

Wednesday July 29, 2009

Closing prices of July 28, 2009

Stocks were mixed Tuesday. The S&P 500 was down slightly, but the Nasdaq 100 printed new rally highs. The end of July is typically a seasonally strong period, so further gains over the next few days are possible. However, we are concerned about the optimism we are seeing among options buyers. Our proprietary options indicator hit 1.08 Tuesday, the highest since 1.09 on March 24<sup>th</sup>.

We have said we don't expect pullbacks to be deep due to a lack of sellers, and longer-term charts still show a lot of possible upside. However, there is too much bullishness developing short-term, and investors also need to be careful about sector rotation. Therefore, caution is advised regarding entry points.

We remain concerned about valuations. Forecast aggregate earnings are starting to rise, but earnings from continuing operations and earnings before charges continue to drop. Earnings season is about 50% over. Hopefully the balance will help clarify this confusing situation.

Market breadth continues to improve. **For example, the percentage of stocks over their own 200-day moving average is 82.60%, the highest since 2/26/2007.** Statistically, three-quarters of stocks follow the primary trend of the market, so with more than that now over the moving average generally accepted as defining the long-term market trend this is interesting fodder in the bull market bear market debate. On June 23<sup>rd</sup> the Nasdaq 100 traded above its **400-day moving average** for the first time since August 2008.

**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. Very aggressive traders can short overbought conditions keeping in mind shorting is counter-trend and they may need to cover quickly.**

The S&P 1500 (223.41) was down 0.237% Tuesday. Average price per share was down 0.10%. Volume was 105% of its 10-day average and 111% of its 30-day average. 50.04% of the S&P 1500 stocks were up, with up volume at 58.83% and up points at 46.87%. Up Dollars was 44.32% of total dollars, and was 34% of its 10-day moving average. Down Dollars was 229% of its 10-day moving average.

Percent over 10-sma: 83.53%. 13-Week Closing Highs: 215. 13-Week Closing Lows: 8.

Put/Call Ratio: 0.812. Kaufman Options Indicator: 1.08.

P/E Ratios: 66.38 (before charges), 16.47 (continuing operations), 16.70 (analyst estimates).

P/E Yield 10-year Bond Yield Spreads: -59% (earnings bef. charges), 65% (earnings continuing ops), and 62% (projected earnings).

247 of the S&P 500 have reported 2<sup>nd</sup> quarter earnings. According to Bloomberg, 74.5% had positive surprises, 9.7% were in line, and 15.8% have been negative. The year-over-year change has been -24.8% on a share-weighted basis, -13.2% market cap-weighted and -29.9% non-weighted. Ex-financial stocks these numbers are -20.3%, -10.1%, and -26.7%, respectively.

## IMPORTANT DISCLOSURES

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S&P 500 Cash (981.48, 982.35, 969.35, 979.62, -2.56)



The S&P 500 had a rare down day Tuesday, and in doing so printed a hanging man candle. These are bearish but require confirmation the next session.

The 200-sma has started to turn up.

Momentum indicators remain at high levels.

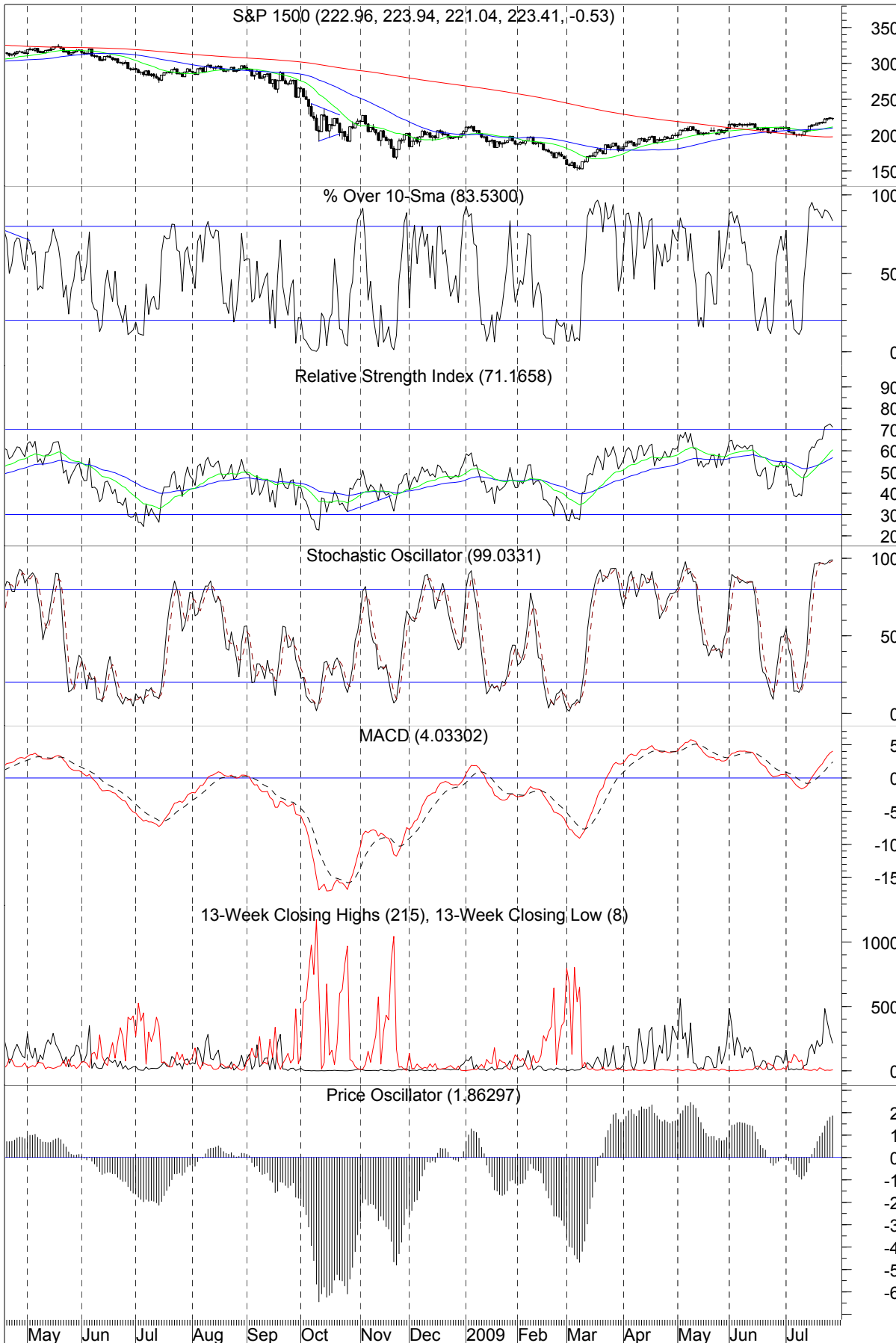
NASDAQ 100 (1,590.77, 1,609.17, 1,583.27, 1,605.47, +6.16)



The Nasdaq 100 made new intra-day and closing rally highs. That makes 13 straight sessions the index closed higher than where it opened.

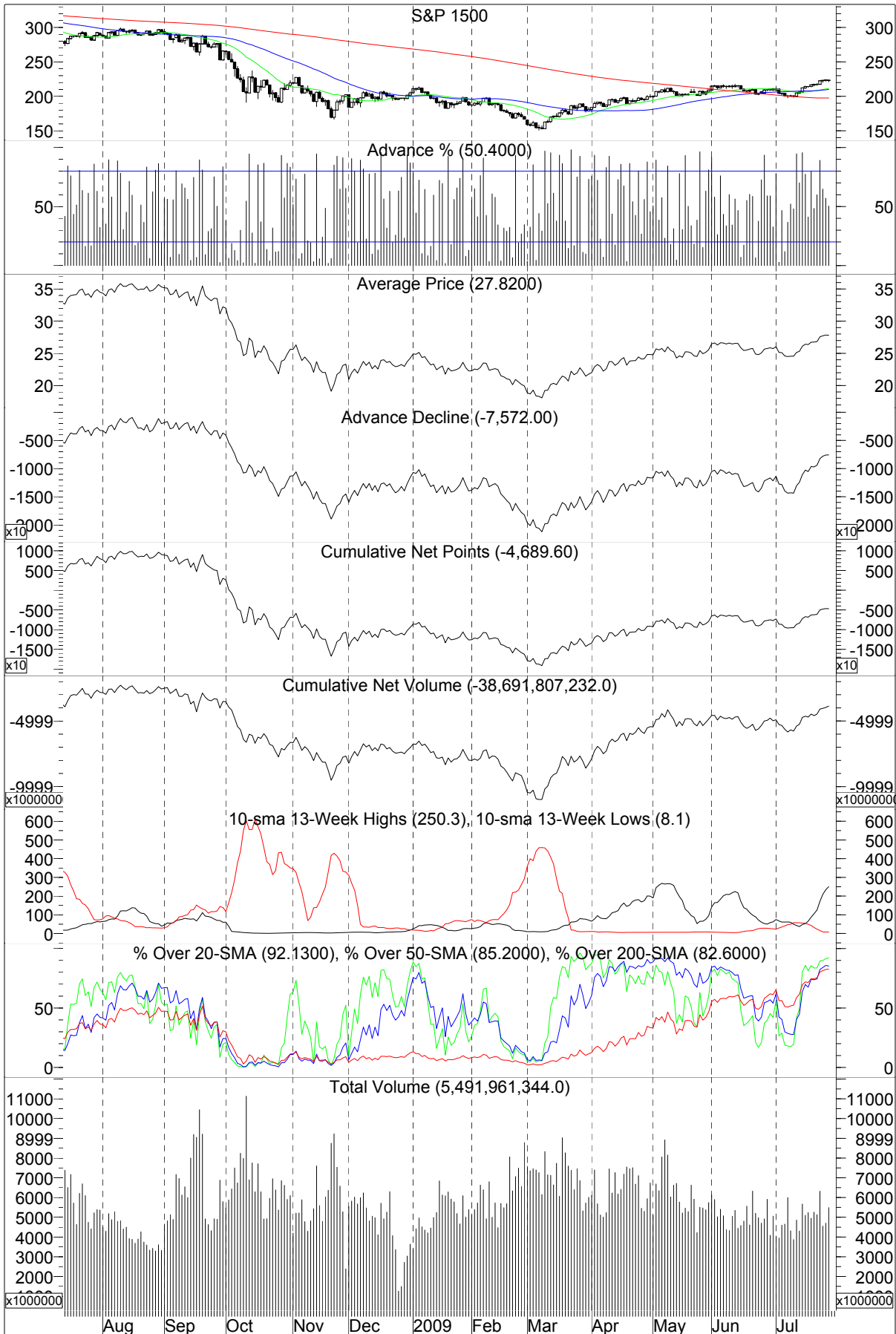
The 200-day moving average has turned up.

Momentum indicators remain at high levels (repetitive, huh?)



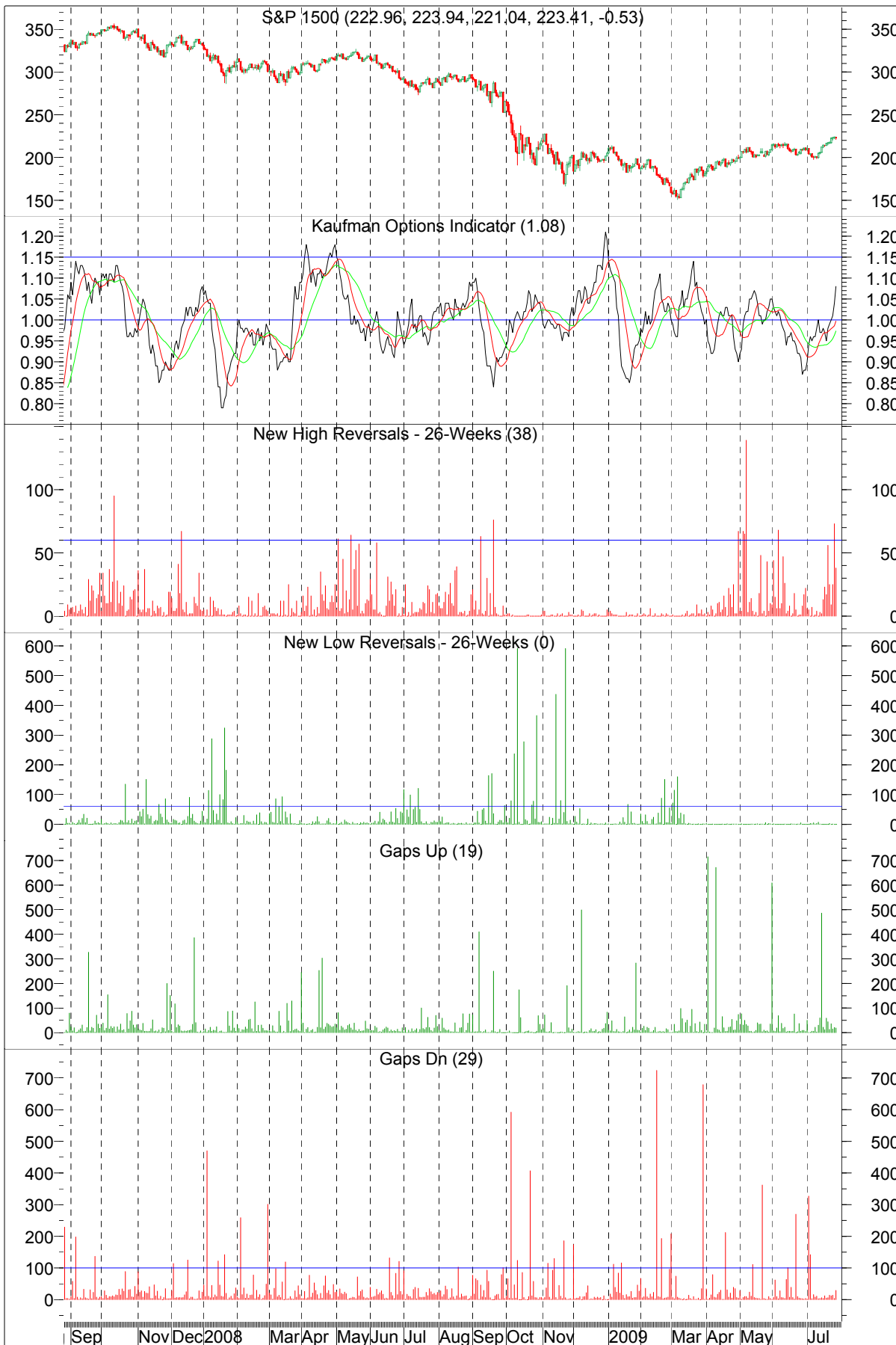
Percent over 10-sma is starting to come down.

Momentum indicators are at high levels.



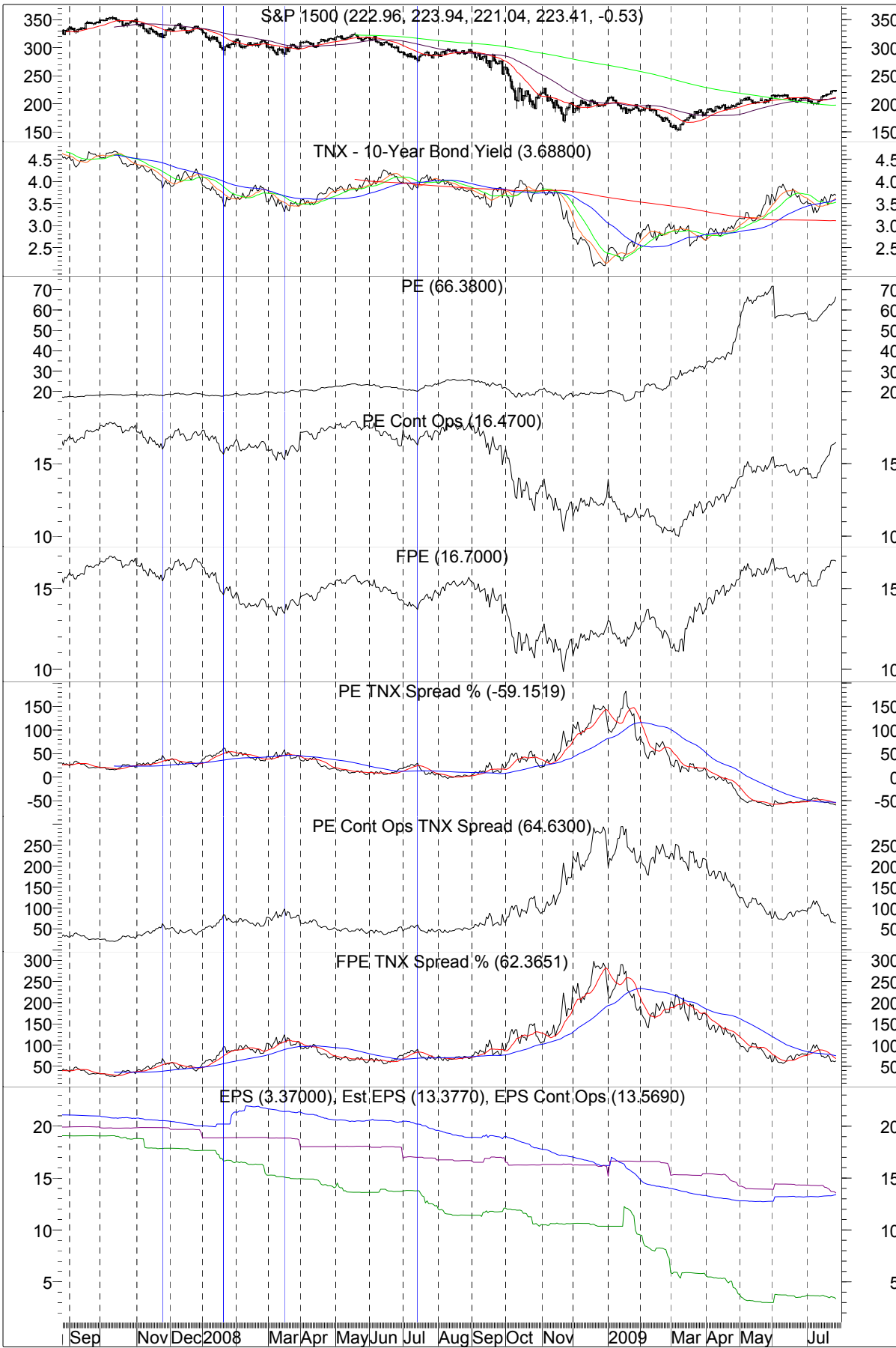
Very strong breadth numbers.

Volume expanded Tuesday.



Our proprietary options indicator is showing too much bullishness on the part of options buyers.

Monday's 73 new high reversals showed an increased desire to take profits.



P/E ratios are vaulting higher.

Earnings estimates are (purple) rising but earnings from continuing operations and earnings before charges continue to drop.

	Daily	WTD	MTD	QTD	YTD
Information Technology	0.31%	0.06%	9.20%	9.20%	35.50%
Health Care	0.22%	0.25%	5.97%	5.97%	4.96%
Telecom Services	0.09%	0.28%	2.15%	2.15%	-4.73%
Consumer Discretionary	0.03%	0.25%	8.31%	8.31%	16.45%
Consumer Staples	-0.07%	-0.09%	5.79%	5.79%	2.15%
Industrials	-0.08%	0.66%	7.06%	7.06%	-1.17%
Financials	-0.37%	1.11%	5.32%	5.32%	0.31%
Materials	-0.84%	-0.47%	11.26%	11.26%	24.92%
Energy	-1.54%	-1.23%	4.67%	4.67%	1.28%
Utilities	-1.68%	-1.86%	3.81%	3.81%	-0.42%

	Daily	WTD	MTD	QTD	YTD
Health Care Equip & Services	1.97%	1.96%	5.89%	5.89%	13.24%
Retailing	0.62%	-0.45%	8.45%	8.45%	25.26%
Software & Services	0.56%	-0.18%	4.84%	4.84%	27.73%
Banks	0.55%	3.77%	3.27%	3.27%	-19.66%
Consumer Services	0.43%	0.21%	2.73%	2.73%	3.78%
Capital Goods	0.33%	1.07%	6.39%	6.39%	-2.37%
Commercial & Professional Services	0.28%	1.12%	6.97%	6.97%	1.28%
Technology Hardware & Equipment	0.22%	0.14%	10.82%	10.82%	40.87%
Household & Personal Products	0.14%	0.11%	9.23%	9.23%	-3.24%
Telecom Services	0.09%	0.28%	2.15%	2.15%	-4.73%
Food & Staples Retailing	-0.05%	-0.23%	2.74%	2.74%	-2.94%
Semiconductors & Equipment	-0.05%	0.44%	16.03%	16.03%	39.49%
Consumer Durables & Apparel	-0.13%	0.49%	11.42%	11.42%	10.15%
Food, Beverage & Tobacco	-0.18%	-0.12%	5.70%	5.70%	7.90%
Diversified Financials	-0.27%	0.56%	4.75%	4.75%	15.34%
Pharmaceuticals, Biotech & Life Sciences	-0.52%	-0.47%	6.01%	6.01%	1.56%
Media	-0.67%	0.60%	8.77%	8.77%	10.82%
Materials	-0.84%	-0.47%	11.26%	11.26%	24.92%
Real Estate	-0.91%	1.02%	7.61%	7.61%	-10.18%
Automobiles & Components	-1.07%	2.66%	19.19%	19.19%	73.43%
Insurance	-1.51%	-0.13%	8.59%	8.59%	-4.67%
Energy	-1.54%	-1.23%	4.67%	4.67%	1.28%
Transportation	-1.58%	-0.84%	9.42%	9.42%	2.34%
Utilities	-1.68%	-1.86%	3.81%	3.81%	-0.42%