

Monday May 17, 2010

Closing prices of May 14, 2010

In our report of April 5<sup>th</sup> we said the tone of the market was changing and the initial blastoff phase of the market was complete. At that time the S&P 500 was at 1178 on the way to its April 26<sup>th</sup> rally high of 1219.80. The next day, April 27<sup>th</sup>, was the first of a cluster of five panic-selling 90% down days in the nine sessions through May 7<sup>th</sup>, reminiscent of the five out of ten sessions which took place from 9/4/08 to 9/17/08.

Monday May 10<sup>th</sup> was a big 90% up day with 365 of the S&P 1500 stocks gapping higher. The volatility continued through the week with Wednesday just missing being another 90% up day, and Friday closing the week with another 90% down day and 415 stocks gapping lower. In total the 14 sessions since 4/27 have given us six 90% down days, one 90% up day, and two almost 90% up days.

The sharp moves in equities have been accompanied by large moves in bonds, the U.S. Dollar and the Euro, and gold. It has unnerved investors and sent our options indicator to the most pessimistic levels since August 2007. We are at the end of an excellent first quarter earnings season, and investors have changed their focus from good earnings to a myriad of problems. The sovereign debt issue in Europe remains front and center. A slowdown in Europe as austerity measures are implemented can't help the global economy. The oil well leak in the Gulf of Mexico is becoming a disaster of epic proportions. A possible slowdown in China as the government reigns in the economy is a source of concern. How earnings will be affected by the suddenly overwhelmingly popular U.S. Dollar is an important question.

Unfortunately it appears we are back in a low visibility environment like we had in 2008. **Since May 3<sup>rd</sup> we have been advising caution and we repeat that at this time.** Bottoms after plunges like we saw on May 6<sup>th</sup> have a history of being tested, and that test may be underway currently. As we said last week, we think investors need to be defensive as this plays out and we are back to our strategy of the last months of the bear market.

**Until proven otherwise, this is once again a short-term traders market, with aggressive traders able to play long or short based on overbought or oversold conditions.**

**Longer-term we are looking for entry points to buy stocks which we believe are being liquidated for reasons which have nothing to do with their valuations or prospects for the future. Equity valuations are very attractive at current levels.**

**Based on the S&P 500 the short-term and intermediate-term trends are down, and the long-term trend is up. Investors need to be careful since a freezing up of the financial system can be very damaging, as we all saw in 2008 – 2009.**

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# The Kaufman Report

Trade what you see, not what you think.

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

P/E: 17.16 FP/E: 14.48 Percent over 10-sma: 32.27%. Percent over 50-sma: 38.93%

13-Week Closing Highs: 9. 13-Week Closing Lows: 55. 52-week closing highs: 8. 52-week closing lows: 9.

Kaufman Options Indicator: 0.77 (lowest since 8/16/07). Put/Call Ratio: 0.925.

New High Reversals: 4. New Low Reversals: 0.

Volume: +9% versus yesterday. 83% of the 10-day average. 92% of the 30-day average.

Up Stocks: 5.16%. Up Volume: 2.81%. Up Points: 1.53%. Up Dollars: 0.04%, 0.09% of 10-sma. Dn Dollars 166% of 10-sma.

Earnings: 459 of the S&P 500 have reported so far this earnings season. 77.0% have had positive surprises, 7.9% have been in line, and 15.1% have had negative surprises.

Federal Funds Futures project a 92.0% probability of no change to the current 0.25% target rate and an 8.0% probability of a decrease to 0.00% when the FOMC meets on 6/23. For the meeting of 8/10 the probabilities are 87.3% for no change, 5.2% for an increase to 0.50, and 7.5% for a decrease to 0.00%.

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## Indexes, Sectors, and Industry Groups

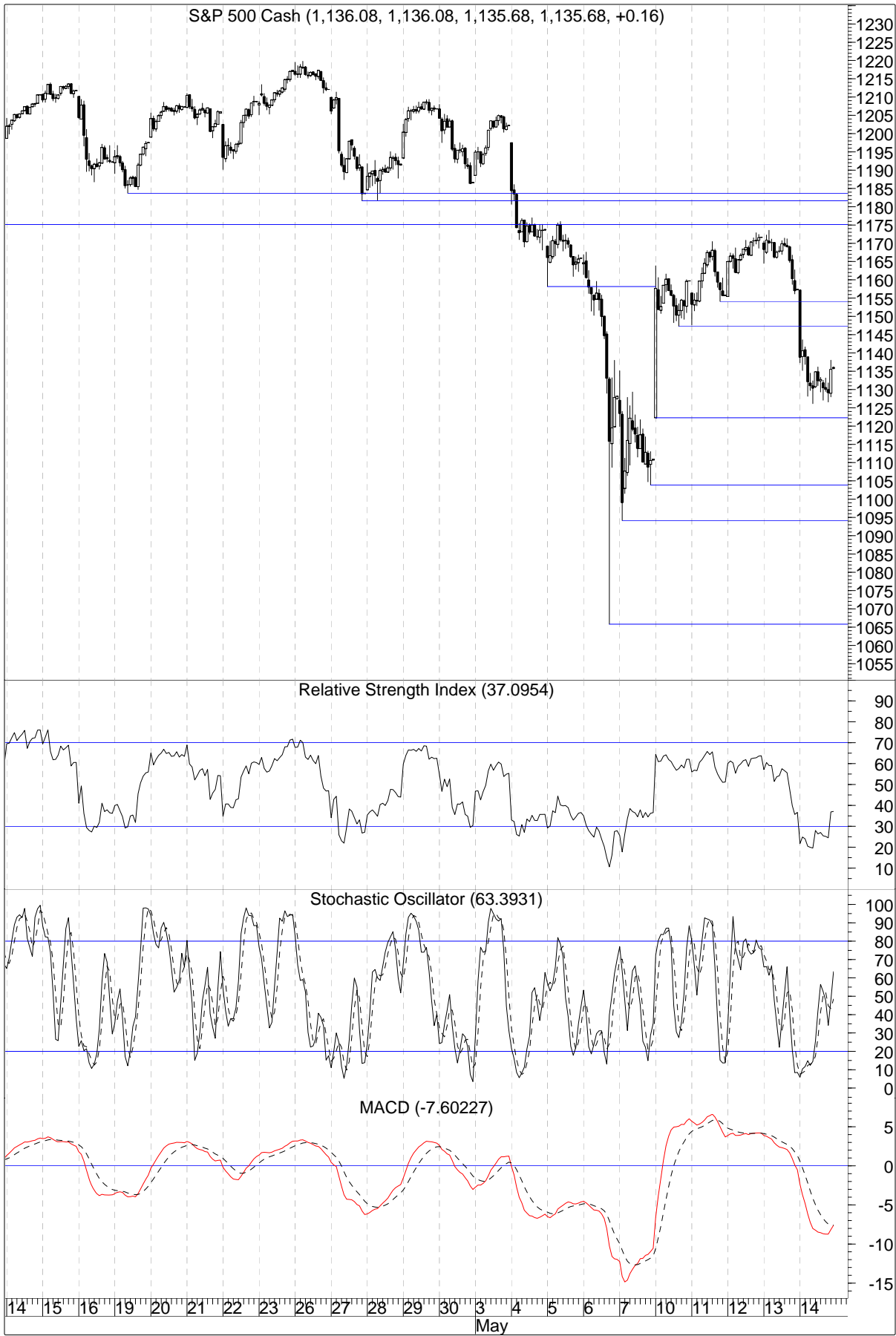
	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Dow Jones Industrials	10620.16	-1.51%	2.31%	2.31%	-3.53%	-2.18%	1.84%	11258.01	4/26/2010	8087.19	7/8/2009
S&P 500	1135.68	-1.88%	2.23%	2.23%	-4.30%	-2.89%	1.85%	1219.80	4/26/2010	869.32	7/8/2009
S&P 1500	261.76	-1.93%	2.55%	2.55%	-4.21%	-2.43%	2.74%	281.21	4/26/2010	197.66	7/8/2009
Nasdaq 100	1907.10	-1.97%	3.12%	3.12%	-4.68%	-2.62%	2.52%	2059.42	4/26/2010	1344.77	5/14/2009
Nasdaq Composite	2346.85	-1.98%	3.58%	3.58%	-4.65%	-2.13%	3.42%	2535.28	4/26/2010	1667.94	5/14/2009
S&P Smallcap 600	372.00	-1.99%	6.08%	6.08%	-2.39%	3.25%	11.84%	396.63	4/26/2010	249.62	5/14/2009
NYSE Composite	7077.64	-2.17%	2.33%	2.33%	-5.31%	-4.97%	-1.49%	7743.74	4/15/2010	5552.82	7/8/2009
S&P Midcap 400	789.31	-2.39%	4.32%	4.32%	-4.10%	-0.07%	8.62%	852.90	4/26/2010	539.04	7/8/2009
Bank of New York Mellon ADR	120.60	-2.68%	1.68%	1.68%	-8.37%	-11.11%	-11.55%	142.19	1/11/2010	103.61	5/15/2009

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Utilities	151.31	-0.83%	2.62%	2.62%	-1.98%	0.40%	-4.23%	161.50	12/14/2009	128.93	5/21/2009
Consumer Staples	280.58	-0.90%	1.94%	1.94%	-1.08%	-2.62%	2.29%	290.45	3/23/2010	230.43	5/15/2009
Telecom Services	105.07	-1.13%	2.33%	2.33%	-1.47%	-2.85%	-8.35%	117.00	1/5/2010	96.72	7/10/2009
Health Care	346.52	-1.54%	0.68%	0.68%	-3.24%	-7.02%	-4.33%	384.95	1/20/2010	287.62	6/15/2009
Consumer Discretionary	260.20	-1.70%	2.67%	2.67%	-5.13%	0.58%	10.69%	284.57	4/26/2010	170.94	7/8/2009
Energy	420.64	-1.97%	1.59%	1.59%	-6.39%	-2.25%	-2.17%	464.76	4/26/2010	342.19	7/13/2009
Information Technology	365.68	-2.03%	3.21%	3.21%	-4.65%	-2.97%	-1.36%	397.46	4/26/2010	258.90	5/14/2009
Industrials	271.74	-2.14%	3.77%	3.77%	-4.46%	-0.55%	11.83%	292.21	4/30/2010	176.94	7/8/2009
Materials	191.03	-2.53%	1.63%	1.63%	-7.03%	-6.64%	-4.39%	213.87	4/26/2010	142.89	7/8/2009
Financials	206.47	-2.72%	1.63%	1.63%	-5.09%	-3.86%	6.55%	230.45	4/15/2010	145.74	7/8/2009

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Household & Personal Products	368.24	-0.60%	3.04%	3.04%	-0.79%	-2.51%	2.07%	383.05	3/23/2010	291.63	5/15/2009
Utilities	151.31	-0.83%	2.62%	2.62%	-1.98%	0.40%	-4.23%	161.50	12/14/2009	128.93	5/21/2009
Food, Beverage & Tobacco	313.84	-0.94%	1.82%	1.82%	-0.71%	-2.14%	2.40%	324.19	3/23/2010	252.37	5/14/2009
Food & Staples Retailing	187.01	-1.11%	1.13%	1.13%	-2.19%	-3.79%	2.15%	196.37	3/30/2010	159.75	7/13/2009
Telecom Services	105.07	-1.13%	2.33%	2.33%	-1.47%	-2.85%	-8.35%	117.00	1/5/2010	96.72	7/10/2009
Retailing	454.87	-1.17%	2.61%	2.61%	-4.27%	1.13%	10.64%	499.94	4/26/2010	303.74	7/7/2009
Health Care Equip & Services	339.65	-1.39%	2.83%	2.83%	-2.10%	-7.19%	-2.18%	371.77	1/20/2010	260.11	6/16/2009
Media	174.61	-1.60%	1.58%	1.58%	-6.92%	-1.43%	6.74%	192.83	5/3/2010	113.55	7/13/2009
Pharmaceuticals, Biotech & Life Scier	321.38	-1.61%	-0.39%	-0.39%	-3.82%	-6.93%	-5.40%	359.71	1/20/2010	277.03	6/15/2009
Software & Services	471.31	-1.73%	3.13%	3.13%	-4.11%	-4.17%	-5.09%	512.69	4/15/2010	346.75	5/14/2009
Commercial & Professional Services	132.96	-1.84%	1.94%	1.94%	-4.47%	-3.68%	-0.64%	144.95	4/26/2010	107.96	7/8/2009
Transportation	287.40	-1.90%	3.84%	3.84%	-3.16%	1.71%	12.75%	304.63	5/3/2010	184.06	5/28/2009
Energy	420.64	-1.97%	1.59%	1.59%	-6.39%	-2.25%	-2.17%	464.76	4/26/2010	342.19	7/13/2009
Technology Hardware & Equipment	396.00	-2.07%	3.81%	3.81%	-5.05%	-2.03%	1.66%	431.10	4/26/2010	272.87	5/14/2009
Consumer Durables & Apparel	150.55	-2.12%	4.69%	4.69%	-3.88%	2.77%	14.84%	164.51	4/26/2010	90.81	7/8/2009
Insurance	174.41	-2.21%	2.70%	2.70%	-3.67%	-5.20%	5.83%	189.97	4/26/2010	117.98	7/8/2009
Capital Goods	294.59	-2.22%	3.90%	3.90%	-4.78%	-0.85%	12.80%	318.38	4/30/2010	188.39	7/8/2009
Consumer Services	417.70	-2.36%	2.56%	2.56%	-3.77%	3.01%	12.74%	446.11	4/26/2010	291.20	5/14/2009
Materials	191.03	-2.53%	1.63%	1.63%	-7.03%	-6.64%	-4.39%	213.87	4/26/2010	142.89	7/8/2009
Automobiles & Components	91.37	-2.53%	4.93%	4.93%	-7.09%	-2.75%	17.53%	107.25	4/26/2010	45.80	5/14/2009
Diversified Financials	322.58	-2.62%	-0.05%	-0.05%	-6.95%	-7.42%	0.32%	382.07	4/15/2010	248.57	7/8/2009
Semiconductors & Equipment	308.89	-2.94%	1.69%	1.69%	-5.41%	-3.36%	-1.10%	348.04	4/15/2010	216.08	5/14/2009
Banks	154.53	-3.20%	3.87%	3.87%	-3.05%	3.92%	23.28%	165.92	4/21/2010	97.99	7/8/2009
Real Estate	106.09	-3.45%	2.78%	2.78%	-3.28%	2.95%	12.65%	114.48	5/3/2010	57.87	7/10/2009

## INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Thailand THD	45.79	-0.43%	-0.48%	-0.13%	-4.44%	7.77%	49.98	4/6/2010	28.91	5/14/2009
Japan EWJ	9.93	-0.70%	-0.10%	-4.43%	-4.89%	1.95%	10.71	4/15/2010	8.92	5/14/2009
Taiwan EWT	12.08	-0.74%	2.03%	-4.96%	-3.75%	-6.86%	13.46	1/6/2010	9.51	6/18/2009
Indonesia IDX	69.91	-0.88%	9.65%	-5.28%	0.11%	12.45%	75.55	5/3/2010	36.82	5/15/2009
South Korea EWY	48.69	-1.34%	3.84%	-6.09%	-2.62%	2.20%	53.15	4/26/2010	31.67	6/23/2009
India IFN	30.40	-1.52%	3.79%	-5.06%	-3.61%	-0.98%	33.08	4/14/2010	20.66	5/14/2009
Hong Kong EWH	14.94	-1.58%	0.78%	-4.60%	-8.29%	-4.60%	16.89	4/14/2010	12.12	5/14/2009
Malaysia EWM	11.86	-1.62%	3.04%	-1.25%	1.54%	11.68%	12.17	4/30/2010	8.23	5/14/2009
Canada EWC	27.36	-1.79%	3.79%	-3.08%	-1.97%	3.91%	29.00	4/15/2010	19.55	7/8/2009
Singapore EWS	11.42	-1.81%	2.42%	-4.91%	-0.70%	-0.61%	12.36	4/14/2010	8.31	5/14/2009
China 25 FXI	38.88	-1.84%	1.67%	-4.80%	-7.65%	-8.00%	46.66	11/16/2009	33.20	5/14/2009
Switzerland EWL	20.60	-2.00%	2.74%	-6.02%	-10.82%	-7.46%	23.63	4/15/2010	16.91	5/15/2009
Emerging Markets EEM	39.49	-2.06%	3.40%	-6.09%	-6.25%	-4.84%	46.66	4/9/2010	29.77	5/14/2009
Israel EIS	51.97	-2.07%	2.93%	-5.53%	-11.71%	-4.47%	60.68	3/26/2010	37.00	5/15/2009
South Africa EZA	56.69	-2.07%	4.85%	-5.12%	-6.19%	1.29%	62.76	4/5/2010	23.00	5/6/2010
Latin America ILF	44.55	-2.15%	3.15%	-6.94%	-7.71%	-6.78%	50.25	12/4/2009	31.53	5/14/2009
Vietnam VNM	25.09	-2.26%	-0.95%	-5.71%	-0.28%	-1.57%	32.15	10/22/2009	23.17	12/17/2009
BRIC EEB	39.39	-2.38%	3.41%	-6.97%	-7.75%	-7.23%	44.90	12/4/2009	23.23	5/6/2010
Netherlands EWN	18.37	-2.46%	4.60%	-8.76%	-9.97%	-10.23%	21.51	10/15/2009	14.50	7/8/2009
Chile ECH	54.37	-2.53%	2.16%	-3.68%	-1.04%	-0.77%	60.94	1/19/2010	27.27	5/6/2010
Sweden EWD	23.65	-2.63%	5.06%	-10.86%	-6.85%	0.64%	27.42	4/26/2010	16.88	6/23/2009
Brazil EWZ	65.78	-2.71%	2.94%	-8.96%	-10.67%	-11.83%	80.93	12/3/2009	47.50	5/14/2009
Russia RSX	30.81	-2.75%	7.50%	-9.14%	-10.31%	-1.22%	36.91	4/14/2010	17.65	7/13/2009
Mexico EWW	50.46	-2.76%	3.47%	-4.77%	-5.45%	3.25%	61.60	5/6/2010	33.72	5/14/2009
Austria EWO	17.46	-2.78%	5.82%	-11.64%	-11.59%	-10.74%	23.59	10/15/2009	14.49	5/15/2009
Germany EWG	19.81	-3.13%	3.31%	-7.39%	-9.42%	-11.72%	23.40	10/21/2009	16.75	7/8/2009
United Kingdom EWU	14.39	-3.23%	0.70%	-9.61%	-11.56%	-11.17%	17.20	11/16/2009	12.34	7/8/2009
Australia EWA	21.21	-3.37%	1.78%	-9.51%	-11.66%	-7.14%	25.14	1/11/2010	14.94	7/8/2009
Belgium EWK	11.43	-3.46%	4.96%	-7.75%	-12.21%	-10.42%	13.95	10/19/2009	8.93	5/6/2010
France EWQ	21.15	-4.30%	2.47%	-10.23%	-15.60%	-18.18%	27.32	1/11/2010	19.21	7/8/2009
Turkey TUR	55.47	-4.71%	5.82%	-9.63%	-3.21%	2.91%	63.27	4/14/2010	32.37	5/14/2009
Italy EWI	14.57	-4.96%	2.25%	-13.07%	-20.12%	-25.32%	21.77	10/19/2009	13.72	5/6/2010
Spain EWP	33.84	-5.79%	1.29%	-14.59%	-19.89%	-29.56%	52.67	11/25/2009	32.06	5/6/2010



The 30-minute chart of the S&P 500 shows a big oversold bounce Monday followed by a move up to resistance and a pullback Thursday and Friday.

Momentum indicators are bouncing from oversold levels with the MACD showing a positive crossover from a low level.

S&P 500 Cash (1,157.19, 1,157.19, 1,126.14, 1,135.68, -21.76)



The daily chart of the S&P 500 shows an important resistance area at 1170 to 1180 where multiple trend lines and moving averages have converged. The 50-sma is at 1174.52 and the 20-sma is at 1178.91.

Daily momentum indicators are mixed. A positive MACD crossover from current low levels would be welcome.



The weekly chart of the S&P 500 shows an inverted hammer. All hammers are bottoming candles, inverted or regular.

Weekly momentum indicators are mixed and appear neutral. Still, no real sign of turning up yet.

NASDAQ 100 (1,928.58, 1,929.91, 1,885.51, 1,907.10, -38.42)



The daily chart of the Nasdaq 100 shows it gapping lower Friday after gapping higher Monday. Like the S&P 500 it rallied to resistance and then sold off.

Daily momentum indicators are at low or neutral levels with no sign yet of turning up.

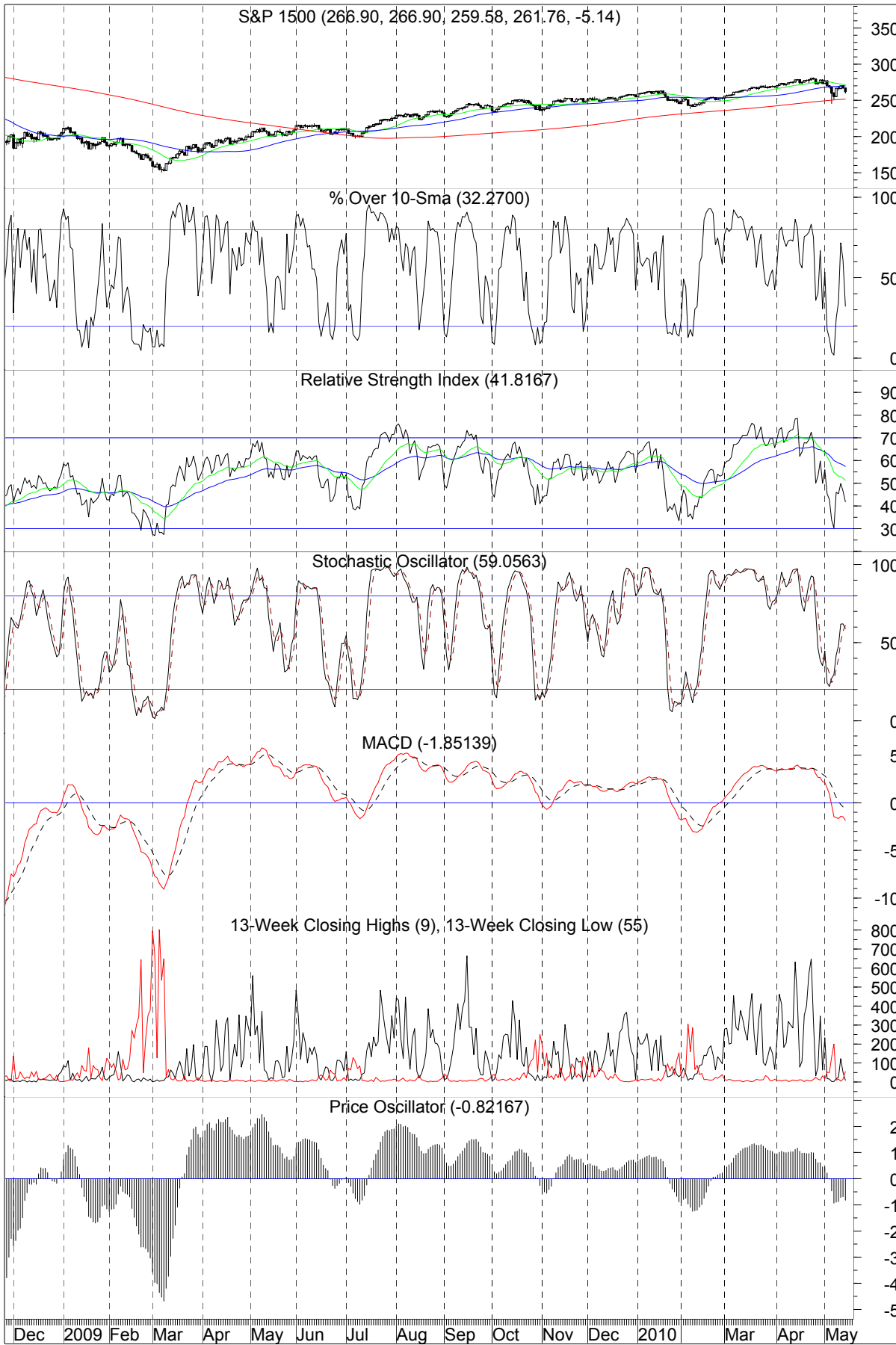


NASDAQ 100 (1,931.52, 1,983.13, 1,885.51, 1,907.10, +57.66)



The weekly chart of the Nasdaq 100 is pretty ugly. There is also an inverted hammer here, so a bottoming attempt seems to be in progress. As ugly as the chart is the index was up 3.12% for the week.

Weekly momentum indicators are neutral but no sign yet of turning up.

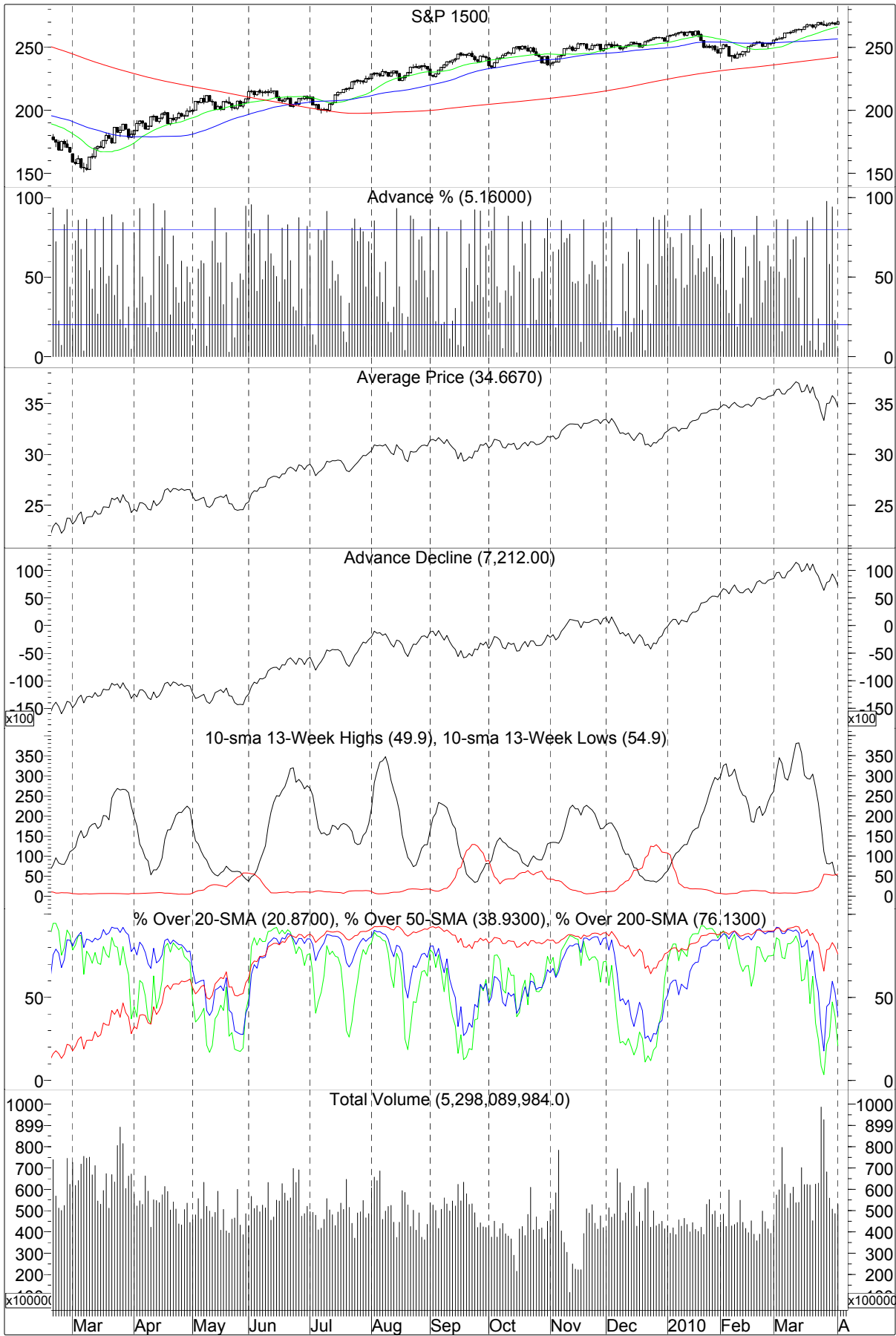


32.27% of stocks are over their own 10-sma.

13-week closing lows have been outnumbering 13-week closing highs.

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

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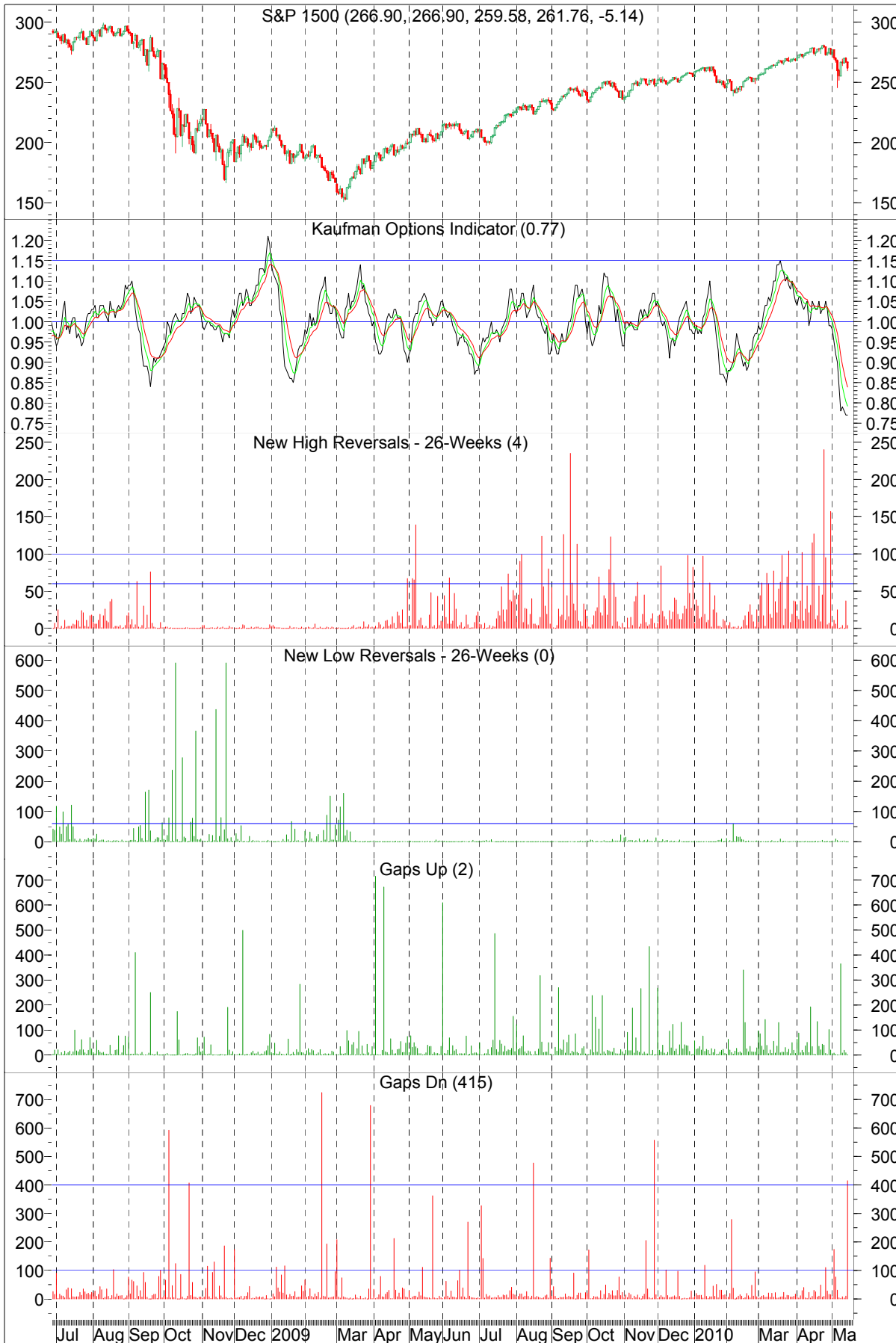


Only 5.16% of stocks advanced Friday. In the last 14 sessions 8 have had advances or declines at over 90%. Two other sessions came close.

The 10-sma of 13-week closing lows is now greater than the 10-sma of closing highs.

76.13% of stocks are still over their 200-sma, still a bull market number.

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Our proprietary options indicator is at 0.77, the lowest reading since 8/16/07. This level of pessimism on the part of options buyers should help create a bottom in the near-term.

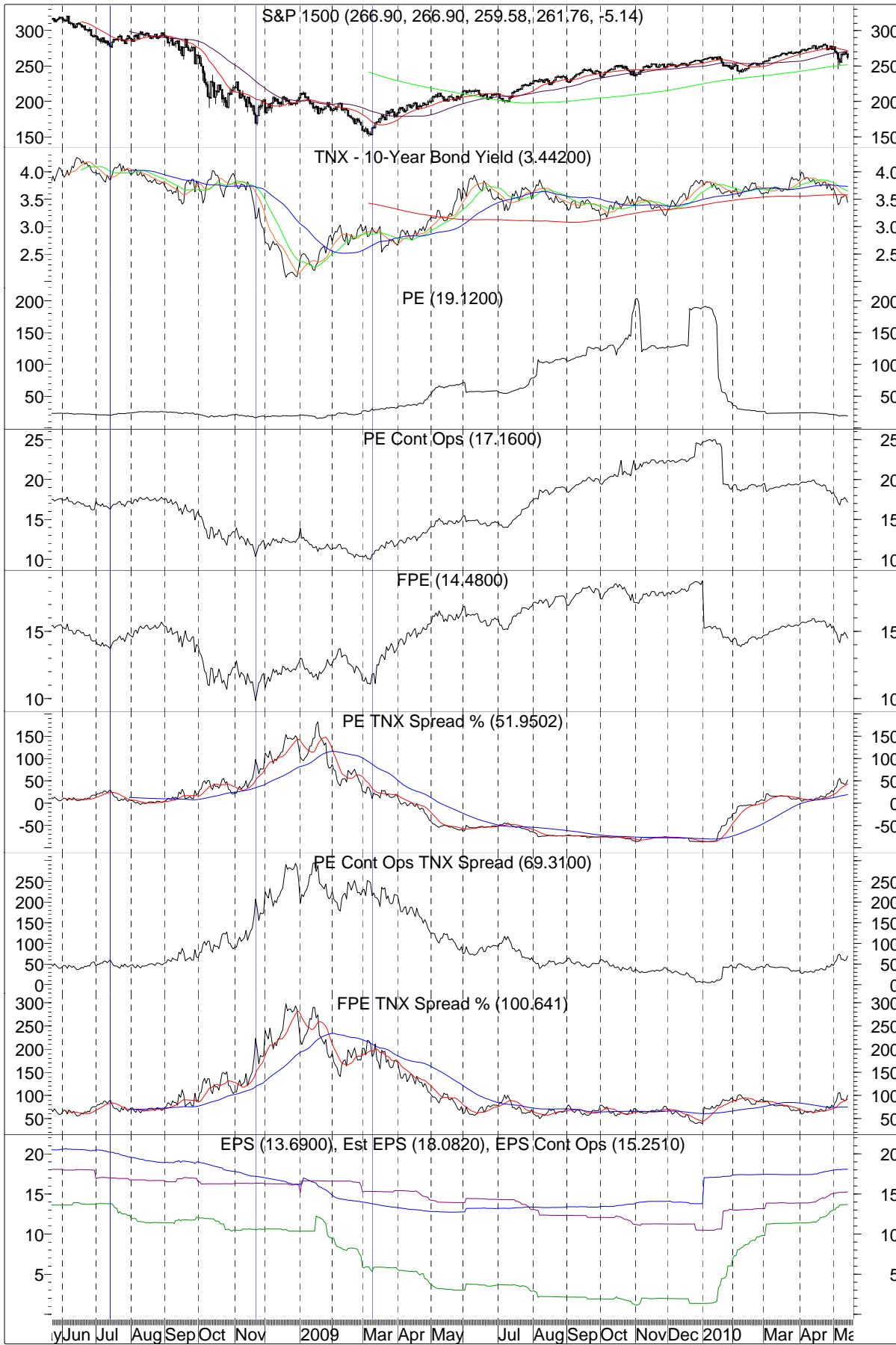
240 new high reversals on 4/26 was a good warning of weakness ahead.

415 stocks gapped down on Friday. The significance seems to be based on what kind of market we are in. In this bull market it has been the sign of a bottom. In the prior bear market it preceded further weakness.

The Kaufman Report - Wayne S. Kaufman, CMT



Our statistics of supply (red) versus demand (green) show big increases in selling for all time frames. Interestingly buying statistics have remained relatively stable, with up points and up dollars actually showing increases. If the recent selling is from forced liquidations and that ends, or if the sellers become exhausted for whatever reason, if buying statistics remain at current levels equities would probably show a sharp rebound.

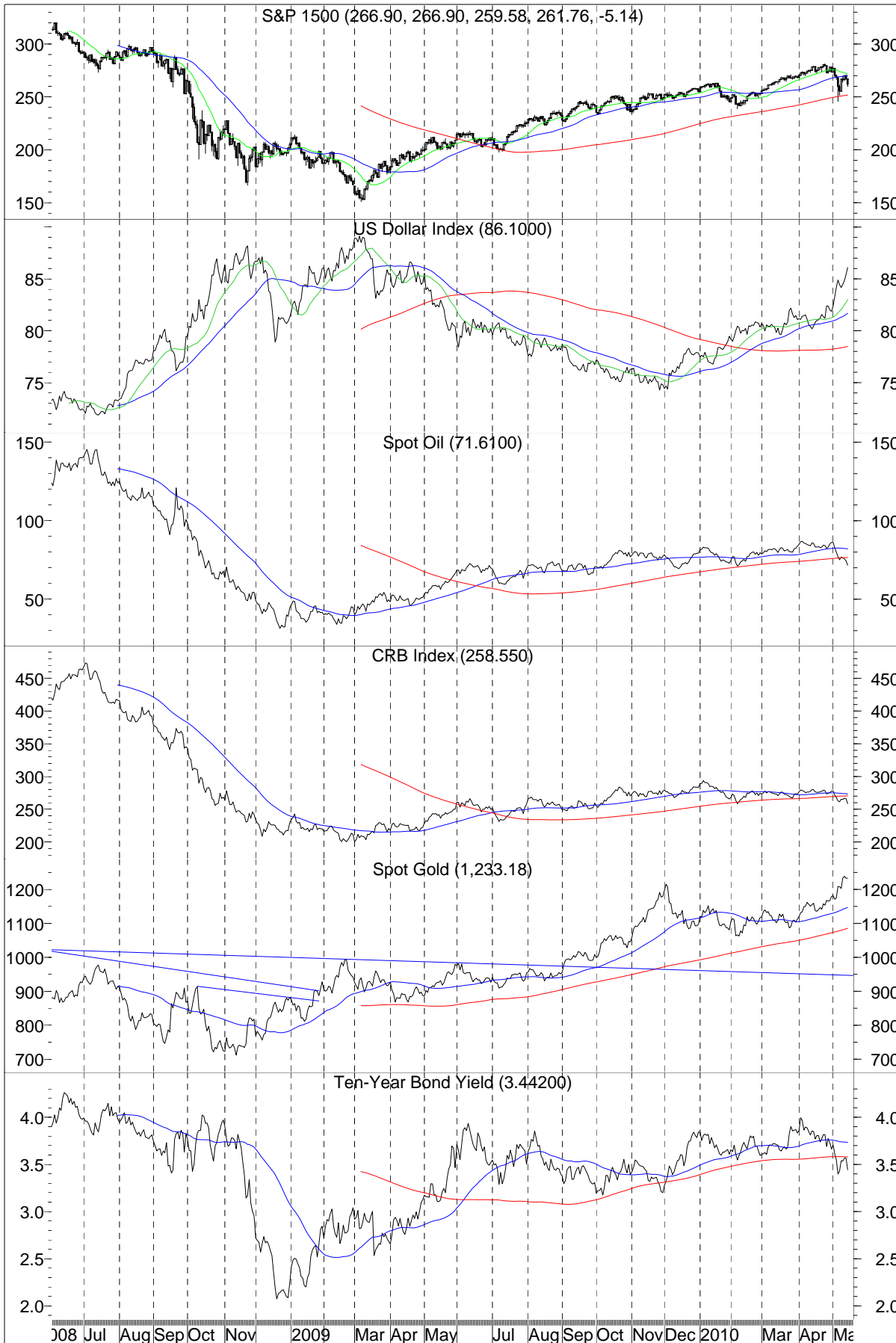


Last week we said bond yields were oversold on a daily but not weekly basis. On Monday they bounced to the 200-sma (red) but gapped lower Friday. There is now resistance at 3.6 to 3.65.

P/E ratios remain at low levels relative to their recent ranges.

Spreads between equity and bond yields remain at levels where stocks should be very attractive.

A strong earnings season is ending with the focus now turning to how much U.S. Dollar strength, problems in the Euro zone, and a possible slow down in China will affect earnings.



In spite of being overbought on a daily and weekly basis the U.S. Dollar Index continued to power higher last week in a flight to safety. This trade is becoming too one-sided in the short-term. It was the highest weekly close since March 2009.

Crude oil remains oversold on a daily basis and is near support levels. The Dollar/crude ratio and the gold/crude ratio are at or near levels where crude has rallied in the past.

Last week we said gold sentiment was getting very bullish but not yet at levels where recent short-term tops had been made. It is overbought on a daily basis and just becoming overbought on a weekly basis, and sentiment has become too one-sided. At some point this short-term spike will end with a sharp drop.