

Tuesday July 6, 2010

Closing prices of July 6, 2010

In our June 28<sup>th</sup> report we said the prior week's action had caused technical damage for equities. Stocks continued their move lower this past week with the S&P 500 plunging 10.64% in nine sessions to the Thursday low. Economic news continued to be weak, including China growth fears, poor Japanese unemployment and industrial production numbers, worse than expected U.S. jobless claims, and a lackluster payrolls report.

We said last week that equities appeared to be at a major inflection point. **Unfortunately the technical damage continued to mount with a Dow Theory sell signal, the breaking of neck lines on head and shoulders patterns, and the S&P 500 making a "death cross", meaning the 50-day moving average crossed under the 200-day moving average.** We pointed out last week that the 50/200-day moving average negative crossover had already occurred on other major indexes like the FTSE 100, Nikkei-225, the CAC (France), and the Australia All-Ordinaries. **Of the 31 country ETFs that we follow, eleven of them are in "official" bear markets having moved down more than 20% from their highs, with a few more not far away.**

**It has been quite a while since fundamental and technical indicators have been so conflicted.** In spite of many problems, including sovereign debt in Europe and the nauseating spill in the Gulf, earnings estimates have barely come down. Aggregate S&P 500 earnings for 2011 are in the \$96 area. **Even a 2011 P/E of only 14 gives an S&P 500 target of 1344, about 31% higher than current levels.** Spreads between bond and equities yields have widened to extreme levels where stocks should be very attractive.

We are starting to come out of a long period of a lack of visibility. We are about to enter second quarter earnings season. That will give investors much needed clarity regarding the effects of currency movements, financial regulation, sovereign debt issues, oil spills, and shifts in the global economy on corporate profits. **Still, just as bull markets "climb a wall of worry" bear markets slide down a "slippery slope of hope." Investors need to be on their toes and not let the hope of good earnings reports cause them to ignore distribution which may continue to drive equities lower.**

**In the short-term equities are oversold. 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. Investors need to remain on their toes since a freezing up of the financial system can be very damaging, as we all saw in 2008 – 2009, and should the upcoming earnings season start to disappoint another leg down for equities could begin. 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 will drive them higher.**

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

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# The Kaufman Report

Trade what you see, not what you think.

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Tuesday July 6, 2010

Closing prices of July 2, 2010

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

P/E: 15.34 FP/E: 12.87

Percent over 10-sma: 6.53%. Percent over 50-sma: 6.60%. Percent over 200-sma: 28.87%.

13-Week Closing Highs: 3. 13-Week Closing Lows: 569, most since 738 on 6/7. 52-week closing highs: 3. 52-week closing lows: 86, most since 496 on 3/9/2009.

Kaufman Options Indicator: 1.06, hit 1.11 on 6/30. Put/Call Ratio: 0.904.

New High Reversals: 2. New Low Reversals: 9

Volume: -39% versus yesterday. 78% of the 10-day average. 75% of the 30-day average.

Up Stocks: 25.14%. Up Volume: 29.17%. Up Points: 20.43%. Up Dollars: 9.11%, 42% of 10-sma. Dn Dollars 58% of 10-sma.

Earnings: 499 of the S&P 500 have reported so far this earnings season. 77.7% have had positive surprises, 8.2% have been in line, and 14.1% have had negative surprises.

Federal Funds Futures project a 66.2% probability of no change to the current 0.25% target rate and a 33.8% probability of a decrease to 0.00% when the FOMC meets on 8/10. For the meeting of 9/21 the probabilities are 61.0% for no change, 10.5% for an increase to 0.50, and 28.5% 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
Bank of New York Mellon ADR	113.86	-0.07%	-3.66%	-3.66%	0.75%	0.75%	-16.49%	142.19	2010-01-11	104.08	2009-07-08
Nasdaq 100	1728.34	-0.35%	-5.99%	-5.99%	-0.62%	-0.62%	-7.09%	2059.42	2010-04-26	1394.87	2009-07-08
NYSE Composite	6434.81	-0.42%	-4.87%	-4.87%	-0.54%	-0.54%	-10.44%	7743.74	2010-04-15	5552.82	2009-07-08
Nasdaq Composite	2091.79	-0.46%	-5.92%	-5.92%	-0.83%	-0.83%	-7.82%	2535.28	2010-04-26	1727.05	2009-07-08
Dow Jones Industrials	9686.48	-0.47%	-4.51%	-4.51%	-0.90%	-0.90%	-7.11%	11258.01	2010-04-26	8087.19	2009-07-08
S&P 500	1022.58	-0.47%	-5.03%	-5.03%	-0.79%	-0.79%	-8.30%	1219.80	2010-04-26	869.32	2009-07-08
S&P 1500	235.14	-0.50%	-5.14%	-5.14%	-0.86%	-0.86%	-7.71%	281.21	2010-04-26	197.66	2009-07-08
S&P Midcap 400	702.29	-0.72%	-5.77%	-5.77%	-1.33%	-1.33%	-3.36%	852.90	2010-04-26	539.04	2009-07-08
S&P Smallcap 600	322.90	-0.80%	-6.18%	-6.18%	-1.55%	-1.55%	-2.93%	396.63	2010-04-26	252.11	2009-07-08

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Health Care	325.07	0.29%	-3.19%	-3.19%	-0.55%	-0.55%	-10.26%	384.95	2010-01-20	297.11	2009-07-13
Telecom Services	102.64	0.21%	-1.31%	-1.31%	0.59%	0.59%	-10.47%	117.00	2010-01-05	96.72	2009-07-10
Utilities	143.04	0.05%	-2.34%	-2.34%	-0.28%	-0.28%	-9.46%	161.50	2009-12-14	135.64	2009-07-10
Energy	371.08	-0.20%	-5.46%	-5.46%	-0.61%	-0.61%	-13.69%	464.76	2010-04-26	342.19	2009-07-13
Information Technology	328.07	-0.23%	-5.62%	-5.62%	-0.56%	-0.56%	-11.50%	397.46	2010-04-26	271.20	2009-07-08
Consumer Staples	262.40	-0.28%	-1.22%	-1.22%	-0.09%	-0.09%	-4.34%	290.45	2010-03-23	236.56	2009-07-10
Materials	170.73	-0.34%	-6.79%	-6.79%	-1.01%	-1.01%	-14.55%	213.87	2010-04-26	142.89	2009-07-08
Industrials	234.50	-1.04%	-6.49%	-6.49%	-1.59%	-1.59%	-3.49%	292.21	2010-04-30	176.94	2009-07-08
Financials	182.08	-1.08%	-7.59%	-7.59%	-1.92%	-1.92%	-6.04%	230.45	2010-04-15	145.74	2009-07-08
Consumer Discretionary	228.89	-1.15%	-5.61%	-5.61%	-0.36%	-0.36%	-2.63%	284.57	2010-04-26	170.94	2009-07-08

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Pharmaceuticals, Biotech & Life Scier	304.40	0.31%	-2.85%	-2.85%	-0.45%	-0.45%	-10.40%	359.71	2010-01-20	284.42	2009-07-06
Health Care Equip & Services	312.57	0.24%	-3.86%	-3.86%	-0.75%	-0.75%	-9.98%	371.77	2010-01-20	271.51	2009-07-13
Telecom Services	102.64	0.21%	-1.31%	-1.31%	0.59%	0.59%	-10.47%	117.00	2010-01-05	96.72	2009-07-10
Utilities	143.04	0.05%	-2.34%	-2.34%	-0.28%	-0.28%	-9.46%	161.50	2009-12-14	135.64	2009-07-10
Food, Beverage & Tobacco	299.43	-0.07%	-0.63%	-0.63%	0.36%	0.36%	-2.30%	324.19	2010-03-23	264.84	2009-07-10
Software & Services	415.70	-0.15%	-5.25%	-5.25%	-0.09%	-0.09%	-16.29%	512.69	2010-04-15	363.54	2009-07-08
Energy	371.08	-0.20%	-5.46%	-5.46%	-0.61%	-0.61%	-13.69%	464.76	2010-04-26	342.19	2009-07-13
Semiconductors & Equipment	282.24	-0.29%	-4.78%	-4.78%	-0.67%	-0.67%	-9.63%	348.04	2010-04-15	229.17	2009-07-08
Technology Hardware & Equipment	360.24	-0.30%	-6.33%	-6.33%	-1.07%	-1.07%	-7.52%	431.10	2010-04-26	284.30	2009-07-08
Household & Personal Products	351.16	-0.29%	-0.86%	-0.86%	-0.64%	-0.64%	-2.66%	383.05	2010-03-23	302.49	2009-07-06
Materials	170.73	-0.34%	-6.79%	-6.79%	-1.01%	-1.01%	-14.55%	213.87	2010-04-26	142.89	2009-07-08
Commercial & Professional Services	124.52	-0.57%	-4.10%	-4.10%	-0.43%	-0.43%	-6.94%	144.95	2010-04-26	107.96	2009-07-08
Diversified Financials	284.43	-0.71%	-7.88%	-7.88%	-1.68%	-1.68%	-11.55%	382.07	2010-04-15	248.57	2009-07-08
Food & Staples Retailing	163.47	-0.79%	-3.02%	-3.02%	-0.58%	-0.58%	-10.71%	196.37	2010-03-30	159.75	2009-07-13
Capital Goods	251.96	-0.82%	-6.61%	-6.61%	-1.74%	-1.74%	-3.53%	318.38	2010-04-30	188.39	2009-07-08
Media	160.79	-0.97%	-5.82%	-5.82%	-0.76%	-0.76%	-1.71%	192.83	2010-05-03	113.55	2009-07-13
Insurance	164.55	-1.00%	-6.13%	-6.13%	-1.71%	-1.71%	-0.15%	189.97	2010-04-26	117.98	2009-07-08
Consumer Durables & Apparel	129.76	-1.04%	-6.53%	-6.53%	-1.12%	-1.12%	-1.02%	164.51	2010-04-26	90.81	2009-07-08
Retailing	385.78	-1.07%	-5.38%	-5.38%	-0.01%	-0.01%	-6.16%	499.94	2010-04-26	303.74	2009-07-07
Consumer Services	376.77	-1.42%	-5.37%	-5.37%	-0.36%	-0.36%	1.70%	446.11	2010-04-26	300.73	2009-07-08
Banks	124.64	-1.60%	-8.41%	-8.41%	-2.64%	-2.64%	-0.57%	165.92	2010-04-21	97.99	2009-07-08
Automobiles & Components	76.32	-1.86%	-4.94%	-4.94%	1.02%	1.02%	-1.83%	107.25	2010-04-26	46.62	2009-07-08
Transportation	250.52	-2.04%	-6.78%	-6.78%	-1.34%	-1.34%	-1.72%	304.63	2010-05-03	184.76	2009-07-08
Real Estate	96.18	-2.14%	-8.19%	-8.19%	-2.17%	-2.17%	2.12%	114.48	2010-05-03	57.87	2009-07-10

### INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Turkey TUR	54.47	2.04%	-1.32%	2.91%	2.91%	1.06%	63.27	2010-04-14	36.44	2009-07-08
Russia RSX	28.13	1.74%	-5.79%	0.29%	0.29%	-9.81%	36.91	2010-04-14	17.65	2009-07-13
Brazil EWZ	63.87	1.43%	-4.54%	3.30%	3.30%	-14.39%	80.93	2009-12-03	48.03	2009-07-08
Singapore EWS	11.43	1.24%	-0.44%	1.69%	1.69%	-0.52%	12.36	2010-04-14	8.56	2009-07-08
Chile ECH	57.42	1.18%	-1.17%	1.29%	1.29%	4.80%	60.94	2010-01-19	27.27	2010-05-06
Thailand THD	46.64	1.15%	0.15%	1.24%	1.24%	9.77%	49.98	2010-04-06	31.12	2009-07-13
South Africa EZA	53.36	1.10%	-5.12%	1.35%	1.35%	-4.66%	62.76	2010-04-05	23.00	2010-05-06
Taiwan EWT	11.29	0.98%	-3.09%	0.80%	0.80%	-12.95%	13.46	2010-01-06	10.11	2009-07-13
Latin America ILF	42.25	0.93%	-4.30%	2.00%	2.00%	-11.59%	50.25	2009-12-04	31.74	2009-07-10
Hong Kong EWH	14.88	0.54%	-3.50%	0.74%	0.74%	-4.98%	16.89	2010-04-14	12.95	2009-07-08
BRIC EEB	38.22	0.45%	-4.55%	1.25%	1.25%	-9.99%	44.90	2009-12-04	23.23	2010-05-06
United Kingdom EWU	13.66	0.44%	-3.46%	1.64%	1.64%	-15.68%	17.20	2009-11-16	12.34	2009-07-08
Japan EWJ	9.27	0.43%	-2.83%	0.76%	0.76%	-4.83%	10.71	2010-04-15	9.10	2009-07-13
Emerging Markets EEM	37.75	0.43%	-4.26%	1.15%	1.15%	-9.04%	46.66	2010-04-09	30.24	2009-07-08
Malaysia EWM	11.52	0.17%	-1.20%	0.70%	0.70%	8.47%	12.17	2010-04-30	8.44	2009-07-10
Spain EWP	33.35	0.09%	-1.79%	4.78%	4.78%	-30.58%	52.67	2009-11-25	29.85	2010-06-08
Canada EWC	24.61	0.00%	-6.89%	-1.05%	-1.05%	-6.53%	29.00	2010-04-15	19.55	2009-07-08
Italy EWI	14.20	0.00%	-3.60%	2.90%	2.90%	-27.22%	21.77	2009-10-19	13.21	2010-06-07
Australia EWA	18.98	-0.05%	-7.14%	0.00%	0.00%	-16.90%	25.14	2010-01-11	15.32	2009-07-08
Austria EWO	15.65	-0.13%	-4.81%	2.49%	2.49%	-19.99%	23.59	2009-10-15	14.91	2010-06-08
Israel EIS	45.59	-0.26%	-4.52%	0.04%	0.04%	-16.19%	60.68	2010-03-26	39.40	2009-07-08
France EWQ	19.85	-0.35%	-3.87%	1.48%	1.48%	-23.21%	27.32	2010-01-11	19.21	2009-07-08
Mexico EWW	47.56	-0.36%	-7.18%	-0.69%	-0.69%	-2.68%	61.60	2010-05-06	34.04	2009-07-10
Vietnam VNM	24.89	-0.40%	-1.35%	-0.20%	-0.20%	-2.35%	32.15	2009-10-22	22.55	2010-05-21
India IFN	30.11	-0.53%	-2.02%	-0.46%	-0.46%	-1.92%	33.08	2010-04-14	25.17	2009-08-19
Sweden EWD	23.00	-0.56%	-3.48%	0.74%	0.74%	-2.13%	27.42	2010-04-26	17.20	2009-07-08
Netherlands EWN	17.38	-0.57%	-4.24%	1.58%	1.58%	-15.06%	21.51	2009-10-15	14.50	2009-07-08
Germany EWG	18.88	-0.79%	-3.53%	0.91%	0.91%	-15.86%	23.40	2009-10-21	16.75	2009-07-08
Belgium EWK	11.01	-0.81%	-3.59%	1.53%	1.53%	-13.71%	13.95	2009-10-19	8.93	2010-05-06
Indonesia IDX	71.41	-0.82%	-4.04%	-0.45%	-0.45%	14.86%	75.55	2010-05-03	43.00	2009-07-13
China 25 FXI	39.02	-0.91%	-5.25%	-0.28%	-0.28%	-7.67%	46.66	2009-11-16	35.72	2009-07-13
Switzerland EWL	20.02	-1.04%	-2.25%	0.15%	0.15%	-10.06%	23.63	2010-04-15	17.00	2009-07-08
South Korea EWY	44.25	-1.47%	-6.65%	-1.03%	-1.03%	-7.12%	53.15	2010-04-26	34.00	2009-07-13



The 30-minute chart of the S&P 500 shows a relentless move lower over the last two weeks.

30-minute momentum indicators are just under levels where they have been seeing resistance.

S&P 500 Cash (1,027.65, 1,032.95, 1,015.93, 1,022.58, -4.79)



The daily chart of the S&P 500 shows the 50-day moving average crossing under the 200-day, the famous "death cross." The 50-sma has been over the 200-sma since June 2009. The last negative crossover was in December 2007. A hammer candle stick was printed on Thursday. Hammers are bottoming candles, so hopefully sellers are becoming exhausted, at least for the short-term.

Daily momentum indicators are at oversold or low levels.



The weekly chart of the S&P 500 shows a bearish engulfing candle two weeks ago, followed by another ugly candle last week. Last week's action broke important support levels, including the neckline of a head and shoulders pattern.

Weekly momentum indicators are at low but not yet oversold levels.

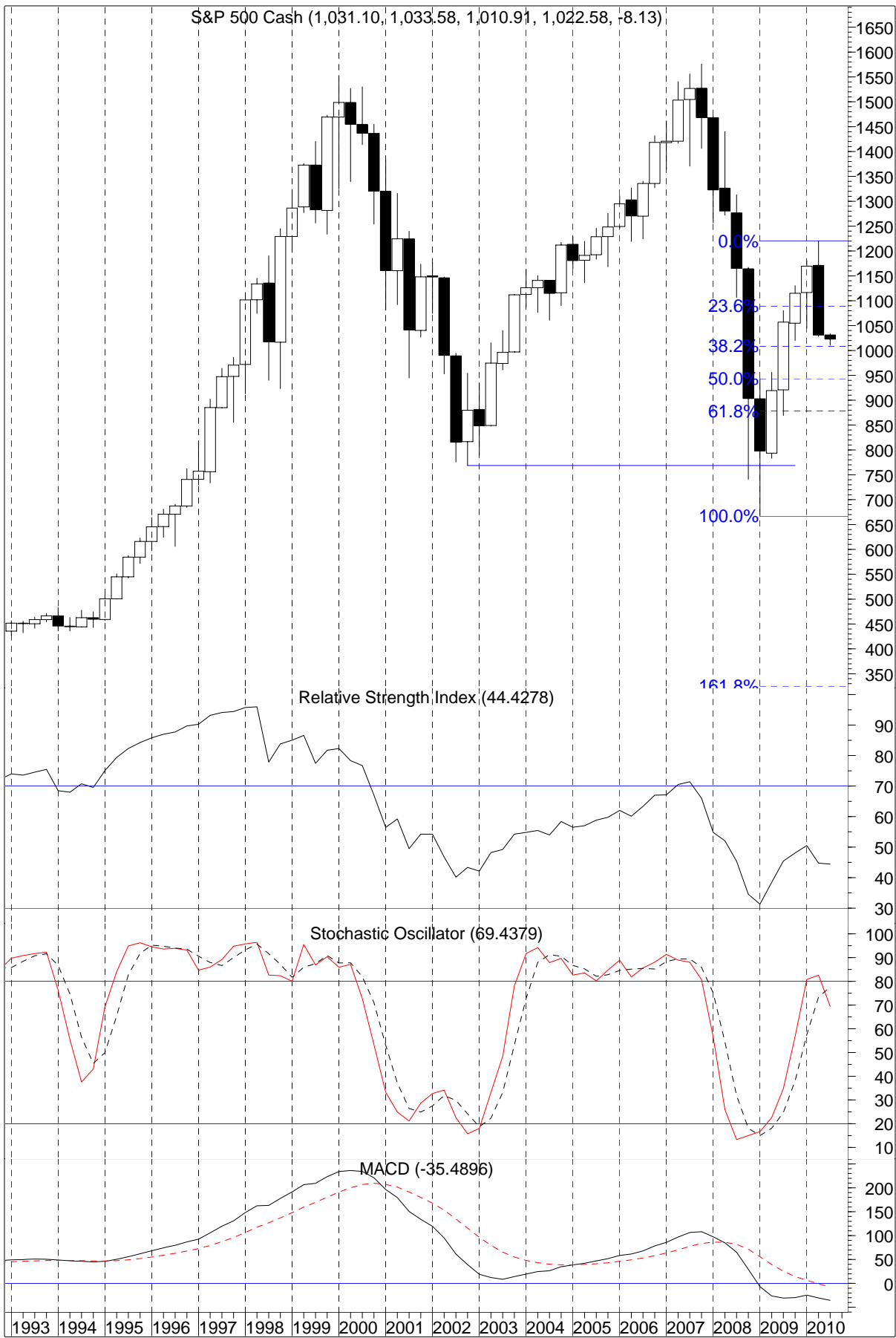
S&P 500 Cash (1,031.10, 1,033.58, 1,010.91, 1,022.58, -8.13)



The monthly chart of the S&P 500 shows a bearish shooting star candle in May followed by a plunge. 1008 is the 38.2% retracement level of the recent bull market, and 943 is the 50% level.

Monthly momentum indicators are mixed.





The quarterly chart of the S&P 500 shows a bearish engulfing candle printed for Q2 2010.

Monthly momentum indicators are low except the stochastic which is moving lower from the overbought zone.

NASDAQ 100 (1,736.25, 1,742.36, 1,712.92, 1,728.34, -6.07)



The daily chart of the Nasdaq 100 shows it printed a bearish engulfing candle after hitting gap resistance. It gapped down Tuesday and printed a hammer candle stick Thursday, the low of a brutal two-week period. Hammers are bottoming candles.

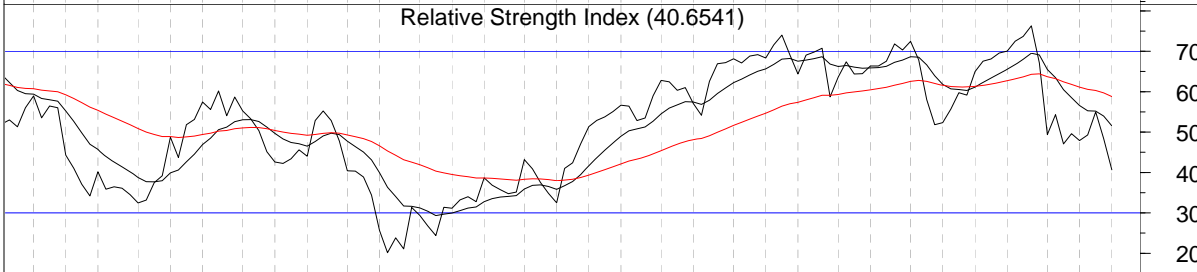
Daily momentum indicators are at low levels.

NASDAQ 100 (1,843.27, 1,852.66, 1,700.04, 1,728.34, -110.18)



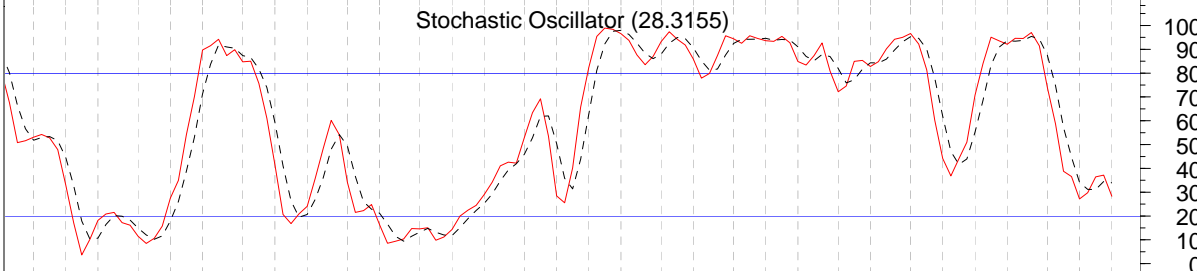
The weekly chart of the Nasdaq 100 shows a bearish engulfing candle printed two weeks ago and a breaking of support last week.

Relative Strength Index (40.6541)

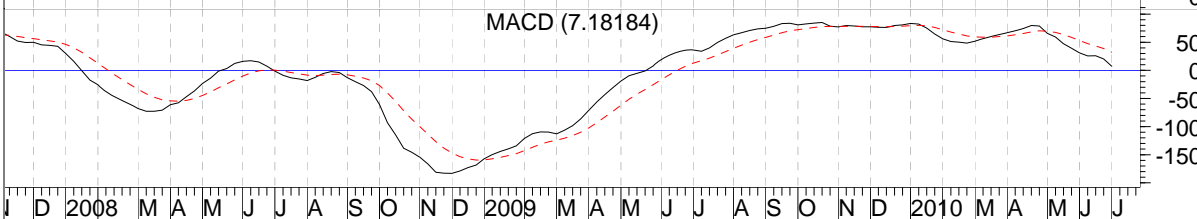


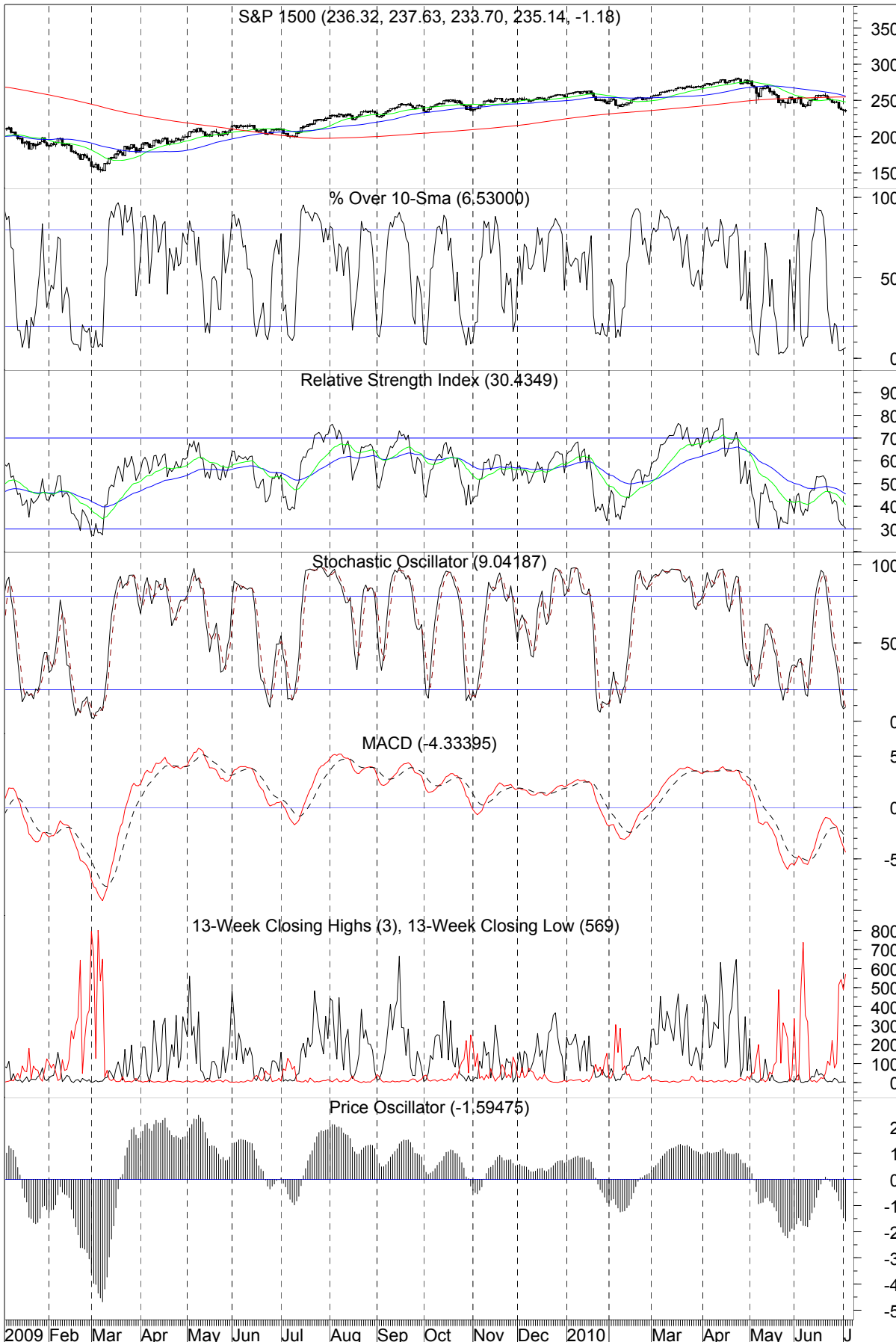
Weekly momentum indicators are at low levels but have not yet turned up.

Stochastic Oscillator (28.3155)



MACD (7.18184)



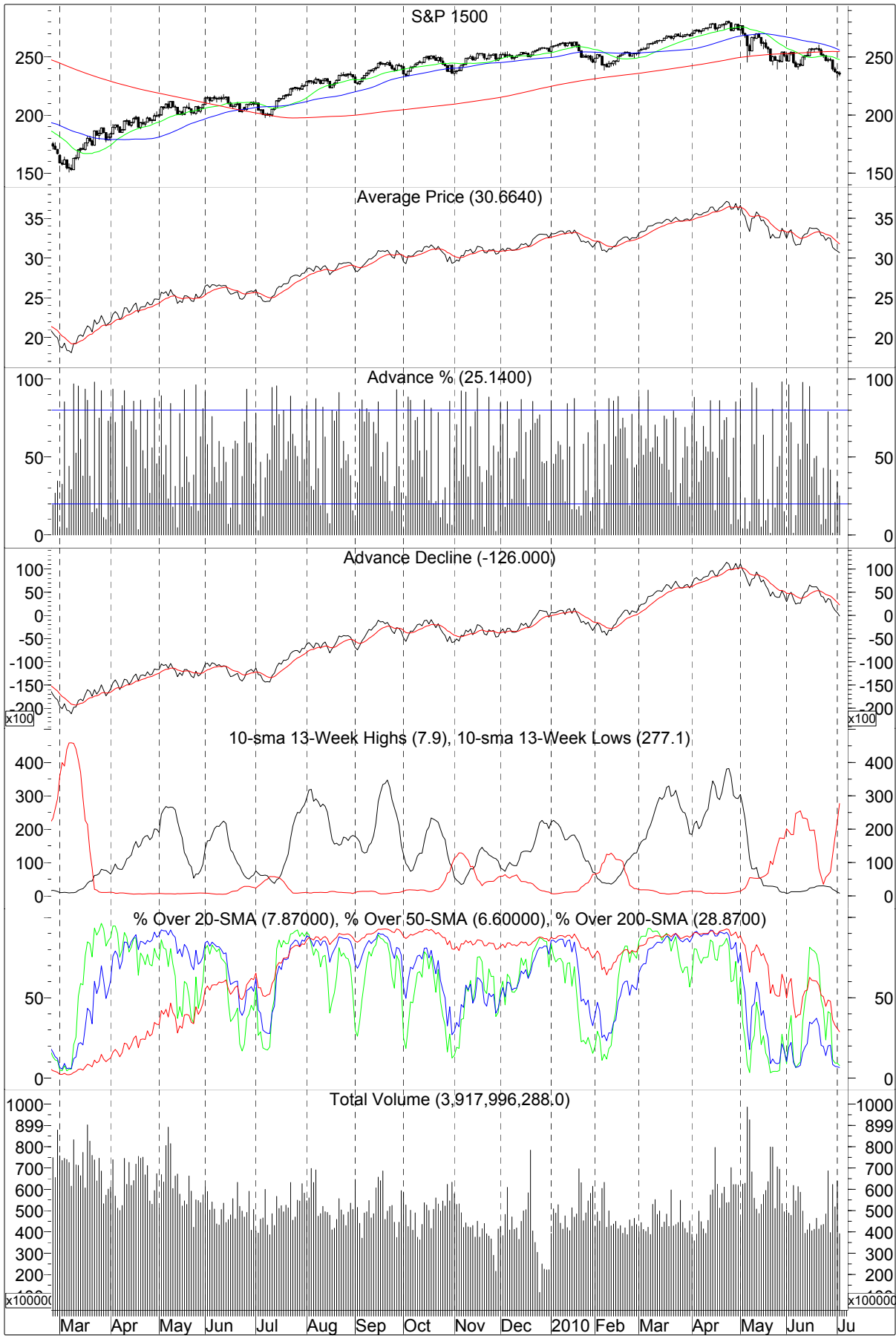


Only 6.53% of the S&P 1500 are over their own 10-sma. Extended periods of low readings (below 10%) are not typical of bull markets.

Momentum indicators are oversold.

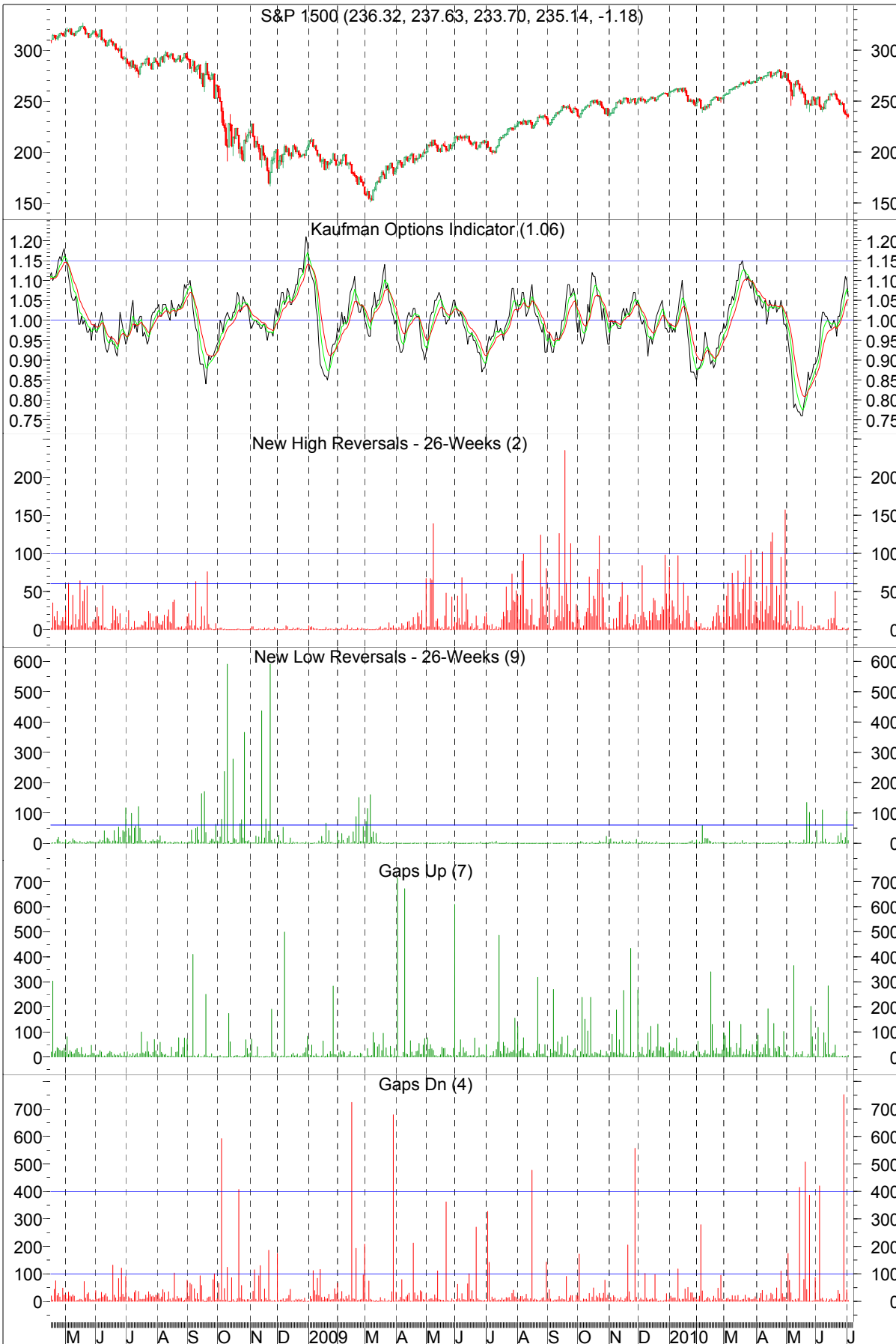
New lows continue to swamp new highs.

Our price oscillator, a good indicator of trends, shows that after an attempt to turn positive it fell back into negative territory.

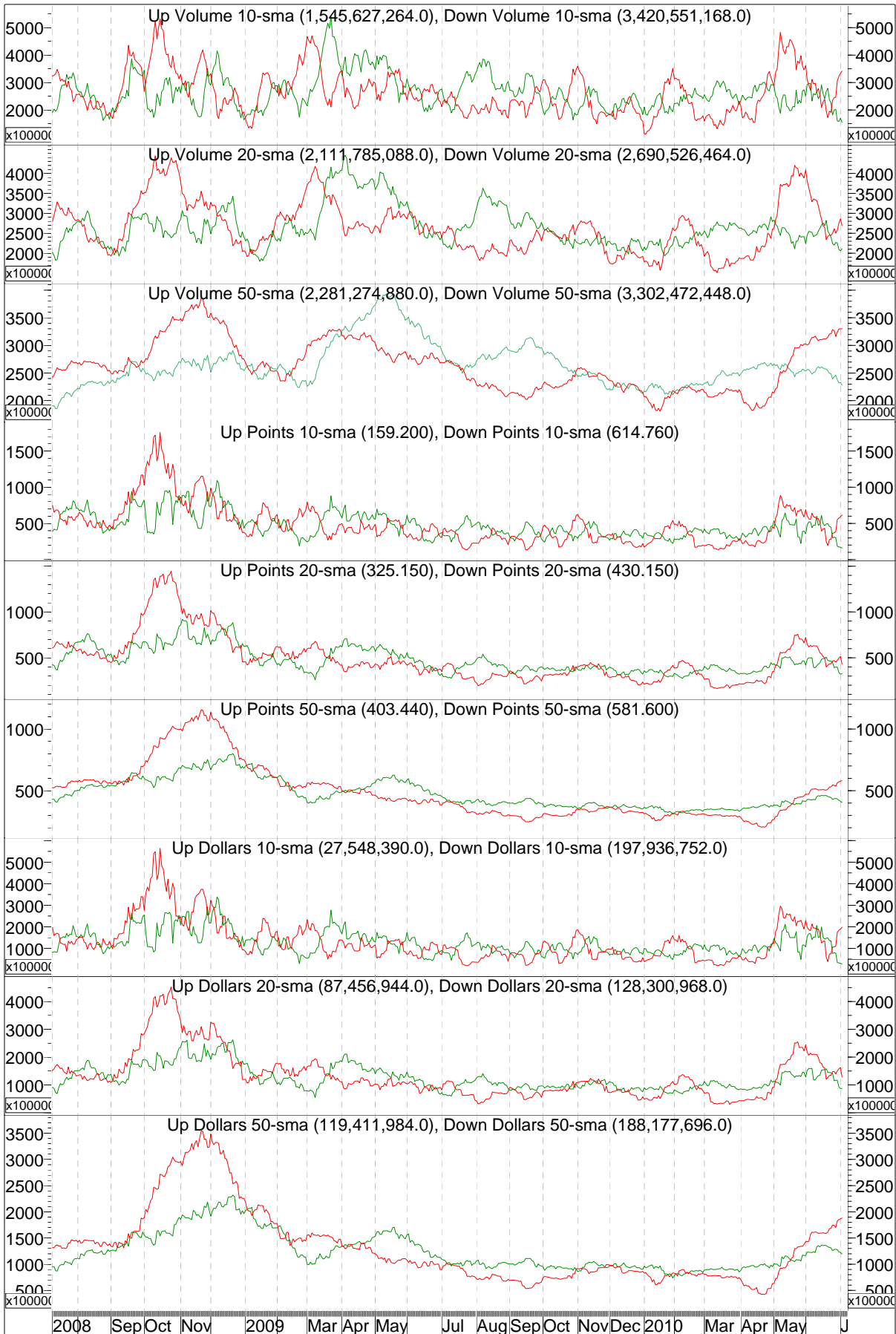


The 10-sma of 13-week closing lows is at the highest level since March 2009.

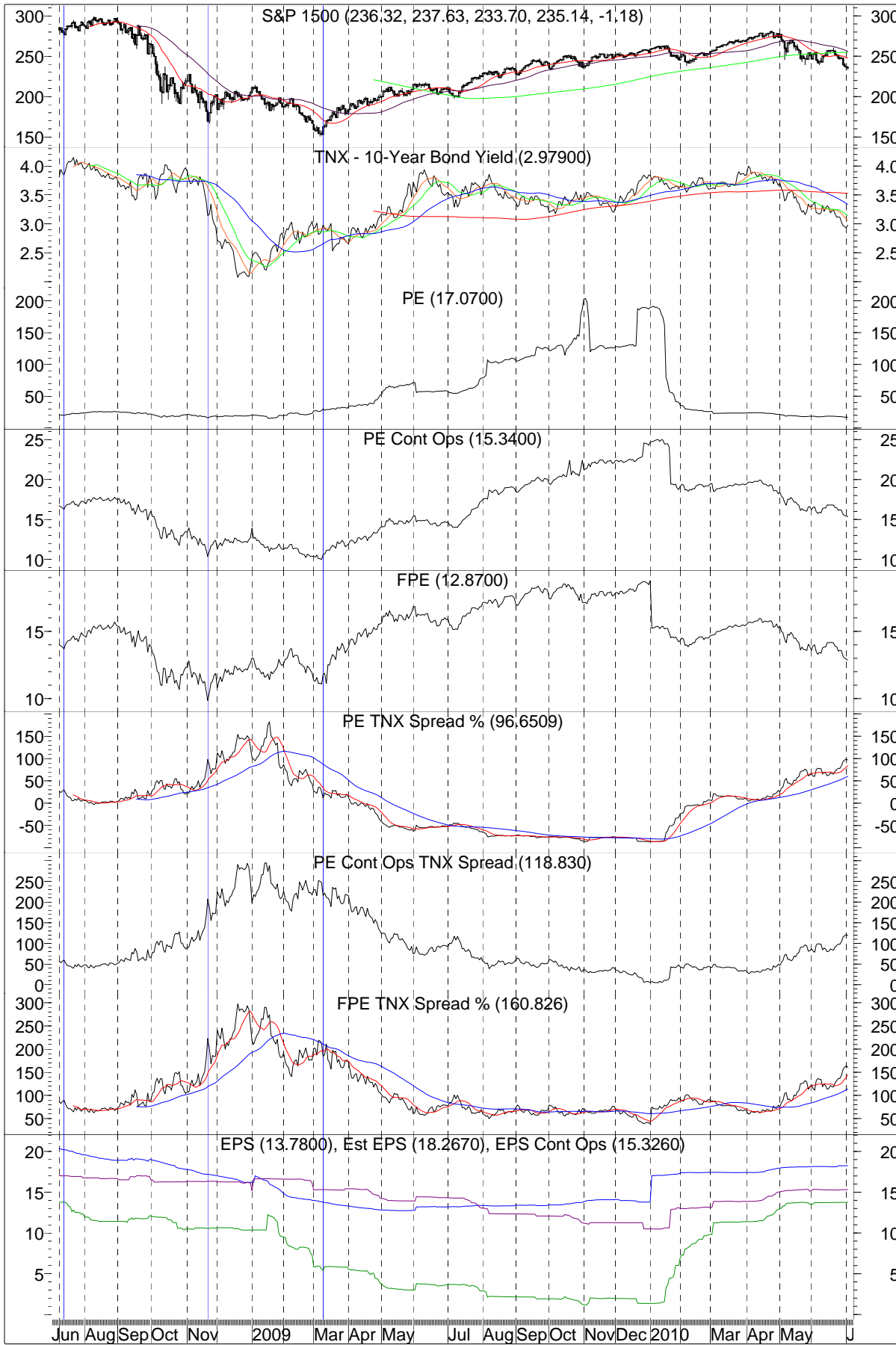
These percentages are at bear market levels.



Our proprietary options indicator is in positive territory, showing optimism on the part of options buyers. This can put a cap on a rally. We prefer to see pessimism.



Our statistics of supply (red) versus demand (green) shows buyers have become very reluctant. Unless a catalyst appears (hopefully earnings and valuations) to bring buyers back from the sidelines, the path of least resistance will remain lower.

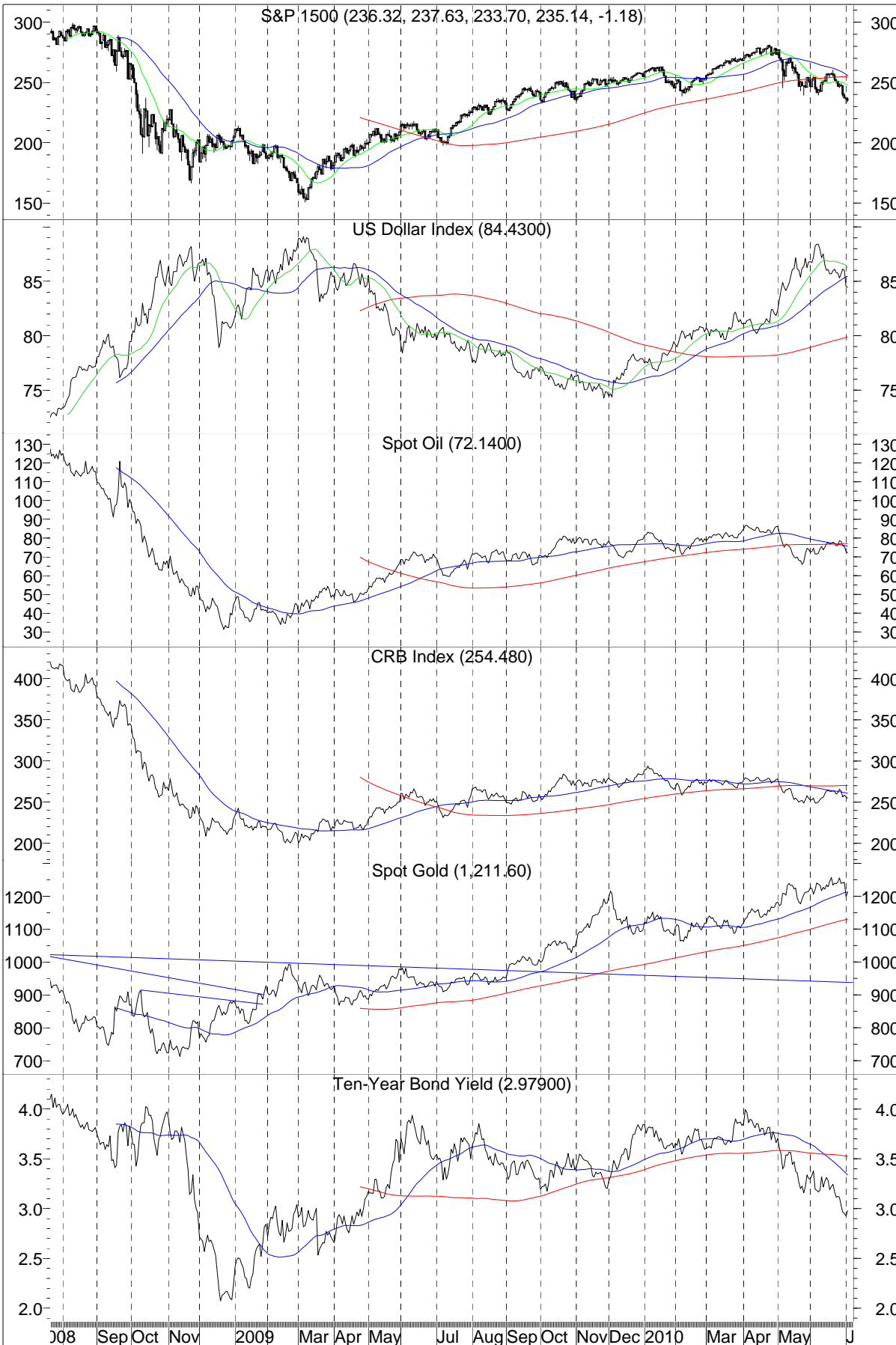


P/E ratios continue to move lower. The forward P/E is at the lowest level since March 2009.

Spreads between bond and equity yields are at levels where stocks should be very attractive. The spread based on the forward P/E is at the widest level since 4/1/2009.

Our earnings metrics will flat line until we get into Q2 earnings season starting July 12th.





The U.S. Dollar Index has fallen below its 50-sma (blue). It is not oversold.

Crude oil gapped below its 20, 50, and 200-sma. It too is not oversold.

Gold has fallen below its 50-sma. We have been talking about too much bullishness for gold, and some bearishness will be needed before a sustained move higher can take place.