

Monday July 19, 2010

Closing prices of July 16, 2010

The strong rally off the low of July 1<sup>st</sup> ran into a wall Friday as recent economic reports pointing to a slowing economy were topped by Friday's plunge in the University of Michigan Confidence Index. According to this survey, consumer sentiment had its biggest one-day drop since October 2008, and we know how much fun those times were. Friday's price action turned into a panic-selling 90% down day.

Investors were also not impressed with earnings reported by major financial companies J.P. Morgan, Bank of America, and Citigroup, making the Financials sector the worst performer in the S&P universe, down 4.37% on the day. Banks as an industry group were the worst, down 5.55%, closely followed by Diversified Financials, down 4.59%, Automobiles and Components down 4.47%, and Consumer Durables and Apparel down 4.32%.

Since the first 90% down day on April 27<sup>th</sup> there have been 57 trading days. Twenty of these have been 90% days, with thirteen of them down days and the seven up days. There were two almost 90% days, one on each side, so 38.6% of trading days have been lopsided. There have been some periods of calm or even consecutive 90% up days. However, when the next 90% down day hit in each instance the most it took for another one to occur was five sessions. If Friday's 90% down day is an isolated occurrence, it will be the first one since this volatile period began.

In our report dated July 6<sup>th</sup> we discussed multiple negative technical aspects of this stock market such as a Dow Theory sell signal, the breaking of neck lines on head and shoulders patterns, and the S&P 500 showing a "death cross" on the 50 and 200-day moving averages. In last Sunday's report we said stocks had rallied from oversold to more neutral levels but they had not erased the prior technical damage.

This past week stocks hit an extreme overbought condition at resistance levels, so it is natural there would be a pullback. The question is will it turn into something nasty. We hope not, but that possibility exists. We want to stress something we have said since mid-May. **This is a short-term trader's market. In addition, the trend for all time frames is down.**

**Investors need to remain on their toes. Should the current earnings season disappoint investors another leg down for equities could begin, and in fact may have just begun. On the other hand, should earnings and forecasts create confidence that companies will continue to do well, investors may acknowledge that stocks are cheap and could drive them higher.**

**Until proven otherwise, this remains a short-term trader's market with aggressive traders able to play long or short based on overbought or oversold conditions.**

**Based on the S&P 500 the short-term trend, the intermediate-term, and the long-term trends are down.**

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# The Kaufman Report

Trade what you see, not what you think.

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**S&P 1500 Data:** (Data available daily at John Thomas Financial)

P/E: 15.61 FP/E: 13.36

Percent over 10-sma: 30.6%. Percent over 50-sma: 23.53%. Percent over 200-sma: 37.53%.

13-Week Closing Highs: 1. 13-Week Closing Lows: 111. 52-week closing highs: 1. 52-week closing lows: 26.

Kaufman Options Indicator: 0.97. Put/Call Ratio: 1.10.

New High Reversals: 2. New Low Reversals: 0.

Volume: +20% versus yesterday. 125% of the 10-day average. 115% of the 30-day average.

Up Stocks: 1.47%. Up Volume: 3.17%. Up Points: 0.64%. Up Dollars: 0.01%, 0.03% of 10-sma. Dn Dollars 628% of 10-sma.

Earnings: 49 of the S&P 500 have reported so far this earnings season. 79.6% have had positive surprises, 2.0% have been in line, and 18.4% have had negative surprises.

Federal Funds Futures project a 63.4% probability of no change to the current 0.25% target rate and a 36.6% probability of a decrease to 0.00% when the FOMC meets on 8/10. For the meeting of 9/21 the probabilities are 59.4% for no change, 9.3% for an increase to 0.50, and 31.3% for a decrease to 0.00%.

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## Indexes, Sectors, and Industry Groups

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Dow Jones Industrials	10097.90	-2.52%	-0.98%	-0.98%	3.31%	3.31%	-3.17%	11258.01	2010-04-26	8584.40	2009-07-16
Nasdaq 100	1803.48	-2.84%	-0.62%	-0.62%	3.70%	3.70%	-3.05%	2059.42	2010-04-26	1494.57	2009-07-16
S&P 500	1064.88	-2.88%	-1.21%	-1.21%	3.32%	3.32%	-4.50%	1219.80	2010-04-26	927.45	2009-07-16
S&P 1500	244.55	-2.94%	-1.31%	-1.31%	3.11%	3.11%	-4.02%	281.21	2010-04-26	211.38	2009-07-16
NYSE Composite	6709.51	-3.00%	-1.46%	-1.46%	3.71%	3.71%	-6.62%	7743.74	2010-04-15	5960.29	2009-07-16
Nasdaq Composite	2179.05	-3.11%	-0.79%	-0.79%	3.31%	3.31%	-3.97%	2535.28	2010-04-26	1854.70	2009-07-16
Bank of New York Mellon ADR	119.61	-3.12%	-1.19%	-1.19%	5.84%	5.84%	-12.28%	142.19	2010-01-11	109.79	2010-05-25
S&P Midcap 400	726.96	-3.29%	-1.75%	-1.75%	2.14%	2.14%	0.04%	852.90	2010-04-26	579.77	2009-07-16
S&P Smallcap 600	329.06	-3.61%	-2.81%	-2.81%	0.33%	0.33%	-1.07%	396.63	2010-04-26	272.81	2009-07-16

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Telecom Services	104.32	-1.19%	-0.21%	-0.21%	2.23%	2.23%	-9.00%	117.00	2010-01-05	98.67	2010-05-06
Consumer Staples	273.24	-1.32%	0.10%	0.10%	4.04%	4.04%	-0.39%	290.45	2010-03-23	245.23	2009-07-16
Utilities	150.86	-1.64%	-0.30%	-0.30%	5.18%	5.18%	-4.51%	161.50	2009-12-14	138.57	2010-05-25
Health Care	332.17	-2.21%	-1.33%	-1.33%	1.62%	1.62%	-8.30%	384.95	2010-01-20	305.87	2009-07-20
Energy	386.77	-2.64%	-1.82%	-1.82%	3.59%	3.59%	-10.04%	464.76	2010-04-26	365.74	2010-07-01
Materials	181.01	-2.91%	-1.86%	-1.86%	4.95%	4.95%	-9.41%	213.87	2010-04-26	156.49	2009-07-16
Information Technology	346.47	-2.93%	0.02%	0.02%	5.01%	5.01%	-6.54%	397.46	2010-04-26	294.63	2009-07-16
Industrials	243.51	-3.42%	-1.94%	-1.94%	2.19%	2.19%	0.21%	292.21	2010-04-30	193.20	2009-07-16
Consumer Discretionary	236.56	-3.54%	-1.17%	-1.17%	2.98%	2.98%	0.63%	284.57	2010-04-26	183.15	2009-07-16
Financials	189.92	-4.37%	-2.86%	-2.86%	2.31%	2.31%	-1.99%	230.45	2010-04-15	160.21	2009-07-22

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Household & Personal Products	367.63	-1.07%	0.58%	0.58%	4.02%	4.02%	1.90%	383.05	2010-03-23	310.55	2009-08-06
Food, Beverage & Tobacco	311.06	-1.17%	-0.25%	-0.25%	4.26%	4.26%	1.49%	324.19	2010-03-23	273.38	2009-07-20
Telecom Services	104.32	-1.19%	-0.21%	-0.21%	2.23%	2.23%	-9.00%	117.00	2010-01-05	98.67	2010-05-06
Utilities	150.86	-1.64%	-0.30%	-0.30%	5.18%	5.18%	-4.51%	161.50	2009-12-14	138.57	2010-05-25
Food & Staples Retailing	170.20	-1.92%	0.45%	0.45%	3.52%	3.52%	-7.03%	196.37	2010-03-30	162.45	2010-07-01
Pharmaceuticals, Biotech & Life Scier	309.93	-2.08%	-1.61%	-1.61%	1.35%	1.35%	-8.77%	359.71	2010-01-20	293.78	2009-07-20
Health Care Equip & Services	321.72	-2.46%	-0.76%	-0.76%	2.15%	2.15%	-7.34%	371.77	2010-01-20	278.38	2009-07-16
Technology Hardware & Equipment	380.86	-2.55%	-0.04%	-0.04%	4.60%	4.60%	-2.23%	431.10	2010-04-26	306.25	2009-07-16
Commercial & Professional Services	128.17	-2.60%	-1.32%	-1.32%	2.49%	2.49%	-4.21%	144.95	2010-04-26	114.30	2009-07-16
Energy	386.77	-2.64%	-1.82%	-1.82%	3.59%	3.59%	-10.04%	464.76	2010-04-26	365.74	2010-07-01
Semiconductors & Equipment	302.74	-2.66%	1.30%	1.30%	6.54%	6.54%	-3.07%	348.04	2010-04-15	258.30	2009-07-16
Consumer Services	392.96	-2.83%	-0.33%	-0.33%	3.92%	3.92%	6.06%	446.11	2010-04-26	310.85	2009-07-16
Materials	181.01	-2.91%	-1.86%	-1.86%	4.95%	4.95%	-9.41%	213.87	2010-04-26	156.49	2009-07-16
Transportation	262.11	-3.20%	-0.96%	-0.96%	3.23%	3.23%	2.83%	304.63	2010-05-03	203.79	2009-07-16
Retailing	390.58	-3.31%	-1.20%	-1.20%	1.23%	1.23%	-5.00%	499.94	2010-04-26	326.09	2009-07-16
Insurance	167.03	-3.31%	-3.83%	-3.83%	-0.23%	-0.23%	1.35%	189.97	2010-04-26	128.70	2009-07-17
Software & Services	436.54	-3.34%	-0.31%	-0.31%	4.92%	4.92%	-12.09%	512.69	2010-04-15	394.37	2009-07-16
Real Estate	100.60	-3.45%	-1.35%	-1.35%	2.33%	2.33%	6.82%	114.48	2010-05-03	63.21	2009-07-17
Capital Goods	261.33	-3.54%	-2.23%	-2.23%	1.91%	1.91%	0.06%	318.38	2010-04-30	204.66	2009-07-17
Media	168.24	-3.72%	-1.64%	-1.64%	3.83%	3.83%	2.84%	192.83	2010-05-03	123.75	2009-07-16
Consumer Durables & Apparel	131.75	-4.32%	-3.31%	-3.31%	0.40%	0.40%	0.50%	164.51	2010-04-26	98.86	2009-07-16
Automobiles & Components	83.03	-4.47%	2.41%	2.41%	9.91%	9.91%	6.80%	107.25	2010-04-26	52.05	2009-07-16
Diversified Financials	299.97	-4.59%	-2.03%	-2.03%	3.70%	3.70%	-6.71%	382.07	2010-04-15	276.20	2009-07-22
Banks	130.60	-5.55%	-4.36%	-4.36%	2.02%	2.02%	4.19%	165.92	2010-04-21	103.59	2009-07-22

## INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Thailand THD	47.29	-1.13%	-1.50%	2.65%	2.65%	11.30%	49.98	2010-04-06	32.78	2009-07-16
India IFN	30.76	-1.16%	-1.22%	1.69%	1.69%	0.20%	33.08	2010-04-14	25.17	2009-08-19
Hong Kong EWH	15.15	-1.37%	-1.50%	2.57%	2.57%	-3.26%	16.89	2010-04-14	13.82	2009-07-16
Singapore EWS	11.81	-1.42%	-0.34%	5.07%	5.07%	2.79%	12.36	2010-04-14	9.36	2009-07-16
South Africa EZA	56.47	-1.67%	-0.04%	7.26%	7.26%	0.89%	62.76	2010-04-05	23.00	2010-05-06
Malaysia EWM	11.71	-1.68%	-2.01%	2.36%	2.36%	10.26%	12.17	2010-04-30	9.08	2009-07-16
Taiwan EWT	11.83	-1.83%	-1.42%	5.63%	5.63%	-8.79%	13.46	2010-01-06	10.60	2009-08-27
Indonesia IDX	73.83	-1.87%	-1.76%	2.93%	2.93%	18.76%	76.03	2010-07-13	46.21	2009-07-17
Turkey TUR	57.33	-1.93%	0.02%	8.31%	8.31%	6.36%	63.27	2010-04-14	38.89	2009-07-17
Vietnam VNM	24.77	-2.17%	-1.86%	-0.68%	-0.68%	-2.82%	32.15	2009-10-22	22.55	2010-05-21
Israel EIS	48.09	-2.36%	-0.29%	5.53%	5.53%	-11.60%	60.68	2010-03-26	41.89	2009-07-17
BRIC EEB	38.33	-2.39%	-4.63%	1.54%	1.54%	-9.73%	44.90	2009-12-04	23.23	2010-05-06
Germany EWG	20.12	-2.42%	1.26%	7.54%	7.54%	-10.34%	23.40	2009-10-21	17.97	2010-05-25
Chile ECH	58.70	-2.48%	-0.86%	3.55%	3.55%	7.14%	60.94	2010-01-19	27.27	2010-05-06
Japan EWJ	9.35	-2.53%	-2.63%	1.60%	1.60%	-4.03%	10.71	2010-04-15	9.15	2010-06-07
Latin America ILF	42.90	-2.68%	-4.48%	3.57%	3.57%	-10.23%	50.25	2009-12-04	34.56	2009-07-16
United Kingdom EWU	14.59	-2.80%	0.90%	8.56%	8.56%	-9.94%	17.20	2009-11-16	13.25	2010-05-25
China 25 FXI	38.74	-2.81%	-4.77%	-1.00%	-1.00%	-8.33%	46.66	2009-11-16	36.24	2010-05-06
Netherlands EWN	18.72	-2.90%	0.48%	9.41%	9.41%	-8.51%	21.51	2009-10-15	15.90	2009-07-16
Belgium EWK	11.77	-2.97%	0.51%	8.54%	8.54%	-7.76%	13.95	2009-10-19	8.93	2010-05-06
Canada EWC	25.68	-2.98%	-2.02%	3.26%	3.26%	-2.47%	29.00	2010-04-15	21.82	2009-07-16
Emerging Markets EEM	38.65	-2.99%	-3.31%	3.56%	3.56%	-6.87%	46.66	2010-04-09	32.71	2009-07-16
Brazil EWZ	64.15	-3.02%	-4.74%	3.75%	3.75%	-14.02%	80.93	2009-12-03	52.50	2009-07-16
Mexico EWW	48.99	-3.09%	-1.94%	2.30%	2.30%	0.25%	61.60	2010-05-06	37.03	2009-07-16
Italy EWI	15.29	-3.17%	-1.29%	10.80%	10.80%	-21.63%	21.77	2009-10-19	13.21	2010-06-07
Spain EWP	36.97	-3.17%	-1.15%	16.15%	16.15%	-23.04%	52.67	2009-11-25	29.85	2010-06-08
Switzerland EWL	20.92	-3.19%	-0.62%	4.65%	4.65%	-6.02%	23.63	2010-04-15	18.08	2009-07-16
Australia EWA	20.04	-3.24%	-2.24%	5.58%	5.58%	-12.26%	25.14	2010-01-11	17.13	2010-05-25
Russia RSX	29.22	-3.31%	-1.12%	4.17%	4.17%	-6.32%	36.91	2010-04-14	19.54	2009-07-16
France EWQ	21.25	-3.37%	-0.28%	8.64%	8.64%	-17.79%	27.32	2010-01-11	19.24	2010-05-25
Austria EWO	16.73	-3.46%	0.42%	9.56%	9.56%	-14.47%	23.59	2009-10-15	14.91	2010-06-08
Sweden EWD	25.28	-3.62%	1.65%	10.73%	10.73%	7.57%	27.42	2010-04-26	18.84	2009-07-16
South Korea EWY	46.37	-3.78%	-2.28%	3.71%	3.71%	-2.67%	53.15	2010-04-26	36.93	2009-07-16

S&P 500 Cash (1,064.94, 1,064.94, 1,064.86, 1,064.88, -0.12)



The 30-minute chart of the S&P 500 shows it met resistance three times at the 1100 level. That was 2 points shy of the 76.4% Fibonacci retracement of the move down from 6/21 to 7/1. On Friday the index closed at 1064.88, just below the 38.2% retracement of the rally from 7/1 to 7/13. That number is 1065.63. The 50% retracement level is at 1055.18.

30-minute momentum indicators are very oversold. The stochastic is showing a positive crossover.

S&P 500 Cash (1,093.85, 1,093.85, 1,063.32, 1,064.88, -31.60)



The daily chart of the S&P 500 shows it hit resistance at the down trend line and the 50-day moving average. It printed a bearish hanging man candle Thursday, which was confirmed with Friday's plunge. The index closed once again below its 20-sma.

Daily momentum indicators do not look very reassuring for bulls.

S&P 500 Cash (1,077.23, 1,099.46, 1,063.32, 1,064.88, -13.08)



The weekly chart of the S&P 500 shows the 20, 40, and 80 week moving averages are converging. We would rather not see negative crossovers. Unfortunately the most recent candle is a bearish shooting star.

Weekly momentum indicators seem relatively neutral, but do not look like they are about to turn up.



The monthly chart of the S&P 500 (July not yet complete) shows the pullback to the July 1st low stopped at the 38.2% retracement of the entire rally off the March 2009 low.



NASDAQ 100 (1,814.49, 1,863.52, 1,802.54, 1,803.48, -11.31)



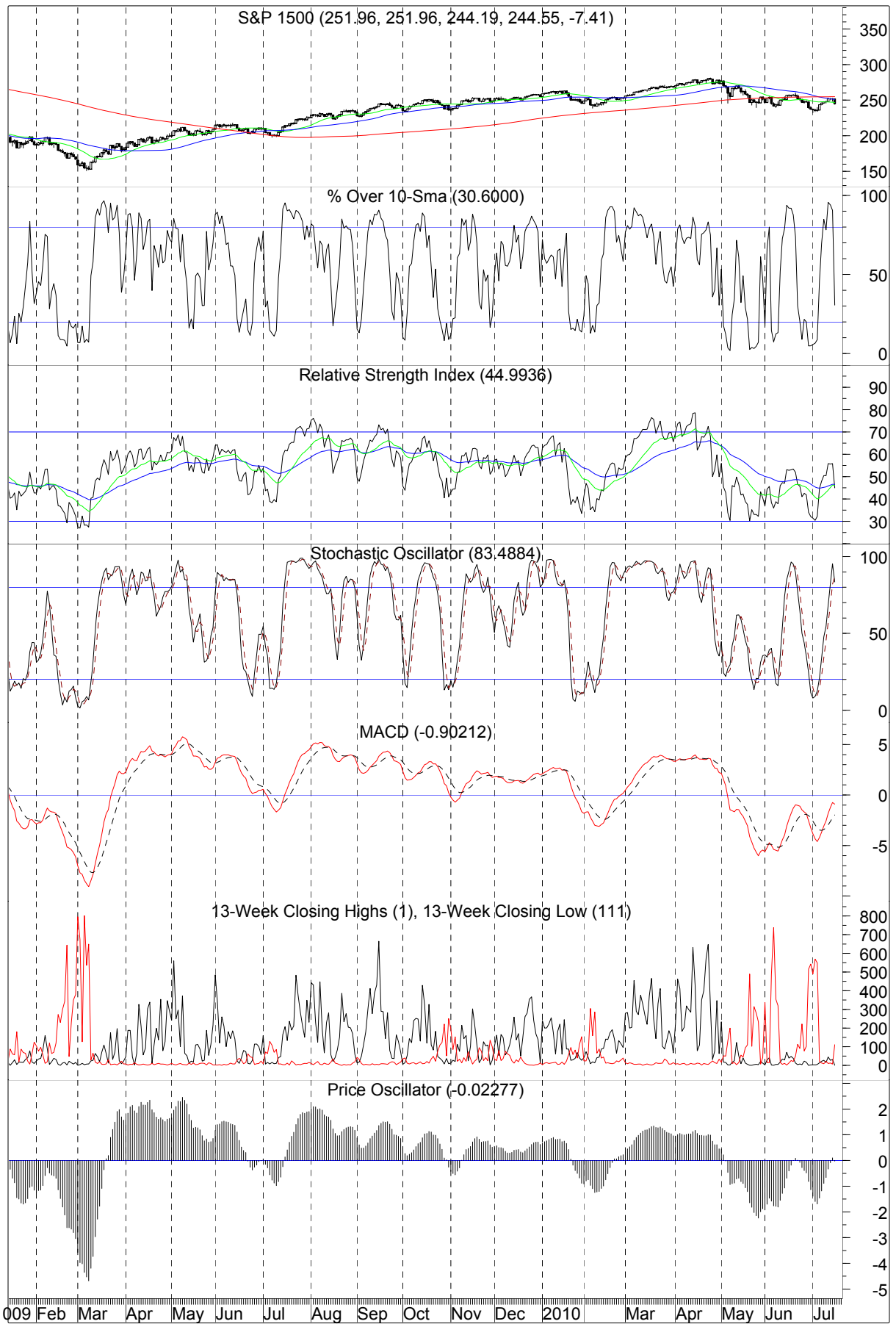
The weekly chart of the Nasdaq 100 also printed a bearish shooting star candle.

Weekly momentum indicators don't look too great.

NASDAQ 100 (1,845.50, 1,850.73, 1,802.54, 1,803.48, -52.76)



Friday's ugly candle on the Nasdaq 100 daily chart followed Thursday's hanging man candle. This index is not far from a "death cross."

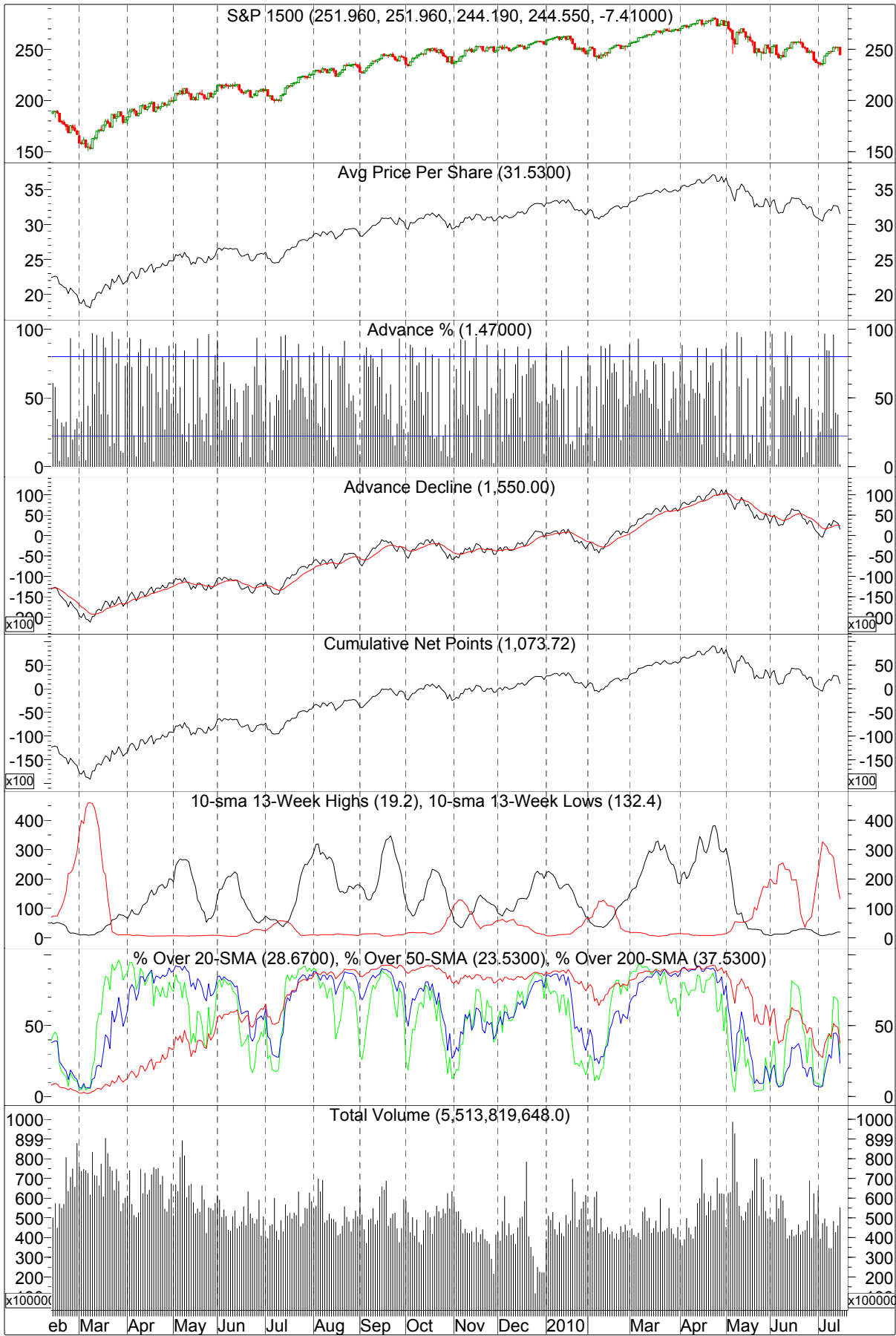


The recent rally produced very strong breadth numbers, with the percent over 10-sma on Tuesday hitting 95.6%, the highest since July 2009. It is no longer overbought at 30.6%, but not yet completely oversold.

The stochastic is still overbought.

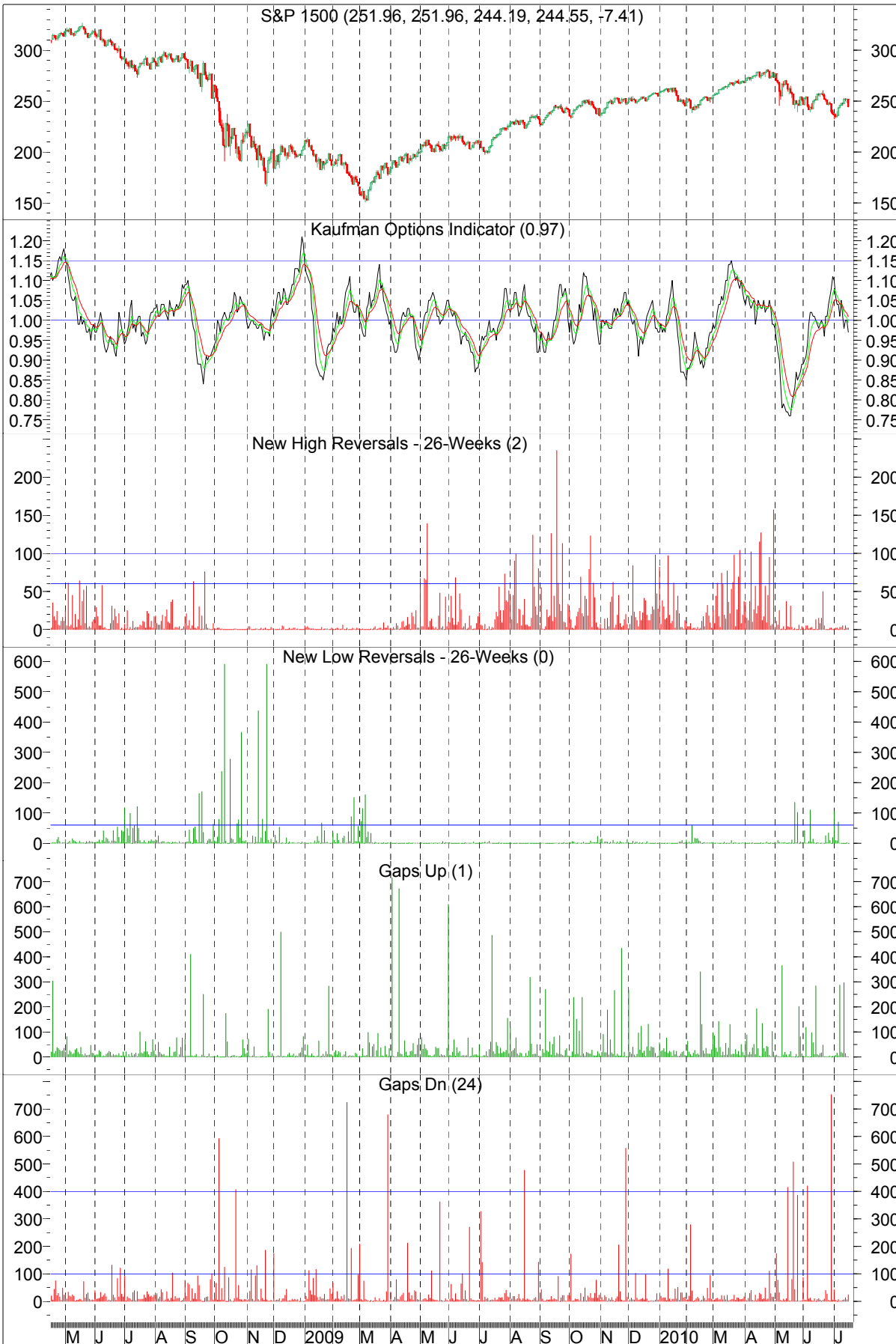
Our price oscillator, a good indicator of trends, has run into resistance at the neutral line. It can still go either way at this point.

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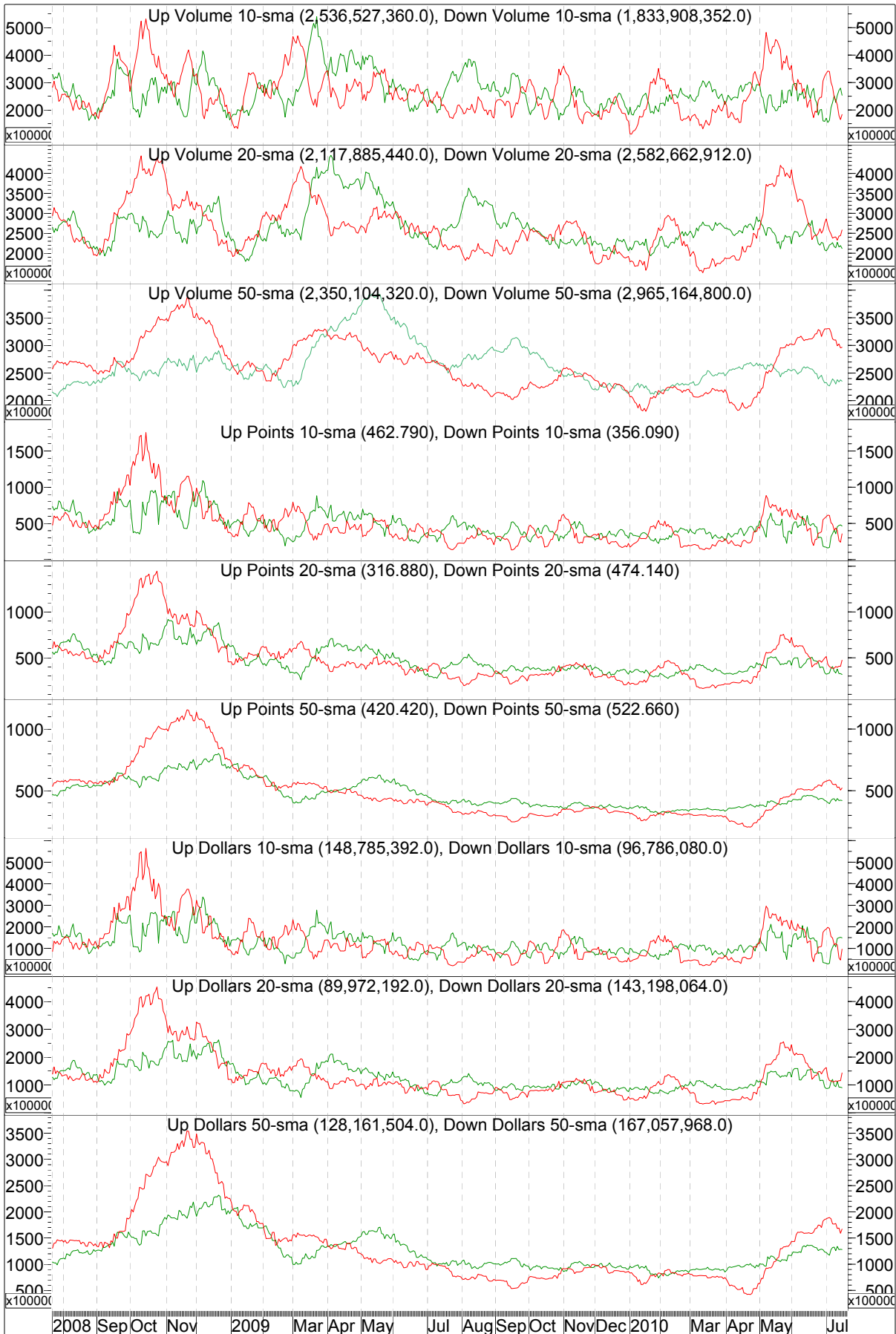


These are not bull market numbers.

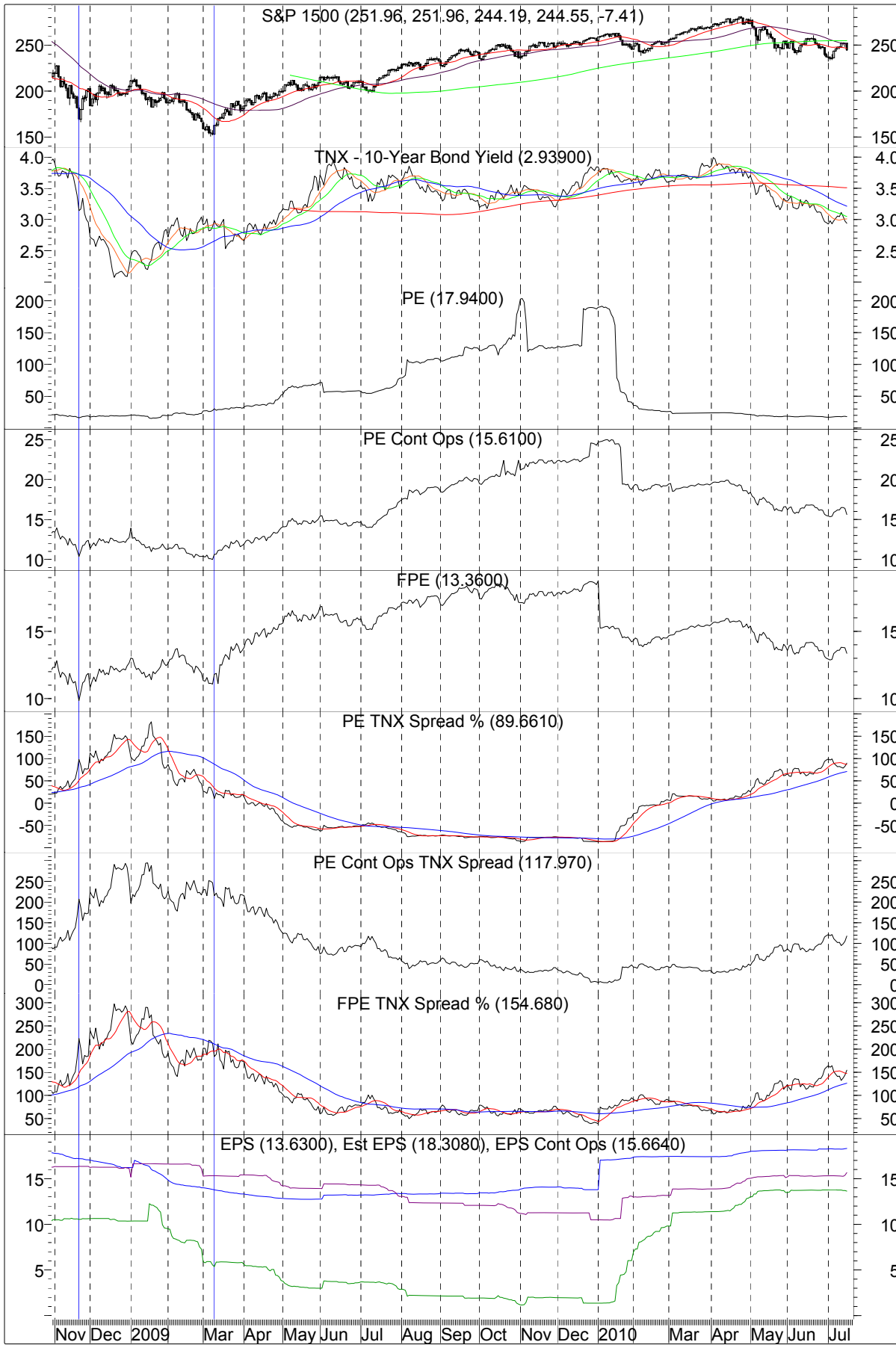
The Kaufman Report - Wayne S. Kaufman, CMT



Our proprietary options indicator is showing some pessimism at 0.97. Usually that would prevent any further drop from being too steep in the very near-term.



Our statistics of supply (red) versus demand (green) show a conflicting story depending on the time frame. In spite of Friday's severe sell off, the 10-day statistics are still positive.

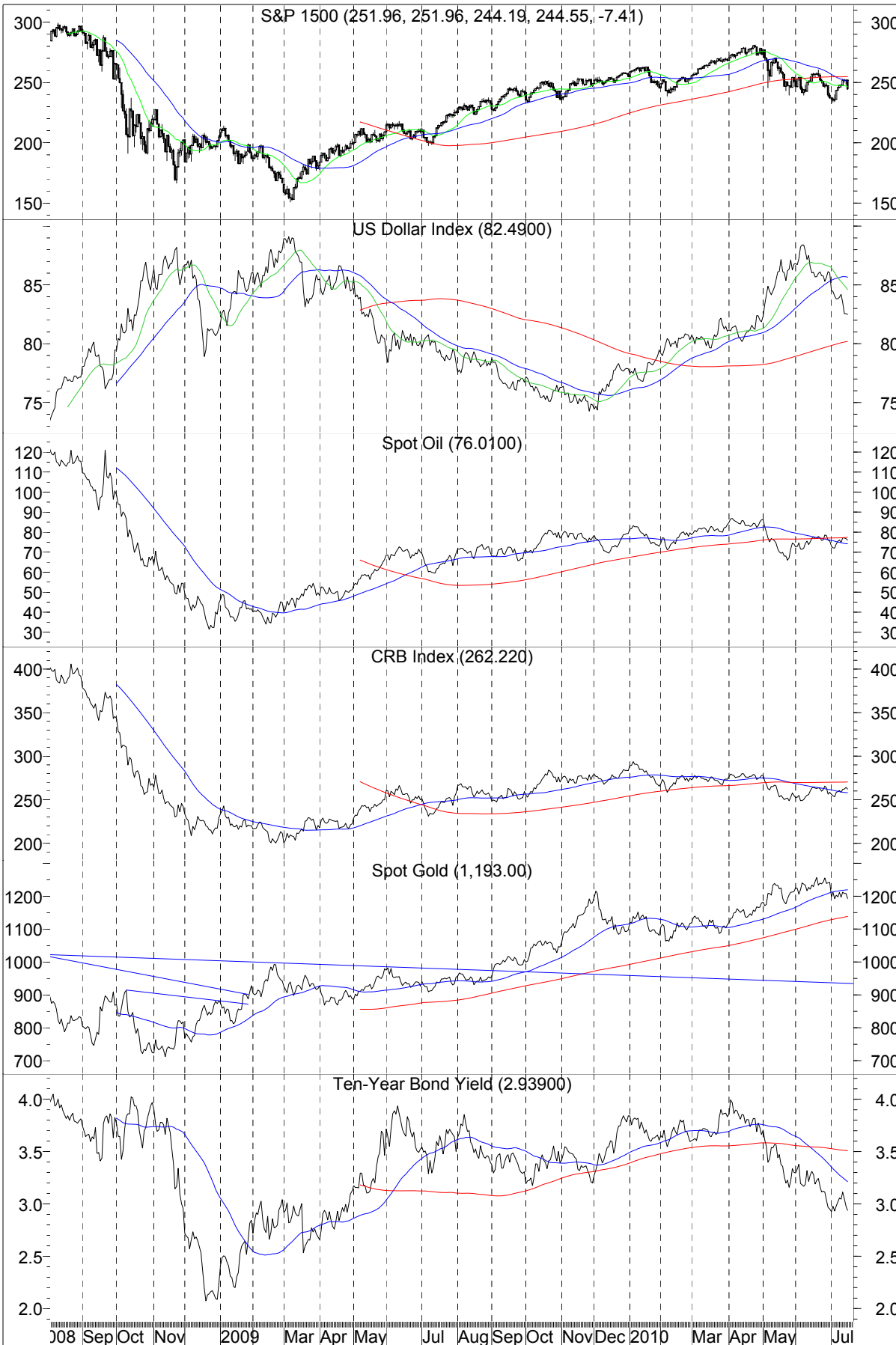


10-year bond yields are still down trending but are not oversold on the daily charts. They are nearing oversold on the weekly.

P/E ratios remain at low levels, although the P/E before extraordinary items is flat lining at 17.94.

Spreads between P/E ratios and bond yields remain at levels where stocks should be very attractive versus bonds.

49 of the S&P 500 have reported, so our metrics of earnings have not made much of a move. That will be different in two weeks.



The U.S. Dollar Index is getting oversold on the daily chart but not on the weekly. The rising 200-sma is at 80.33.

Crude oil seems range-bound, and is not overbought or oversold on both the daily and weekly charts.

Gold is below its 20 and 50-sma, and while there is some support at 1185, it is not oversold on the daily chart and seems headed lower. Still, sentiment has turned decidedly bearish could be setting gold up for a rally soon.