

Thursday July 30, 2009

Closing prices of July 29, 2009

We said Sunday night we thought stocks would trade higher after a brief pullback. We think we are in that pullback and there is more to go. The end of July is a seasonally strong period, with early August seasonally weak, so a pullback now fits that pattern. We remain 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>, and is still at that level. Short-term weakness is frequently seen after high readings.

We remain concerned about valuations, if not downright puzzled. Forecast aggregate earnings are starting to rise, but earnings from continuing operations and earnings before charges continue to drop. Since July 1<sup>st</sup> earnings before charges have dropped 12.1% and earnings from continuing operations have fallen 6.2%. Forecast earnings have gone up 1.2% in that time, and they are up 5.1% since bottoming in May. Hopefully this will not turn out to be another example of overly optimistic analysts.

**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 (222.34) was down 0.479% Wednesday. Average price per share was down 0.57%. Volume was 105% of its 10-day average and 109% of its 30-day average. 34.39% of the S&P 1500 stocks were up, with up volume at 49.60% and up points at 31.77%. Up Dollars was 23.20% of total dollars, and was 27% of its 10-day moving average. Down Dollars was 259% of its 10-day moving average.

Percent over 10-sma: 72.07%. 13-Week Closing Highs: 151. 13-Week Closing Lows: 11.

Put/Call Ratio: 0.931. Kaufman Options Indicator: 1.08.

P/E Ratios: 68.39 (before charges), 16.57 (continuing operations), 16.62 (analyst estimates).

P/E Yield 10-year Bond Yield Spreads: -60% (earnings bef. charges), 65% (earnings continuing ops), and 64% (projected earnings).

282 of the S&P 500 have reported 2<sup>nd</sup> quarter earnings. According to Bloomberg, 74.1% had positive surprises, 9.6% were in line, and 16.3% have been negative. The year-over-year change has been -26.6% on a share-weighted basis, -15.7% market cap-weighted and -28.9% non-weighted. Ex-financial stocks these numbers are -23.1%, -13.5%, and -26.5 %, respectively.

## IMPORTANT DISCLOSURES

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S&P 500 Cash (977.66, 977.76, 968.65, 975.15, -4.47)



Tuesday's bearish hanging man candle was confirmed by Wednesday's action. It was also the second straight lower top and lower bottom. This increases the probability this consolidation has more to go.

The RSI is turning down from the overbought zone and the stochastic is showing a negative crossover.

NASDAQ 100 (1,596.81, 1,602.49, 1,586.04, 1,599.61, -5.86)



Wednesday was another buy the dip day for the Nasdaq 100. That makes 14 consecutive sessions of closing higher than the open, and 12 in a row higher bottoms. Shrinking supply means there could be another move higher coming, but we will be very skeptical unless there is strong volume.

Momentum indicators remain at high levels.

S&P 1500 (223.41, 223.41, 220.92, 222.34, -1.07)

% Over 10-Sma (72.0700)

Relative Strength Index (68.2263)

Stochastic Oscillator (97.0163)

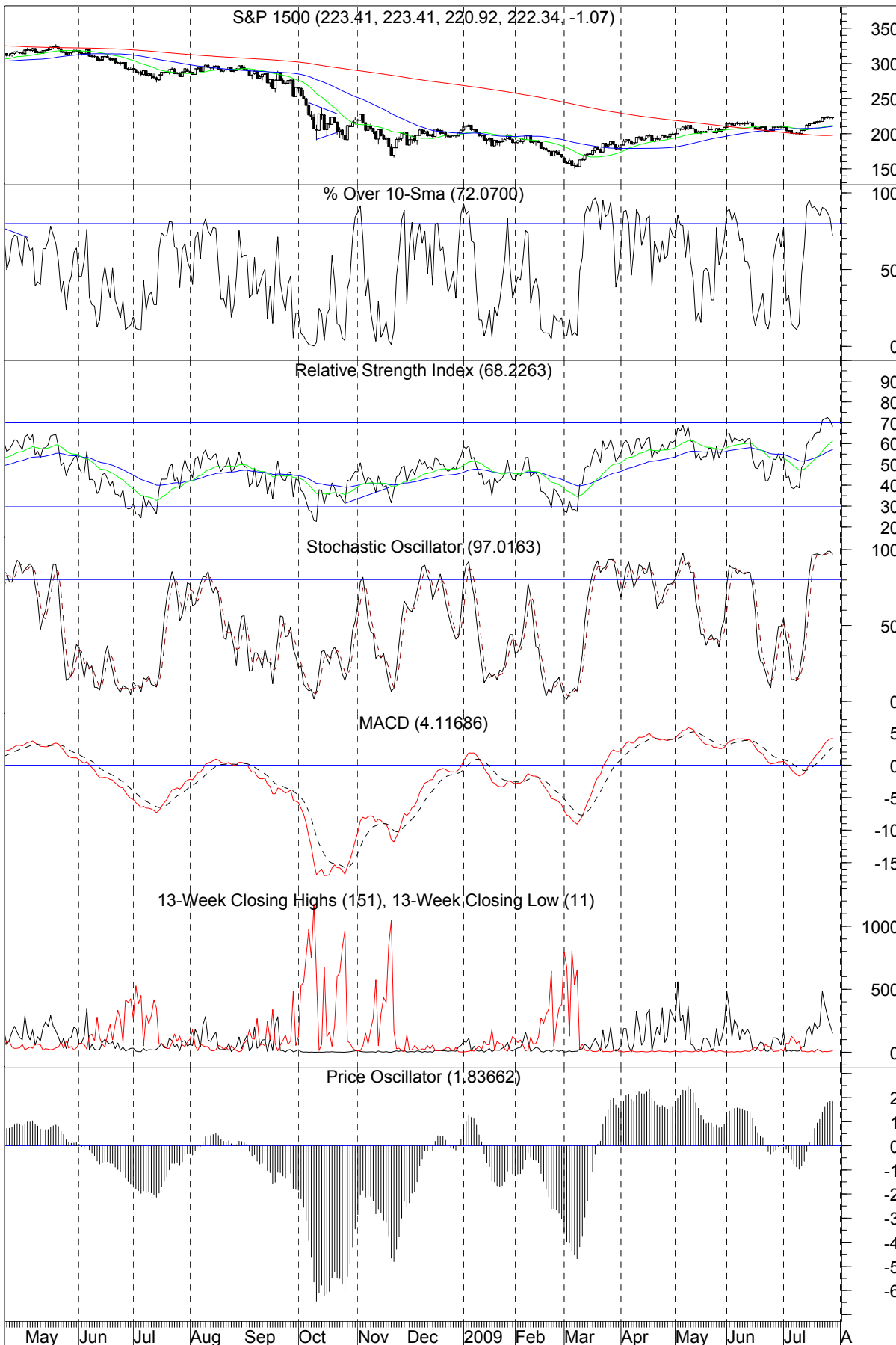
MACD (4.11686)

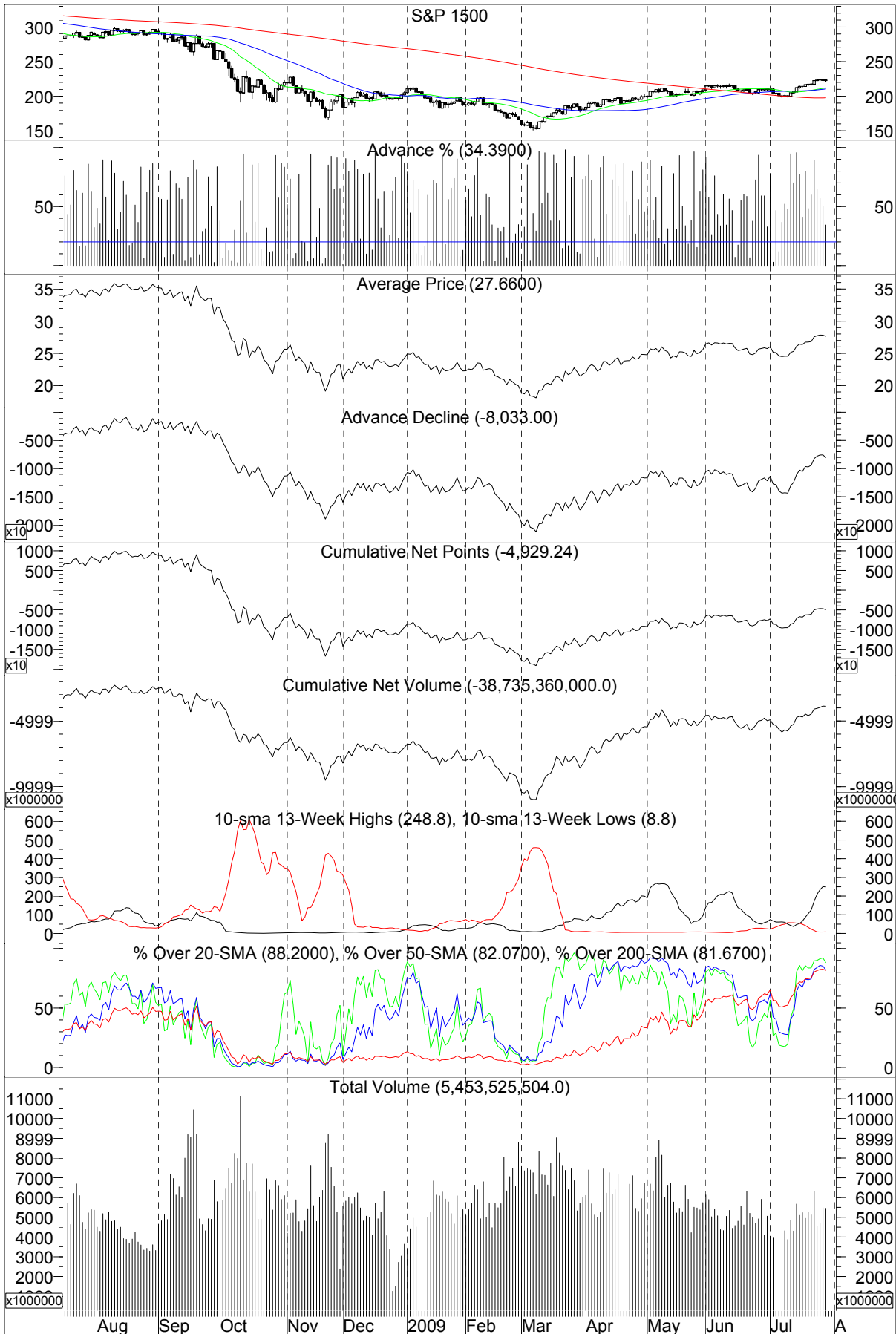
13-Week Closing Highs (151), 13-Week Closing Low (11)

Price Oscillator (1,83662)

The percent over 10-sma is dropping out of the overbought zone.

RSI is turning down from the overbought zone.





Advancing stocks have fallen off dramatically the last few sessions.

Volume was above average again Wednesday.

	Daily	WTD	MTD	QTD	YTD
Telecom Services	0.82%	1.10%	2.99%	2.99%	-3.95%
Consumer Staples	0.40%	0.31%	6.21%	6.21%	2.56%
Health Care	0.27%	0.53%	6.27%	6.27%	5.25%
Financials	-0.25%	0.85%	5.05%	5.05%	0.05%
Information Technology	-0.32%	-0.27%	8.85%	8.85%	35.06%
Utilities	-0.33%	-2.19%	3.47%	3.47%	-0.75%
Industrials	-0.67%	-0.01%	6.34%	6.34%	-1.83%
Consumer Discretionary	-0.83%	-0.58%	7.41%	7.41%	15.48%
Materials	-2.06%	-2.52%	8.97%	8.97%	22.35%
Energy	-2.07%	-3.27%	2.51%	2.51%	-0.81%

	Daily	WTD	MTD	QTD	YTD
Telecom Services	0.82%	1.10%	2.99%	2.99%	-3.95%
Household & Personal Products	0.52%	0.63%	9.80%	9.80%	-2.73%
Food & Staples Retailing	0.50%	0.27%	3.25%	3.25%	-2.46%
Consumer Durables & Apparel	0.47%	0.97%	11.95%	11.95%	10.67%
Health Care Equip & Services	0.44%	2.41%	6.36%	6.36%	13.74%
Food, Beverage & Tobacco	0.29%	0.18%	6.01%	6.01%	8.21%
Diversified Financials	0.21%	0.78%	4.97%	4.97%	15.58%
Pharmaceuticals, Biotech & Life Sciences	0.21%	-0.27%	6.23%	6.23%	1.77%
Retailing	-0.12%	-0.57%	8.32%	8.32%	25.11%
Semiconductors & Equipment	-0.16%	0.28%	15.85%	15.85%	39.27%
Commercial & Professional Services	-0.29%	0.83%	6.65%	6.65%	0.99%
Software & Services	-0.32%	-0.51%	4.50%	4.50%	27.32%
Utilities	-0.33%	-2.19%	3.47%	3.47%	-0.75%
Technology Hardware & Equipment	-0.38%	-0.24%	10.41%	10.41%	40.35%
Transportation	-0.47%	-1.31%	8.90%	8.90%	1.86%
Consumer Services	-0.56%	-0.36%	2.15%	2.15%	3.19%
Banks	-0.69%	3.05%	2.56%	2.56%	-20.21%
Insurance	-0.73%	-0.86%	7.80%	7.80%	-5.37%
Capital Goods	-0.76%	0.30%	5.58%	5.58%	-3.11%
Real Estate	-1.29%	-0.27%	6.22%	6.22%	-11.34%
Automobiles & Components	-1.65%	0.96%	17.22%	17.22%	70.56%
Materials	-2.06%	-2.52%	8.97%	8.97%	22.35%
Energy	-2.07%	-3.27%	2.51%	2.51%	-0.81%
Media	-2.19%	-1.61%	6.39%	6.39%	8.39%