

Monday July 23, 2012

Closing prices of July 20, 2012

**Stocks recorded their second positive week in a row last week as the S&P 500 gained 0.43% in spite of Friday's 1.01% selloff.** Major indexes were led on the week by the Nasdaq 100, which recorded a gain of 1.28%, while losers were led by the Dow Transports, down 2.30%.

**S&P industry groups were perfectly split on the week with twelve of the twenty-four finishing higher on the week led by Software & Services, up 2.88%, Consumer Durables & Apparel, up 2.84%, and Energy, up 2.56%.** The losers were led by Diversified Financials, down 4.49%, and Automobiles & Components, down 2.66%, and these two groups are also the big losers so far this quarter with losses of 5.08% and 5.49%, respectively. The leaders for the quarter are Consumer Durables & Apparel, up 4.3%, Household & Personal Products, up 3.41%, and Energy, up 2.95%.

**Two weeks ago we said stocks were consolidating after becoming very overbought, that more consolidation was possible, and we expected a couple of weeks of choppiness.** Even though the S&P 500 made a marginal new high Thursday we expect the choppiness to continue. Global economic and geopolitical issues are stepping to the forefront once again with Spain's 10-year bond yields over 7% and making new highs and the situation in Syria growing more worrisome. This is why U.S. 10-year bond yields remain mired near record lows as investors flee to safety.

**In the near-term we could see some end of the month seasonal strength but the upside may be limited unless some positive development occurs.** We say this because negative divergences have developed. For example, 13-week closing highs on the S&P 1500 rally high on 7/19 totaled 101 versus 277 on the slightly lower rally high of 7/3. The percentage of stocks over their own 10-day moving average was 65.27% on 7/19 versus 93.53% on 7/3, while the percentages over their own 20-day moving averages was 70.47% on 7/19 versus 89.73% on 7/3. The Advance Decline line is showing a similar negative divergence for those two recent highs. In addition, our proprietary options indicator is at 1.02 and starting to show optimism among options buyers. It can go higher from here but it wouldn't take much more bullishness to put it at levels where tops in stocks have been seen recently, and it is certainly nowhere near the pessimistic levels we like to see. Friday's selloff came on the highest volume since 6/22, and with average daily volume at low levels volatility can be exacerbated. Dow Theorists would be concerned that the previously mentioned Dow Transportation Average has not confirmed the Dow Industrials rally highs of 7/3 or 7/19. **Therefore, while we remain in an uptrend and good earnings could provide a catalyst for stocks to trade higher, this remains a short-term trader's market and vigilance is the order of the day.**

**Valuations based on spreads between equity and bond yields are widening again and are around the levels of June 6<sup>th</sup>. They show extreme fear as investors flee to the safety of government bonds. They are buying these bonds in spite of the low yields, not because of them. The spreads are at levels where equities should be very attractive versus bonds, but as we saw in 2008 – 2009 valuations do not matter when liquidations are taking place.**

**So far 119 of the S&P 500 have reported second quarter earnings. Of those 67.2% beat estimates, 10.9% were in line, and 21.8% have missed.** First quarter earnings season ended with 67.3% of stocks beating estimates, 9.6% were in line, and 23.1% disappointed. Fourth quarter earnings season ended with 62.2% of stocks beating estimates, 9.8% were in line, and 27.9% disappointed. Third quarter earnings season ended with 69.0% exceeding expectations, 9.5% were in line, and 21.5% disappointed. Projected aggregate earnings have come down a little due to recent weak economic news.

Current S&P 500 projected aggregate earnings for 2012 are just over \$108, and the 2013 number is over \$115. They currently project 2013 earnings growth of 6.91% over 2012. **A 13 P/E based on the 2012 number equates to an S&P 500 of 1407, while a 14 P/E equates to 1515. The same P/Es applied to 2013 equates to 1504 and 1620, respectively.**

**In summary, the current rally remains intact but negative divergences have developed. Earnings season is off to a good start which makes valuations for stocks very attractive, but news from Europe and the Middle East is spooking investors. This remains a short-term trader's market.**

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

## IMPORTANT DISCLOSURES

I, Wayne S. Kaufman, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

**THE INFORMATION PROVIDED IN THIS PUBLICATION IS FOR INFORMATIONAL PURPOSES ONLY. INVESTORS SHOULD CONSIDER THIS REPORT AS ONLY A SINGLE FACTOR IN MAKING THEIR INVESTMENT DECISION. THIS INFORMATIONAL REPORT IS NOT AN OFFER TO SELL OR A SOLICITATION TO BUY ANY SECURITY IN ANY JURISDICTION WHERE SUCH AN OFFER OR SOLICITATION WOULD BE ILLEGAL. THIS REPORT HAS BEEN PREPARED AS A MATTER OF GENERAL INFORMATION. IT IS NOT INTENDED TO BE A COMPLETE DESCRIPTION OF ANY SECURITY OR COMPANY MENTIONED, AND IS NOT AN OFFER TO BUY OR SELL ANY SECURITY. ALL FACTS AND STATISTICS ARE FROM SOURCES BELIEVED TO BE RELIABLE, BUT ARE NOT GUARANTEED AS TO ACCURACY. ADDITIONAL INFORMATION ON THESE SECURITIES AND COMPANIES IS AVAILABLE UPON REQUEST. SECURITIES, FINANCIAL INSTRUMENTS OR STRATEGIES MENTIONED HEREIN MAY NOT BE SUITABLE FOR ALL INVESTORS. THIS MATERIAL DOES NOT TAKE INTO ACCOUNT YOUR PARTICULAR INVESTMENT OBJECTIVES, FINANCIAL SITUATIONS OR STRATEGIES. BEFORE ACTING ON THE MATERIALS HEREIN, YOU SHOULD CONSIDER WHETHER IT IS SUITABLE FOR YOUR PARTICULAR CIRCUMSTANCES AND, IF NECESSARY SEEK PROFESSIONAL ADVICE. INVESTMENTS INVOLVE RISK AND AN INVESTOR MAY INCUR EITHER PROFITS OR LOSSES. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE. TRADING AND INVESTMENT DECISIONS ARE THE SOLE RESPONSIBILITY OF THE READER.**



After making new rally highs the S&P 500 has fallen back to the prior resistance zone, which should now provide some support.

30-minute momentum is negative but at low levels.

The Kaufman Report - Wayne S. Kaufman, CMT

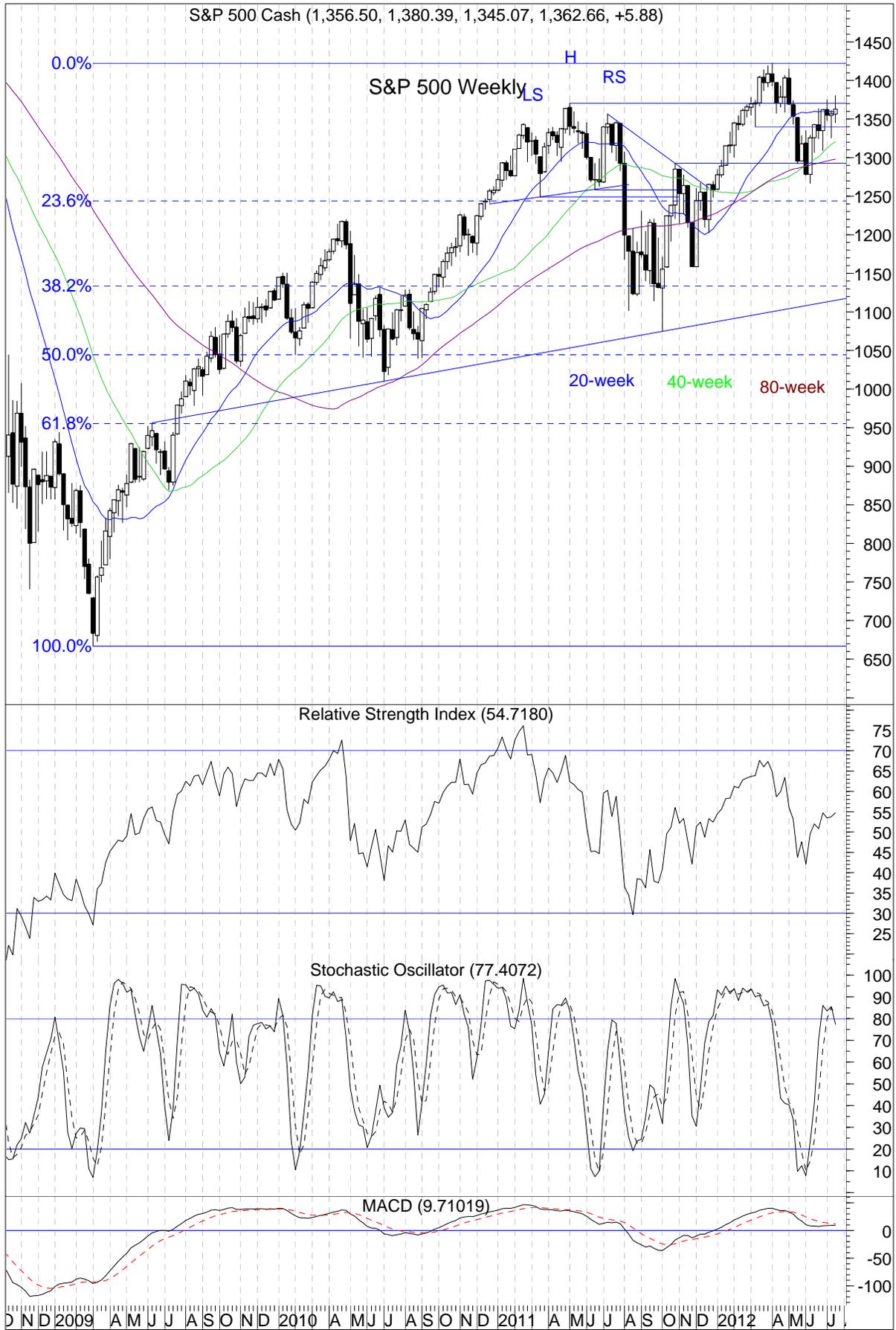


The S&P 500 printed a bearish engulfing candle on the daily chart.

Daily momentum is turning negative from high levels.

The Kaufman Report - Wayne S. Kaufman, CMT

S&P 500 Cash (1,356.50, 1,380.39, 1,345.07, 1,362.66, +5.88)



The S&P 500 printed a high wave spinning top on its weekly chart, a sign of indecision. It closed a fraction above its 20-week moving average.

Weekly momentum is mixed but the stochastic is turning down from the overbought zone.

S&P 500 Cash (1,362.33, 1,380.39, 1,325.41, 1,362.66, +0.50)

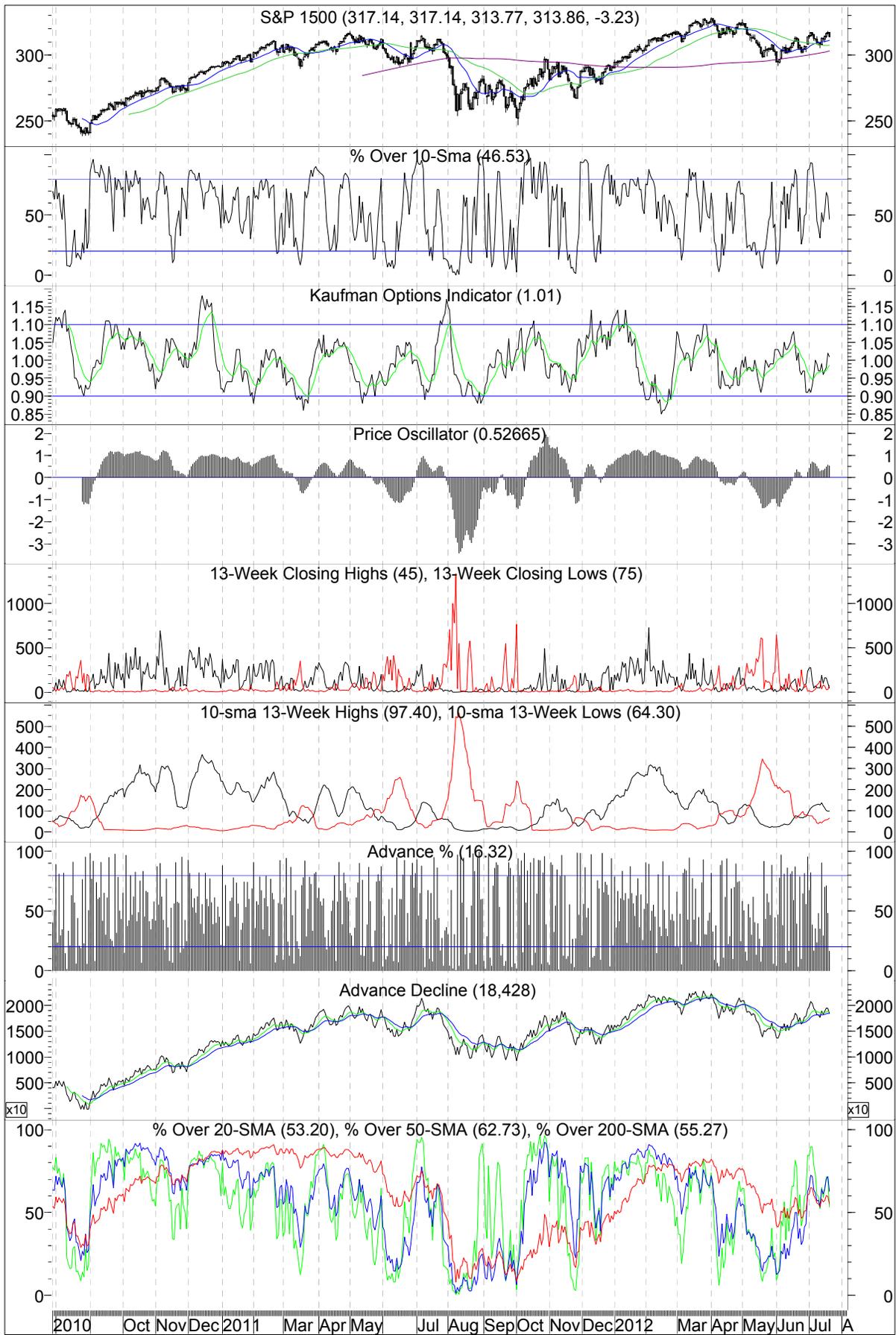
### S&P 500 Monthly



So far July is printing a doji candle on its monthly chart. Doji are signs of indecision.

Monthly momentum is mixed but could easily turn negative if next week is bad.

The Kaufman Report - Wayne S. Kaufman, CMT



The percentage of stocks over their own 10-day moving average is a neutral 46.53%.

Our options indicator is just above the neutral line, not at the levels showing pessimism we like to see.

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

13-week closing lows exceeded highs Friday. There is a negative divergence here. Fewer highs were seen on the 7/19 high (101) versus 7/3 (277).

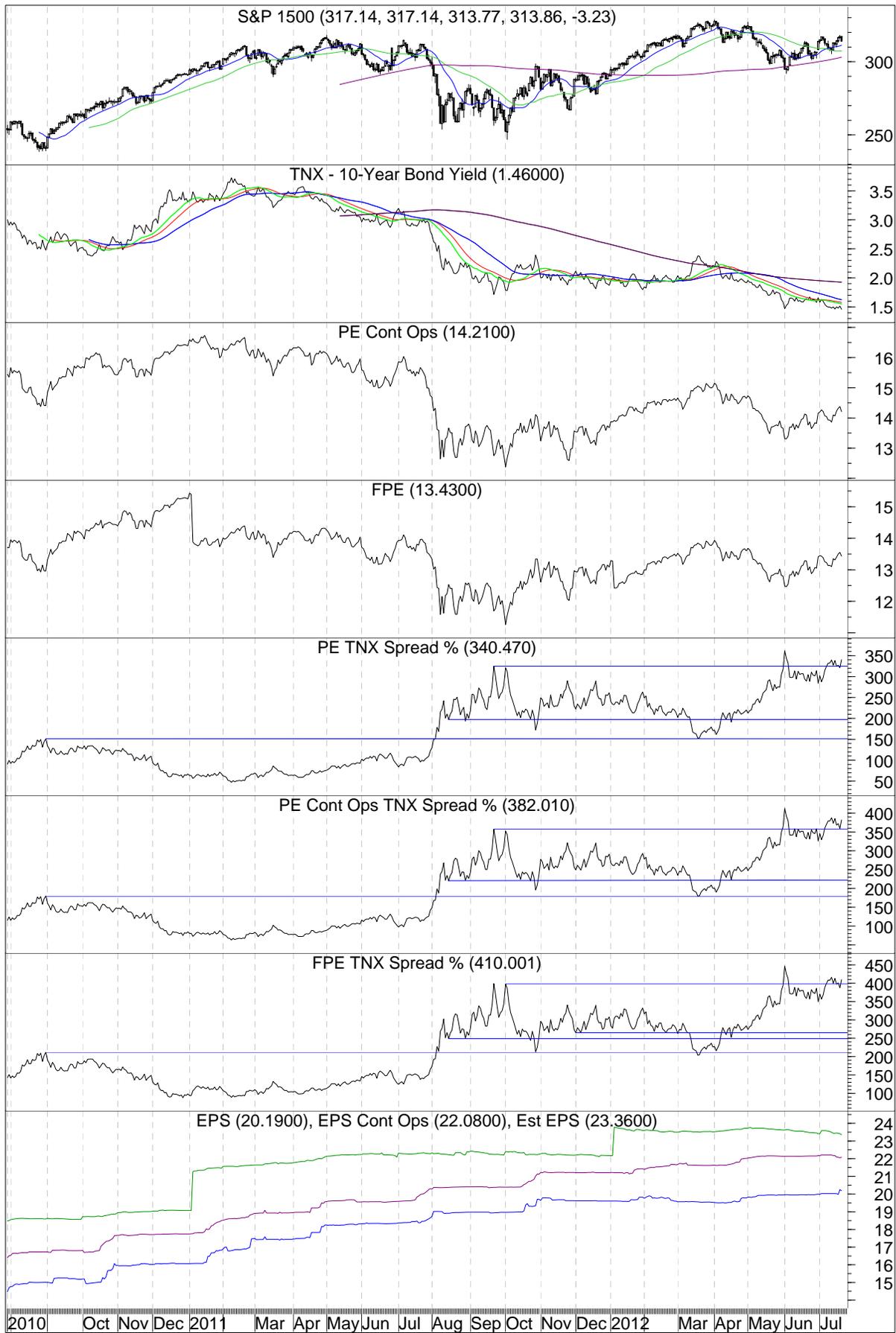
The 10-day average of 13-week highs remains above its counterpart of 13-week closing lows.

Friday saw a weak 16.32% of stocks advancing.

The AD line is back under its 10-day average but still above its 20-day. A negative divergence here also.

These numbers are positive and not overbought but again negative divergences have shown up.

The Kaufman Report - Wayne S. Kaufman, CMT



10-year bond yields remain near record lows due to a flight to safety.

P/e ratios have moved up in tandem with stocks.

Spreads between equity and bond yields remain at extraordinary levels where stocks are very attractive versus bonds but reflect fear on the part of investors and stress in the financial system.

So far 119 of the S&P 500 have reported Q2 earnings. So far 67.2% have surpassed estimates, 10.9% have been in line, and 21.8% have disappointed. These are good numbers and should they continue stocks will appear to be cheap at current levels.

## Indexes, Sectors, and Industry Groups

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Dow Jones Industrials	12822.57	-0.93%	0.36%	0.36%	-0.45%	-0.45%	4.95%	13338.66	5/1/2012	10404.49	10/4/2011
S&P Midcap 400	940.63	-0.99%	-0.22%	-0.22%	-0.11%	-0.11%	6.99%	1008.68	3/19/2012	731.62	10/4/2011
S&P 1500	313.91	-1.00%	0.34%	0.34%	0.02%	0.02%	8.20%	328.06	4/2/2012	247.50	10/4/2011
S&P 500	1362.66	-1.01%	0.43%	0.43%	0.04%	0.04%	8.35%	1422.38	4/2/2012	1074.77	10/4/2011
NYSE Composite	7764.03	-1.09%	0.07%	0.07%	-0.48%	-0.48%	3.84%	8423.05	7/21/2011	6414.89	10/4/2011
S&P Smallcap 600	443.65	-1.21%	-0.83%	-0.83%	-0.40%	-0.40%	6.89%	472.34	3/27/2012	334.10	10/4/2011
Nasdaq Composite	2925.30	-1.37%	0.58%	0.58%	-0.33%	-0.33%	12.29%	3134.17	3/27/2012	2298.89	10/4/2011
Nasdaq 100	2618.04	-1.42%	1.28%	1.28%	0.09%	0.09%	14.94%	2795.35	4/3/2012	2034.92	8/9/2011
Bank of New York Mellon ADR	117.11	-1.88%	-0.46%	-0.46%	-1.96%	-1.96%	-2.09%	143.29	7/26/2011	106.98	10/4/2011
Dow Jones Transportation	5072.20	-2.21%	-2.30%	-2.30%	-2.63%	-2.63%	1.05%	5487.74	7/21/2011	3950.66	10/4/2011

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Energy	518.12	0.06%	2.56%	2.56%	2.95%	2.95%	-0.52%	591.23	7/25/2011	412.52	10/4/2011
Information Technology	460.70	-1.33%	1.90%	1.90%	-0.29%	-0.29%	12.39%	504.34	4/3/2012	357.37	8/19/2011
Materials	223.26	-0.74%	1.84%	1.84%	0.14%	0.14%	5.45%	251.13	7/21/2011	174.61	10/4/2011
Industrials	305.46	-1.18%	0.83%	0.83%	-1.48%	-1.48%	4.49%	329.29	3/19/2012	238.89	10/4/2011
Utilities	191.35	0.19%	0.82%	0.82%	1.89%	1.89%	4.58%	191.80	7/20/2012	149.11	8/9/2011
Consumer Discretionary	345.87	-1.28%	0.32%	0.32%	0.02%	0.02%	12.08%	365.71	5/1/2012	261.24	10/4/2011
Health Care	442.63	-1.40%	0.20%	0.20%	0.42%	0.42%	10.13%	449.83	7/18/2012	342.59	8/9/2011
Telecom Services	147.37	-0.40%	-0.37%	-0.37%	0.16%	0.16%	13.52%	151.22	7/18/2012	113.74	8/9/2011
Consumer Staples	361.65	-0.62%	-0.87%	-0.87%	0.76%	0.76%	7.78%	365.38	7/17/2012	290.40	8/9/2011
Financials	193.42	-1.53%	-2.35%	-2.35%	-2.00%	-2.00%	10.38%	215.80	3/27/2012	147.48	10/4/2011

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Software & Services	595.71	-0.82%	2.88%	2.88%	-0.21%	-0.21%	9.98%	627.31	3/27/2012	469.23	8/19/2011
Consumer Durables & Apparel	191.23	-1.54%	2.84%	2.84%	4.30%	4.30%	7.19%	219.96	5/3/2012	144.47	8/9/2011
Energy	518.12	0.06%	2.56%	2.56%	2.95%	2.95%	-0.52%	591.23	7/25/2011	412.52	10/4/2011
Materials	223.26	-0.74%	1.84%	1.84%	0.14%	0.14%	5.45%	251.13	7/21/2011	174.61	10/4/2011
Capital Goods	327.13	-0.88%	1.34%	1.34%	-1.81%	-1.81%	4.50%	358.61	3/16/2012	254.65	10/4/2011
Semiconductors & Equipment	332.28	-2.10%	1.05%	1.05%	-5.05%	-5.05%	-0.13%	390.82	3/27/2012	285.81	8/19/2011
Technology Hardware & Equipmen	521.70	-1.71%	1.02%	1.02%	1.00%	1.00%	19.52%	588.58	4/3/2012	380.20	10/4/2011
Media	257.81	-0.93%	0.83%	0.83%	-0.04%	-0.04%	21.40%	262.75	7/19/2012	173.60	10/4/2011
Utilities	191.35	0.19%	0.82%	0.82%	1.89%	1.89%	4.58%	191.80	7/20/2012	149.11	8/9/2011
Pharmaceuticals, Biotech & Life Sci	420.88	-1.28%	0.77%	0.77%	1.69%	1.69%	10.63%	426.88	7/19/2012	315.10	8/9/2011
Retailing	617.13	-0.63%	0.64%	0.64%	0.46%	0.46%	17.95%	656.61	5/2/2012	458.07	8/9/2011
Commercial & Professional Service	138.96	-1.35%	0.23%	0.23%	0.00%	0.00%	2.17%	151.50	7/21/2011	118.22	8/9/2011
Telecom Services	147.37	-0.40%	-0.37%	-0.37%	0.16%	0.16%	13.52%	151.22	7/18/2012	113.74	8/9/2011
Banks	155.75	-1.43%	-0.42%	-0.42%	0.92%	0.92%	19.33%	160.43	5/1/2012	104.66	8/23/2011
Household & Personal Products	405.42	-0.86%	-0.45%	-0.45%	3.41%	3.41%	1.37%	415.48	4/20/2012	345.75	8/9/2011
Food, Beverage & Tobacco	434.88	-0.69%	-0.87%	-0.87%	-0.22%	-0.22%	8.69%	441.75	7/3/2012	348.53	10/4/2011
Real Estate	148.39	-0.60%	-0.93%	-0.93%	1.17%	1.17%	14.02%	151.88	7/17/2012	105.72	10/4/2011
Health Care Equip & Services	414.53	-1.64%	-0.99%	-0.99%	-2.17%	-2.17%	8.86%	436.83	4/4/2012	332.83	10/4/2011
Transportation	346.46	-2.34%	-1.10%	-1.10%	-0.49%	-0.49%	5.13%	356.78	7/19/2012	266.62	10/4/2011
Food & Staples Retailing	236.68	-0.22%	-1.26%	-1.26%	0.96%	0.96%	12.03%	241.32	7/18/2012	178.65	8/9/2011
Consumer Services	539.99	-2.82%	-1.49%	-1.49%	-1.11%	-1.11%	-0.74%	595.85	5/1/2012	446.24	10/4/2011
Insurance	179.10	-1.66%	-1.52%	-1.52%	-1.55%	-1.55%	5.25%	191.22	5/1/2012	143.99	9/22/2011
Automobiles & Components	76.83	-2.02%	-2.66%	-2.66%	-5.49%	-5.49%	-12.07%	109.31	7/20/2011	71.16	10/4/2011
Diversified Financials	249.82	-1.89%	-4.49%	-4.49%	-5.08%	-5.08%	7.85%	317.52	3/27/2012	198.18	10/4/2011

## INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Australia EWA	22.42	-1.19%	2.80%	2.61%	2.61%	4.57%	26.10	7/22/2011	18.91	10/4/2011
Sweden EWD	26.17	-0.91%	2.51%	1.63%	1.63%	4.10%	30.99	7/21/2011	21.41	10/4/2011
China 25 FXI	33.26	-1.34%	2.07%	-1.22%	-1.22%	-4.63%	42.78	7/26/2011	28.61	10/4/2011
Russia RSX	26.73	-1.73%	1.52%	2.18%	2.18%	0.30%	40.28	7/26/2011	23.12	6/1/2012
Indonesia IDX	27.92	-2.00%	1.31%	1.71%	1.71%	-1.93%	34.99	8/1/2011	23.16	10/4/2011
Chile ECH	62.79	-0.85%	1.11%	2.11%	2.11%	8.80%	74.36	7/20/2011	48.22	10/4/2011
Canada EWC	26.03	-0.93%	1.07%	0.72%	0.72%	-2.16%	32.71	7/21/2011	23.48	10/4/2011
Singapore EWS	12.88	-1.08%	1.02%	4.55%	4.55%	18.93%	14.61	8/1/2011	10.28	10/4/2011
Belgium EWK	11.30	-2.42%	0.89%	-1.91%	-1.91%	6.70%	13.84	7/26/2011	10.23	11/25/2011
Netherlands EWN	16.89	-1.92%	0.84%	-1.09%	-1.09%	-1.97%	21.12	7/26/2011	15.30	9/23/2011
Brazil EWZ	51.72	-1.86%	0.80%	0.05%	0.05%	-9.88%	72.19	7/26/2011	48.27	6/28/2012
Latin America ILF	41.93	-1.16%	0.79%	1.16%	1.16%	-1.50%	50.64	7/25/2011	36.73	10/4/2011
South Africa EZA	63.63	-1.56%	0.76%	-0.42%	-0.42%	4.19%	72.15	7/26/2011	54.64	10/4/2011
Hong Kong EWH	16.63	-1.07%	0.70%	1.40%	1.40%	7.50%	19.05	8/1/2011	13.30	10/4/2011
Switzerland EWL	22.68	-1.61%	0.67%	-1.00%	-1.00%	0.27%	26.94	7/25/2011	20.67	9/23/2011
Mexico EWW	62.37	-0.49%	0.63%	1.50%	1.50%	16.02%	63.85	7/18/2012	46.65	10/4/2011
Malaysia EWM	14.40	-1.23%	0.63%	0.91%	0.91%	7.46%	15.31	8/1/2011	11.88	9/26/2011
United States SPY	136.47	-0.91%	0.53%	0.27%	0.27%	8.74%	142.21	5/1/2012	107.43	10/4/2011
Germany EWG	19.66	-2.91%	0.36%	-0.71%	-0.71%	2.29%	26.86	7/26/2011	16.96	10/4/2011
Emerging Markets EEM	38.59	-1.48%	0.26%	-1.41%	-1.41%	1.70%	47.98	7/26/2011	33.42	10/4/2011
Taiwan EWT	11.97	-0.46%	0.21%	-2.17%	-2.17%	2.18%	15.54	7/26/2011	11.19	12/20/2011
South Korea EWY	52.98	-1.12%	0.19%	-3.34%	-3.34%	1.38%	66.93	7/21/2011	44.67	10/4/2011
BRIC EEB	33.68	-1.35%	0.15%	-1.17%	-1.17%	-3.85%	45.75	7/26/2011	32.00	6/4/2012
France EWQ	18.83	-2.94%	-0.11%	-3.83%	-3.83%	-3.83%	26.51	7/22/2011	17.88	10/4/2011
Vietnam VNM	18.08	-2.74%	-0.17%	-1.58%	-1.58%	24.26%	21.28	5/9/2012	14.15	1/6/2012
United Kingdom EWU	16.41	-2.03%	-0.24%	0.74%	0.74%	1.55%	18.21	7/26/2011	14.04	10/4/2011
India IFN	20.27	-0.78%	-0.64%	-0.54%	-0.54%	6.46%	28.97	7/25/2011	18.43	5/23/2012
Austria EWO	13.67	-3.12%	-1.16%	-5.00%	-5.00%	-3.87%	22.09	7/26/2011	12.97	11/25/2011
Turkey TUR	51.61	-1.84%	-1.32%	-1.39%	-1.39%	25.45%	56.92	7/28/2011	39.82	12/19/2011
Israel EIS	36.37	-1.21%	-1.48%	-1.16%	-1.16%	-8.06%	55.74	7/21/2011	35.69	6/28/2012
Thailand THD	69.08	-1.10%	-1.71%	0.03%	0.03%	14.92%	76.21	5/1/2012	49.43	10/4/2011
Japan EWJ	8.96	-2.34%	-2.18%	-4.78%	-4.78%	-1.65%	10.91	7/26/2011	8.64	6/1/2012
Italy EWI	9.95	-5.33%	-5.51%	-12.02%	-12.02%	-17.01%	16.98	7/21/2011	9.87	6/1/2012
Spain EWP	21.11	-6.76%	-7.25%	-14.88%	-14.88%	-30.26%	41.06	7/22/2011	20.98	6/1/2012

## Commodities

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Grains JIG	64.83	1.89%	10.76%	24.72%	24.72%	43.97%	64.83	8/1/2011	40.32	10/4/2011
Grains GRU	8.54	2.38%	9.07%	22.31%	22.31%	36.64%	8.60	7/26/2011	5.63	10/4/2011
Natural Gas UNG	21.08	2.58%	7.50%	9.28%	9.28%	-18.42%	46.00	7/22/2011	14.25	10/4/2011
Sugar SGG	90.32	3.27%	5.46%	13.68%	13.68%	10.42%	107.06	7/26/2011	70.00	6/1/2012
Heating Oil UHN	32.66	-0.78%	4.68%	8.25%	8.25%	-0.64%	37.48	7/26/2011	28.16	10/4/2011
OIL USO	34.20	-1.27%	4.65%	7.45%	7.45%	-10.26%	42.30	7/20/2011	29.02	10/4/2011
Corn CORN	49.94	2.42%	3.98%	18.62%	18.62%	18.96%	50.73	7/21/2011	35.23	6/28/2012
Tin JJT	43.53	-0.46%	2.42%	0.93%	0.93%	-0.41%	67.23	7/26/2011	41.64	6/1/2012
Livestock COW	28.05	-0.85%	1.15%	-2.60%	-2.60%	-5.75%	31.81	7/26/2011	26.70	10/4/2011
Cotton BAL	48.42	1.11%	1.01%	4.47%	4.47%	-14.24%	71.69	8/1/2011	41.24	10/4/2011
Cocoa NIB	30.58	-0.52%	0.36%	-3.03%	-3.03%	6.37%	45.35	8/1/2011	27.23	10/4/2011
Silver SLV	26.48	0.23%	0.15%	-0.64%	-0.64%	-1.71%	42.78	7/25/2011	25.34	9/23/2011
Coffee JO	44.89	-1.12%	-0.04%	9.94%	9.94%	-20.58%	74.23	7/26/2011	35.88	11/25/2011
Gold GLD	153.67	0.19%	-0.30%	-0.98%	-0.98%	1.11%	185.85	7/28/2011	148.27	12/19/2011
Timber CUT	16.68	-1.88%	-0.36%	-0.77%	-0.77%	0.85%	20.64	7/18/2012	15.02	10/4/2011
Platinum PPLT	139.38	-0.29%	-0.94%	-2.30%	-2.30%	1.13%	189.20	5/1/2012	133.00	10/4/2011
Coal KOL	23.42	-1.51%	-0.97%	-4.53%	-4.53%	-27.38%	50.62	7/21/2011	22.75	10/4/2011
Aluminum JJU	22.71	-3.07%	-1.35%	0.09%	0.09%	-10.24%	34.68	7/26/2011	22.10	11/25/2011
Palladium PALL	56.57	-1.62%	-1.43%	-1.33%	-1.33%	-12.38%	83.90	7/21/2011	52.90	10/4/2011
Copper JJC	43.73	-2.56%	-1.46%	-1.75%	-1.75%	-0.70%	58.88	7/26/2011	38.99	9/23/2011