

Monday March 7, 2011

Closing prices of March 4, 2011

Stocks managed to eke out gains last week in spite of continuing the increased volatility we have seen since the February 18<sup>th</sup> high. Since February 22<sup>nd</sup> we have seen two days with 90% of stocks trading lower along with two days of 90% of stocks trading higher as the bulls and bears wage a tug-of-war. For the week the major indexes were led by the Bank of New York Mellon ADR index which was up 0.83% while the S&P 500 lagged major indexes with a gain of 0.10%.

There is no doubt that the recent pullback for stocks is the result of the turmoil in the Middle East. Economic indicators continue to show a recovery in the U.S. economy, and in spite of the recent spike in oil prices aggregate earnings for 2011 and 2012 continue to move higher. Unfortunately, the short-term picture for stocks is no more visible than it was last week when we said it was not clear. **We reiterate our opinion that this has become a short-term trader's market.**

We also noted last week that in spite of the drop in stocks our proprietary options indicator was not showing the type of pessimism we like to see. That has changed this week as options buyers bought puts and drove our indicator down to 0.93 on Thursday. It ended the week at 0.94, not an extremely low level but low enough that barring extreme geo-political events short-term downside should be limited.

**Earnings season is coming to an end with 492 of the S&P 500 having reported so far.** Of those, 67.8% have exceeded expectations, 7.7% have been in line, and 24.4% have disappointed. So far this is a worse performance than last quarter, 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 last quarter, a respectable 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 the current positive outlook.**

Overall it has been a good earnings season. Worries about spiking interest rates are out of the way, at least temporarily, and have been replaced by worries about rising oil and other commodity prices. Until those worries become reality, it will be difficult to argue that equities are overvalued. Currently S&P 500 projected earnings for 2011 are above \$96 and rising. **The current S&P 500 P/E is 15.50. A 15 P/E on \$96 would put the index at 1440.** Should projections follow the recent trend and those numbers will move higher. **Estimates for 2012 are above \$109, projecting earnings growth of 13.6%. A 15 P/E on \$109 equates to 1635 on the S&P 500, almost 24% 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. Pullbacks that are without intensity should be viewed as entry points for investors. This is back to being a short-term trader's market, and investors need to be alert for sector rotation.**

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S&P 500 Cash (1,320.95, 1,321.16, 1,320.95, 1,321.15, +0.22)



The 30-minute chart of the S&P 500 shows it ran into resistance twice at the 1332 level. 1332.31 is the Fibonacci 76.4% retracement of the pullback from the 2/18 high. Surpassing that level will create a second higher bottom and greatly increase the odds of challenging the 2/18 high.

30-minute momentum indicators look OK with the MACD nearing a positive crossover.

S&P 500 Cash (1,330.73, 1,331.08, 1,312.59, 1,321.15, -9.82)



The daily chart of the S&P 500 shows it has been trading around its 20-sma. Even with the recent volatility it hasn't challenged its 50-sma.

Daily momentum indicators are neutral.

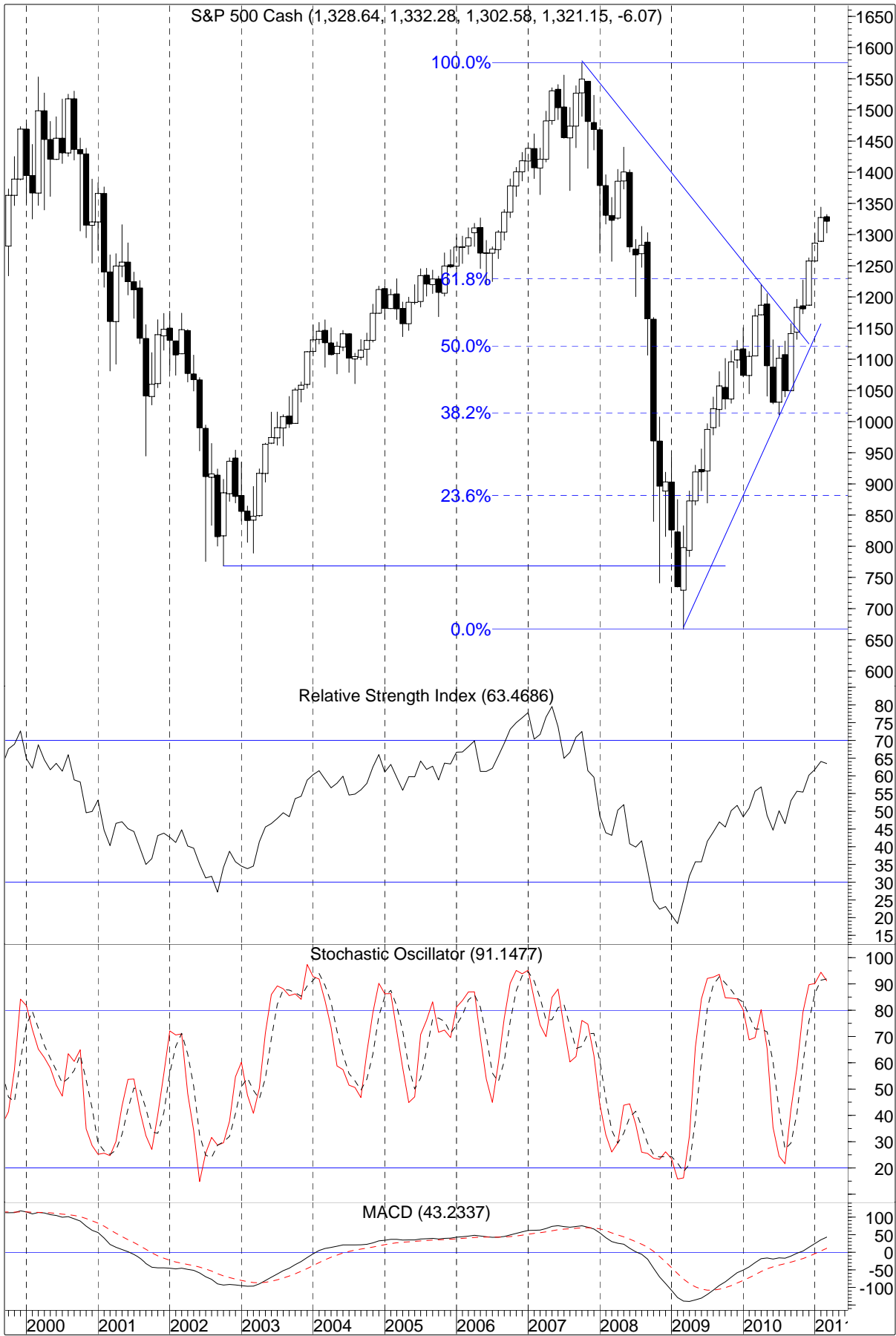
S&P/500 Cash (1,321.61, 1,332.28, 1,302.58, 1,321.15, +1.27)



The weekly chart of the S&P 500 printed a doji candle stick. Doji are signs of indecision. Last week we noted the bearish hanging man candle required confirmation the following week. We did NOT get that bearish confirmation with this week's doji candle.

Weekly momentum indicators are still at high levels and look like they may roll over.

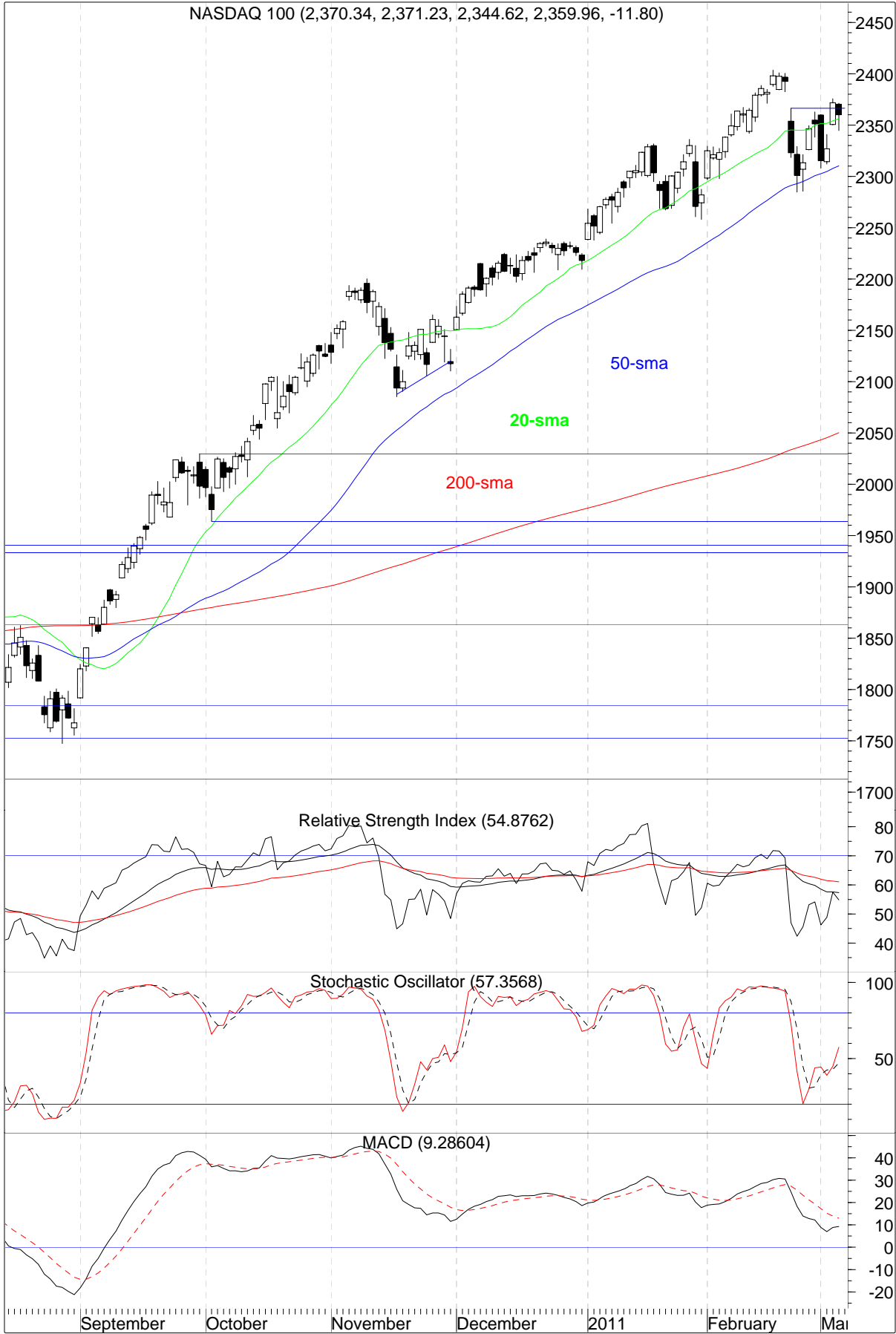
S&P 500 Cash (1,328.64, 1,332.28, 1,302.58, 1,321.15, -6.07)



February ended as another good month. Do far March is off to a slow start.

The stochastic is the only monthly momentum indicator at an overbought level.

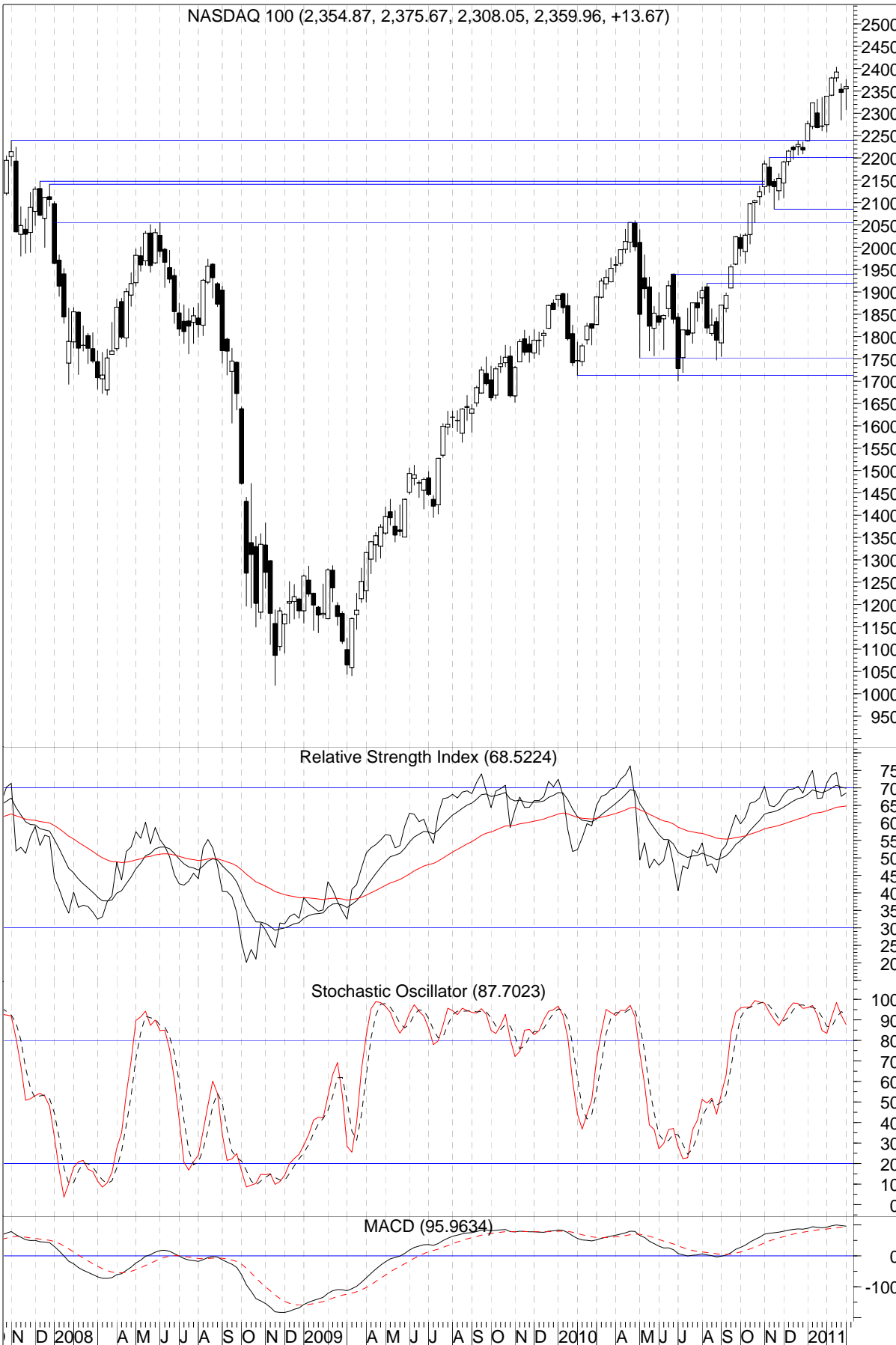
NASDAQ 100 (2,370.34, 2,371.23, 2,344.62, 2,359.96, -11.80)



The daily chart of the Nasdaq 100 shows it started to fill the recent gap down but ran into a problem Friday. Still, it did manage to close back above its 20-sma.

Daily momentum indicators are mixed but not far from turning positive.

NASDAQ 100 (2,354.87, 2,375.67, 2,308.05, 2,359.96, +13.67)



The weekly chart of the Nasdaq 100 shows it closed the gap down after its recent high.

Weekly momentum indicators are at high levels and appear vulnerable.

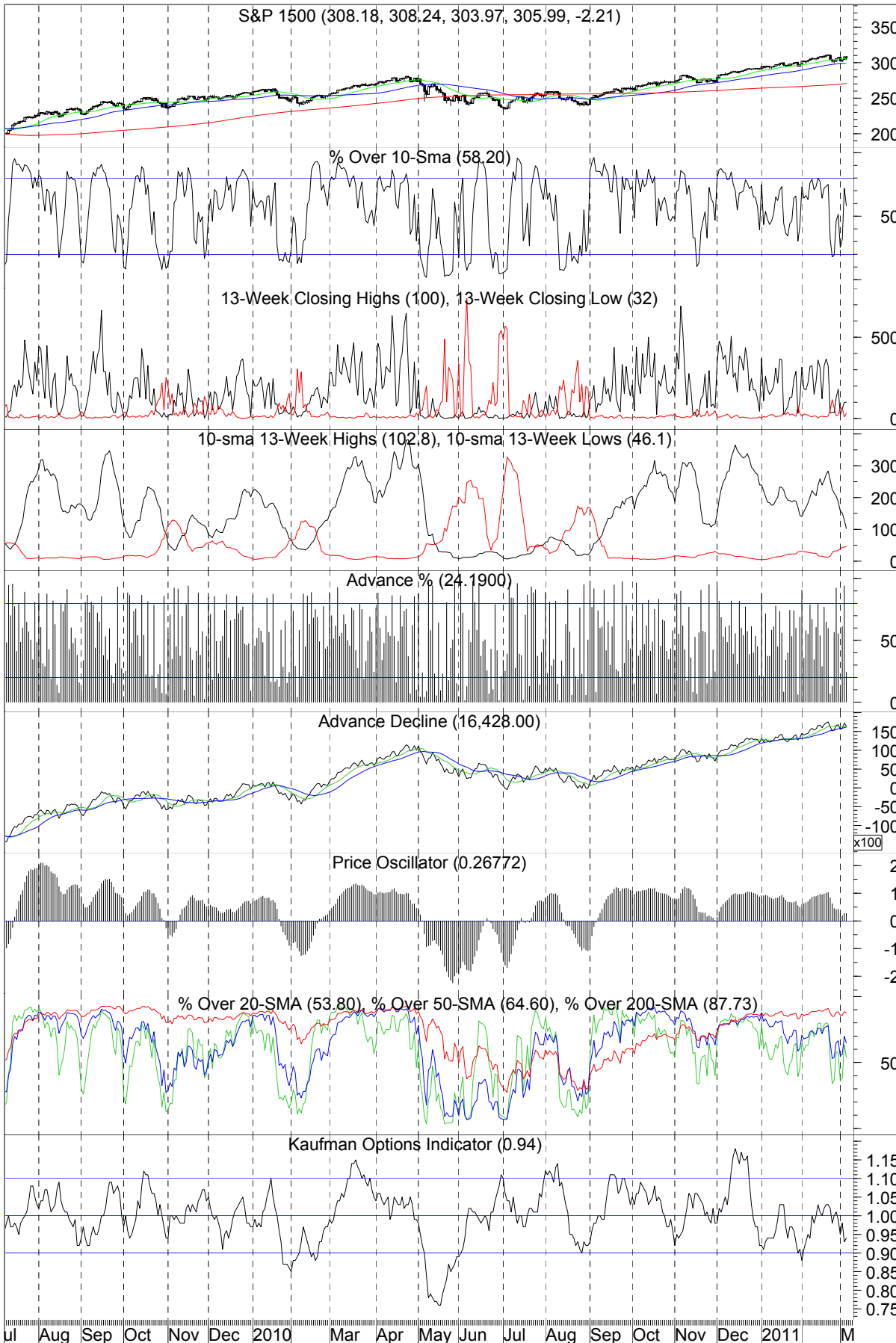
NASDAQ 100 (2,359.78, 2,375.67, 2,308.05, 2,359.96, +8.97)



After a good February March is slightly positive for the Nasdaq 100.

Monthly momentum indicators look OK with only the stochastic in the overbought zone.





The percent over 10-sma rebounded from oversold levels but has not become overbought.

13-week closing lows have been increasing as sellers have started to come back.

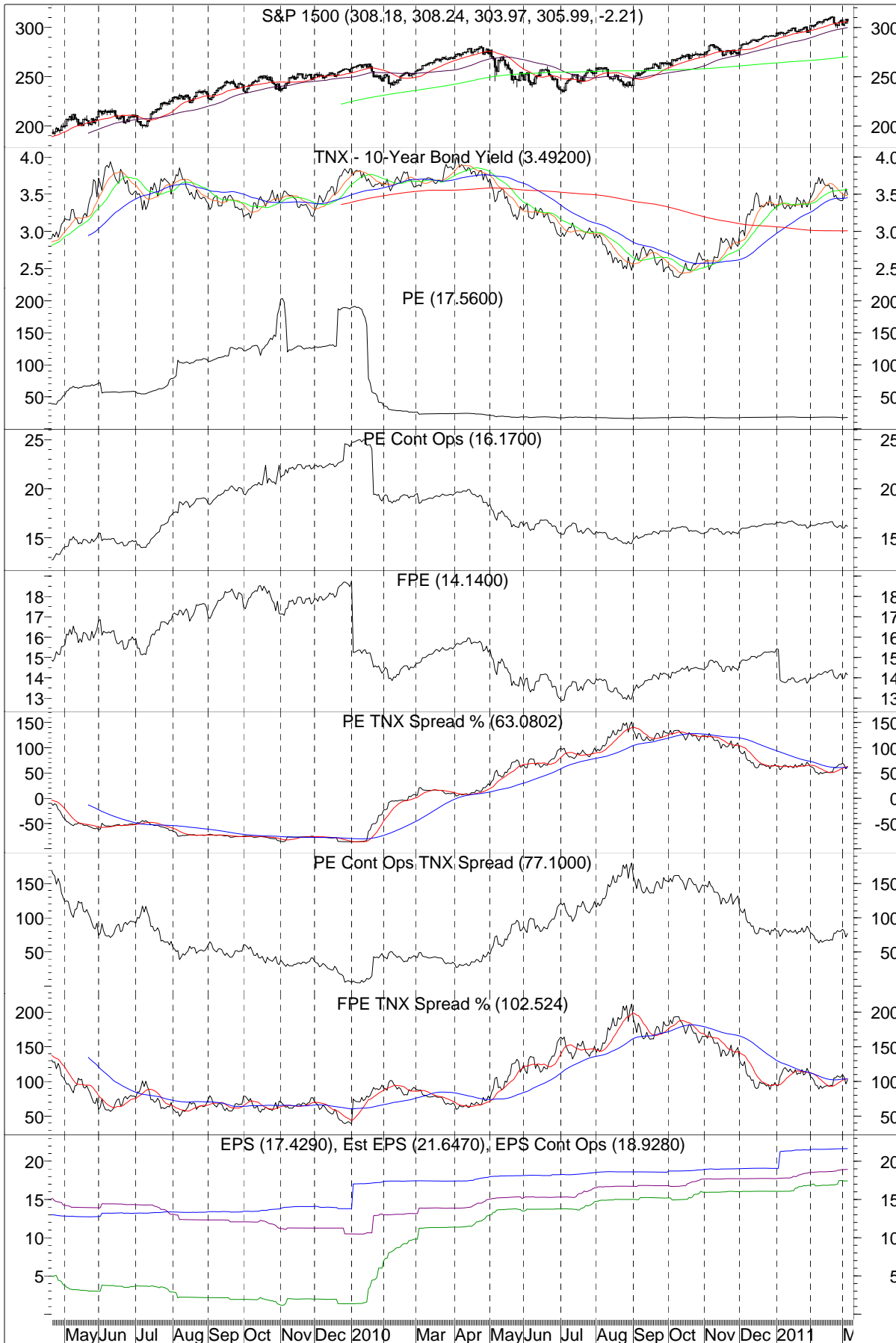
The 10-sma of 13-week closing lows is the highest since 9/13/10.

Since 2/22 we have seen two 90% up days and two 90% down days as the bulls and bears wage a tug-of-war.

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

Short-term weakness here, but the longer-term percent over 200-sma is still very bullish at 87.73%.

Put buyers have driven our proprietary options indicator to a pessimistic 0.94. We like to see pessimism, and good rallies can start from very pessimistic levels.



After a breakout attempt in February 10-year bond yields seem stuck in a sideways range.

P/E ratios are moving sideways.

Spreads between equity and bond yields are also moving sideways. They remain at levels where stocks should be attractive versus bonds.

492 of the S&P 500 have reported earnings. 67.8% have exceeded estimates, 7.7% have been as expected, and 24.4% have disappointed. In spite of the recent surge in oil prices, aggregate numbers for 2011 and 2012 continue to move higher.

## 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	147.33	-0.53%	0.83%	0.83%	0.05%	5.14%	5.14%	148.80	2011-02-18	109.79	2010-05-25
S&P Smallcap 600	436.23	-0.34%	0.63%	0.63%	0.48%	4.93%	4.93%	442.54	2011-02-18	315.22	2010-08-24
Nasdaq 100	2359.96	-0.50%	0.58%	0.58%	0.38%	6.41%	6.41%	2403.52	2011-02-16	1700.04	2010-07-01
S&P Midcap 400	968.55	-0.70%	0.45%	0.45%	0.20%	6.76%	6.76%	983.84	2011-02-18	692.75	2010-07-01
NYSE Composite	8413.05	-0.62%	0.42%	0.42%	-0.30%	5.64%	5.64%	8520.27	2011-02-18	6355.83	2010-07-01
Dow Jones Industrials	12169.88	-0.72%	0.33%	0.33%	-0.46%	5.12%	5.12%	12391.29	2011-02-18	9614.32	2010-07-02
S&P 1500	305.99	-0.72%	0.15%	0.15%	-0.37%	5.19%	5.19%	311.19	2011-02-18	232.54	2010-07-01
Nasdaq Composite	2784.67	-0.50%	0.13%	0.13%	0.09%	4.97%	4.97%	2840.51	2011-02-18	2061.14	2010-07-01
S&P 500	1321.15	-0.74%	0.10%	0.10%	-0.46%	5.05%	5.05%	1344.07	2011-02-18	1010.91	2010-07-01

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Health Care	382.27	-0.06%	2.43%	2.43%	1.51%	4.79%	4.79%	383.18	2011-03-04	318.89	2010-07-01
Utilities	161.56	-0.58%	0.61%	0.61%	-0.43%	1.39%	1.39%	164.42	2010-10-20	138.57	2010-05-25
Energy	579.78	-0.64%	0.42%	0.42%	-0.15%	14.41%	14.41%	585.08	2011-03-01	365.74	2010-07-01
Consumer Discretionary	309.07	-0.69%	0.22%	0.22%	-0.42%	4.58%	4.58%	315.79	2011-02-18	225.71	2010-07-01
Consumer Staples	304.75	-0.45%	0.20%	0.20%	-0.22%	0.39%	0.39%	307.75	2011-03-01	260.65	2010-07-01
Materials	243.10	-0.72%	0.16%	0.16%	-0.87%	1.46%	1.46%	253.05	2011-02-17	168.44	2010-07-01
Industrials	318.37	-1.16%	-0.05%	-0.05%	-0.60%	5.73%	5.73%	329.63	2011-02-18	232.54	2010-07-06
Information Technology	428.02	-0.68%	-0.09%	-0.09%	-0.24%	5.80%	5.80%	439.61	2011-02-18	323.47	2010-07-01
Telecom Services	124.39	-0.72%	-0.35%	-0.35%	-1.81%	-3.38%	-3.38%	132.76	2011-01-05	98.67	2010-05-06
Financials	222.13	-1.32%	-1.60%	-1.60%	-2.05%	3.43%	3.43%	231.18	2011-02-16	178.83	2010-08-25

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Pharmaceuticals, Biotech & Life Sci	342.73	0.20%	2.64%	2.64%	1.40%	1.52%	1.52%	352.33	2010-03-23	299.26	2010-07-01
Health Care Equip & Services	400.26	-0.50%	2.02%	2.02%	1.71%	11.46%	11.46%	402.70	2011-03-03	296.30	2010-08-31
Technology Hardware & Equipmen	466.87	-0.36%	1.01%	1.01%	-0.07%	7.40%	7.40%	483.22	2011-02-09	350.49	2010-08-27
Media	227.56	-0.92%	0.80%	0.80%	-0.36%	14.76%	14.76%	230.21	2011-03-03	158.64	2010-07-01
Commercial & Professional Service	147.85	-0.74%	0.76%	0.76%	0.09%	1.59%	1.59%	151.59	2011-02-18	122.63	2010-06-08
Consumer Durables & Apparel	174.68	-0.55%	0.74%	0.74%	0.12%	3.63%	3.63%	177.47	2011-02-18	127.38	2010-07-06
Food, Beverage & Tobacco	359.20	-0.48%	0.64%	0.64%	0.44%	1.92%	1.92%	361.73	2011-03-03	294.78	2010-05-25
Utilities	161.56	-0.58%	0.61%	0.61%	-0.43%	1.39%	1.39%	164.42	2010-10-20	138.57	2010-05-25
Consumer Services	469.58	-0.51%	0.46%	0.46%	-0.34%	0.40%	0.40%	483.97	2011-02-18	371.65	2010-07-01
Energy	579.78	-0.64%	0.42%	0.42%	-0.15%	14.41%	14.41%	585.08	2011-03-01	365.74	2010-07-01
Food & Staples Retailing	193.98	-0.04%	0.41%	0.41%	-0.56%	-0.88%	-0.88%	203.40	2011-01-26	162.45	2010-07-01
Transportation	332.03	-0.95%	0.16%	0.16%	-0.67%	0.42%	0.42%	347.39	2011-02-18	247.54	2010-07-06
Materials	243.10	-0.72%	0.16%	0.16%	-0.87%	1.46%	1.46%	253.05	2011-02-17	168.44	2010-07-01
Retailing	511.71	-0.52%	-0.02%	-0.02%	-0.21%	0.66%	0.66%	529.38	2011-02-16	379.61	2010-07-01
Capital Goods	347.26	-1.23%	-0.16%	-0.16%	-0.63%	7.31%	7.31%	358.95	2011-02-18	250.06	2010-07-06
Semiconductors & Equipment	371.36	-0.66%	-0.22%	-0.22%	1.10%	9.97%	9.97%	380.50	2011-02-18	262.69	2010-08-31
Telecom Services	124.39	-0.72%	-0.35%	-0.35%	-1.81%	-3.38%	-3.38%	132.76	2011-01-05	98.67	2010-05-06
Insurance	197.60	-0.68%	-0.60%	-0.60%	-2.02%	4.98%	4.98%	202.29	2011-02-18	156.79	2010-05-25
Software & Services	543.89	-0.95%	-0.96%	-0.96%	-0.77%	3.32%	3.32%	562.10	2011-02-18	410.27	2010-07-01
Household & Personal Products	370.21	-0.77%	-1.09%	-1.09%	-1.52%	-2.11%	-2.11%	390.72	2011-01-25	339.42	2010-05-06
Real Estate	128.26	-1.22%	-1.48%	-1.48%	-3.43%	6.37%	6.37%	132.99	2011-03-01	93.34	2010-03-04
Diversified Financials	345.88	-1.63%	-1.92%	-1.92%	-1.83%	3.13%	3.13%	382.07	2010-04-15	278.07	2010-08-31
Banks	149.92	-1.44%	-2.15%	-2.15%	-1.92%	0.76%	0.76%	165.92	2010-04-21	115.69	2010-08-31
Automobiles & Components	112.06	-1.05%	-2.40%	-2.40%	-2.46%	-5.15%	-5.15%	130.31	2011-01-13	74.25	2010-06-29

**INTERNATIONAL ETFs**

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Chile ECH	71.06	0.21%	4.73%	1.69%	-10.73%	-10.73%	80.35	2010-12-20	27.26	2010-05-06
China 25 FXI	43.44	0.28%	3.82%	2.33%	0.81%	0.81%	47.99	2010-11-08	36.24	2010-05-06
Taiwan EWT	15.14	0.33%	3.49%	2.71%	-3.07%	-3.07%	16.08	2011-02-07	10.81	2010-06-08
Russia RSX	41.64	-0.14%	3.48%	1.81%	9.84%	9.84%	41.84	2011-03-03	26.06	2010-05-25
Indonesia IDX	27.94	0.22%	3.10%	2.16%	-4.00%	-4.00%	31.05	2010-11-09	19.73	2010-05-25
Emerging Markets EEM	46.90	0.09%	3.02%	2.41%	-1.57%	-1.57%	48.59	2010-11-09	35.19	2010-05-25
India IFN	30.44	-1.39%	2.87%	2.53%	-13.30%	-13.30%	36.88	2010-11-08	23.97	2010-05-25
South Korea EWY	60.12	1.20%	2.77%	3.55%	-1.75%	-1.75%	63.73	2011-02-02	40.65	2010-05-25
Belgium EWK	14.02	0.11%	2.71%	1.93%	6.78%	6.78%	14.52	2010-11-04	8.93	2010-05-06
Brazil EWZ	75.71	0.31%	2.46%	1.94%	-2.18%	-2.18%	81.55	2010-11-04	57.03	2010-05-25
Canada EWC	33.98	0.27%	2.41%	0.92%	9.61%	9.61%	34.07	2011-03-04	22.75	2010-05-06
Latin America ILF	53.14	-0.19%	2.41%	1.76%	-1.34%	-1.34%	54.83	2010-11-05	39.18	2010-05-25
South Africa EZA	69.82	-0.68%	2.21%	0.65%	-6.51%	-6.51%	75.27	2011-01-03	23.00	2010-05-06
BRIC EEB	46.29	-0.15%	2.21%	1.83%	0.33%	0.33%	48.27	2010-11-09	23.23	2010-05-06
Netherlands EWN	22.69	-0.40%	1.89%	1.07%	7.59%	7.59%	22.83	2011-03-04	16.64	2010-05-25
Thailand THD	62.21	-0.84%	1.65%	0.76%	-3.71%	-3.71%	68.70	2010-11-09	41.82	2010-05-21
Malaysia EWM	14.32	-0.16%	1.65%	1.79%	-0.40%	-0.40%	14.98	2011-01-13	10.60	2010-05-25
Germany EWG	25.95	-1.18%	1.57%	-0.19%	8.40%	8.40%	26.30	2011-02-18	17.97	2010-05-25
Mexico EWW	61.40	-0.55%	1.45%	0.46%	-0.84%	-0.84%	63.46	2011-01-18	45.11	2010-05-25
Hong Kong EWH	18.75	0.11%	1.13%	0.43%	-0.90%	-0.90%	20.24	2010-11-08	14.08	2010-05-21
Sweden EWD	31.57	-1.03%	0.99%	-1.25%	1.09%	1.09%	32.94	2011-01-27	19.00	2010-05-06
Switzerland EWL	25.61	-0.60%	0.59%	-0.35%	2.11%	2.11%	25.84	2011-03-01	18.70	2010-05-25
United Kingdom EWU	18.32	-0.54%	0.55%	-0.22%	5.47%	5.47%	18.55	2011-02-18	13.25	2010-05-25
Singapore EWS	13.24	-0.15%	0.53%	1.46%	-4.40%	-4.40%	14.56	2010-11-09	10.47	2010-05-25
France EWQ	26.61	-1.41%	0.38%	-0.89%	8.83%	8.83%	27.03	2011-02-28	19.24	2010-05-25
Italy EWI	18.44	-1.13%	0.33%	-0.38%	12.58%	12.58%	19.04	2010-04-14	13.21	2010-06-07
Japan EWJ	11.44	-0.65%	0.22%	-0.78%	4.86%	4.86%	11.63	2011-02-18	9.15	2010-06-07
Austria EWO	22.52	-1.34%	0.18%	-0.84%	0.85%	0.85%	23.21	2011-02-09	14.91	2010-06-08
Australia EWA	25.95	-0.61%	-0.31%	-0.61%	2.00%	2.00%	26.36	2011-02-28	18.26	2010-05-25
Israel EIS	56.00	-0.96%	-0.80%	-1.27%	-7.47%	-7.47%	61.79	2011-01-19	45.00	2010-05-06
Turkey TUR	58.24	0.52%	-0.92%	-0.88%	-12.04%	-12.04%	79.00	2010-11-09	44.40	2010-05-06
Spain EWP	41.02	-1.87%	-1.91%	-2.45%	11.65%	11.65%	45.29	2010-04-14	29.85	2010-06-08
Vietnam VNM	23.65	-1.34%	-2.67%	-2.47%	-9.66%	-9.66%	30.34	2010-12-13	21.81	2010-08-25