1.21 New High Reversals: 2. New Low Reversals: 59
Volume: +5% versus yesterday. 120% of the 10-day average. 141% of the 30-day average.
Up Stocks: 58.19%. Up Volume: 63.17%. Up Points: 60.52%. Up Dollars: 70.45%, 106% of 10-sma. Dn Dollars 26% of 10-sma.

Earnings: 315 of the S&P 500 have reported so far this earnings season. 73.7% have had positive surprises, 10.2% have been in line, and 16.2% have had negative surprises.

## IMPORTANT DISCLOSURES

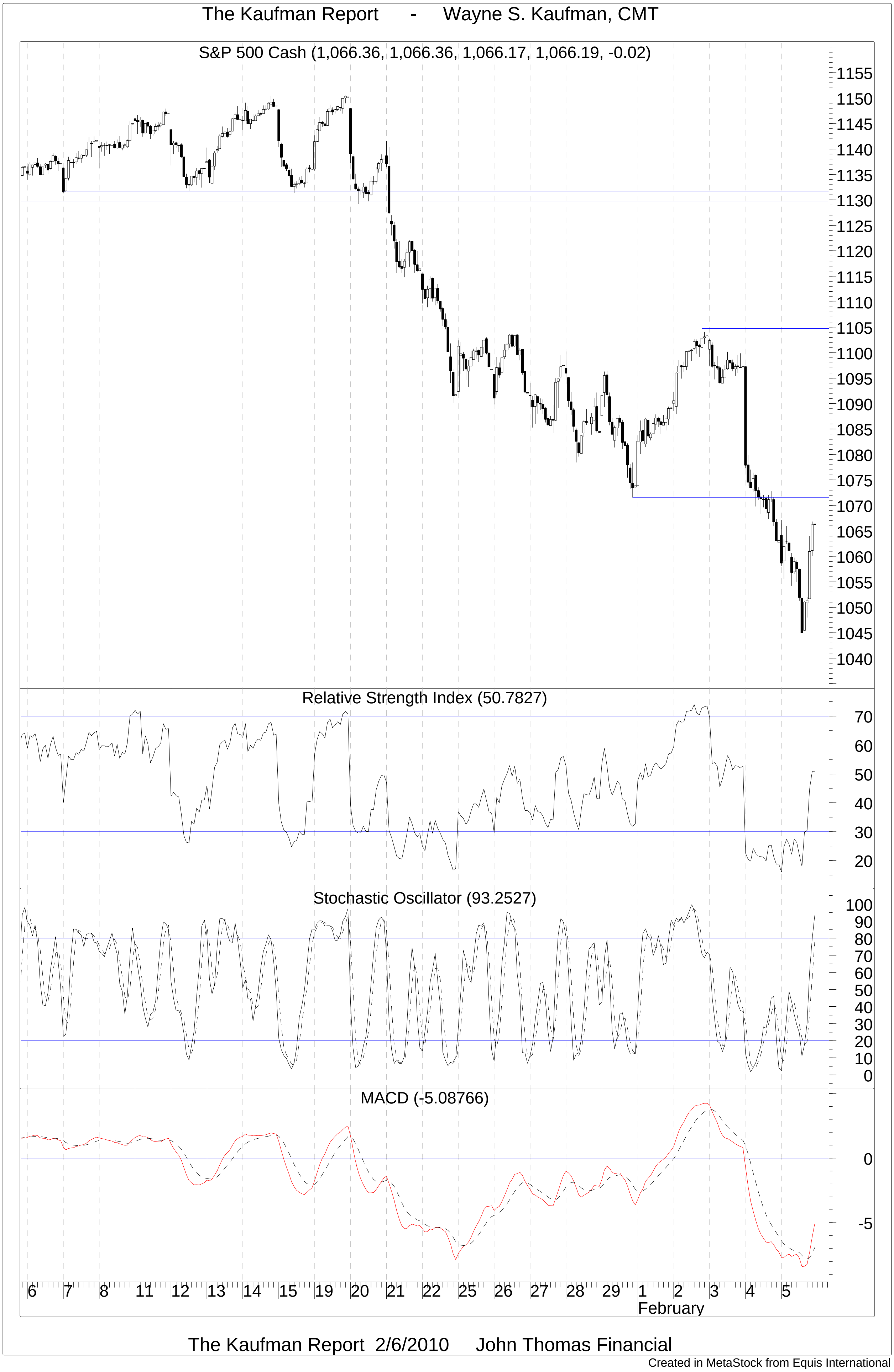
| | Daily | WTD | 5-Days | MTD | QTD | YTD |
|---|---|---|---|---|---|---|
| Nasdaq 100 | 0.76% | 0.00% | 0.29% | 0.29% | -6.14% | -6.14% |
| Nasdaq Composite | 0.74% | 0.00% | -0.29% | -0.29% | -5.64% | -5.64% |
| S&P Smallcap 600 | 0.40% | 0.00% | -1.81% | -1.81% | -5.20% | -5.20% |
| S&P 500 | 0.29% | 0.00% | -0.72% | -0.72% | -4.39% | -4.39% |
| S&P 1500 | 0.28% | 0.00% | -0.76% | -0.76% | -4.39% | -4.39% |
| S&P Midcap 400 | 0.18% | 0.00% | -0.81% | -0.81% | -4.07% | -4.07% |
| Dow Jones Industrials | 0.10% | 0.00% | -0.55% | -0.55% | -3.99% | -3.99% |
| NYSE Composite | -0.08% | 0.00% | -1.47% | -1.47% | -5.60% | -5.60% |
| Bank of New York Mellon ADR | -0.70% | 0.00% | -2.70% | -2.70% | -9.05% | -9.05% |

| | Daily | WTD | 5-Days | MTD | QTD | YTD |
|---|---|---|---|---|---|---|
| Materials | 1.74% | 0.00% | 0.83% | 0.83% | -7.91% | -7.91% |
| Financials | 1.22% | 0.00% | -1.67% | -1.67% | -3.12% | -3.12% |
| Information Technology | 1.10% | 0.00% | 0.72% | 0.72% | -7.79% | -7.79% |
| Telecom Services | 0.50% | 0.00% | -1.04% | -1.04% | -10.27% | -10.27% |
| Consumer Staples | -0.08% | 0.00% | -0.87% | -0.87% | -2.11% | -2.11% |
| Energy | -0.12% | 0.00% | -0.54% | -0.54% | -5.02% | -5.02% |
| Health Care | -0.22% | 0.00% | -1.69% | -1.69% | -1.27% | -1.27% |
| Utilities | -0.27% | 0.00% | -2.12% | -2.12% | -7.11% | -7.11% |
| Consumer Discretionary | -0.47% | 0.00% | -0.67% | -0.67% | -3.60% | -3.60% |
| Industrials | -0.56% | 0.00% | -0.70% | -0.70% | -1.90% | -1.90% |

| | Daily | WTD | 5-Days | MTD | QTD | YTD |
|---|---|---|---|---|---|---|
| Semiconductors & Equipment | 2.53% | 0.00% | 1.39% | 1.39% | -8.81% | -8.81% |
| Real Estate | 2.23% | 0.00% | 0.24% | 0.24% | -6.20% | -6.20% |
| Materials | 1.74% | 0.00% | 0.83% | 0.83% | -7.91% | -7.91% |
| Banks | 1.47% | 0.00% | -4.13% | -4.13% | 4.40% | 4.40% |
| Diversified Financials | 1.20% | 0.00% | -0.98% | -0.98% | -5.93% | -5.93% |
| Technology Hardware & Equipment | 1.03% | 0.00% | 1.58% | 1.58% | -7.09% | -7.09% |
| Software & Services | 0.72% | 0.00% | -0.46% | -0.46% | -8.26% | -8.26% |
| Telecom Services | 0.50% | 0.00% | -1.04% | -1.04% | -10.27% | -10.27% |
| Insurance | 0.46% | 0.00% | -1.54% | -1.54% | -1.28% | -1.28% |
| Food & Staples Retailing | 0.31% | 0.00% | -1.80% | -1.80% | -1.71% | -1.71% |
| Retailing | 0.17% | 0.00% | -1.17% | -1.17% | -4.45% | -4.45% |
| Transportation | 0.11% | 0.00% | -0.69% | -0.69% | -4.35% | -4.35% |
| Food, Beverage & Tobacco | -0.11% | 0.00% | -0.71% | -0.71% | -3.12% | -3.12% |
| Energy | -0.12% | 0.00% | -0.54% | -0.54% | -5.02% | -5.02% |
| Pharmaceuticals, Biotech & Life Sciences | -0.17% | 0.00% | -1.65% | -1.65% | -1.08% | -1.08% |
| Utilities | -0.27% | 0.00% | -2.12% | -2.12% | -7.11% | -7.11% |
| Health Care Equip & Services | -0.35% | 0.00% | -1.77% | -1.77% | -1.67% | -1.67% |
| Household & Personal Products | -0.40% | 0.00% | -0.33% | -0.33% | -0.40% | -0.40% |
| Commercial & Professional Services | -0.46% | 0.00% | -1.77% | -1.77% | -6.73% | -6.73% |
| Consumer Services | -0.56% | 0.00% | 0.11% | 0.11% | -0.51% | -0.51% |
| Media | -0.74% | 0.00% | -0.68% | -0.68% | -6.31% | -6.31% |
| Capital Goods | -0.75% | 0.00% | -0.61% | -0.61% | -0.79% | -0.79% |
| Consumer Durables & Apparel | -1.12% | 0.00% | -0.83% | -0.83% | -2.71% | -2.71% |
| Automobiles & Components | -1.34% | 0.00% | 0.28% | 0.28% | 4.27% | 4.27% |

**INTERNATIONAL ETFs**

| | Daily | WTD | MTD | QTD | YTD |
|---|---|---|---|---|---|
| Canada EWC | 0.72% | 0.27% | 0.27% | -6.93% | -6.93% |
| Australia EWA | 0.59% | -2.48% | -2.42% | -9.85% | -9.85% |
| Vietnam VNM | 0.32% | 1.29% | 1.31% | -2.82% | -2.82% |
| Mexico EWW | 0.24% | 0.22% | 0.22% | -5.67% | -5.67% |
| Latin America ILF | 0.07% | -1.79% | -1.76% | -12.39% | -12.39% |
| Brazil EWZ | -0.05% | -1.57% | -1.55% | -14.64% | -14.64% |
| Japan EWJ | -0.20% | -0.20% | -0.20% | 0.82% | 0.82% |
| Singapore EWS | -0.28% | -2.28% | -2.23% | -8.27% | -8.27% |
| BRIC EEB | -0.30% | -2.10% | -2.06% | -12.69% | -12.69% |
| Hong Kong EWH | -0.41% | -0.41% | -0.41% | -6.96% | -6.96% |
| Malaysia EWM | -0.48% | -2.43% | -2.37% | -3.01% | -3.01% |
| Sweden EWD | -0.84% | -1.07% | -1.06% | -4.34% | -4.34% |
| Spain EWP | -0.87% | -8.02% | -7.43% | -16.97% | -16.97% |
| MSCI Emerging Markets EEM | -1.12% | -2.90% | -2.82% | -10.36% | -10.36% |
| China 25 FXI | -1.18% | -2.10% | -2.06% | -11.10% | -11.10% |
| United Kingdom EWU | -1.19% | -3.56% | -3.43% | -8.02% | -8.02% |
| South Korea EWY | -1.20% | -2.62% | -2.55% | -7.05% | -7.05% |
| Taiwan EWT | -1.37% | -4.96% | -4.72% | -11.33% | -11.33% |
| Germany EWG | -1.50% | -3.25% | -3.15% | -12.21% | -12.21% |
| Switzerland EWL | -1.62% | -2.80% | -2.72% | -6.96% | -6.96% |
| Italy EWI | -2.20% | -4.80% | -4.58% | -13.43% | -13.43% |
| Belgium EWK | -2.27% | -4.41% | -4.22% | -5.72% | -5.72% |
| Austria EWO | -2.32% | -3.70% | -3.56% | -7.31% | -7.31% |
| Netherlands EWN | -2.32% | -3.90% | -3.75% | -7.43% | -7.43% |
| France EWQ | -2.78% | -4.89% | -4.66% | -12.11% | -12.11% |




Last week we said the intra-day chart of the S&P 500 had developed positive divergences and a bounce was expected at any time. That bounce occurred Monday an Tuesday pushing the index to attempt a break above resistance at the 1103 area. That attempt failed leading to a plunge which created another oversold bounce Friday afternoon. There is a lot of resistance up to 1104.73.

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The S&P 500 printed a big hammer candle on its daily chart Friday. Hammers are bottoming candles.

Momentum indicators are at low levels.

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Created in MetaStock from Equis International


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 second week in a row. It has been above it since March 2009.

Weekly momentum indicators show the stochastic is oversold, but the other indicators are not and the MACD just had a negative crossover.

The Kaufman Report - Wayne S. Kaufman, CMT


We pointed out last week that the monthly chart of the S&P 500 printed a bearish engulfing candle in January.

Monthly momentum indicators don't tell us much, but the stochastic is showing a negative crossover.

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The daily chart of the Nasdaq 100 also shows a hammer candle. Hammers are bottoming candles.

Momentum indicators are at low levels.

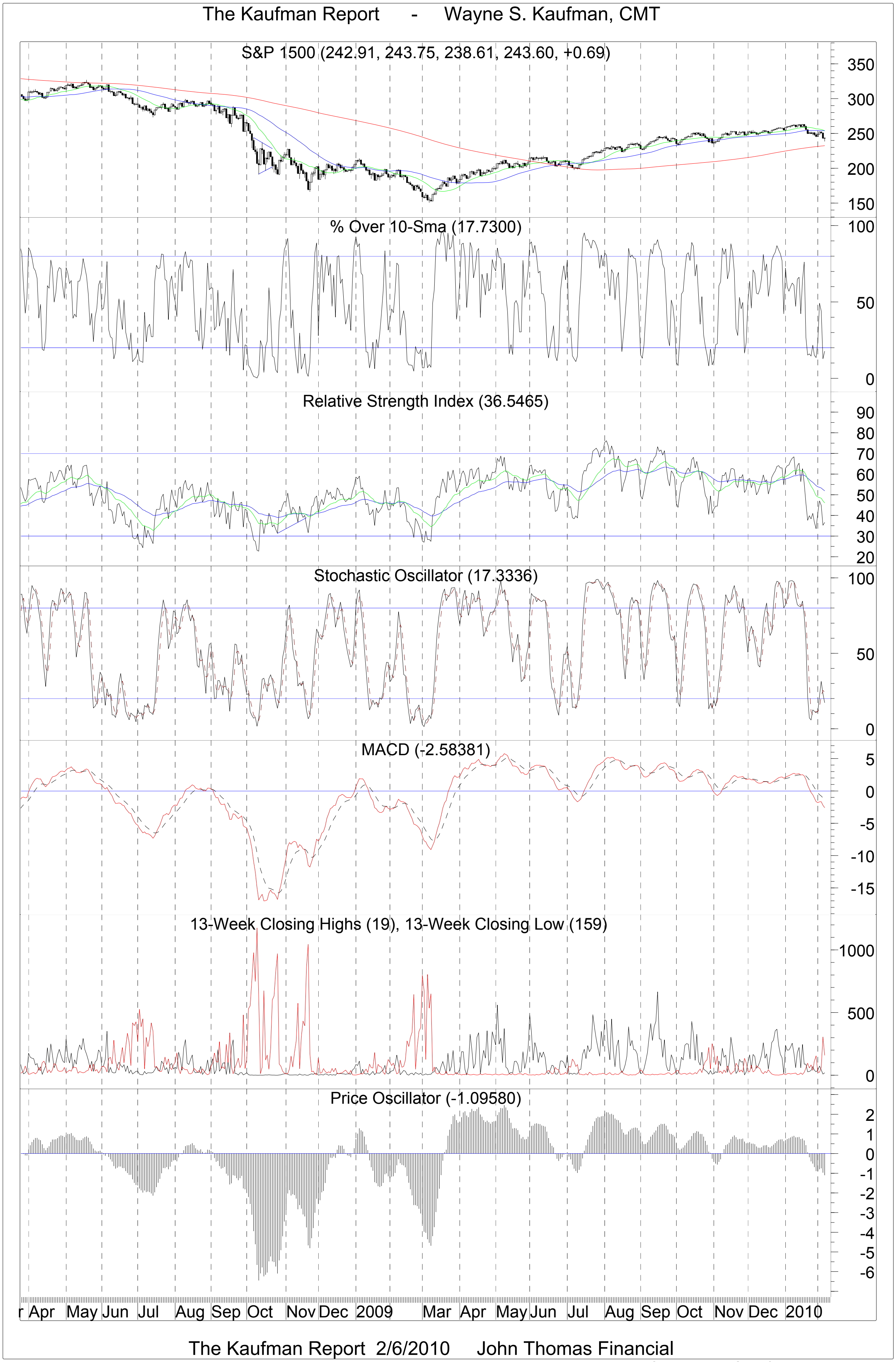

The weekly chart of the Nasdaq 100 printed a bearish engulfing candle four weeks ago and has moved lower since. It printed a long-legged doji last week. Doji are signs of indecision, frequently seen at turning points.

Weekly momentum indicators look negative.


The ADR Index moved below its 200-sma (red) for the first time since May. It too printed a hammer candle on its daily chart.

The RSI and stochastic are showing positive divergences.

ADRs are underperforming the S&P 500 and the Nasdaq Composite.

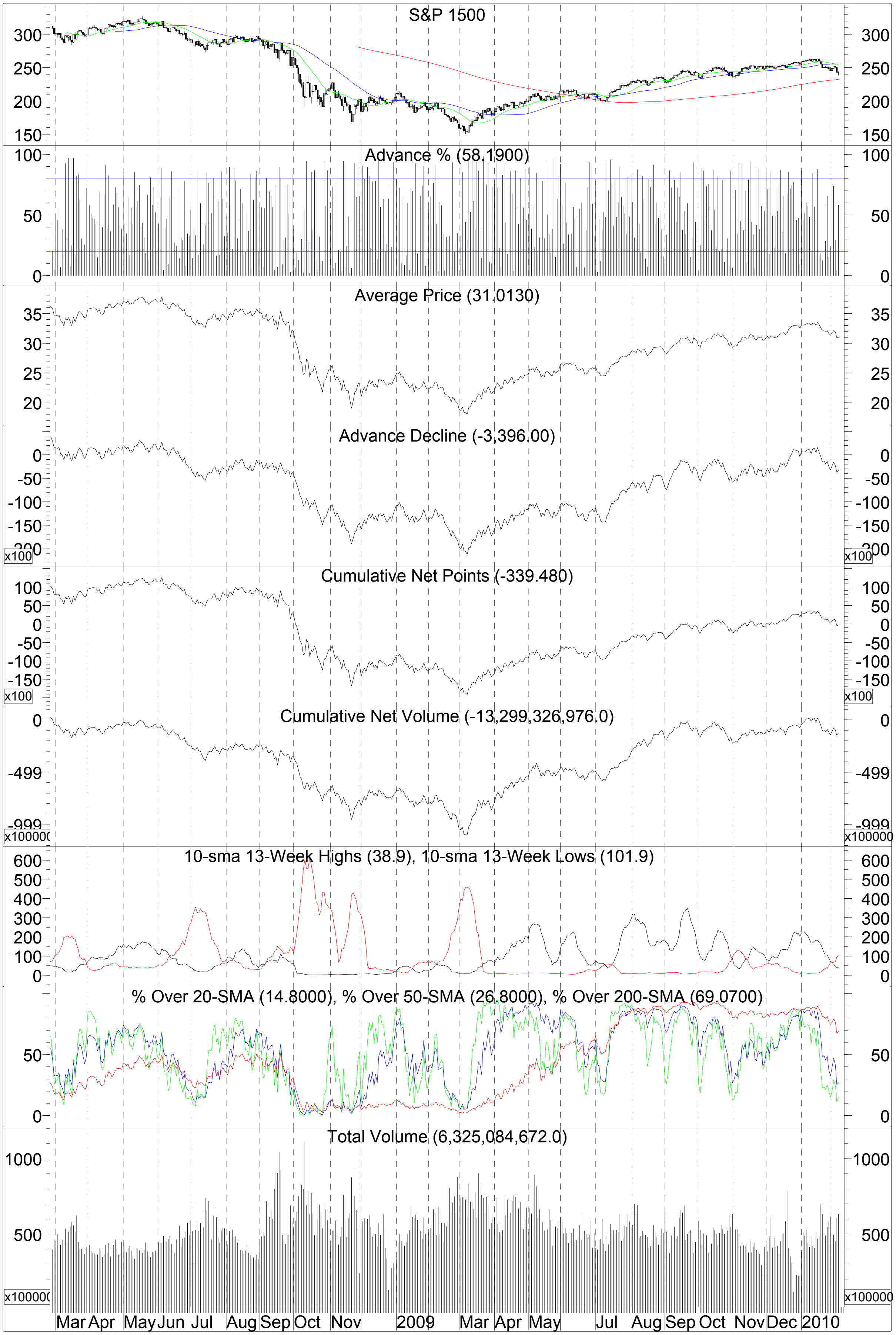



The percent over 10-sma remains oversold at 17.73%. Stocks rallied Friday after this percent hit 8.7% intra-day.

The RSI and stochastic are at low levels, but the MACD doesn't look too great.

305 13-week closing lows Thursday was the most since 3/9/2009.

Our price oscillator, a good indicator of trends, is at its lowest negative level since March.




The 10-sma of 13-week closing lows is now above its counterpart of 13-week closing highs. So far it hasn't exceeded the level it hit in November.

Three out of four stocks follow the market's primary trend, so we are not pleased to see the percentages of stocks over all moving averages leaving bull market territory. This needs to reverse quickly.

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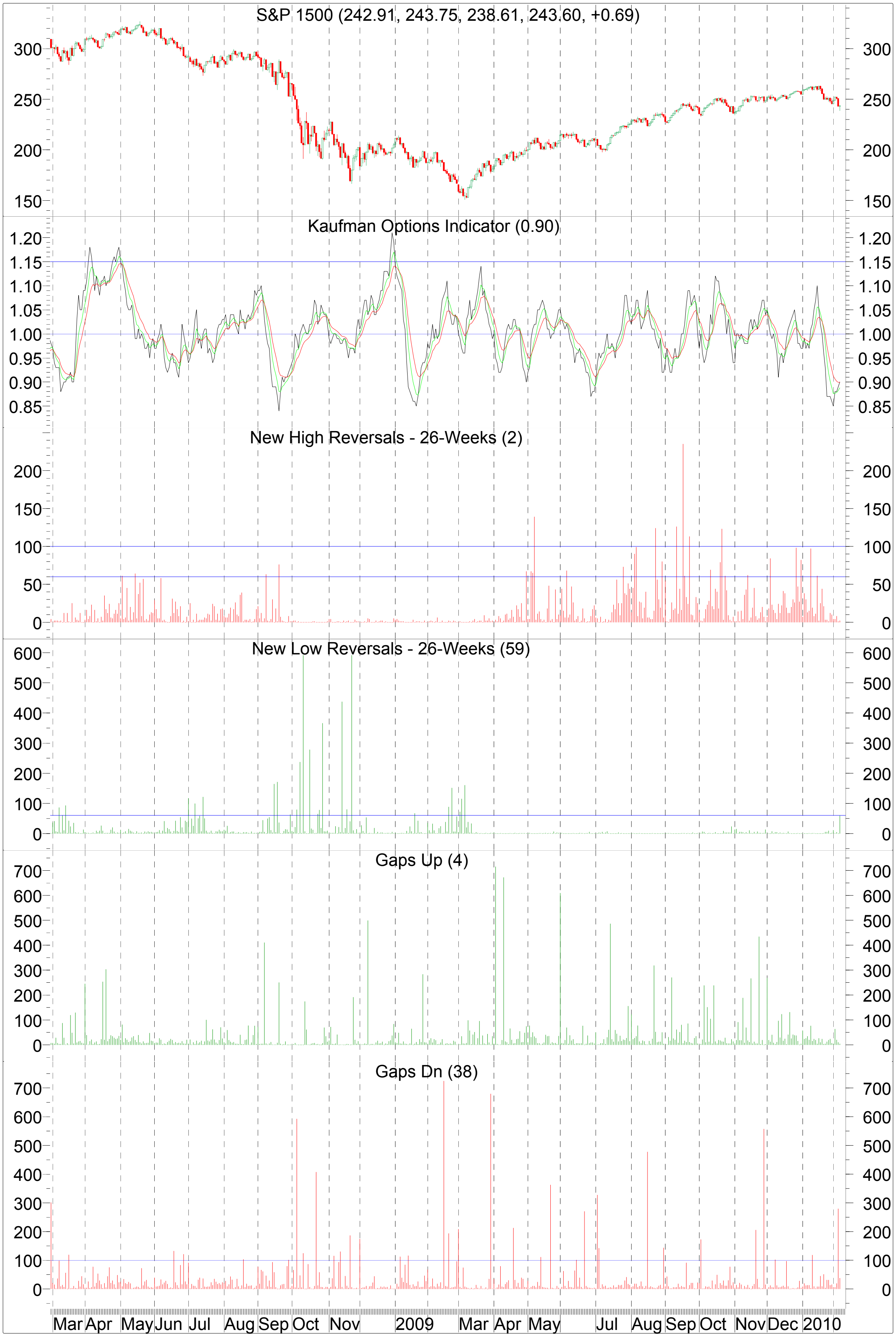


Our proprietary options indicator remains at low levels, which should prevent too much more of as plunge for stocks. September 2008 was an important exception.

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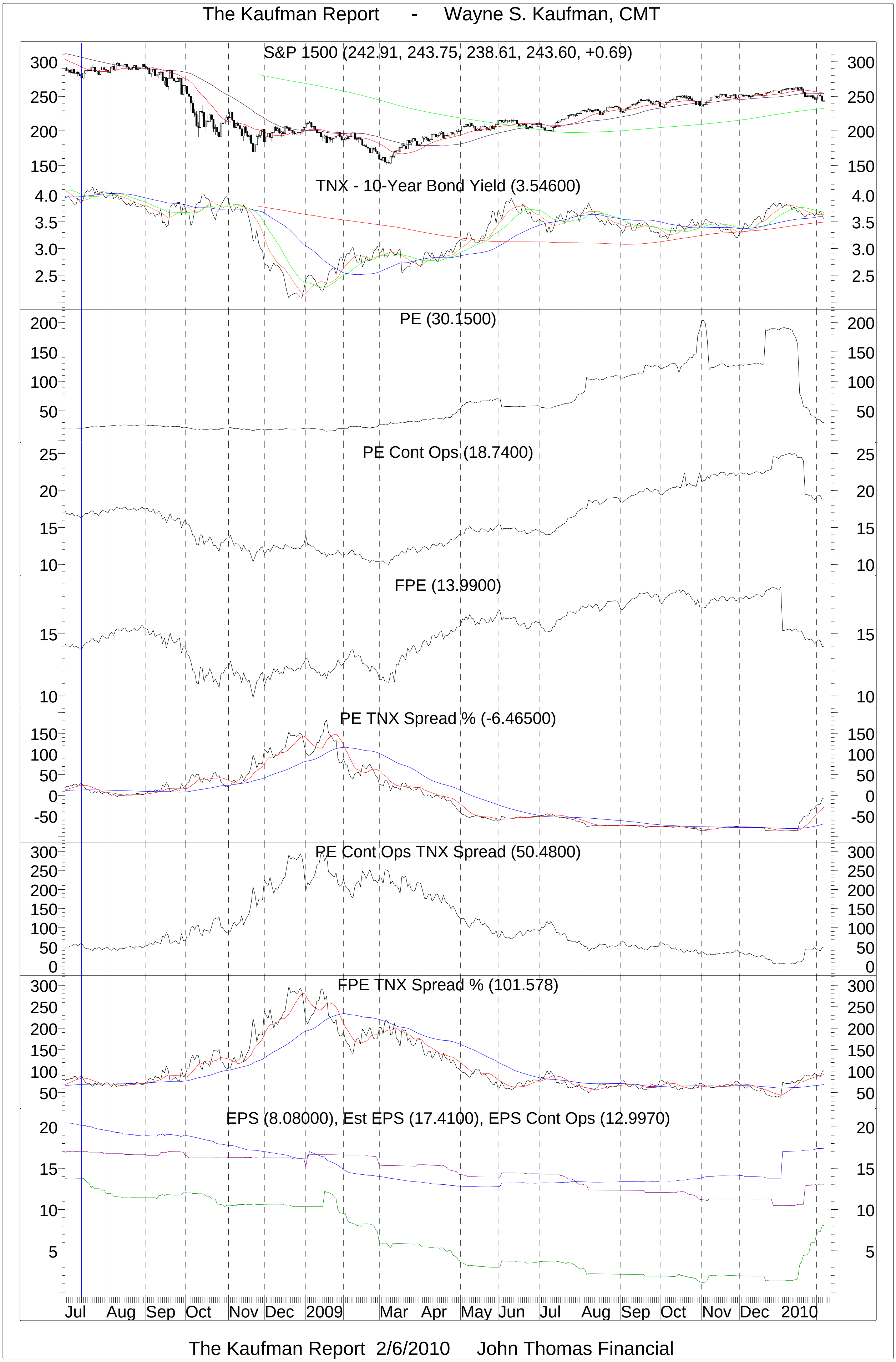
All of our statistics of supply (red) versus demand (green) are showing negative crossovers. Unfortunately demand remains muted while supply appears to be increasing, with some supply statistics at their highest levels since March.

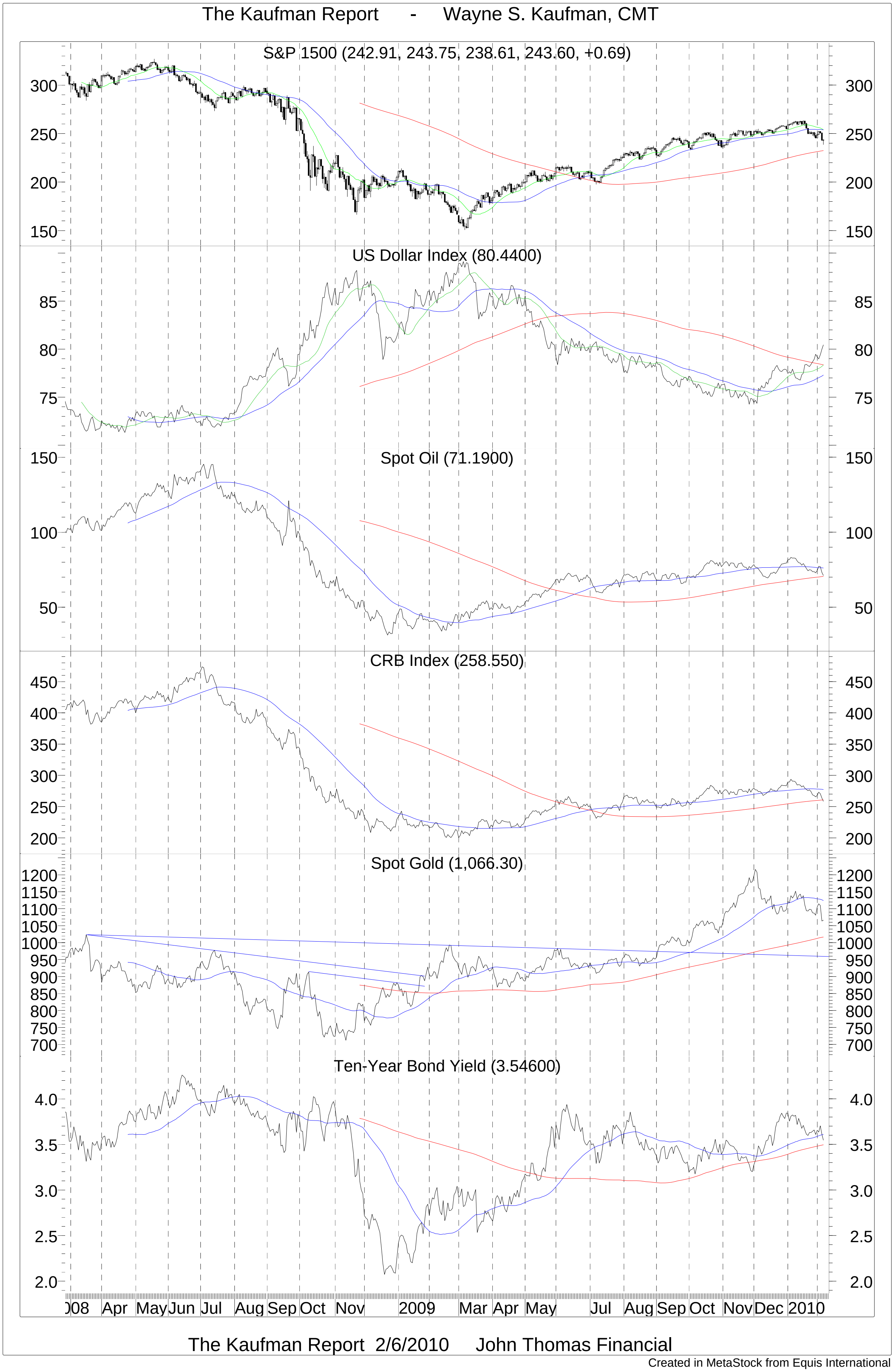



Created in MetaStock from Equis International

P/Es are dropping as earnings improve and stocks move lower.

Spreads between equity and bond yields continue to widen as bond yields and stocks move lower in tandem.

All of our metrics of earnings have broken their down trends. Projected earnings actually bottomed in May.




The U.S. Dollar Index continues to rally in a flight to safety. On December we said at 78.45 it had slightly exceeded our 77 - 78 resistance area before pulling back but that may be only a pause on the way to the 80 - 82 area. It is now in that zone. It is overbought on its weekly chart with a negative divergence on the daily.

Crude oil has moved down to its 200-sma (red). A break of the 69.51 support of 12/14 will target the mid to low 60s.

The commodities index is below its 200-sma for the first time since July 2009. It is oversold with a positive divergence on the daily chart.

Gold has printed a hammer candle on its daily chart. Hammers are bottoming candles.