

Monday January 10, 2011

Closing prices of January 7, 2011

Stocks began 2011 on a strong note with the S&P 500 rising 1.1% last week, and the Nasdaq 100 leading the way for major indexes with a 2.65% gain. There was a lot of excitement with a very strong ADP jobs report and then a letdown from a worse than expected payrolls report. More market moving news is just ahead as we enter fourth quarter earnings season this week.

For the last few weeks it has been a near unanimous opinion among market watchers that a pullback was imminent due to the extended nature of the rally, the complacency of investors based on the VIX (Volatility Index) and investor surveys, and negative divergences based on the increased selectivity of investors. So far they have been wrong, and we pointed out in last week's report that our proprietary options indicator had dropped to levels showing pessimism and where stocks had bottomed in the past. While not as low as last week, our options indicator is at 0.94, showing some pessimism on the part of options buyers.

In addition, sellers still remain on the sidelines as evidenced by the tiny amount of 13-week closing lows we continue to record. The recent negative divergences and weak numbers regarding new highs and market breadth seem to be more due to short-term profit taking than any desire for wholesale liquidation of stocks. Therefore, while we agree that a pullback can occur at any time, we do not believe it will be deep.

How much longer the current rally can go will be based on the earnings season we are now entering. We have been saying for weeks 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 over the next few weeks we will see if they move even higher and reported numbers follow suit. If so, equity valuations will be compelling. Based on the spread between 10-year bond yields and earnings yields valuations were back at the level of early December at the close Friday. A strong earnings season could make these numbers even better and push equities higher.

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 in the \$95 range. **A conservative 14 P/E using \$95 puts the S&P 500 at 1330. The current S&P 500 P/E is 15.86. A 15 P/E on \$95 would put the index at 1425.** 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 in the \$107 range, projecting earnings growth of 12.6%.

We are not perma-bulls. We are aware that last quarter 19% of the S&P 500 had worse than expected earnings, the highest percentage since 19.1% in Q2 2009. The 70.7% that beat estimates, a respectable number, was 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 anything that will change the current positive outlook.

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 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 are 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.

IMPORTANT DISCLOSURES

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S&P 500 Cash (1,271.48, 1,271.50, 1,271.47, 1,271.50, -0.10)



During the week the S&P 500 made fresh intra-day and closing 52-week highs. The 1262 - 1263 area is short-term support.

Thursday's new high on the index was accompanied by a negative divergence on the RSI, so a pullback was likely. Stocks thereafter bounced from short-term oversold conditions. The 30-minute MACD is showing a positive crossover from a low level, which should be helpful in the short-term.

S&P 500 Cash (1,274.41, 1,276.83, 1,261.70, 1,271.50, -2.35)



The S&P 500 daily chart shows it ran into resistance at the end of the week as it closed below its opening price Thursday and Friday.

Daily momentum indicators remain at high or overbought levels but have not turned decisively down.



The S&P 500 printed its highest weekly close since 8/29/2008.

Weekly momentum indicators are at high or overbought levels but have not turned down yet. The RSI is just under its top in April.

S&P 500 Cash (1,257.62, 1,278.17, 1,257.62, 1,271.50, +13.86)



The monthly chart of the S&P 500 shows the index 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 not yet all overbought.

NASDAQ 100 (2,280.13, 2,282.87, 2,254.22, 2,276.70, -0.81)



The Nasdaq 100 bounced off its 20-sma and printed a new 52-week high Friday but also printed a bearish "hanging man" candle. These require confirmation by the next candle to be bearish.

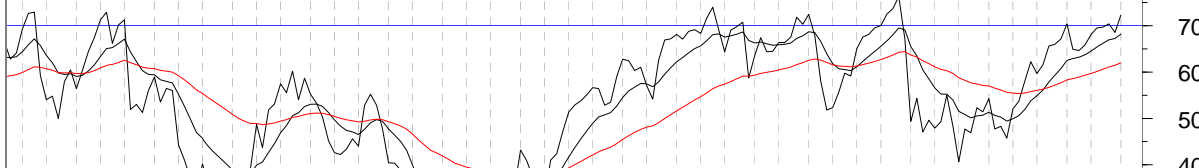
Daily momentum indicators are at high levels but still look positive.

NASDAQ 100 (2,238.66, 2,282.87, 2,237.73, 2,276.70, +58.84)



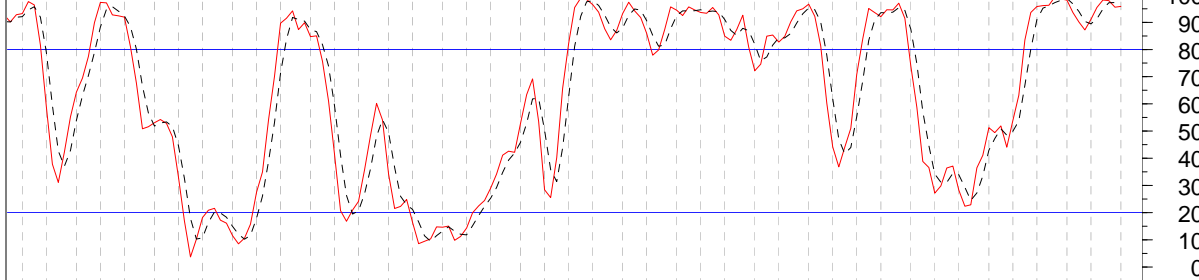
The Nasdaq 100 had its best weekly close since 2/2/2001.

Relative Strength Index (72.3346)

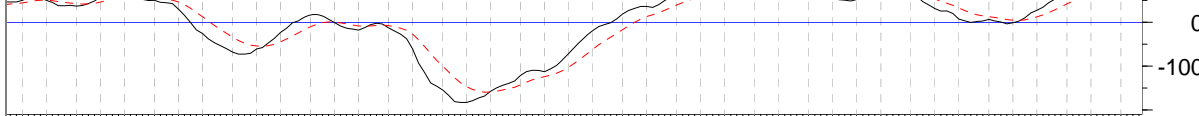


Momentum indicators are at high or overbought levels.

Stochastic Oscillator (95.8897)



MACD (89.1077)



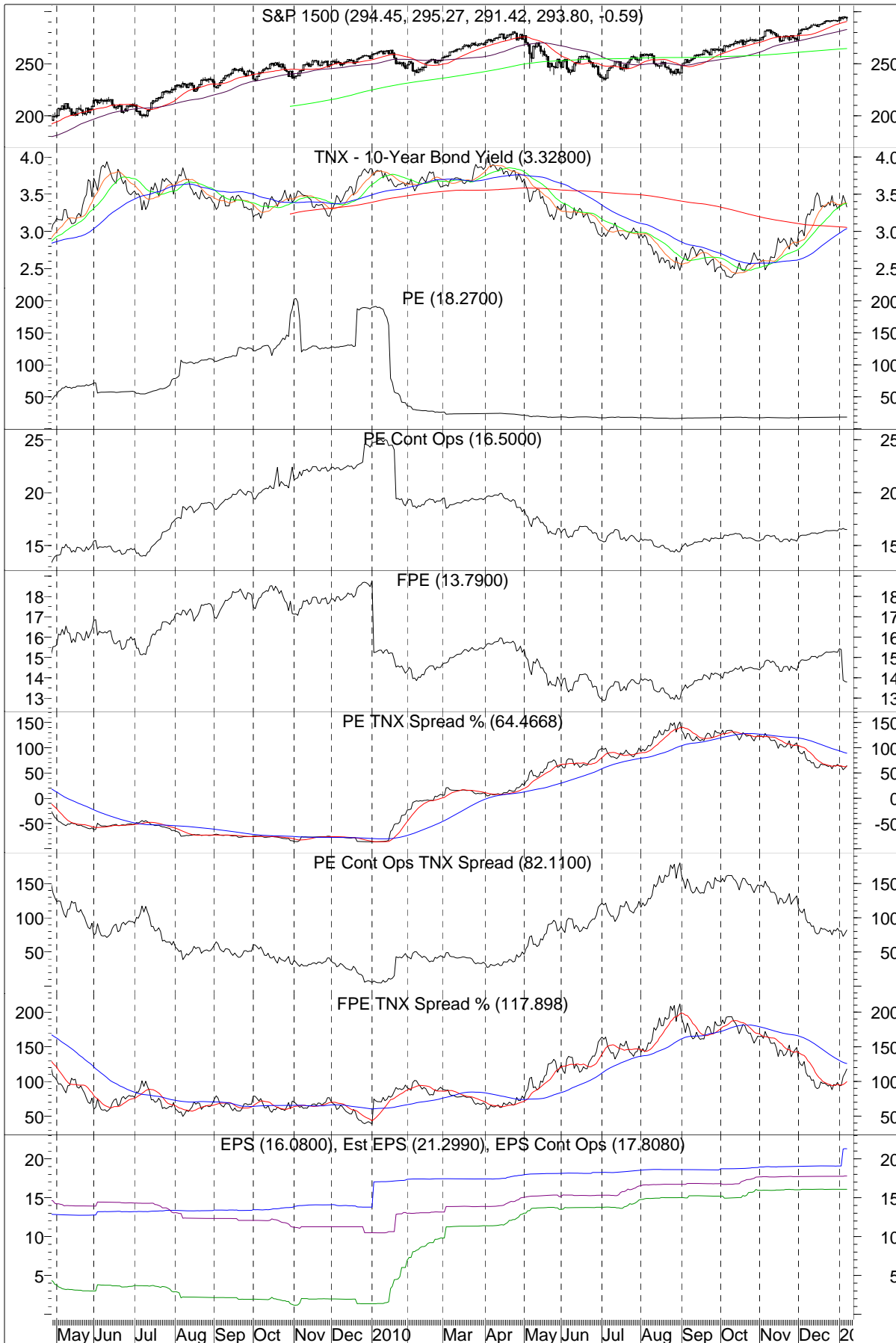
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NASDAQ 100 (2,238.66, 2,282.87, 2,237.73, 2,276.70, +58.84)



The monthly chart of the Nasdaq 100 shows it is above its 2007 highs.

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

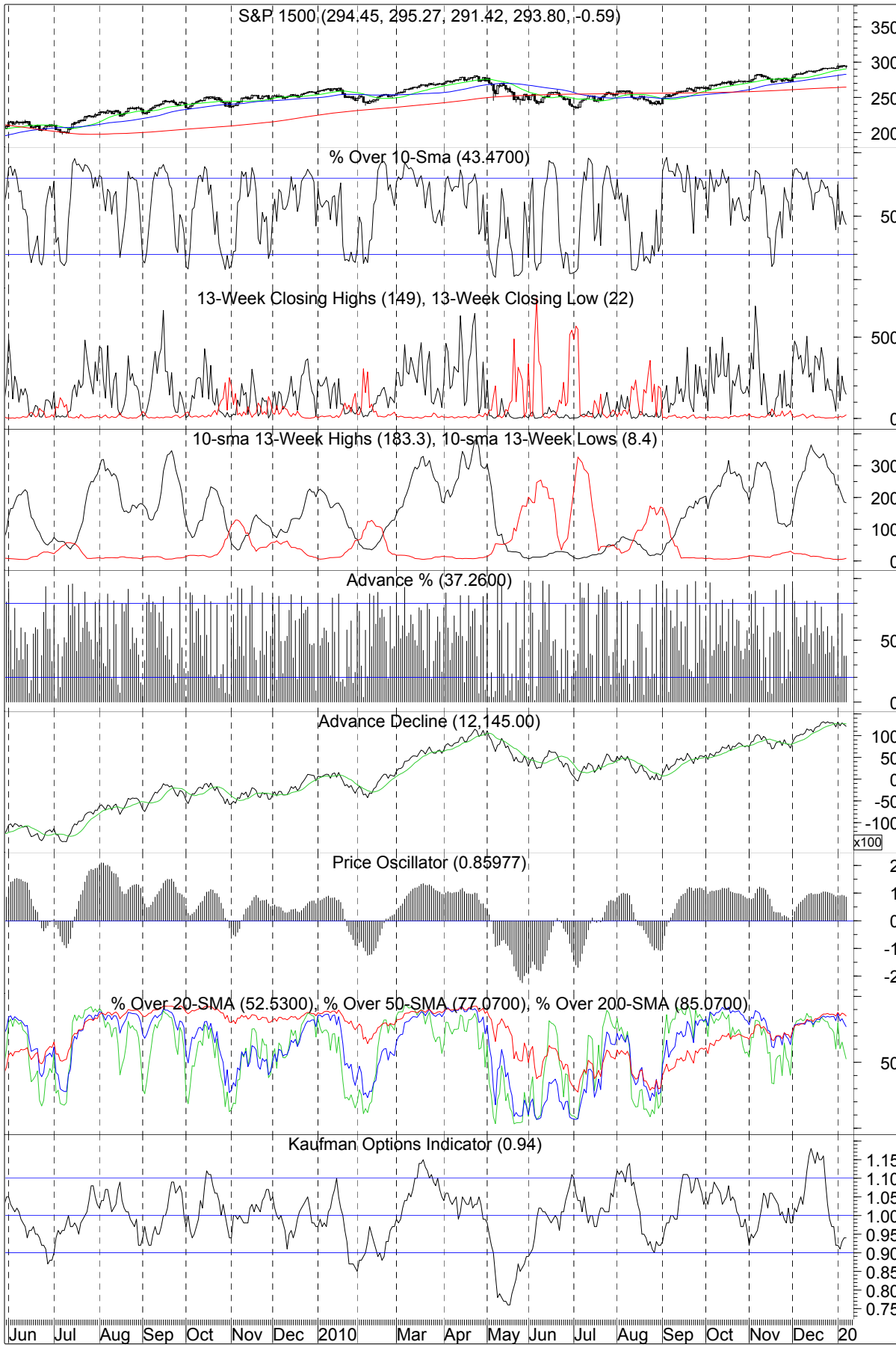


A few weeks ago we discussed the overbought condition of 10-year bond yields and last week we said they still looked topy on a weekly basis. They closed lower on the week and remain in the low part of a consolidation zone. An upside breakout would project much higher yields.

P/E ratios have been steady but the forward P/E, based on earnings projections, dropped dramatically as earnings forecasts have been ratcheted higher.

After narrowing for a while, spreads between stock and bond yields leveled off in December. We commented that they were still at levels where stocks should be attractive. The spread based on the forward P/E is now widening again, and is back at the level of early December.

We have been saying for weeks that we were hoping for a replay of January 2010 when earnings and projections made a sharp move higher. Projections have begun that move, and hopefully reported numbers will also over the next few weeks.



Only 43.47% of stocks are above their own 10-sma.

13-week closing highs are down dramatically, a negative divergence we have discussed, and one that looks like short-term profit taking. Also, the number of new lows is miniscule so far, showing a lack of a desire to sell.

Breadth numbers have been weak recently.

The AD line is below its 10 and 20-sma.

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

Shorter-term numbers have weakened here, while longer-term numbers remain strong.

Last week we commented that our proprietary options indicator had dropped from over-bullish levels to a level where stocks had bottomed in the past. They responded by surging to fresh 52-week highs. The indicator still shows some pessimism, so pullbacks should not be deep.

Indexes, Sectors, and Industry Groups

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Nasdaq 100	2276.70	-0.04%	2.65%	2.65%	2.65%	2.65%	2.65%	2282.87	1/7/2011	1700.04	7/1/2010
Nasdaq Composite	2703.17	-0.25%	1.90%	1.90%	1.90%	1.90%	1.90%	2715.96	1/7/2011	2061.14	7/1/2010
S&P 500	1271.50	-0.18%	1.10%	1.10%	1.10%	1.10%	1.10%	1278.17	1/6/2011	1010.91	7/1/2010
S&P 1500	293.80	-0.20%	1.00%	1.00%	1.00%	1.00%	1.00%	295.49	1/6/2011	232.54	7/1/2010
Dow Jones Industrials	11674.76	-0.19%	0.84%	0.84%	0.84%	0.84%	0.84%	11742.68	1/5/2011	9614.32	7/2/2010
S&P Midcap 400	910.53	-0.25%	0.36%	0.36%	0.36%	0.36%	0.36%	924.10	1/3/2011	681.91	2/5/2010
NYSE Composite	7980.32	-0.26%	0.20%	0.20%	0.20%	0.20%	0.20%	8071.43	1/3/2011	6355.83	7/1/2010
S&P Smallcap 600	416.06	-0.48%	0.08%	0.08%	0.08%	0.08%	0.08%	425.45	1/3/2011	309.16	2/5/2010
Bank of New York Mellon ADR	138.96	-0.60%	-0.83%	-0.83%	-0.83%	-0.83%	-0.83%	142.74	11/4/2010	109.79	5/25/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Information Technology	415.32	-0.25%	2.66%	2.66%	2.66%	2.66%	2.66%	416.74	1/7/2011	323.47	7/1/2010
Health Care	371.37	-0.08%	1.81%	1.81%	1.81%	1.81%	1.81%	384.95	1/20/2010	318.89	7/1/2010
Financials	218.38	-0.93%	1.68%	1.68%	1.68%	1.68%	1.68%	230.45	4/15/2010	178.83	8/25/2010
Industrials	304.60	0.15%	1.15%	1.15%	1.15%	1.15%	1.15%	306.63	1/7/2011	232.54	7/6/2010
Utilities	160.55	0.37%	0.76%	0.76%	0.76%	0.76%	0.76%	164.42	10/20/2010	138.57	5/25/2010
Consumer Discretionary	297.61	-0.04%	0.70%	0.70%	0.70%	0.70%	0.70%	300.46	1/3/2011	222.51	2/5/2010
Energy	509.10	0.65%	0.46%	0.46%	0.46%	0.46%	0.46%	514.43	1/3/2011	365.74	7/1/2010
Materials	238.77	-0.10%	-0.35%	-0.35%	-0.35%	-0.35%	-0.35%	243.56	1/3/2011	168.44	7/1/2010
Telecom Services	127.69	-0.85%	-0.81%	-0.81%	-0.81%	-0.81%	-0.81%	132.76	1/5/2011	98.67	5/6/2010
Consumer Staples	300.61	-0.49%	-0.98%	-0.98%	-0.98%	-0.98%	-0.98%	305.42	12/21/2010	260.65	7/1/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Automobiles & Components	127.26	0.38%	7.71%	7.71%	7.71%	7.71%	7.71%	128.04	1/7/2011	74.25	6/29/2010
Technology Hardware & Equipment	452.09	-0.08%	4.00%	4.00%	4.00%	4.00%	4.00%	453.05	1/7/2011	350.49	8/27/2010
Diversified Financials	346.41	-1.07%	3.29%	3.29%	3.29%	3.29%	3.29%	382.07	4/15/2010	278.07	8/31/2010
Media	204.03	-0.06%	2.90%	2.90%	2.90%	2.90%	2.90%	204.87	1/7/2011	150.49	2/5/2010
Software & Services	536.95	-0.40%	2.01%	2.01%	2.01%	2.01%	2.01%	539.45	1/7/2011	410.27	7/1/2010
Pharmaceuticals, Biotech & Life Sci	344.13	0.06%	1.93%	1.93%	1.93%	1.93%	1.93%	359.71	1/20/2010	299.26	7/1/2010
Health Care Equip & Services	364.68	-0.36%	1.55%	1.55%	1.55%	1.55%	1.55%	371.77	1/20/2010	296.30	8/31/2010
Capital Goods	327.75	0.02%	1.28%	1.28%	1.28%	1.28%	1.28%	330.40	1/7/2011	250.06	7/6/2010
Transportation	334.73	0.88%	1.24%	1.24%	1.24%	1.24%	1.24%	336.62	1/3/2011	239.94	2/5/2010
Semiconductors & Equipment	341.56	-0.19%	1.15%	1.15%	1.15%	1.15%	1.15%	349.14	12/9/2010	262.69	8/31/2010
Utilities	160.55	0.37%	0.76%	0.76%	0.76%	0.76%	0.76%	164.42	10/20/2010	138.57	5/25/2010
Banks	149.51	-1.28%	0.48%	0.48%	0.48%	0.48%	0.48%	165.92	4/21/2010	115.69	8/31/2010
Energy	509.10	0.65%	0.46%	0.46%	0.46%	0.46%	0.46%	514.43	1/3/2011	365.74	7/1/2010
Insurance	188.67	-0.75%	0.24%	0.24%	0.24%	0.24%	0.24%	191.30	1/6/2011	156.79	5/25/2010
Food & Staples Retailing	195.78	0.09%	0.04%	0.04%	0.04%	0.04%	0.04%	197.81	1/5/2011	162.45	7/1/2010
Consumer Services	467.48	0.51%	-0.05%	-0.05%	-0.05%	-0.05%	-0.05%	479.39	12/7/2010	363.27	2/5/2010
Real Estate	120.40	0.10%	-0.15%	-0.15%	-0.15%	-0.15%	-0.15%	123.44	11/5/2010	84.72	2/10/2010
Household & Personal Products	377.58	-0.38%	-0.16%	-0.16%	-0.16%	-0.16%	-0.16%	383.05	3/23/2010	339.42	5/6/2010
Materials	238.77	-0.10%	-0.35%	-0.35%	-0.35%	-0.35%	-0.35%	243.56	1/3/2011	168.44	7/1/2010
Telecom Services	127.69	-0.85%	-0.81%	-0.81%	-0.81%	-0.81%	-0.81%	132.76	1/5/2011	98.67	5/6/2010
Commercial & Professional Service	144.17	-0.45%	-0.93%	-0.93%	-0.93%	-0.93%	-0.93%	146.42	12/29/2010	122.63	6/8/2010
Retailing	499.81	-0.23%	-1.69%	-1.69%	-1.69%	-1.69%	-1.69%	516.57	1/3/2011	379.61	7/1/2010
Food, Beverage & Tobacco	346.37	-0.77%	-1.72%	-1.72%	-1.72%	-1.72%	-1.72%	356.38	12/20/2010	293.85	2/5/2010
Consumer Durables & Apparel	165.60	-0.59%	-1.75%	-1.75%	-1.75%	-1.75%	-1.75%	174.61	12/22/2010	124.75	2/5/2010

INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Hong Kong EWH	19.80	-0.40%	4.65%	4.65%	4.65%	4.65%	20.24	11/8/2010	14.08	5/21/2010
Malaysia EWM	14.77	0.34%	2.73%	2.73%	2.73%	2.73%	14.85	1/7/2011	10.18	2/5/2010
China 25 FXI	43.65	-0.73%	1.30%	1.30%	1.30%	1.30%	47.99	11/8/2010	36.24	5/6/2010
Mexico EWW	62.63	-0.03%	1.15%	1.15%	1.15%	1.15%	63.10	1/6/2011	44.70	2/5/2010
South Korea EWY	61.84	0.54%	1.06%	1.06%	1.06%	1.06%	62.22	1/4/2011	40.65	5/25/2010
Turkey TUR	66.79	-2.24%	0.88%	0.88%	0.88%	0.88%	79.00	11/9/2010	44.40	5/6/2010
Japan EWJ	10.98	0.39%	0.66%	0.66%	0.66%	0.66%	11.03	1/3/2011	9.15	6/7/2010
Israel EIS	60.85	0.00%	0.55%	0.55%	0.55%	0.55%	61.57	1/3/2011	45.00	5/6/2010
Russia RSX	38.06	-1.93%	0.40%	0.40%	0.40%	0.40%	39.38	1/6/2011	26.06	5/25/2010
Singapore EWS	13.90	0.00%	0.36%	0.36%	0.36%	0.36%	14.56	11/9/2010	10.37	2/5/2010
Vietnam VNM	26.17	-2.75%	-0.04%	-0.04%	-0.04%	-0.04%	30.34	12/13/2010	21.81	8/25/2010
Thailand THD	64.41	-2.32%	-0.31%	-0.31%	-0.31%	-0.31%	68.70	11/9/2010	37.65	2/5/2010
Canada EWC	30.85	0.06%	-0.48%	-0.48%	-0.48%	-0.48%	31.66	1/3/2011	22.75	5/6/2010
United Kingdom EWU	17.24	-0.40%	-0.75%	-0.75%	-0.75%	-0.75%	17.95	11/4/2010	13.25	5/25/2010
Emerging Markets EEM	47.25	-0.91%	-0.82%	-0.82%	-0.82%	-0.82%	48.59	11/9/2010	35.19	5/25/2010
BRIC EEB	45.64	-0.89%	-1.08%	-1.08%	-1.08%	-1.08%	48.27	11/9/2010	23.23	5/6/2010
Italy EWI	16.13	-0.25%	-1.53%	-1.53%	-1.53%	-1.53%	20.54	1/11/2010	13.21	6/7/2010
Latin America ILF	53.03	-0.86%	-1.54%	-1.54%	-1.54%	-1.54%	54.83	11/5/2010	39.18	5/25/2010
Brazil EWZ	76.08	-0.91%	-1.71%	-1.71%	-1.71%	-1.71%	81.55	11/4/2010	57.03	5/25/2010
Germany EWG	23.34	-0.93%	-2.51%	-2.51%	-2.51%	-2.51%	24.92	11/4/2010	17.97	5/25/2010
France EWQ	23.80	-1.53%	-2.66%	-2.66%	-2.66%	-2.66%	27.32	1/11/2010	19.24	5/25/2010
Belgium EWK	12.74	-0.86%	-2.97%	-2.97%	-2.97%	-2.97%	14.52	11/4/2010	8.93	5/6/2010
Indonesia IDX	84.62	-3.31%	-3.08%	-3.08%	-3.08%	-3.08%	93.14	11/9/2010	59.19	5/25/2010
Switzerland EWL	24.22	-0.57%	-3.43%	-3.43%	-3.43%	-3.43%	25.25	1/3/2011	18.70	5/25/2010
Taiwan EWT	15.08	-1.57%	-3.46%	-3.46%	-3.46%	-3.46%	15.80	1/3/2011	10.81	6/8/2010
Sweden EWD	30.15	-1.60%	-3.46%	-3.46%	-3.46%	-3.46%	31.95	1/3/2011	19.00	5/6/2010
Australia EWA	24.42	-0.37%	-4.01%	-4.01%	-4.01%	-4.01%	26.36	1/11/2010	18.26	5/25/2010
South Africa EZA	71.44	-0.75%	-4.34%	-4.34%	-4.34%	-4.34%	75.27	1/3/2011	23.00	5/6/2010
Netherlands EWN	20.16	-0.72%	-4.39%	-4.39%	-4.39%	-4.39%	21.75	11/4/2010	16.64	5/25/2010
Austria EWO	21.31	-0.93%	-4.57%	-4.57%	-4.57%	-4.57%	22.63	1/4/2011	14.91	6/8/2010
India IFN	33.33	-1.80%	-5.07%	-5.07%	-5.07%	-5.07%	36.88	11/8/2010	23.97	5/25/2010
Spain EWP	34.49	-1.60%	-6.12%	-6.12%	-6.12%	-6.12%	50.15	1/11/2010	29.85	6/8/2010
Chile ECH	73.28	-2.79%	-7.94%	-7.94%	-7.94%	-7.94%	80.35	12/20/2010	27.26	5/6/2010