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The Kaufman Report

Trade what you see, not what you think.

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Monday May 3, 2010

Closing prices of April 30, 2010

Last week negative headlines regarding Goldman Sachs and financial reform, sovereign debt and the PIIGS, and a massive oil spill finally trumped good earnings reports and improving economic indicators. Sellers returned from their recent hiatus and handed the market two 90% panic-selling down days. The last two times we had 90% down days about this close together were November 19th and 27th, and before that June 15th and 22nd. A quick glance at a chart shows that in those instances it was a warning of some short-term weakness/consolidation.

Along with the 90% down days other technical indicators are flashing caution signs. The obvious question is, is this the start of a big plunge? **We don't think so, although caution is advised in the near-term.** We recently entered the second year of this bull market, and we are still well shy of the average length of prior bull markets. We are also well shy of the average percentage gain seen by prior bull markets. Therefore, as we have been saying for a while, we think the tone of the market has changed and we are no longer in the initial blast-off phase, but this bull market still has a ways to go.

In addition, valuations are at levels which should be supportive for stocks. 2011 analyst estimates for the S&P 500 are in the \$95 range, giving a forward P/E for that year of about 12.5. A P/E of 15 would put the S&P 500 at 1425 next year, 20% above current levels. Analyst estimates are moving higher, but maybe more importantly, just as the aggregate analyst estimates were lagging as profits declined leading up to and during the recent bear market, so too have they been behind as profits moved higher during this bull market. That is why some estimates for 2011 S&P 500 earnings are at the \$100 level, which with a 15 P/E gives a 1500 target, or 26.4% higher.

Still, there are many issues of concern for investors in addition to the Goldman Sachs investigation and impending regulation of the financial markets. The sovereign debt issue is still on the front pages, with Greece teetering on the brink of default and with Portugal doing its best to catch up with Greece as a problem for the EU. At the end of March the Fed ended its \$1.25 trillion program of purchasing mortgage backed securities backed by Fannie Mae, Freddie Mac, and Ginnie Mae, so there may be liquidity concerns. At the end of April the homebuyer's tax credit expired. There is increasing talk of the United States adopting a VAT tax, which would be as disastrous here as it has been in Europe, and cap and trade is back in the news. **Also, we will soon leave earnings season for the first quarter, which will end the reporting of a lot of good news.**

Based on the S&P 500 the short-term trend is down, while the intermediate-term and long-term trends are up. Investors need to be careful with entry points, aware of sector rotation, and should not hesitate to move out of lagging stocks and sectors and into leaders.

Regarding Greece, we find the situation there to be another sign of a world turned upside down. Young people there are protesting the fiscal mismanagement and mountain of debt created by their elders which may condemn the young to years of austerity. The elders are protesting the potential loss of extravagant entitlements and seem to think they should be paid for by the EU or the IMF. Hopefully the lessons of Greece will be learned in the U.S. Big intrusive government, out of control spending, unrealistic entitlements, and social engineering are formulas for disaster. We need to return to meritocracy and traditional American values. The concept that government is the answer to all problems is idiotic. One of the suggested reforms in the financial sector (that we agree with) is better regulation of derivatives. **How can we get through to our feckless public servants that government itself is a derivative?** Somehow they think the country exists for the sake of the government. Stupidly, we think it is the other way around.

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

P/E: 18.20 FP/E: 15.25 Percent over 10-sma: 30.6%. Percent over 50-sma: 71.67%

13-Week Closing Highs: 63. 13-Week Closing Lows: 33. 52-week closing highs: 45.

Kaufman Options Indicator: 0.99. Put/Call Ratio: 1.057

New High Reversals: 157 (240 April 26th was the most in many years). New Low Reversals: 0.

Volume: -0.05% versus yesterday. 104% of the 10-day average. 120% of the 30-day average.

Up Stocks: 9.81%. Up Volume: 9.07%. Up Points: 6.28%. Up Dollars: 0.67%, 2.7% of 10-sma. Dn Dollars 385% of 10-sma.

Earnings: 340 of the S&P 500 have reported so far this earnings season. 77.9% have had positive surprises, 8.5% have been in line, and 13.5% have had negative surprises.

Federal Funds Futures project an 98.0% probability of no change to the current 0.25% target rate and a 2.0% probability of a cut to 0.00% when the FOMC meets on 6/23. For the meeting of 8/10 the probabilities are 89.9% for no change, 8.3% for 0.50, and 1.8% for 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	131.62	-1.15%	-3.89%	-3.89%	-2.99%	-2.99%	-3.47%	142.19	2010-01-11	99.48	2009-04-30
Dow Jones Industrials	11008.61	-1.42%	-1.75%	-1.75%	1.40%	1.40%	5.57%	11258.01	2010-04-26	8087.19	2009-07-08
NYSE Composite	7474.39	-1.51%	-2.95%	-2.95%	0.36%	0.36%	4.03%	7743.74	2010-04-15	5492.87	2009-05-01
S&P 500	1186.69	-1.66%	-2.51%	-2.51%	1.48%	1.48%	6.42%	1219.80	2010-04-26	866.10	2009-05-01
S&P 1500	273.26	-1.75%	-2.60%	-2.60%	1.85%	1.85%	7.25%	281.21	2010-04-26	197.66	2009-07-08
S&P Midcap 400	823.06	-1.96%	-3.15%	-3.15%	4.20%	4.20%	13.26%	852.90	2010-04-26	539.04	2009-07-08
Nasdaq Composite	2461.19	-2.02%	-2.73%	-2.73%	2.64%	2.64%	8.46%	2535.28	2010-04-26	1664.19	2009-05-13
Nasdaq 100	2000.63	-2.07%	-2.66%	-2.66%	2.16%	2.16%	7.54%	2059.42	2010-04-26	1339.82	2009-05-13
S&P Smallcap 600	381.09	-3.28%	-3.44%	-3.44%	5.77%	5.77%	14.57%	396.63	2010-04-26	249.62	2009-05-14

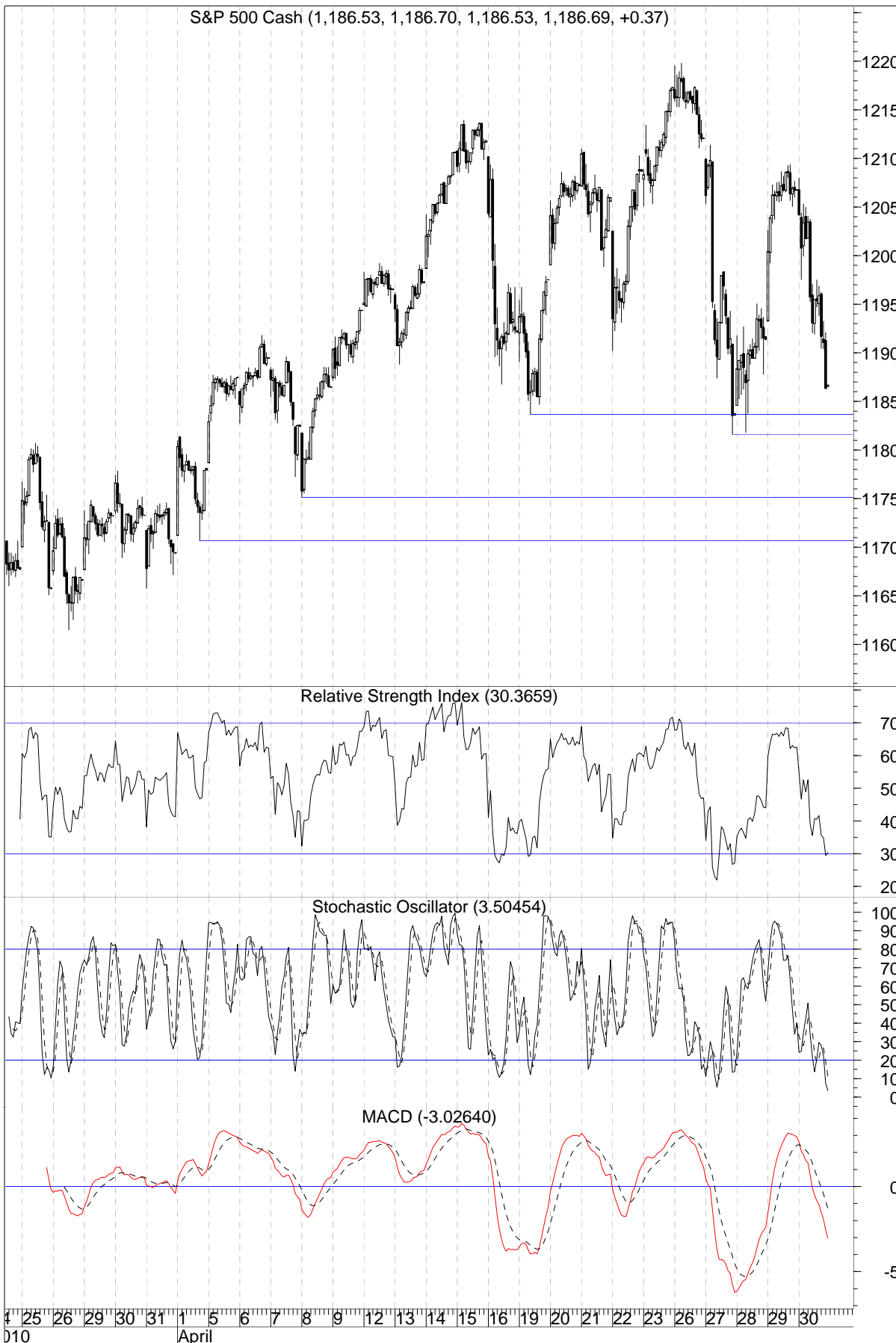
	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Utilities	154.37	0.47%	-0.75%	-0.75%	2.43%	2.43%	-2.29%	161.50	2009-12-14	128.93	2009-05-21
Consumer Staples	283.64	-0.52%	-1.45%	-1.45%	-1.56%	-1.56%	3.41%	290.45	2010-03-23	223.30	2009-05-01
Telecom Services	106.64	-0.72%	-0.88%	-0.88%	-1.40%	-1.40%	-6.98%	117.00	2010-01-05	96.72	2009-07-10
Energy	449.37	-1.10%	-2.92%	-2.92%	4.43%	4.43%	4.52%	464.76	2010-04-26	342.19	2009-07-13
Health Care	358.12	-1.23%	-1.48%	-1.48%	-3.91%	-3.91%	-1.13%	384.95	2010-01-20	277.93	2009-05-01
Materials	205.47	-1.56%	-2.94%	-2.94%	0.41%	0.41%	2.83%	213.87	2010-04-26	142.89	2009-07-08
Consumer Discretionary	274.27	-2.02%	-2.62%	-2.62%	6.02%	6.02%	16.68%	284.57	2010-04-26	170.94	2009-07-08
Industrials	284.43	-2.17%	-1.66%	-1.66%	4.09%	4.09%	17.05%	292.21	2010-04-30	176.94	2009-07-08
Information Technology	383.54	-2.24%	-3.22%	-3.22%	1.77%	1.77%	3.46%	397.46	2010-04-26	258.49	2009-05-13
Financials	217.54	-2.47%	-3.84%	-3.84%	1.30%	1.30%	12.26%	230.45	2010-04-15	141.89	2009-05-01

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Utilities	154.37	0.47%	-0.75%	-0.75%	2.43%	2.43%	-2.29%	161.50	2009-12-14	128.93	2009-05-21
Household & Personal Products	371.15	-0.24%	-1.57%	-1.57%	-1.74%	-1.74%	2.88%	383.05	2010-03-23	280.43	2009-04-30
Banks	159.39	-0.40%	-1.93%	-1.93%	7.18%	7.18%	27.16%	165.92	2010-04-21	93.87	2009-05-01
Food & Staples Retailing	191.19	-0.57%	-1.96%	-1.96%	-1.64%	-1.64%	4.44%	196.37	2010-03-30	159.75	2009-07-13
Commercial & Professional Services	139.18	-0.62%	-3.25%	-3.25%	0.83%	0.83%	4.01%	144.95	2010-04-26	107.96	2009-07-08
Food, Beverage & Tobacco	316.07	-0.63%	-1.17%	-1.17%	-1.44%	-1.44%	3.13%	324.19	2010-03-23	239.03	2009-05-01
Pharmaceuticals, Biotech & Life Scier	334.13	-0.63%	-0.65%	-0.65%	-3.24%	-3.24%	-1.65%	359.71	2010-01-20	266.74	2009-05-01
Telecom Services	106.64	-0.72%	-0.88%	-0.88%	-1.40%	-1.40%	-6.98%	117.00	2010-01-05	96.72	2009-07-10
Energy	449.37	-1.10%	-2.92%	-2.92%	4.43%	4.43%	4.52%	464.76	2010-04-26	342.19	2009-07-13
Media	187.58	-1.26%	-0.21%	-0.21%	5.90%	5.90%	14.66%	191.23	2010-04-30	113.55	2009-07-13
Materials	205.47	-1.56%	-2.94%	-2.94%	0.41%	0.41%	2.83%	213.87	2010-04-26	142.89	2009-07-08
Transportation	296.76	-1.71%	-1.42%	-1.42%	5.03%	5.03%	16.42%	304.30	2010-04-30	184.06	2009-05-28
Software & Services	491.50	-1.79%	-3.03%	-3.03%	-0.07%	-0.07%	-1.03%	512.69	2010-04-15	346.36	2009-05-13
Insurance	181.05	-1.87%	-4.15%	-4.15%	-1.59%	-1.59%	9.86%	189.97	2010-04-26	117.98	2009-07-08
Consumer Services	434.06	-1.97%	-2.30%	-2.30%	7.04%	7.04%	17.16%	446.11	2010-04-26	291.20	2009-05-14
Technology Hardware & Equipment	417.05	-2.23%	-2.88%	-2.88%	3.17%	3.17%	7.06%	431.10	2010-04-26	272.22	2009-05-13
Retailing	475.15	-2.26%	-3.93%	-3.93%	5.64%	5.64%	15.57%	499.94	2010-04-26	303.74	2009-07-07
Consumer Durables & Apparel	156.63	-2.34%	-2.79%	-2.79%	6.92%	6.92%	19.47%	164.51	2010-04-26	90.81	2009-07-08
Capital Goods	309.36	-2.39%	-1.59%	-1.59%	4.13%	4.13%	18.45%	318.38	2010-04-30	188.39	2009-07-08
Health Care Equip & Services	346.92	-2.39%	-3.08%	-3.08%	-5.21%	-5.21%	-0.09%	371.77	2010-01-20	253.64	2009-05-01
Real Estate	109.69	-3.34%	-0.80%	-0.80%	6.44%	6.44%	16.47%	113.94	2010-04-30	57.87	2009-07-10
Diversified Financials	346.67	-3.48%	-4.98%	-4.98%	-0.50%	-0.50%	7.81%	382.07	2010-04-15	236.12	2009-05-01
Semiconductors & Equipment	326.57	-3.58%	-4.94%	-4.94%	2.17%	2.17%	4.56%	348.04	2010-04-15	214.97	2009-05-13
Automobiles & Components	98.34	-3.72%	-6.38%	-6.38%	4.67%	4.67%	26.50%	107.25	2010-04-26	44.86	2009-05-13

INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Chile ECH	56.45	1.06%	0.88%	2.75%	2.75%	3.03%	60.94	2010-01-19	36.51	2009-04-30
Austria EWO	19.76	0.30%	-4.50%	0.05%	0.05%	1.02%	23.59	2009-10-15	13.61	2009-04-30
Spain EWP	39.62	0.03%	-5.76%	-6.20%	-6.20%	-17.53%	52.67	2009-11-25	34.45	2009-04-30
Belgium EWK	12.39	-0.24%	-4.69%	-4.84%	-4.84%	-2.90%	13.95	2009-10-19	9.04	2009-04-30
Japan EWJ	10.39	-0.29%	-0.67%	-0.48%	-0.48%	6.67%	10.71	2010-04-15	8.48	2009-04-30
China 25 FXI	40.84	-0.34%	-2.88%	-2.99%	-2.99%	-3.36%	46.66	2009-11-16	31.61	2009-04-30
Germany EWG	21.39	-0.37%	-3.43%	-2.19%	-2.19%	-4.68%	23.40	2009-10-21	16.75	2009-07-08
South Africa EZA	59.75	-0.40%	-0.76%	-1.13%	-1.13%	6.75%	62.76	2010-04-05	40.38	2009-04-30
Malaysia EWM	12.01	-0.66%	-0.74%	2.83%	2.83%	13.09%	12.17	2010-04-30	8.06	2009-04-30
Indonesia IDX	73.81	-0.81%	-1.38%	5.70%	5.70%	18.72%	75.05	2010-04-26	34.93	2009-04-30
Thailand THD	45.85	-0.86%	-1.29%	-4.32%	-4.32%	7.91%	49.98	2010-04-06	26.27	2009-04-30
Israel EIS	55.01	-0.88%	-5.12%	-6.54%	-6.54%	1.12%	60.68	2010-03-26	35.98	2009-04-30
Turkey TUR	61.38	-0.89%	-2.03%	7.10%	7.10%	13.88%	63.27	2010-04-14	30.41	2009-04-30
Latin America ILF	47.87	-0.91%	-1.91%	-0.83%	-0.83%	0.17%	50.25	2009-12-04	29.75	2009-05-01
BRIC EEB	42.34	-0.96%	-2.10%	-0.84%	-0.84%	-0.28%	44.90	2009-12-04	27.33	2009-04-30
South Korea EWY	51.85	-1.05%	-1.69%	3.70%	3.70%	8.84%	53.15	2010-04-26	31.67	2009-06-23
Netherlands EWN	20.13	-1.08%	-4.46%	-1.32%	-1.32%	-1.61%	21.51	2009-10-15	13.76	2009-04-30
Switzerland EWL	21.92	-1.08%	-4.11%	-5.11%	-5.11%	-1.53%	23.63	2010-04-15	16.17	2009-04-30
France EWQ	23.56	-1.17%	-5.23%	-5.99%	-5.99%	-8.86%	27.32	2010-01-11	19.10	2009-04-30
Emerging Markets EEM	42.05	-1.20%	-2.35%	-0.17%	-0.17%	1.33%	46.66	2010-04-09	28.42	2009-04-30
Brazil EWZ	72.26	-1.29%	-1.86%	-1.88%	-1.88%	-3.15%	80.93	2009-12-03	45.07	2009-05-01
India IFN	32.02	-1.36%	-2.26%	1.52%	1.52%	4.30%	33.08	2010-04-14	19.85	2009-04-30
Mexico EWW	52.99	-1.36%	-4.02%	-0.71%	-0.71%	8.43%	55.58	2010-04-15	30.99	2009-05-01
Canada EWC	28.23	-1.36%	-1.88%	1.15%	1.15%	7.22%	29.00	2010-04-15	18.73	2009-04-30
Singapore EWS	12.01	-1.40%	-1.88%	4.43%	4.43%	4.53%	12.36	2010-04-14	7.27	2009-04-30
Italy EWI	16.76	-1.47%	-7.45%	-8.11%	-8.11%	-14.10%	21.77	2009-10-19	14.89	2009-04-30
Sweden EWD	26.53	-1.67%	-3.18%	4.49%	4.49%	12.89%	27.42	2010-04-26	16.88	2009-06-23
Vietnam VNM	26.61	-1.77%	-1.22%	5.76%	5.76%	4.39%	32.15	2009-10-22	23.17	2009-12-17
Hong Kong EWH	15.66	-1.82%	-3.39%	-3.87%	-3.87%	0.00%	16.89	2010-04-14	11.77	2009-04-30
Taiwan EWT	12.71	-1.93%	-1.55%	1.27%	1.27%	-2.00%	13.46	2010-01-06	9.50	2009-04-30
Russia RSX	33.91	-1.99%	-4.26%	-1.28%	-1.28%	8.72%	36.91	2010-04-14	17.46	2009-04-30
United Kingdom EWU	15.92	-2.09%	-4.73%	-2.15%	-2.15%	-1.73%	17.20	2009-11-16	11.71	2009-04-30
Australia EWA	23.44	-2.17%	-3.50%	-2.37%	-2.37%	2.63%	25.14	2010-01-11	14.64	2009-04-30

S&P 500 Cash (1,186.53, 1,186.70, 1,186.53, 1,186.69, +0.37)



After printing a 52-week high on April 26th the S&P 500 was overbought on the 30-minute chart. It broke through support Wednesday, but bounced from oversold levels. It is getting oversold near support levels again.

Momentum indicators are at oversold or low levels.

S&P 500 Cash (1,206.77, 1,207.99, 1,186.32, 1,186.69, -20.09)



The daily chart of the S&P 500 shows a reversal day on Monday (new high but closing down for the session) and is forming a broadening top. This is a bearish pattern. Also, the index broke through its 20-day moving average (green) for the first time since February.

Last week we pointed out the negative divergence on the RSI.

Daily momentum indicators are not oversold.

The MACD looks ominous.



The weekly chart of the S&P 500 missed by a fraction printing a bearish engulfing candle, but it is close enough to be a warning. It was a reversal week, and an outside candle (higher top lower bottom than prior candle), so it could be a significant short-term top.

Weekly momentum indicators are rolling over from high or overbought levels.

This week's candle combined with the negative crossover in the weekly stochastic from the overbought zone appears to be a mirror image of the buy signal of early February.

S&P 500 Cash (1,171.23, 1,219.80, 1,170.69, 1,186.69, +17.26)



The monthly chart of the S&P 500 shows a shooting star candle, which is bearish. The index turned south after nearing the 61.8% Fibonacci retracement of the entire recent bear market. It ran into problems at the 50% level a few months ago.

Monthly momentum indicators are not overbought.

The monthly MACD looks positive here.

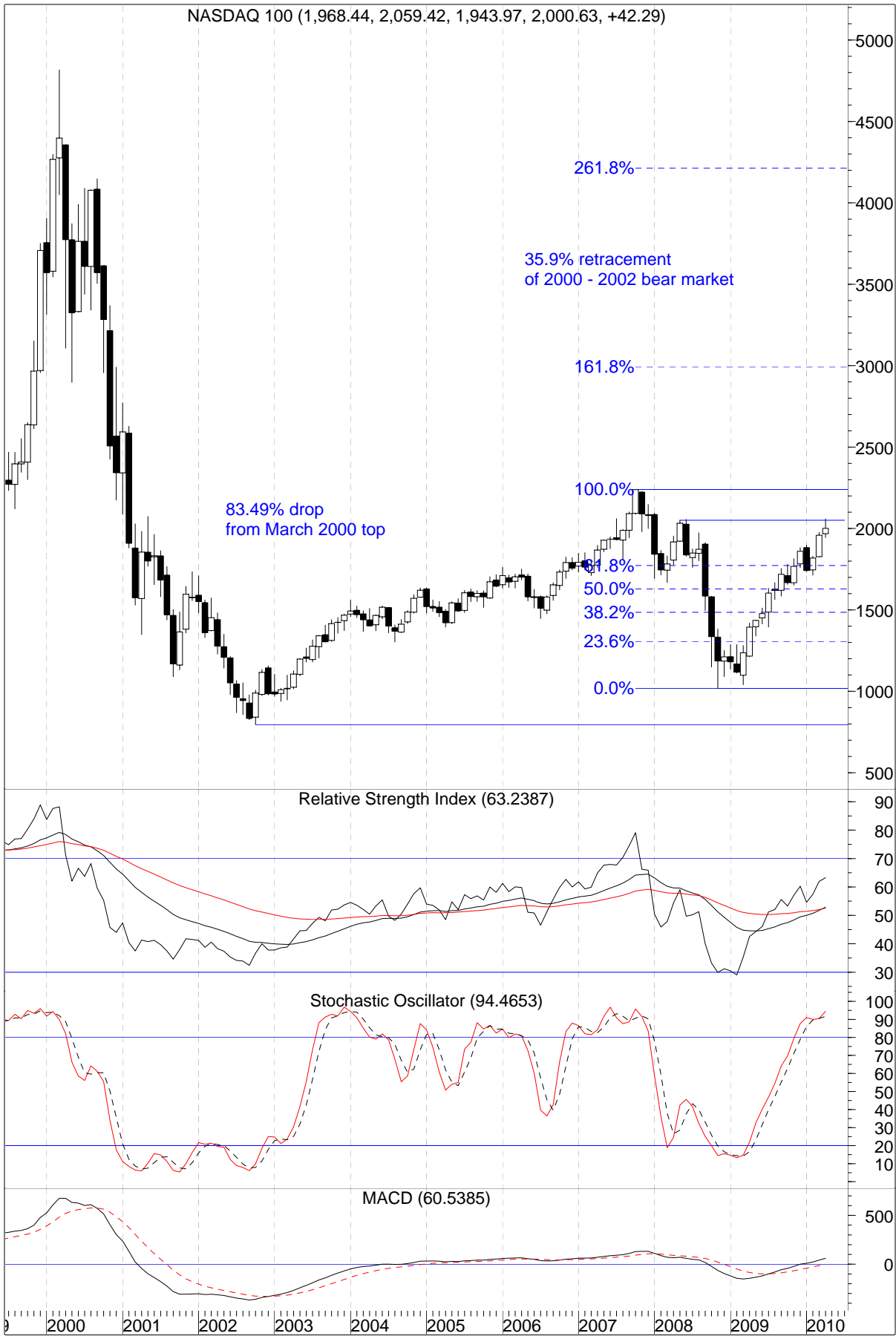
NASDAQ 100 (2,040.58, 2,044.39, 2,000.26, 2,000.63, -42.26)



The Nasdaq 100 also printed a reversal day Monday. It too closed below its 20-sma for the first time since February.

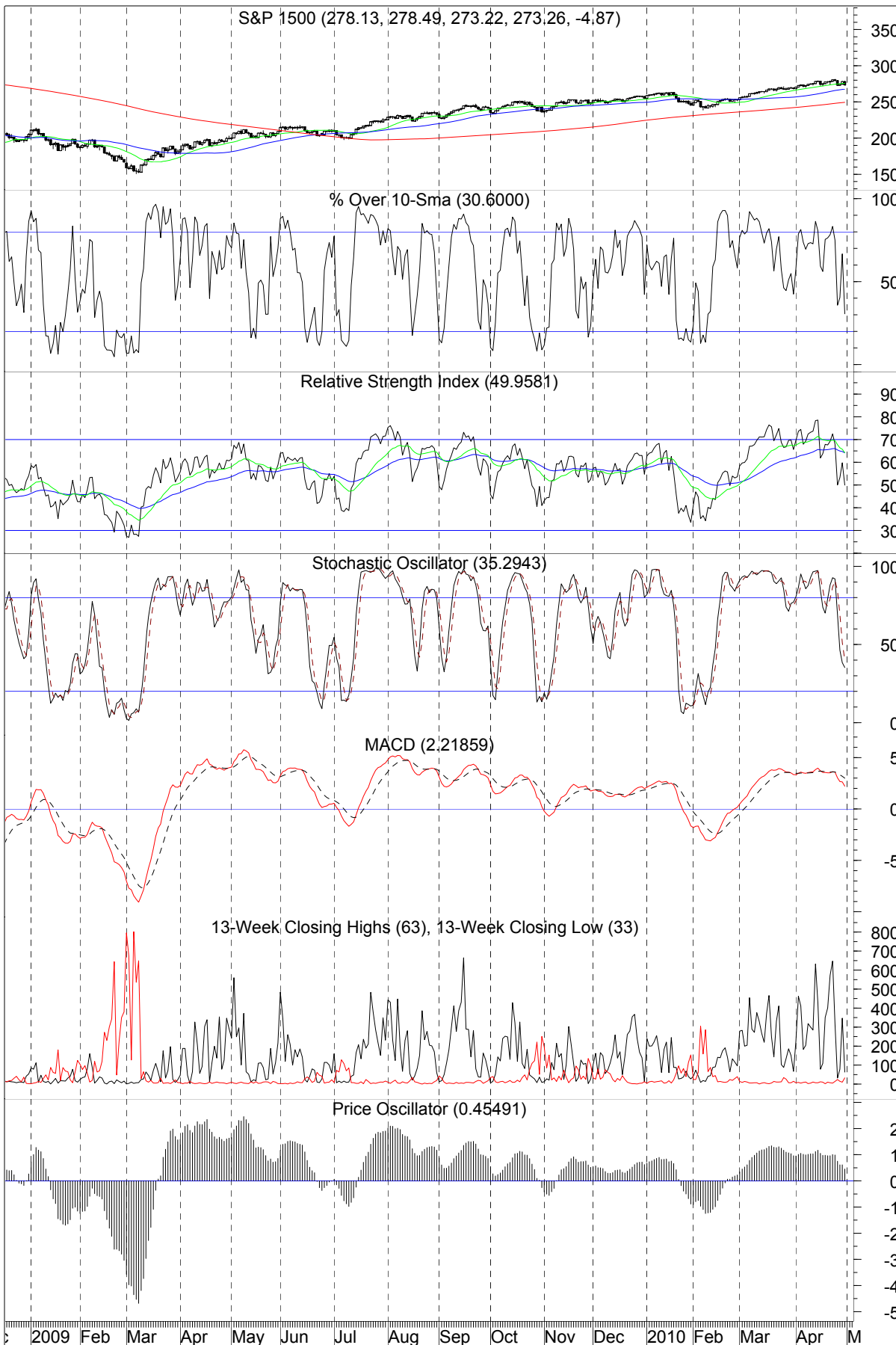
Daily momentum indicators are not looking too spiffy here. They are not yet oversold.

NASDAQ 100 (1,968.44, 2,059.42, 1,943.97, 2,000.63, +42.29)



The monthly chart of the Nasdaq 100 shows it ran into resistance after slightly exceeding the high of May 2008. It has retraced 85.27% of the recent bear market. There is a shooting star candle on the monthly chart, which is bearish.

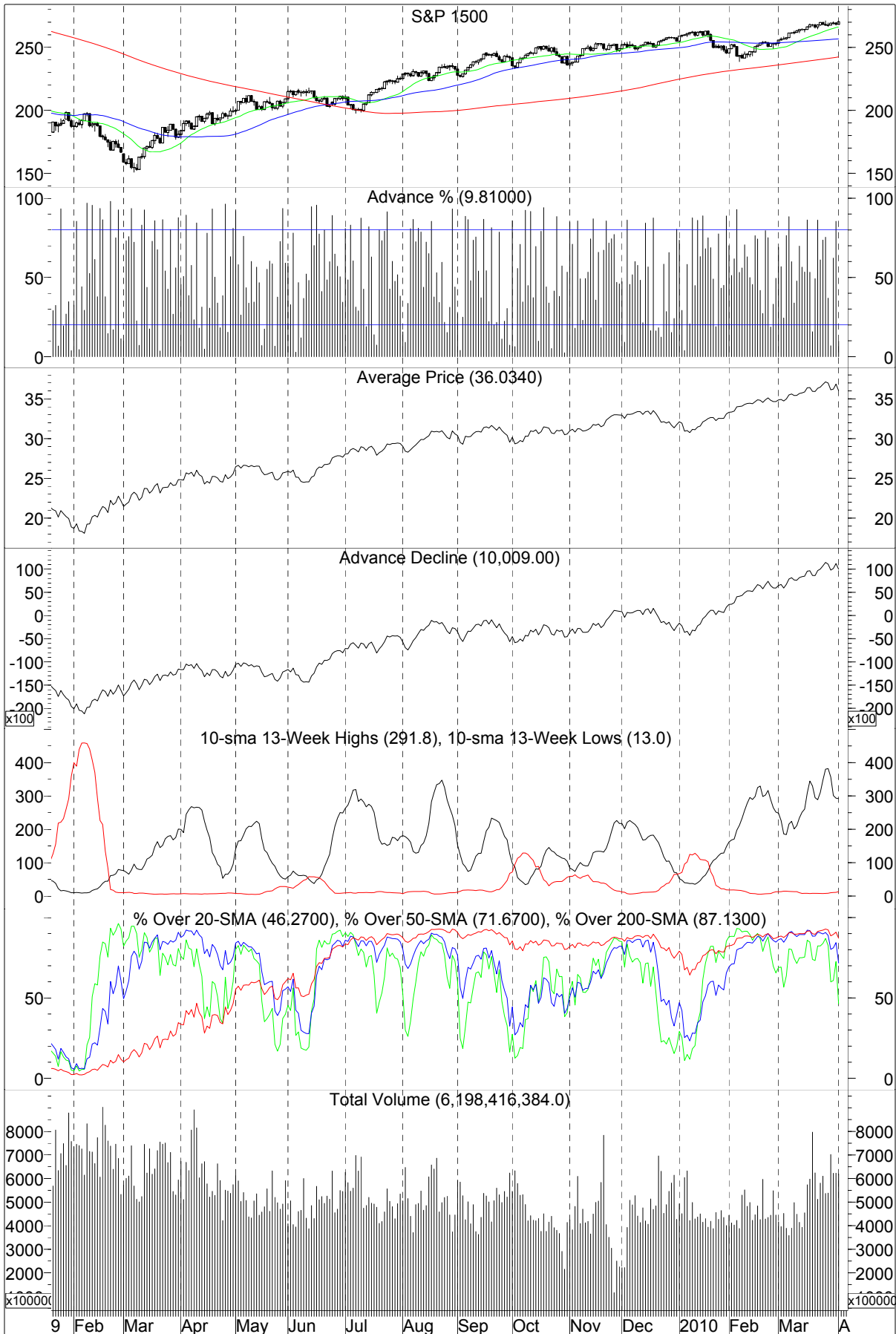
Monthly momentum indicators are mixed, with the stochastic in the overbought zone.



30.6% of stocks are over their 10-sma.

S&P 1500 momentum indicators are not yet oversold.

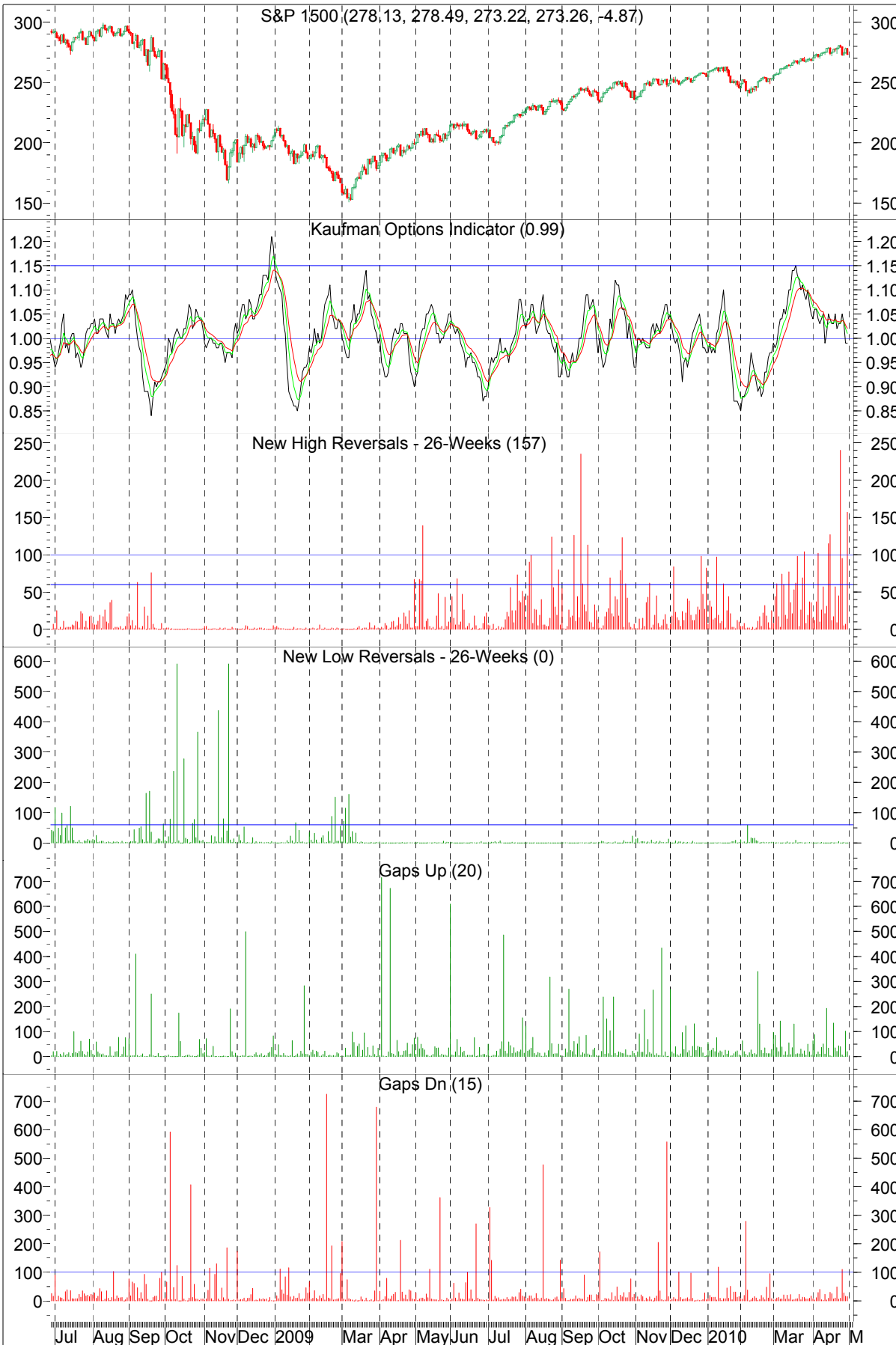
Our price oscillator is still in positive territory.



9.81% of stocks traded higher during Friday's 90% down day.

Volume expanded and was well above average during last week's sell off.

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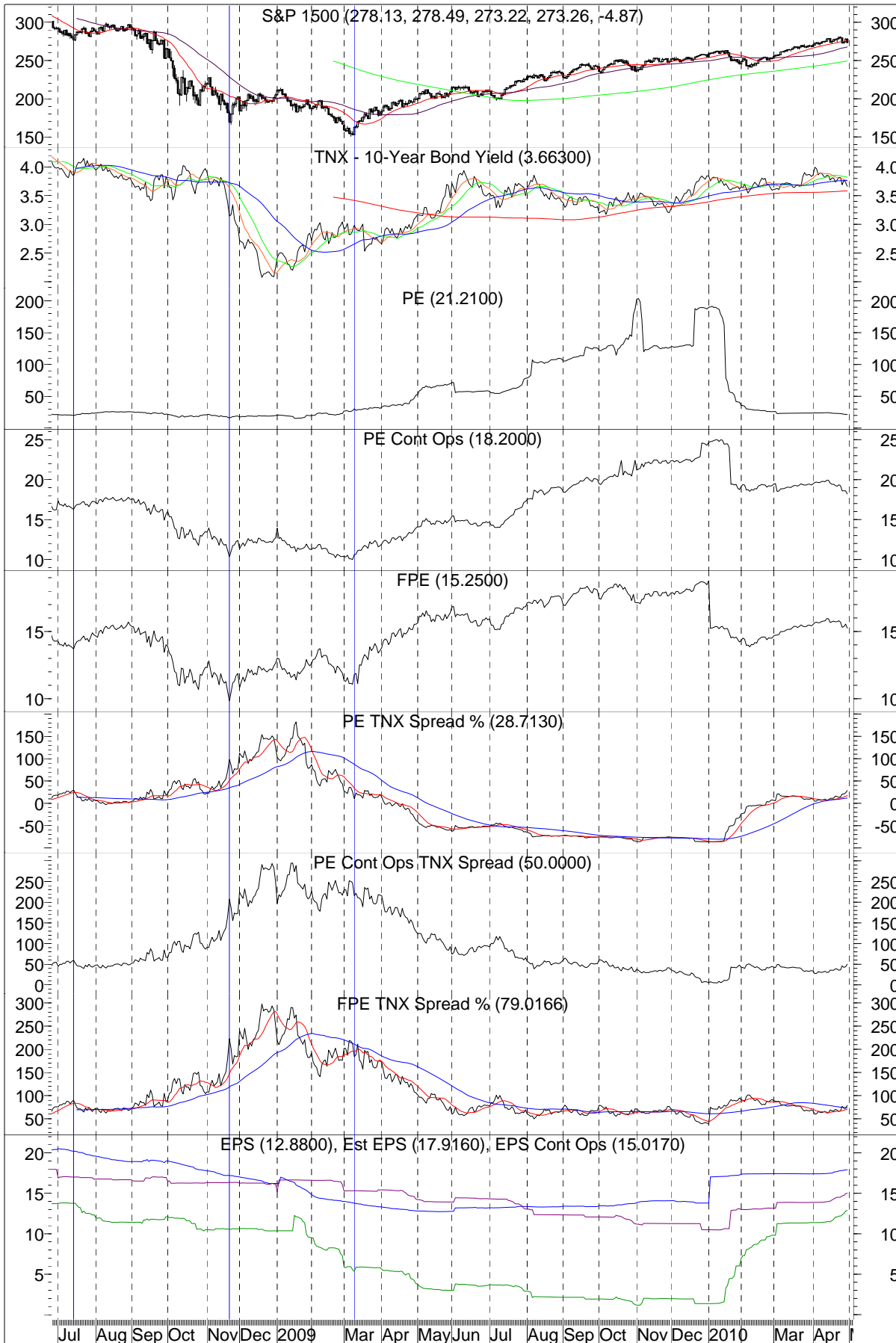
Our options indicator is just below the neutral line. A move to pessimistic levels will help put a floor under stocks.

Monday's 240 new high reversals was the most we have seen since keeping this statistic since 2005. Combined with Friday's 157 it is easy to see investors have gone into profit taking mode. Numbers over 100 usually show at least short-term weakness.

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Our statistics of supply (red) versus demand (green) are showing negative crossovers in the short-term and increasing supply.

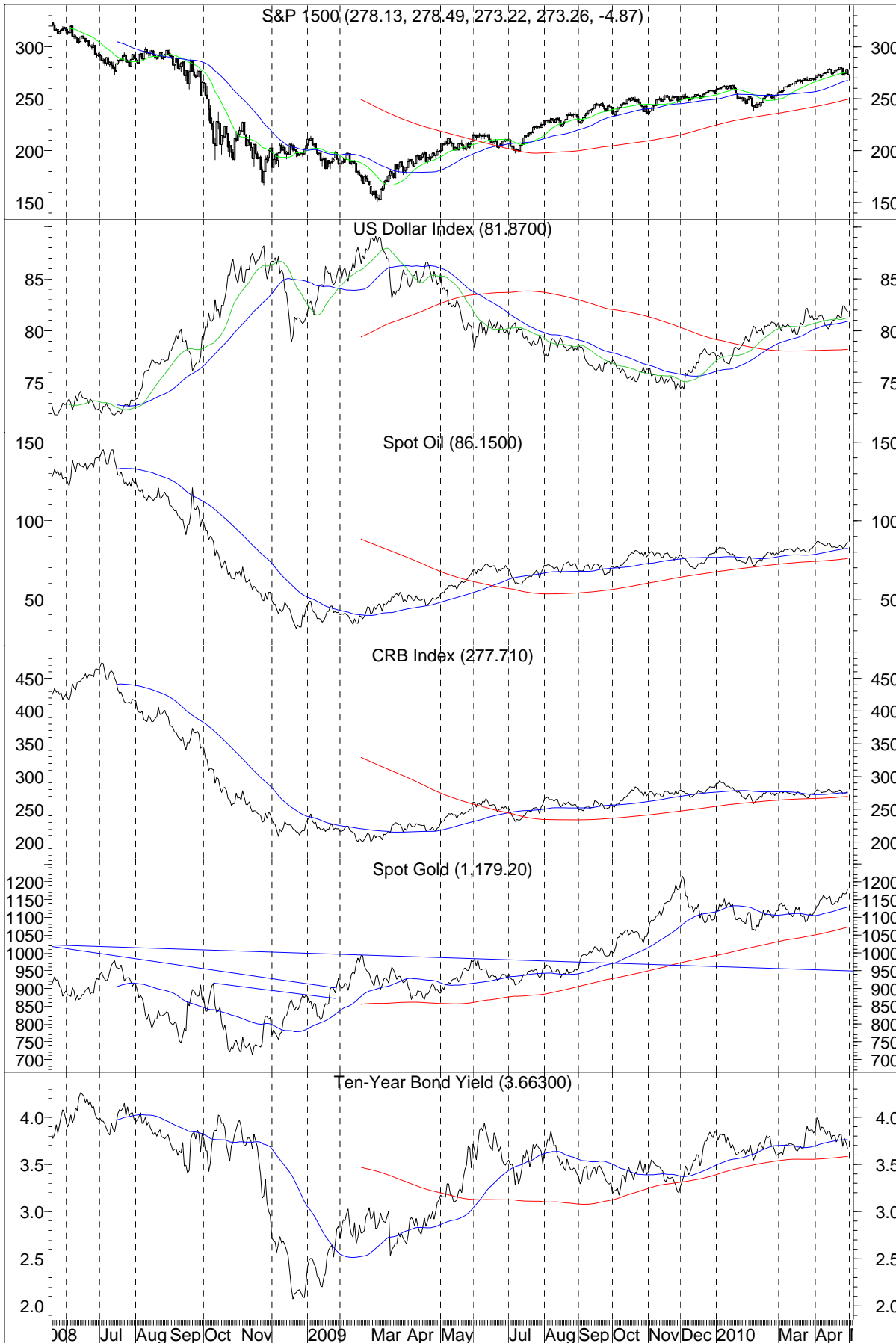


After breaking out to 9-month highs the 10-year bond yield has fallen below its 20 and 50-sma and is back in a support zone with the 200-sma not far below. It is not oversold and is actually neutral on daily, weekly, and monthly charts.

Increased earnings and lower stock prices have pushed P/E ratios down. The P/E from continuing operations is the lowest since August 2009.

Spreads between bond yields and equity yields are widening as P/E ratios move lower. They are at levels where stocks should be attractive versus bonds.

EPS numbers continue to rise, although that will slow down soon with only 1/3 of the S&P 500 left to report. Reported earnings are back to levels seen in July 2008, so at least the government can get some corporate tax receipts.



Last week we said the U.S. Dollar Index was oversold on an intra-day basis, and it bounced during the week to the highest since May 2009. It remains in an up trend and is above all important moving averages. It is nearing overbought levels on a weekly basis.

Crude oil pulled back to its 50-sma and seems poised to challenge its early April highs. It is not overbought on a daily, weekly or monthly time frame.

Last week we said gold seemed poised to move higher, and during the week it broke out to the highest levels since 12/4/10. It is not overbought in any time frame and remains in a strong up trend.