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

Monday January 4, 2010 **Closing prices of December 31, 2009**

We want to wish everyone and their families a happy, healthy, and prosperous New Year!

Last Sunday (12/27) we said we expected a pullback in the near-term, and after printing a new high on 12/28 the S&P 500 abided and closed the week with a small loss. During the last two weeks we discussed our concerns regarding too much bullishness on the part of call buyers and poor valuations based on the spread between equity and bond yields. The optimism shown by call buyers has turned into slight pessimism based on our proprietary options indicator, which is good.

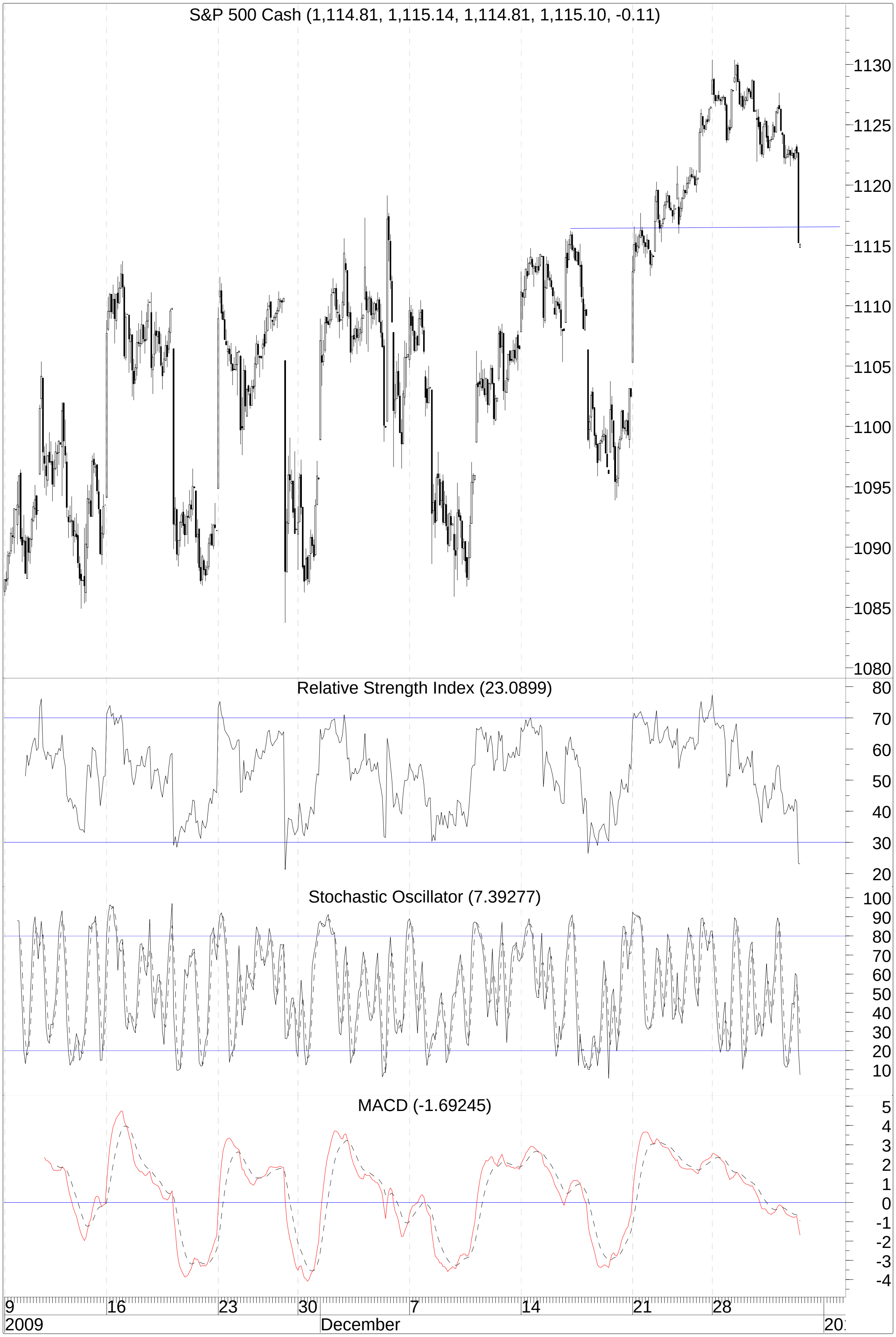
Unfortunately the valuation dilemma remains. Valuations based on spreads between equity and bond yields have narrowed dramatically. The spread based on aggregate earnings from continuing operations of the S&P 1500 and the 10-year bond yield is 7.13%, the lowest in years and below the 10.61% of July 13, 2007, which marked a very important short-term top. Stocks are trading based on forecast earnings, which need to be met in order to sustain current valuations.

The good news is sellers are still not aggressive and seasonality is positive. Companies announcing guidance have been overwhelmingly positive. **In summary, we continue to follow the primary trend of the market, which remains up. However, the current pull back may not be finished, and continuing our tradition of occasionally stating the obvious, disappointments in the upcoming earnings season will be met harshly.**

Therefore, with volume low and news able to create sharp moves in either direction, this remains a bifurcated short-term trader's market. We repeat our advice of the last couple of months that positions investors don't have a good reason to hold onto should be considered as a source of funds. Based on the S&P 500 the short-term, intermediate-term and long-term trends are up. Traders should not hesitate to rotate out of lagging sectors and stocks and into leaders.

S&P 1500 Data: P/E: 24.29
Percent over 10-sma: 42.27%. Percent over 50-sma: 77.00%
13-Week Closing Highs: 13. 13-Week Closing Lows: 13. 52-week closing highs: 10
Kaufman Options Indicator: 0.97 Put/Call Ratio: 0.905. New High Reversals: 82. New Low Reversals: 0
Volume: +0.28% versus yesterday. 64% of the 10-day average. 56% of the 30-day average.
Up Stocks: 9.08%. Up Volume: 13.03%. Up Points: 3.35%. Up Dollars: 0.34%, 1% of 10-sma. Dn Dollars 379% of 10-sma.

IMPORTANT DISCLOSURES



The 30-minute chart of the S&P 500 shows it broke out of its sideways channel and has fallen back to the area of the breakout. This is very normal behavior. On this chart momentum indicators are oversold, so we would expect to see a bounce at any time.

The daily chart of the S&P 500 shows it is still above its 20-sma (green).

Momentum indicators are no longer overbought, but appear to still be working their way lower.

Even with a weak close to the week the weekly chart of the S&P 500 shows a higher high and a higher low last week.

The Nasdaq 100 printed a bearish engulfing candle on its daily chart Thursday.


NASDAQ 100 (1,874.71, 1,882.58, 1,860.31, 1,860.31, -9.53)
2300
2250
2200
2150
2100
2050
2000
1950
1900
1850
1800
1750
1700
1650
1600
1550
1500
1450
1400
1350
1300
1250
1200
1150
1100
1050
1000
950
Relative Strength Index (70.3195)
70
60
50
40
30
20
Stochastic Oscillator (94.9948)
100
50
MACD (80.9884)
50
0
-50
-100
-150
S O N D 2008 M A M J J A S O N D 2009 M A M J J A S O N D 2

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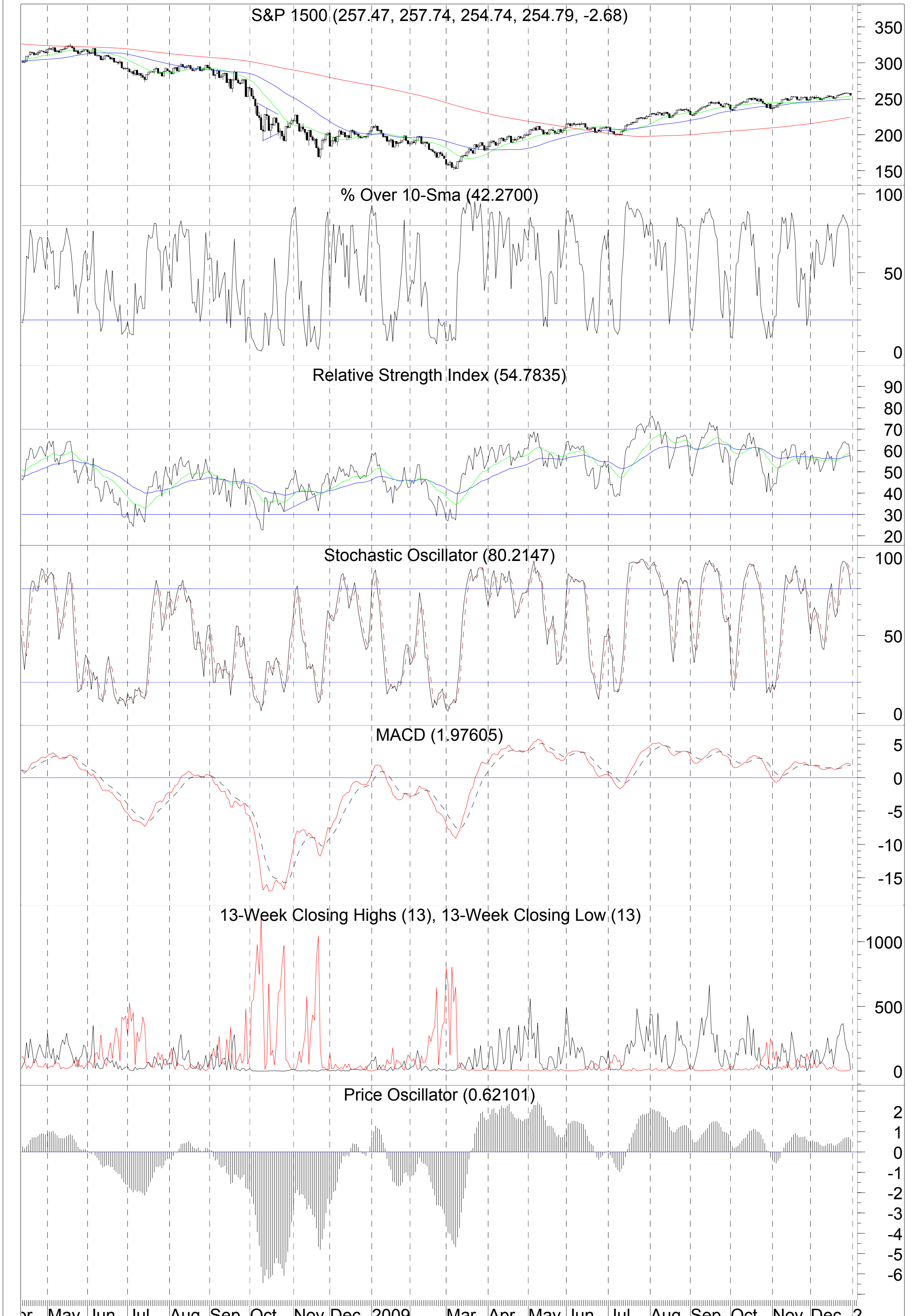
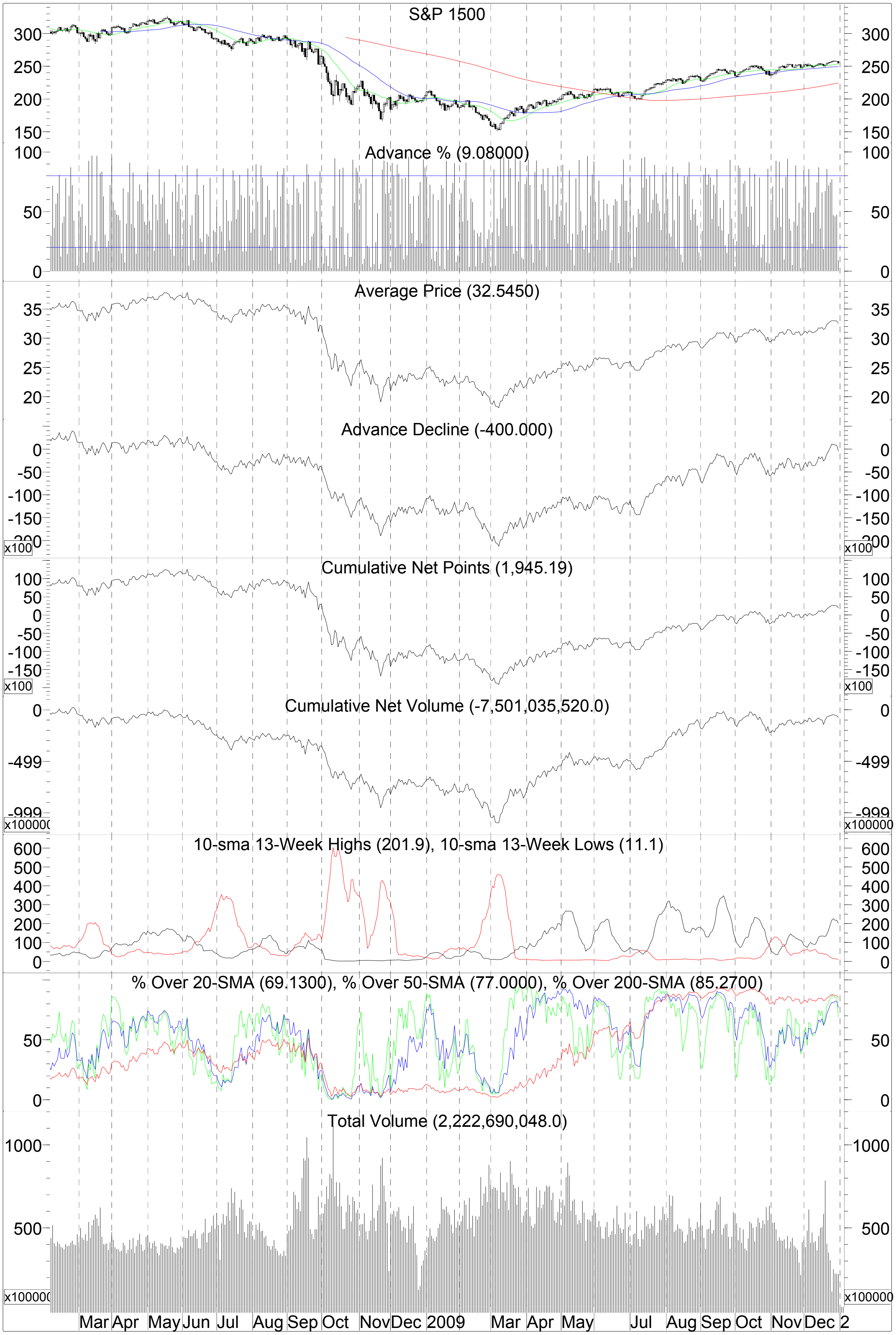


After reaching overbought levels the percent over 10-sma is down to 42.27%. Until December it reached the oversold zone every month since May, so we may be due here in January.

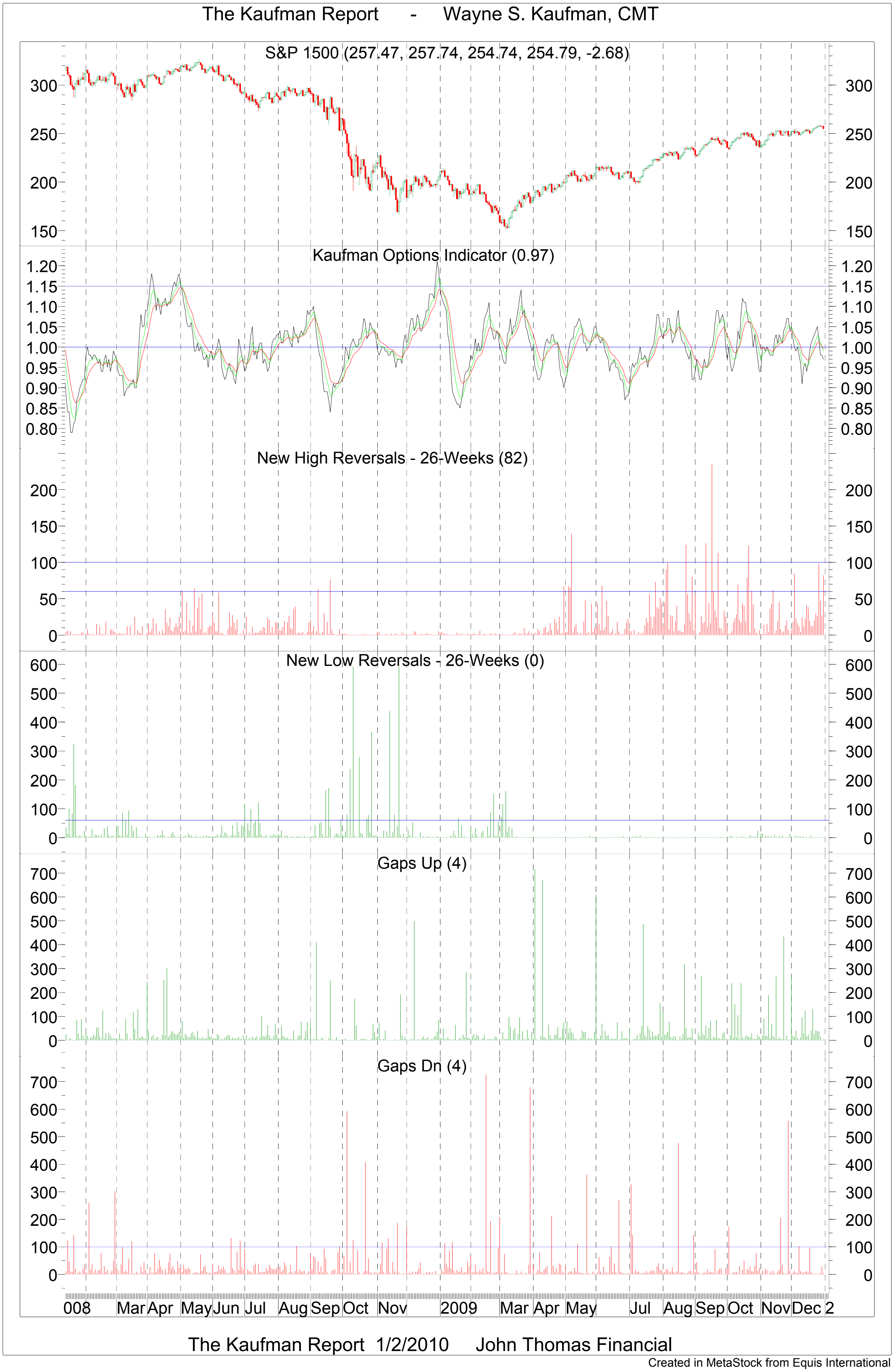
The stochastic is showing a negative crossover from the overbought zone.

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



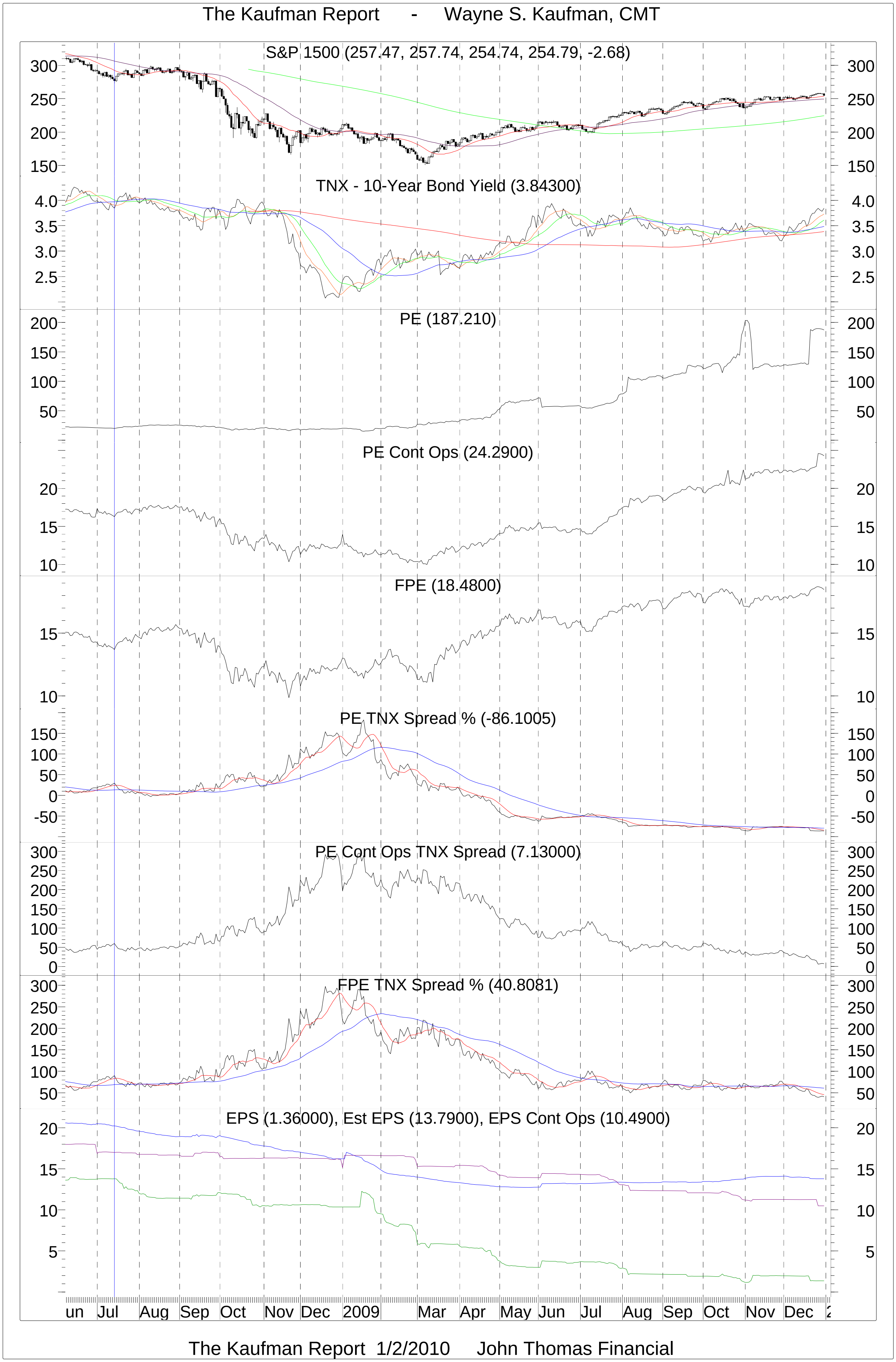
9.08% of stocks traded higher Thursday.

The AD line made a new high 12/24.



Our proprietary options has moved from optimism to slight pessimism. We prefer pessimism to bullishness.

Our statistics of supply (red) versus demand(green) show that there has been a lack of conviction on the part of both bulls and bears. Volume has been very light, but with fewer sellers than buyers the path of least resistance remains to the upside. The low volume will probably change as we enter the new year and get into fourth quarter earnings season.



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P/Es remain high while spreads between equity and bond yields have narrowed dramatically. The spread based on aggregate earnings from continuing operations is the lowest in years.

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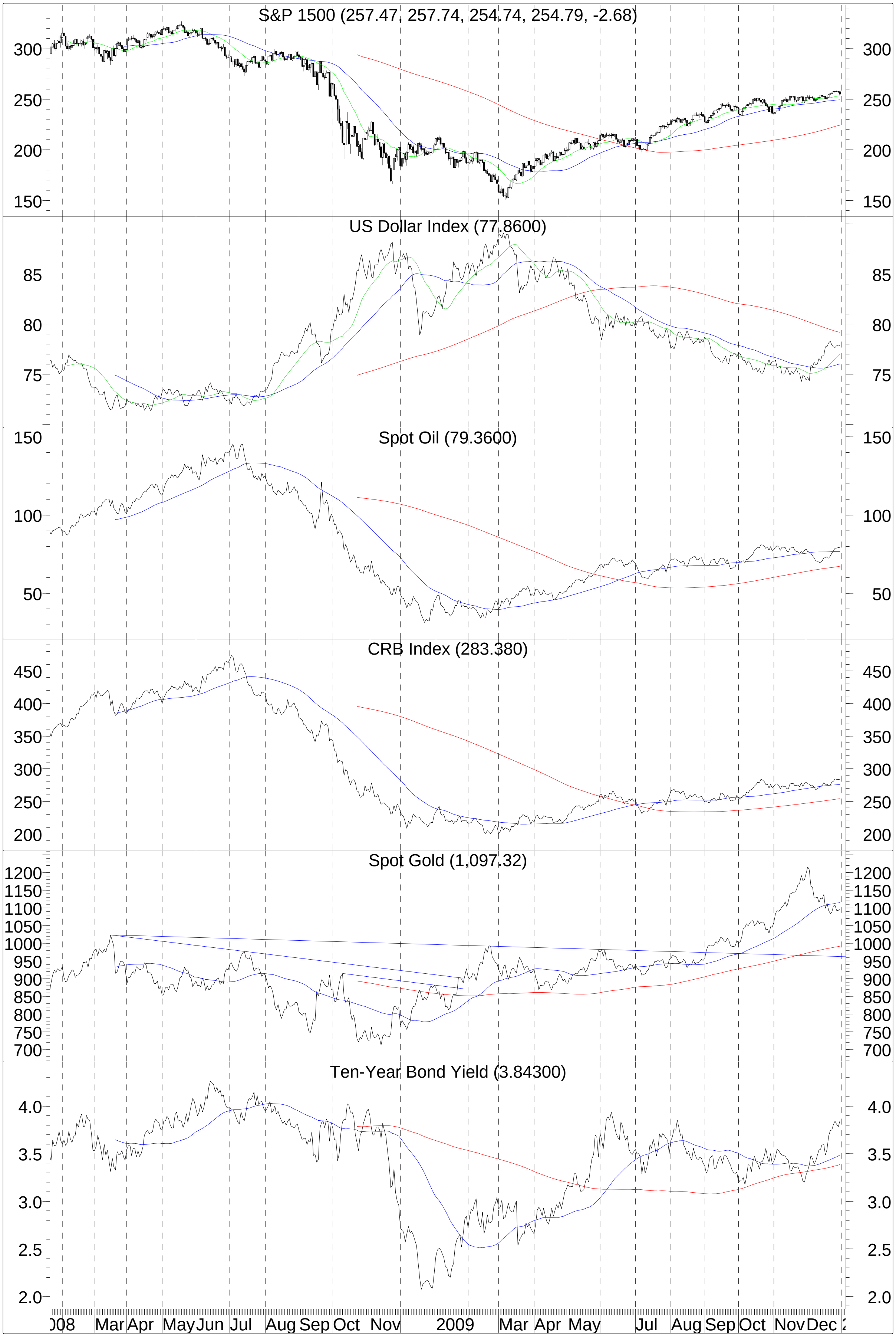

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