

Monday March 28, 2011

Closing prices of March 25, 2011

Stocks continued their rebound last week from the extreme oversold levels of the week before as the S&P 500 gained 2.7% for its best weekly showing since February 4th. **The index regained all the ground it lost since the catastrophic Japanese earthquake.** Major indexes were led by the Nasdaq 100, which was up 4.29% on the week.

Since our report dated February 28th we have been writing that after a seemingly endless rally this had reverted to a short-term trader's market, and our strategy was to sell overbought conditions and buy oversold conditions. On March 16th stocks became extremely oversold with the percentage of stocks over their own 10-day moving averages hitting 8.47%, the lowest since August 13th. Our proprietary options indicator hit 0.86 on March 18th, showing extreme pessimism and the lowest level since May 26th.

Our options indicator has bounced to 0.96, still showing pessimism but not an extreme amount. **However, the percentage of stocks over their own 10-day moving averages is at an overbought 87.2%.** In addition, the end of March has a history of being a period of weakness for equities. This means in the short-term investors need to be careful with entry points. On the other hand, if stocks do not pull back from an overbought condition, especially during a period of weak seasonality, that would be an excellent sign. **Markets that do not pull back from overbought conditions are very strong.**

We reiterate once again that this is a short-term trader's market and our strategy is to buy oversold conditions and sell overbought conditions. While we are heartened by the strong rebound off the panic-selling of two weeks ago and valuations are very favorable for equities, there is still a lot of uncertainty due to the ongoing situations in Japan and Libya.

Q4 earnings season is over with all members of the S&P 500 having reported. Of those, 67.7% exceeded expectations, 8.0% were in line, and 24.2% disappointed. This was a worse performance than Q3 when 19% of the S&P 500 had lower than expected earnings, the highest percentage since 19.1% in Q2 2009. 70.7% beat estimates in Q3, a strong number, but still the lowest since Q1 2009. **Therefore, in spite of our opinion that this bull market still has a ways to go, we are watchful for deteriorating trends that could change our current positive long-term outlook.**

In spite of the recent turmoil in Japan and the Middle East along with worries about oil and possible inflation, aggregate earnings estimates continue to rise. Currently S&P 500 projected earnings for 2011 are above just under \$97. **The current S&P 500 P/E is 15.30. A 15 P/E on \$97 would put the index at 1455.** Should projections follow the recent trend those numbers will move higher. **Estimates for 2012 are above \$110, projecting earnings growth of 13.85% over 2011. A 15 P/E on \$110 equates to 1650 on the S&P 500, 25.6% higher than current levels.**

We left the best three-month period for stocks when January ended, but we are still in the best 6-month period. February is historically the weakest of the six, but it still recorded a gain of 3.2%. **As far as the presidential cycle, we are now in year three. Since 1939 the Dow Jones Industrial Average has not had a single down year three, with the average gain being 16.6%. In addition, based on the S&P 500 since 1914, from the low of year two to the high of year three the average move has been 49.2%. Through the last seven presidential cycles since 1982, the average low-to-high move has been 50.06%. From this year's S&P 500 low of 1010 that would equate to a move to 1500 sometime in 2011. We are not forecasting that, just highlighting that it is difficult to be bearish in the face of such strong historical patterns.**

Based on the S&P 500 the short-term, intermediate-term and long-term trends remain up. This remains a short-term trader's market, and investors need to be alert for sector rotation.

IMPORTANT DISCLOSURES

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The S&P 500 has rebounded from a deep oversold condition to trade higher than its pre-Japanese earthquake level. It has broken through multiple resistance levels but stalled Friday in a gap zone. There is plenty of resistance just above current levels.

30-minute momentum indicators look negative but the stochastic has already entered the oversold zone.

S&P 500 Cash (1,311.80, 1,319.18, 1,310.15, 1,313.80, +4.14)



The S&P 500 traded back above its 20 and 50-sma last week and also penetrated the down trend line. It printed a bearish shooting star candle Friday as it ran into a resistance zone.

Daily momentum indicators look positive with only the stochastic in the overbought zone. The MACD is showing a positive crossover from an oversold level.



The S&P 500 printed a hammer candle on the weekly chart two weeks ago and followed through to the upside last week and just missed printing a bullish engulfing candle. Hammers are bottoming candles.

Weekly momentum indicators are mixed.



March isn't over yet but so far it is forming a bearish hanging man candle. Unfortunately this won't help short-term timing because it requires confirmation from the next candle, which of course will be the full month of April.

Monthly momentum indicators are mixed but the MACD, which tends to be less twitchy, still looks positive.

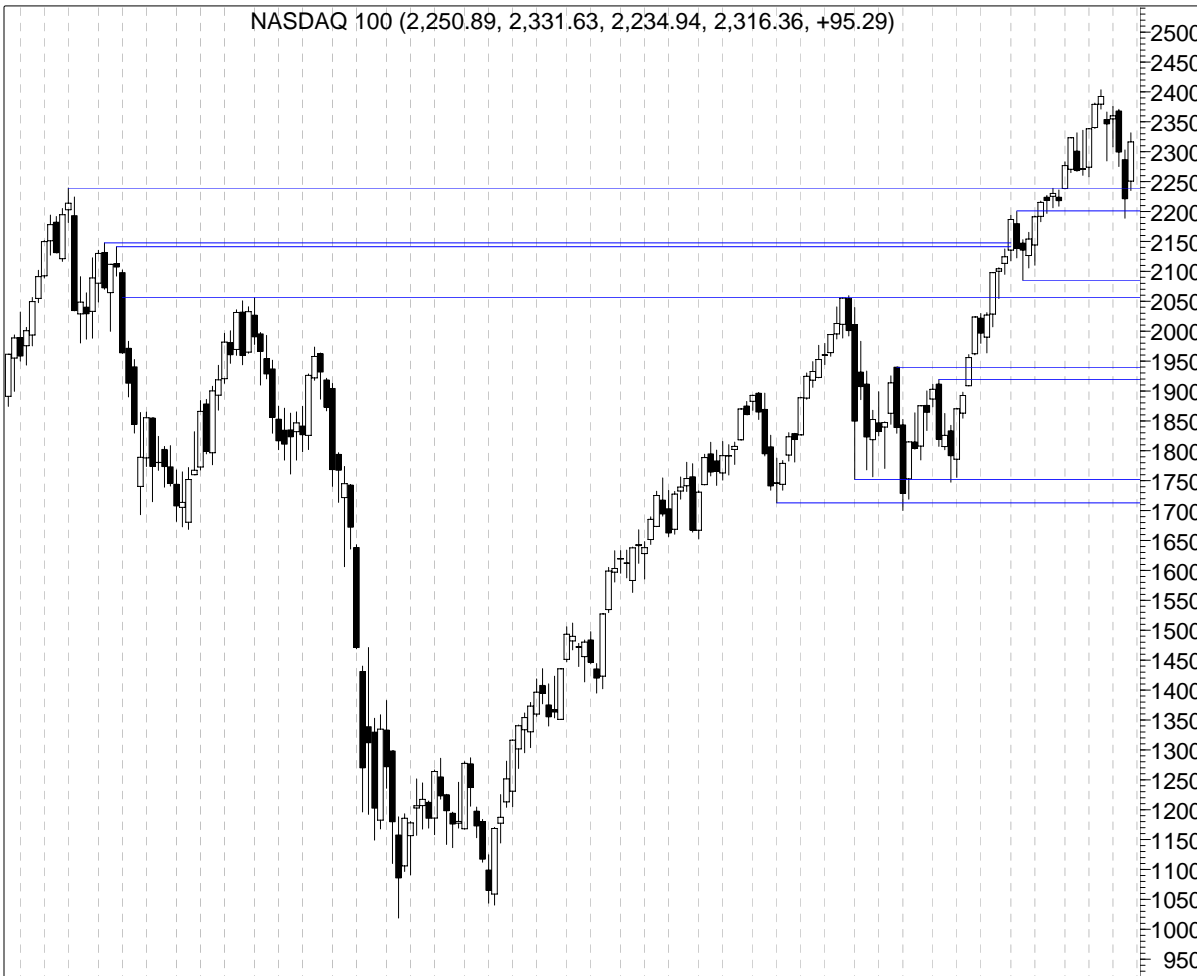
NASDAQ 100 (2,319.07, 2,331.63, 2,314.02, 2,316.36, +4.27)



The Nasdaq 100 rebounded back above its 20 and 50-sma before reversing Friday and printing a bearish shooting star candle on the daily chart. It closed just under its 50-sma.

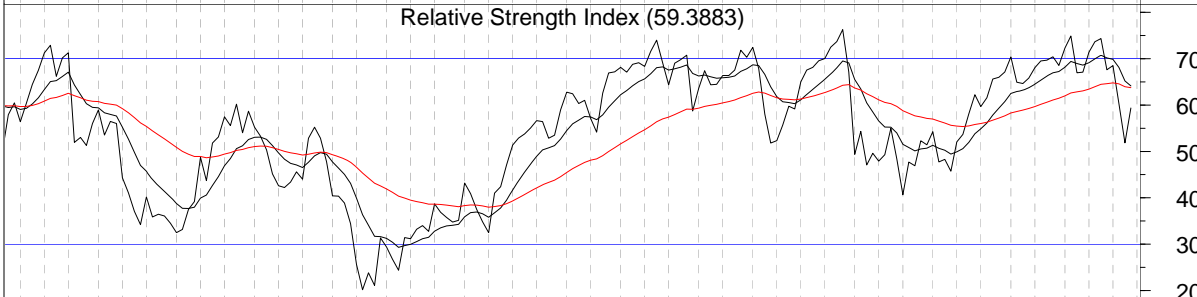
Daily momentum indicators look positive with the MACD showing a positive crossover from an oversold level.

NASDAQ 100 (2,250.89, 2,331.63, 2,234.94, 2,316.36, +95.29)



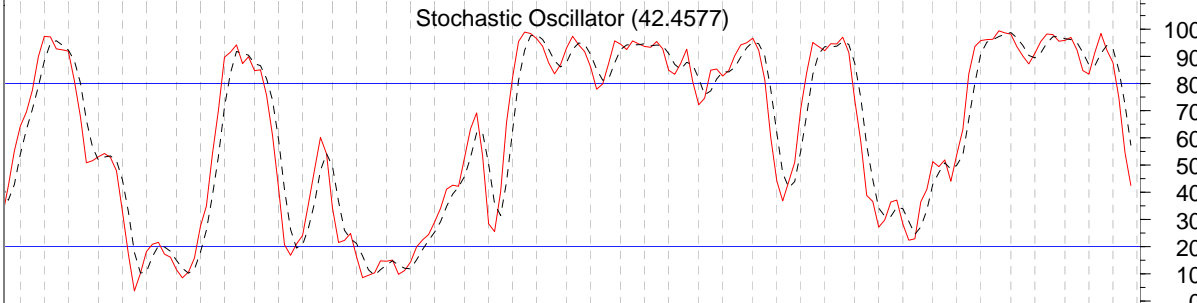
The Nasdaq 100 weekly chart shows the recent bounce brought it back above the recent breakout area.

Relative Strength Index (59.3883)

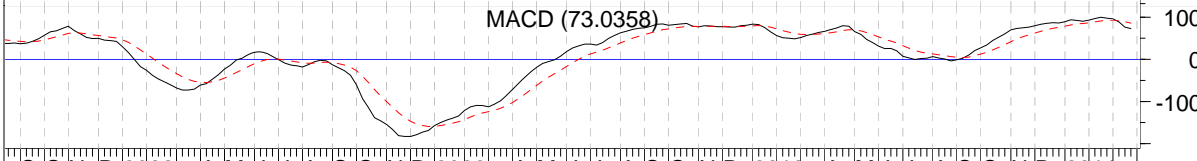


Weekly momentum indicators are no longer overbought.

Stochastic Oscillator (42.4577)



MACD (73.0358)



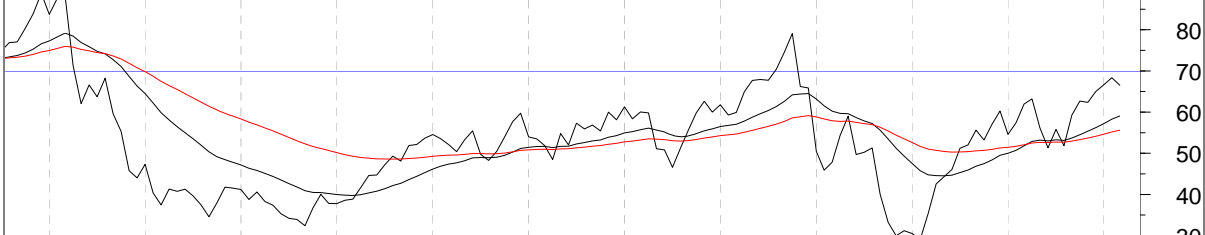
S O N D 2008 A M J J A S O N D 2009 A M J J A S O N D 2010 A M J J A S O N D 2011

NASDAQ 100 (2,359.78, 2,375.67, 2,188.92, 2,316.36, -34.63)



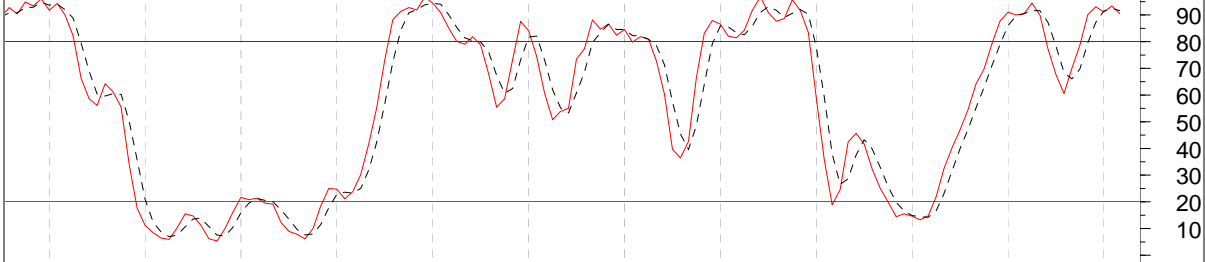
The monthly chart of the Nasdaq 100 shows it bounced back to the Fibonacci 38.2% retracement level of the 2000 - 2002 bear market. It has also printed a bearish hanging man candle. April will negate the bearish interpretation or confirm it.

Relative Strength Index (66.5218)

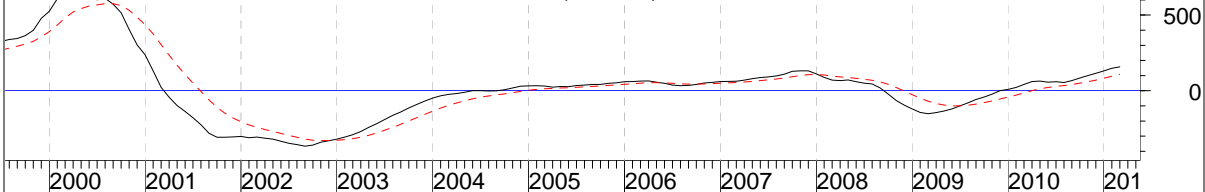


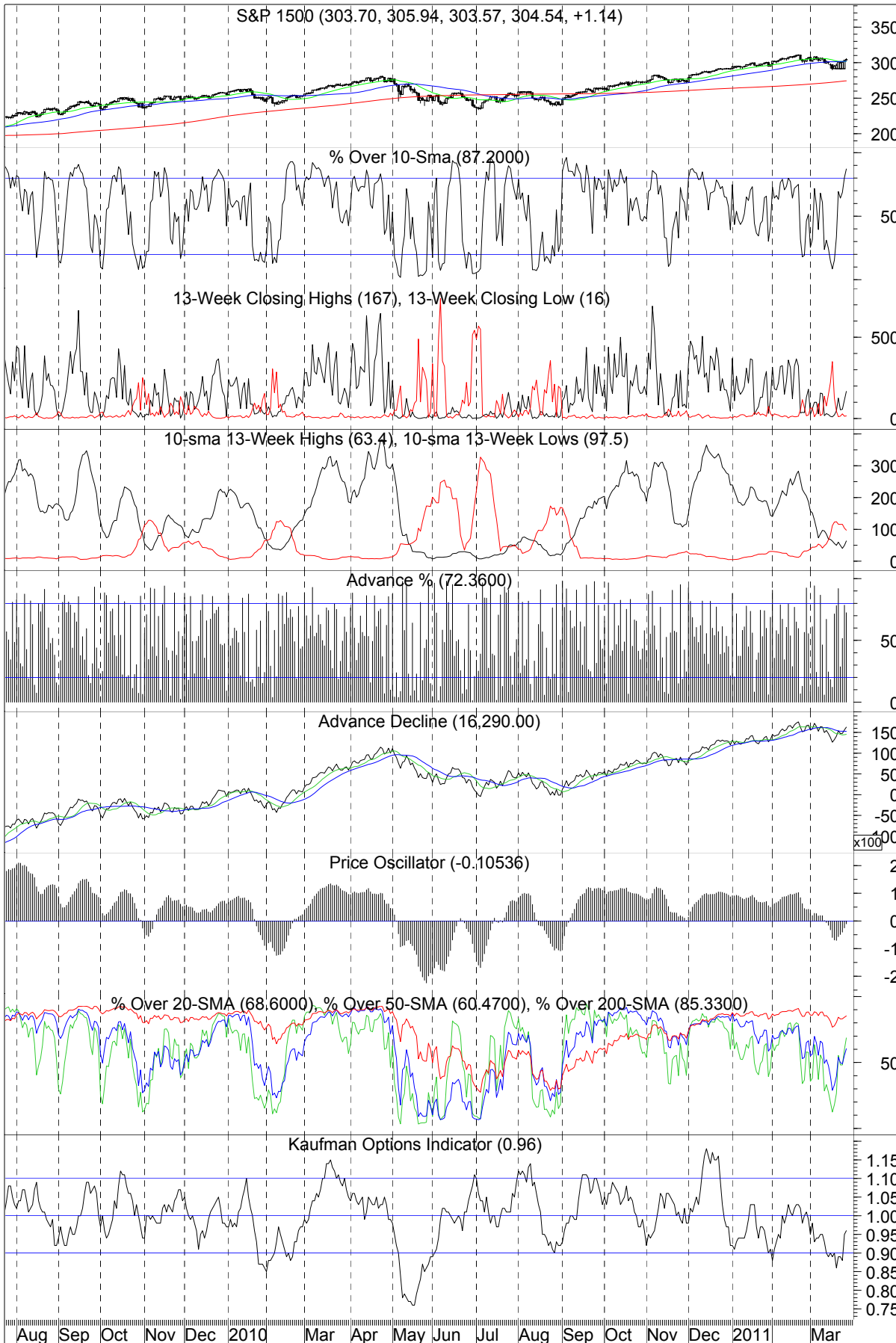
Monthly momentum indicators are at high levels but don't look negative yet.

Stochastic Oscillator (90.5128)



MACD (157.463)





After hitting a very oversold 8.47% on 3/16 the percent over 10-sma is now overbought at 87.2%. This signals caution in the very short-term but longer-term it is a sign of strength.

13-week closing highs are again greater than 13-week closing lows.

The 10-sma of 13-week lows is still greater than 13-week highs.

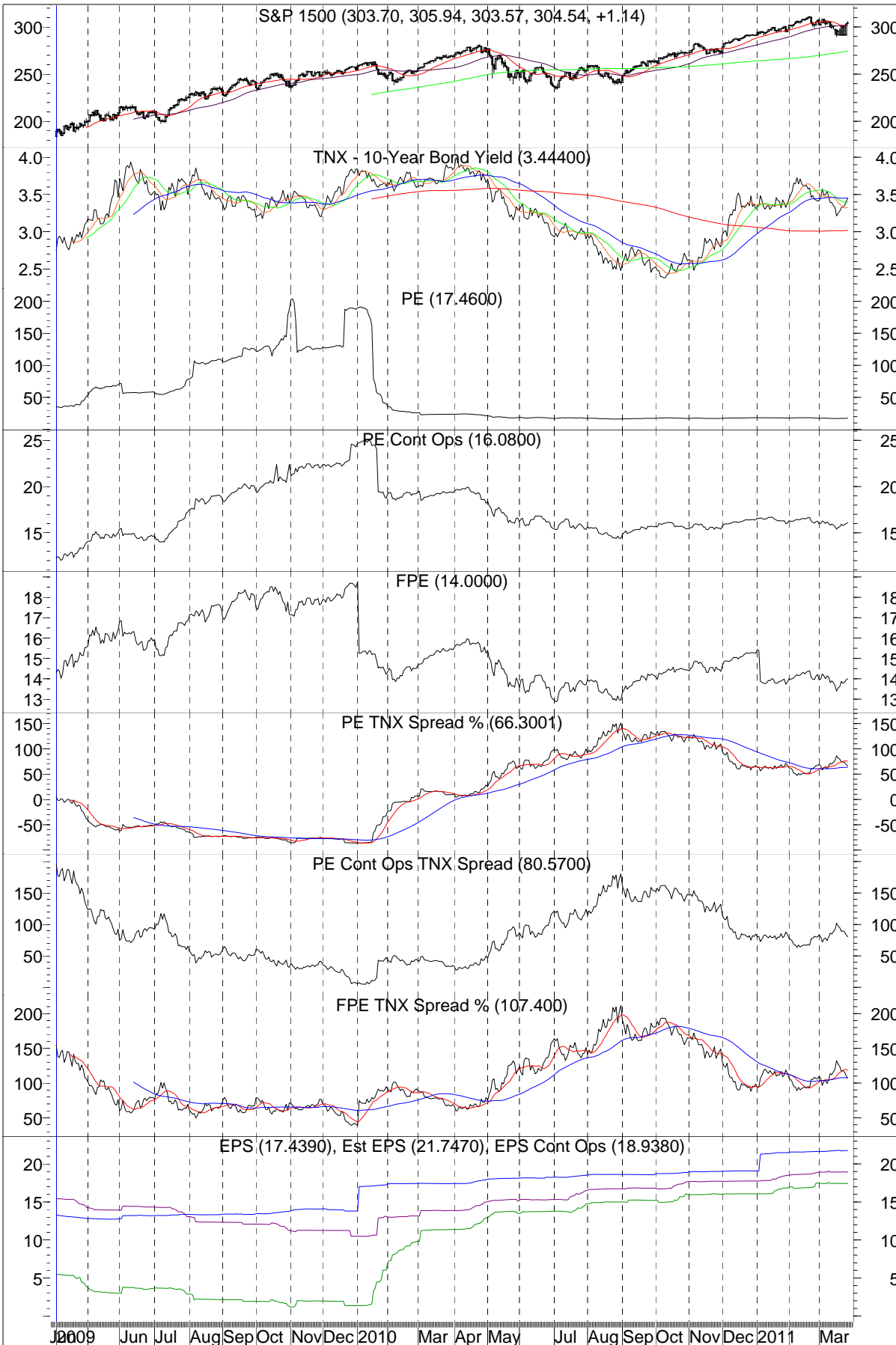
Market breadth has been strong during the oversold rebound.

The AD line has rebounded nicely and is only 1,258 net advances from its high of 2/18.

Our price oscillator, a good indicator of trends, went negative on 3/10 and is now just under the neutral line.

The shorter-term percentages over moving averages have been weak but the longer-term percent over 200-sma is still a bullish 85.33%.

Our proprietary options indicator hit 0.86 on 3/18, the lowest since May 2010. Pessimism is always helpful in getting rallies started. It is still slightly pessimistic at 0.96.



The 10-year bond yield has been very erratic but is still in the same range as three months ago. It is just under its 50-sma and isn't overbought or oversold on daily or weekly charts.

P/E ratios remain in tight ranges.

Spreads between bond and equity yields widened during the recent selloff for stocks but moved back into their recent ranges as stocks rebounded. They are still at levels where stocks are attractive versus bonds.

All 500 of the S&P 500 stocks have reported Q4 2010 earnings. 67.7% exceeded estimates, 8.0% were in line, and 24.2% disappointed.

Indexes, Sectors, and Industry Groups

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Nasdaq 100	2316.36	0.18%	4.29%	4.29%	-1.47%	4.44%	4.44%	2403.52	2011-02-16	1700.04	2010-07-01
Nasdaq Composite	2743.06	0.24%	3.76%	3.76%	-1.41%	3.40%	3.40%	2840.51	2011-02-18	2061.14	2010-07-01
S&P Smallcap 600	436.20	0.84%	3.35%	3.35%	0.47%	4.92%	4.92%	442.54	2011-02-18	315.22	2010-08-24
S&P 1500	305.68	0.75%	3.13%	3.13%	-0.47%	5.08%	5.08%	311.19	2011-02-18	232.54	2010-07-01
Dow Jones Industrials	12220.59	0.41%	3.05%	3.05%	-0.05%	5.55%	5.55%	12391.29	2011-02-18	9614.32	2010-07-02
S&P Midcap 400	970.43	0.79%	2.94%	2.94%	0.40%	6.96%	6.96%	983.84	2011-02-18	692.75	2010-07-01
S&P 500	1313.80	0.32%	2.70%	2.70%	-1.01%	4.47%	4.47%	1344.07	2011-02-18	1010.91	2010-07-01
Bank of New York Mellon ADR	143.04	-0.49%	2.66%	2.66%	-2.86%	2.08%	2.08%	148.80	2011-02-18	109.79	2010-05-25
NYSE Composite	8321.78	0.12%	2.53%	2.53%	-1.38%	4.49%	4.49%	8520.27	2011-02-18	6355.83	2010-07-01

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Energy	581.42	0.92%	4.08%	4.08%	0.13%	14.73%	14.73%	586.53	2011-03-07	365.74	2010-07-01
Information Technology	417.64	0.15%	4.05%	4.05%	-2.65%	3.24%	3.24%	439.61	2011-02-18	323.47	2010-07-01
Materials	244.62	0.53%	3.95%	3.95%	-0.25%	2.09%	2.09%	253.05	2011-02-17	168.44	2010-07-01
Consumer Discretionary	306.78	0.23%	3.20%	3.20%	-1.16%	3.80%	3.80%	315.79	2011-02-18	225.71	2010-07-01
Industrials	320.97	0.32%	2.96%	2.96%	0.22%	6.59%	6.59%	329.63	2011-02-18	232.54	2010-07-06
Telecom Services	127.76	0.78%	2.20%	2.20%	0.85%	-0.76%	-0.76%	132.76	2011-01-05	98.67	2010-05-06
Consumer Staples	306.43	0.04%	2.18%	2.18%	0.33%	0.94%	0.94%	308.25	2011-03-09	260.65	2010-07-01
Health Care	378.15	0.26%	1.91%	1.91%	0.42%	3.66%	3.66%	383.18	2011-03-04	318.89	2010-07-01
Utilities	159.57	0.00%	1.68%	1.68%	-1.66%	0.14%	0.14%	165.74	2011-03-09	138.57	2010-05-25
Financials	220.06	0.21%	0.50%	0.50%	-2.96%	2.46%	2.46%	231.18	2011-02-16	178.83	2010-08-25

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Technology Hardware & Equipment	450.82	0.45%	4.14%	4.14%	-3.51%	3.70%	3.70%	483.22	2011-02-09	350.49	2010-08-27
Energy	581.42	0.92%	4.08%	4.08%	0.13%	14.73%	14.73%	586.53	2011-03-07	365.74	2010-07-01
Software & Services	539.17	0.00%	4.05%	4.05%	-1.63%	2.43%	2.43%	562.10	2011-02-18	410.27	2010-07-01
Materials	244.62	0.53%	3.95%	3.95%	-0.25%	2.09%	2.09%	253.05	2011-02-17	168.44	2010-07-01
Semiconductors & Equipment	353.81	-0.19%	3.80%	3.80%	-3.68%	4.78%	4.78%	380.50	2011-02-18	262.69	2010-08-31
Automobiles & Components	115.60	0.27%	3.77%	3.77%	0.62%	-2.16%	-2.16%	130.31	2011-01-13	74.25	2010-06-29
Media	222.84	0.30%	3.56%	3.56%	-2.42%	12.38%	12.38%	230.21	2011-03-03	158.64	2010-07-01
Retailing	511.60	0.13%	3.33%	3.33%	-0.23%	0.63%	0.63%	529.38	2011-02-16	379.61	2010-07-01
Capital Goods	348.93	0.24%	3.19%	3.19%	-0.15%	7.83%	7.83%	358.95	2011-02-18	250.06	2010-07-06
Food, Beverage & Tobacco	363.35	0.34%	3.06%	3.06%	1.60%	3.10%	3.10%	364.82	2011-03-25	294.78	2010-05-25
Commercial & Professional Service	150.63	0.46%	2.89%	2.89%	1.97%	3.50%	3.50%	151.59	2011-02-18	122.63	2010-06-08
Consumer Services	473.45	0.04%	2.85%	2.85%	0.48%	1.23%	1.23%	483.97	2011-02-18	371.65	2010-07-01
Health Care Equip & Services	390.95	0.43%	2.53%	2.53%	-0.66%	8.87%	8.87%	402.70	2011-03-03	296.30	2010-08-31
Telecom Services	127.76	0.78%	2.20%	2.20%	0.85%	-0.76%	-0.76%	132.76	2011-01-05	98.67	2010-05-06
Insurance	195.10	0.26%	2.12%	2.12%	-3.26%	3.66%	3.66%	202.29	2011-02-18	156.79	2010-05-25
Transportation	338.65	0.65%	1.96%	1.96%	1.31%	2.42%	2.42%	347.39	2011-02-18	247.54	2010-07-06
Consumer Durables & Apparel	167.31	0.61%	1.84%	1.84%	-4.10%	-0.74%	-0.74%	177.47	2011-02-18	127.38	2010-07-06
Utilities	159.57	0.00%	1.68%	1.68%	-1.66%	0.14%	0.14%	165.74	2011-03-09	138.57	2010-05-25
Pharmaceuticals, Biotech & Life Sci	341.48	0.16%	1.57%	1.57%	1.03%	1.15%	1.15%	350.70	2010-03-25	299.26	2010-07-01
Household & Personal Products	368.34	-0.24%	1.41%	1.41%	-2.01%	-2.61%	-2.61%	390.72	2011-01-25	339.42	2010-05-06
Food & Staples Retailing	194.14	-0.45%	0.73%	0.73%	-0.48%	-0.80%	-0.80%	203.40	2011-01-26	162.45	2010-07-01
Real Estate	128.27	0.41%	0.22%	0.22%	-3.42%	6.38%	6.38%	132.99	2011-03-01	93.55	2010-07-06
Banks	149.89	0.97%	0.13%	0.13%	-1.94%	0.74%	0.74%	165.92	2010-04-21	115.69	2010-08-31
Diversified Financials	341.33	-0.16%	-0.12%	-0.12%	-3.12%	1.77%	1.77%	382.07	2010-04-15	278.07	2010-08-31

INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Chile ECH	71.42	0.49%	8.64%	2.20%	-10.28%	-10.28%	80.35	2010-12-20	27.26	2010-05-06
South Africa EZA	70.19	0.24%	7.27%	1.18%	-6.01%	-6.01%	75.27	2011-01-03	23.00	2010-05-06
India IFN	31.91	1.59%	6.30%	7.48%	-9.11%	-9.11%	36.88	2010-11-08	23.97	2010-05-25
Singapore EWS	13.45	0.37%	6.07%	3.07%	-2.89%	-2.89%	14.56	2010-11-09	10.47	2010-05-25
Indonesia IDX	29.25	-0.61%	5.90%	6.95%	0.50%	0.50%	31.05	2010-11-09	19.73	2010-05-25
Australia EWA	25.77	0.43%	5.61%	-1.30%	1.30%	1.30%	26.36	2011-02-28	18.26	2010-05-25
South Korea EWY	62.13	1.24%	5.38%	7.01%	1.54%	1.54%	63.73	2011-02-02	40.65	2010-05-25
China 25 FXI	43.67	0.09%	4.77%	2.88%	1.35%	1.35%	47.99	2010-11-08	36.24	2010-05-06
Emerging Markets EEM	47.34	-0.11%	4.67%	3.39%	-0.63%	-0.63%	48.59	2010-11-09	35.19	2010-05-25
Thailand THD	65.31	-0.52%	4.31%	5.78%	1.08%	1.08%	68.70	2010-11-09	41.82	2010-05-21
Mexico EWW	61.13	-0.54%	4.28%	0.02%	-1.28%	-1.28%	63.46	2011-01-18	45.11	2010-05-25
Russia RSX	41.64	0.10%	4.07%	1.81%	9.84%	9.84%	42.17	2011-03-07	26.06	2010-05-25
BRIC EEB	46.07	0.09%	3.97%	1.34%	-0.15%	-0.15%	48.27	2010-11-09	23.23	2010-05-06
Germany EWG	25.33	-0.67%	3.90%	-2.58%	5.81%	5.81%	26.30	2011-02-18	17.97	2010-05-25
Latin America ILF	52.30	-0.40%	3.65%	0.15%	-2.90%	-2.90%	54.83	2010-11-05	39.18	2010-05-25
Netherlands EWN	22.66	-0.66%	3.61%	0.94%	7.44%	7.44%	22.87	2011-03-07	16.64	2010-05-25
France EWQ	26.50	-0.90%	3.56%	-1.30%	8.38%	8.38%	27.03	2011-02-28	19.24	2010-05-25
Hong Kong EWH	18.51	-0.07%	3.52%	-0.86%	-2.17%	-2.17%	20.24	2010-11-08	14.08	2010-05-21
Austria EWO	23.16	-0.73%	3.25%	1.98%	3.72%	3.72%	23.37	2011-03-24	14.91	2010-06-08
Taiwan EWT	14.73	0.02%	3.15%	-0.07%	-5.70%	-5.70%	16.08	2011-02-07	10.81	2010-06-08
Spain EWP	42.35	-1.52%	3.14%	0.71%	15.27%	15.27%	45.29	2010-04-14	29.85	2010-06-08
Italy EWI	18.49	-1.49%	3.01%	-0.11%	12.88%	12.88%	19.04	2010-04-14	13.21	2010-06-07
Sweden EWD	31.96	-0.99%	2.93%	-0.03%	2.34%	2.34%	32.94	2011-01-27	19.00	2010-05-06
Belgium EWK	14.00	-0.57%	2.87%	1.78%	6.63%	6.63%	14.52	2010-11-04	8.93	2010-05-06
Turkey TUR	62.77	-0.95%	2.73%	6.82%	-5.20%	-5.20%	79.00	2010-11-09	44.40	2010-05-06
Brazil EWZ	75.26	0.08%	2.67%	1.33%	-2.76%	-2.76%	81.55	2010-11-04	57.03	2010-05-25
Switzerland EWL	25.10	-1.03%	2.49%	-2.33%	0.08%	0.08%	25.84	2011-03-01	18.70	2010-05-25
Malaysia EWM	14.48	-0.41%	2.33%	2.91%	0.70%	0.70%	14.98	2011-01-13	10.60	2010-05-25
United Kingdom EWU	17.80	-0.64%	2.01%	-3.05%	2.48%	2.48%	18.55	2011-02-18	13.25	2010-05-25
Canada EWC	33.13	-0.54%	2.00%	-1.60%	6.87%	6.87%	34.21	2011-03-07	22.75	2010-05-06
Israel EIS	57.18	-0.16%	1.89%	0.81%	-5.52%	-5.52%	61.79	2011-01-19	45.00	2010-05-06
Vietnam VNM	23.63	-1.05%	1.59%	-2.56%	-9.74%	-9.74%	30.34	2010-12-13	21.81	2010-08-25
Japan EWJ	10.33	-2.41%	-0.40%	-10.41%	-5.32%	-5.32%	11.63	2011-02-18	9.15	2010-06-07