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The Kaufman Report

Trade what you see, not what you think.

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Monday November 2, 2009

Closing prices of October 30, 2009

October is always a very exciting month. It has the World Series, Halloween, pre-election fireworks, the end of the fiscal year for many financial institutions, and it is famous for stock market volatility. So far all of the above have generated considerable excitement.

Michelle Obama created a buzz by attending the first World Series game at the new Yankee Stadium. It is rumored that after watching the Phillies shellac the Yankees 6 – 1, she was going to speak to her husband about taking some of the runs away from the Phillies and giving them to the Yankees, because clearly they didn't need that many and it just didn't seem fair. Fortunately the Yankees tied the series in the second game, preventing Obamunism from entering the Fall Classic, at least for the time being.

After a good start to October in which they made new post-March highs, stocks succumbed to sellers and had a rough last two weeks of the month. In doing so important trend lines were broken, and many pundits are declaring that we are on our way back to the March lows. For the last two weeks we have been expressing concerns regarding increasing selectivity, negative divergences, and excess bullishness on the part of options buyers. Now the bullishness is turning into fear, and equities and most indicators are reaching oversold levels, which should be a set up for an oversold bounce. **With the rally now in jeopardy, the key issue is this: will the oversold bounce be sold into, showing clear signs of liquidation, or will this be another chance to buy before the next leg up?** Investors also need to keep in mind our warning issued so many times last fall that markets that don't respond to oversold conditions are dangerous. An oversold bounce, while likely, is not guaranteed.

We commented last week that there was a lot of noise in the market as we are approached the end of October, which is the fiscal year end for many financial institutions. In addition, we said there were indications that certain intermarket elements of our analysis, such as gold and the U.S. Dollar Index, may be pausing as far as their recent trends, or even approaching short-term reversals. That seems to have been accurate, and we also added that we didn't think this noise would abate and a more readable trend direction would declare itself until early November. Well, here we are, at the start of the best time of the year for stocks historically. If buyers don't step up soon, the lack of demand will leave equities in a vulnerable condition.

Therefore, we repeat our prior admonition that investors still need to be cautious regarding entry points, and positions they don't have a good reason to hold onto should be considered as a source of funds for what we hope will be another leg up for equities. Based on the S&P 500 the short-term and intermediate-term trends are now down, while the long-term trend remains up. Traders should not hesitate to rotate out of lagging sectors and stocks and into leaders.

We will remain on guard for any signs of a change in trend. We have been saying there is the potential for a deep correction at some point. **However, we have also been saying since June 1st, we accept the possibility that huge global government intervention along with a possibly healing economy and companies that have become very lean and mean could create a scenario where profits will start to surprise to the upside and the deteriorating earnings trend will start to change.** If so, we will be more than happy to delay or even cancel our expected bearishness.

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Monday November 2, 2009

Closing prices of October 30, 2009

The S&P 1500 (236.02) was down 2.81% Friday. Average price per share was down 2.74%. Volume was 16% higher than Thursday, 118% of its 10-day average and 127% of its 30-day average. 6.35% of the S&P 1500 stocks were up, with up volume at 4.14% and up points at 4.04%. Up Dollars was 0.1% of total dollars, and was 0.6% of its 10-day moving average. Down Dollars was 258% of its 10-day moving average.

For the week the index was down 4.25% on increasing and 18% above average weekly volume.

The S&P 1500 is down 2.33% in October, down 2.33 quarter-to-date, up 15.17% year-to-date, and down 33.77% from the peak of 356.38 on 10/11/07. Average price per share is \$29.34, down 32.13% from the peak of \$43.23 on 6/4/07.

Percent over 10-sma: 8.87%. 13-Week Closing Highs: 9. 13-Week Closing Lows: 251, the most since 649 on 3/9.
52-week closing highs: 6.

Kaufman Options Indicator: 0.94 Put/Call Ratio: 1.21, highest since 1.24 on 10/24/2008.

P/E Ratios: 187.43 (before charges), 21.01 (continuing operations), 17.16 (analyst estimates).

P/E Yield 10-year Bond Yield Spreads: -84% (earnings bef. charges), 32% (earnings continuing ops), and 72% (projected earnings).

Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at \$19.18 and are now at \$1.26, a drop of 93.43%. Aggregate earnings from continuing operations peaked at \$19.95 in September 2007 and are now \$11.23, down 43.71%. Estimated aggregate earnings peaked at \$21.95 in February 2008 and are now \$13.75, a drop of 37.36%.

349 of the S&P 500 have reported 3rd quarter earnings. According to Bloomberg, 80.1% had positive surprises, 7.7% were in line, and 12.2% have been negative. The year-over-year change has been -21.0% on a share-weighted basis, -12.1% market cap-weighted and -18.5% non-weighted. Ex-financial stocks these numbers are -24.6%, -18.9%, and -20.3%, respectively.

Federal Funds futures are pricing in a probability of 56.9% that the Fed will leave rates unchanged and a probability of 43.1% of cutting rates 25 basis points to 0.00% when they meet on November 4th. They are pricing in a probability of 56.5% of no change, 41.8% of cutting 25 basis points to 0.00%, and 6.4% of raising 25 basis points to 1.7% when they meet on December 16th.

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S&P 500 Cash (1,065.41, 1,065.41, 1,033.38, 1,036.19, -29.92)



The S&P closed a tough week by undercutting the lower trend line of the broadening top formation (green lines). On Wednesday it broke under the bearish rising wedge formation we have discussed numerous times over the last few weeks. The next support is now 1019.95 from October 2nd.

The RSI is near a level where it found support in July. The Stochastic is very oversold. The MACD has not yet bottomed.

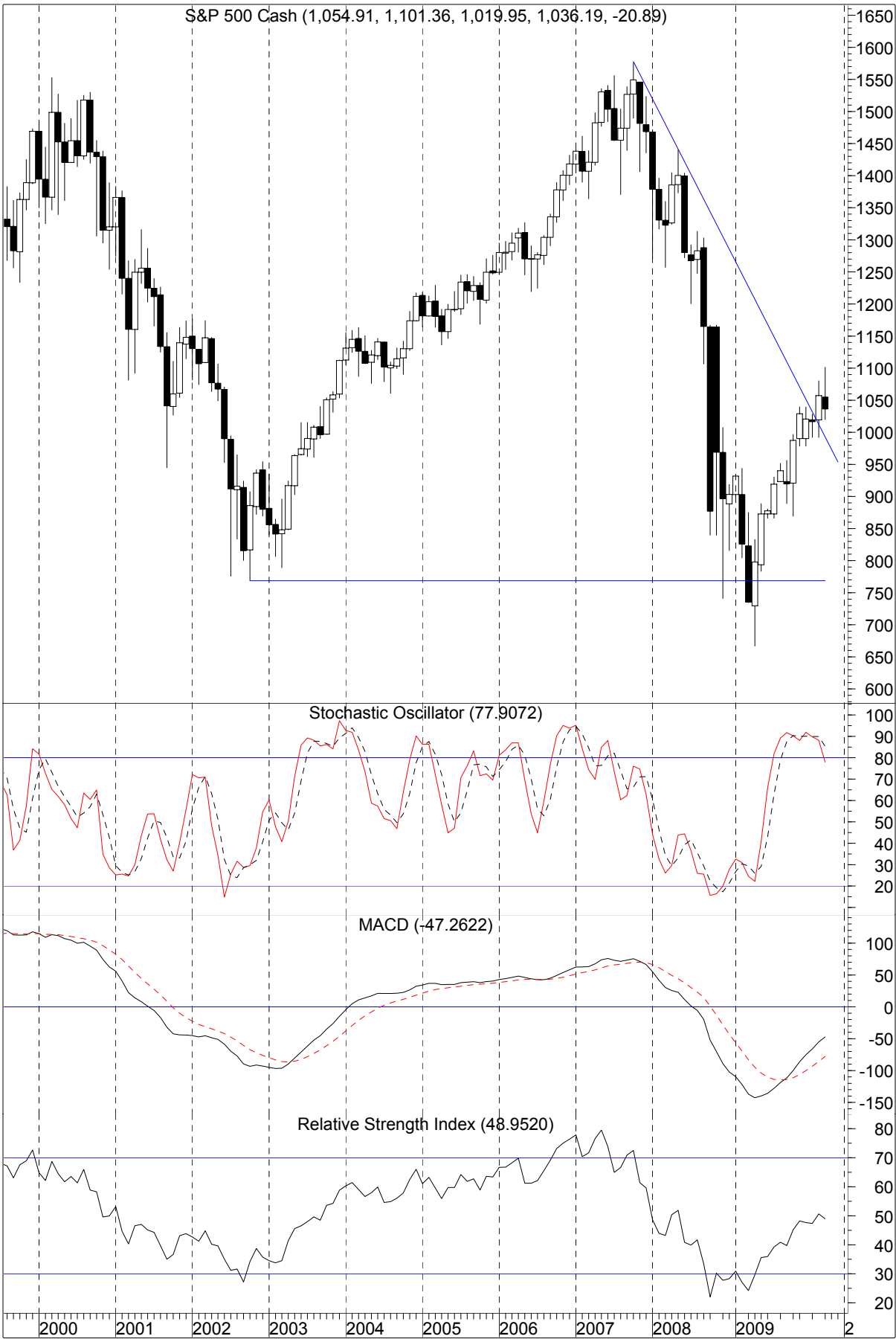
S&P 500 Cash (1,080.36, 1,091.75, 1,033.38, 1,036.19, -43.41)



The weekly chart of the S&P 500 shows it closed above its 80-week moving average. However, it did close under its 400-day moving average, which is at 1040.65. Both of these still have slopes that are negative.

Momentum indicators have turned down from high levels. The MACD is close to a negative crossover.

S&P 500 Cash (1,054.91, 1,101.36, 1,019.95, 1,036.19, -20.89)



The monthly chart of the S&P 500 printed a shooting star candle in October. Shooting stars are bearish candles seen at the end of rallies.

NASDAQ 100 (1,707.92, 1,712.93, 1,663.94, 1,667.13, -44.14)



The Nasdaq 100 also broke its trend line from the March lows last week. It is just above its October lows.

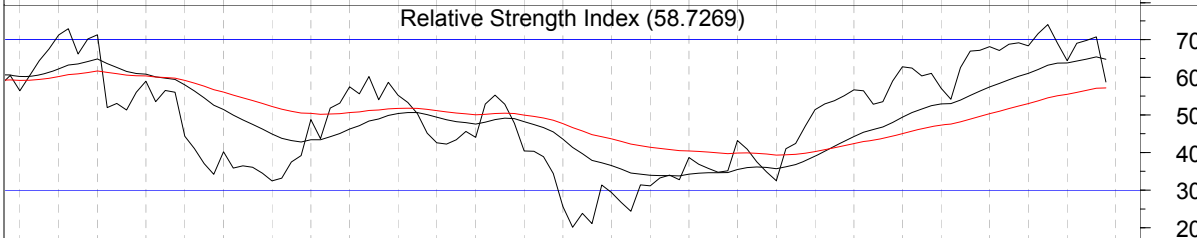
The RSI is at the level where it bottomed in July and the stochastic is oversold. The MACD has not bottomed yet.

NASDAQ 100 (1,756.50, 1,778.48, 1,663.94, 1,667.13, -86.50)



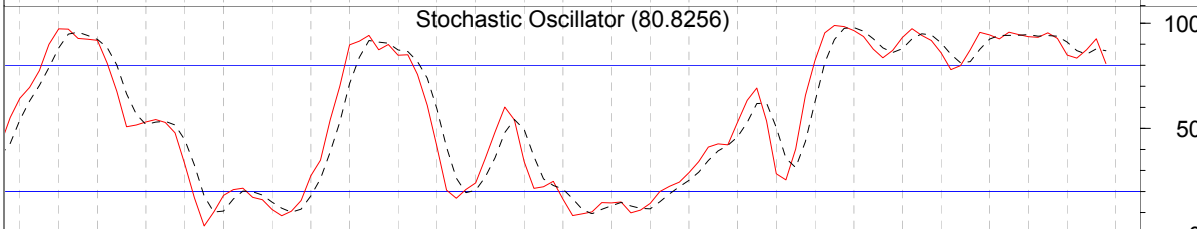
The Nasdaq 100 dropped sharply after printing a shooting star candle on last week's chart after running into resistance.

Relative Strength Index (58.7269)

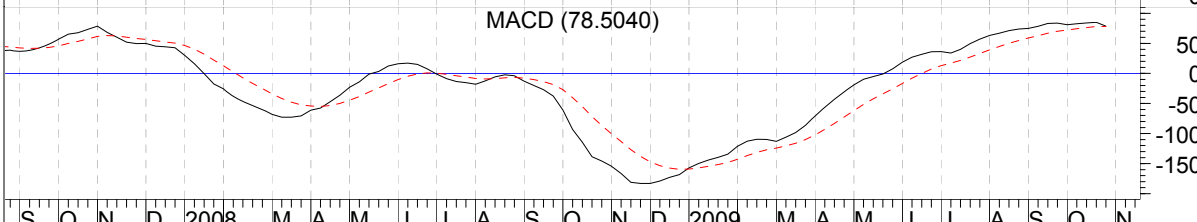


After showing a negative divergence the RSI has turned down. The stochastic remains in the overbought zone, while the MACD is about to have a negative crossover.

Stochastic Oscillator (80.8256)



MACD (78.5040)

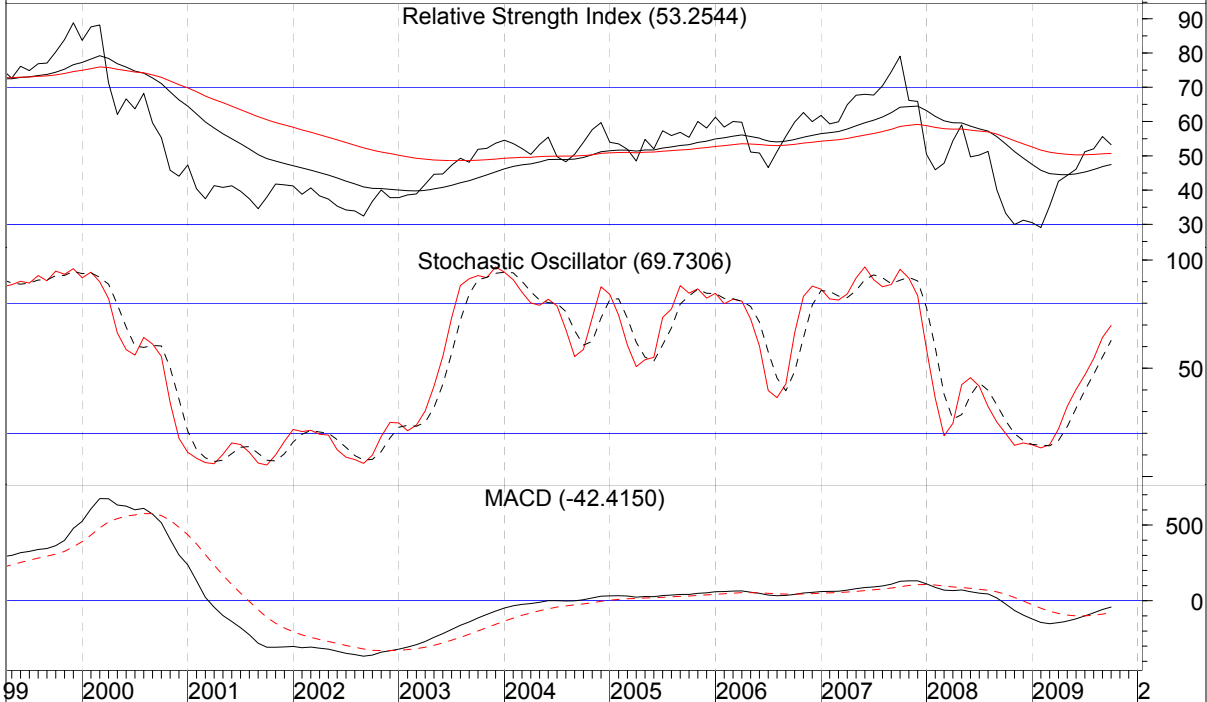


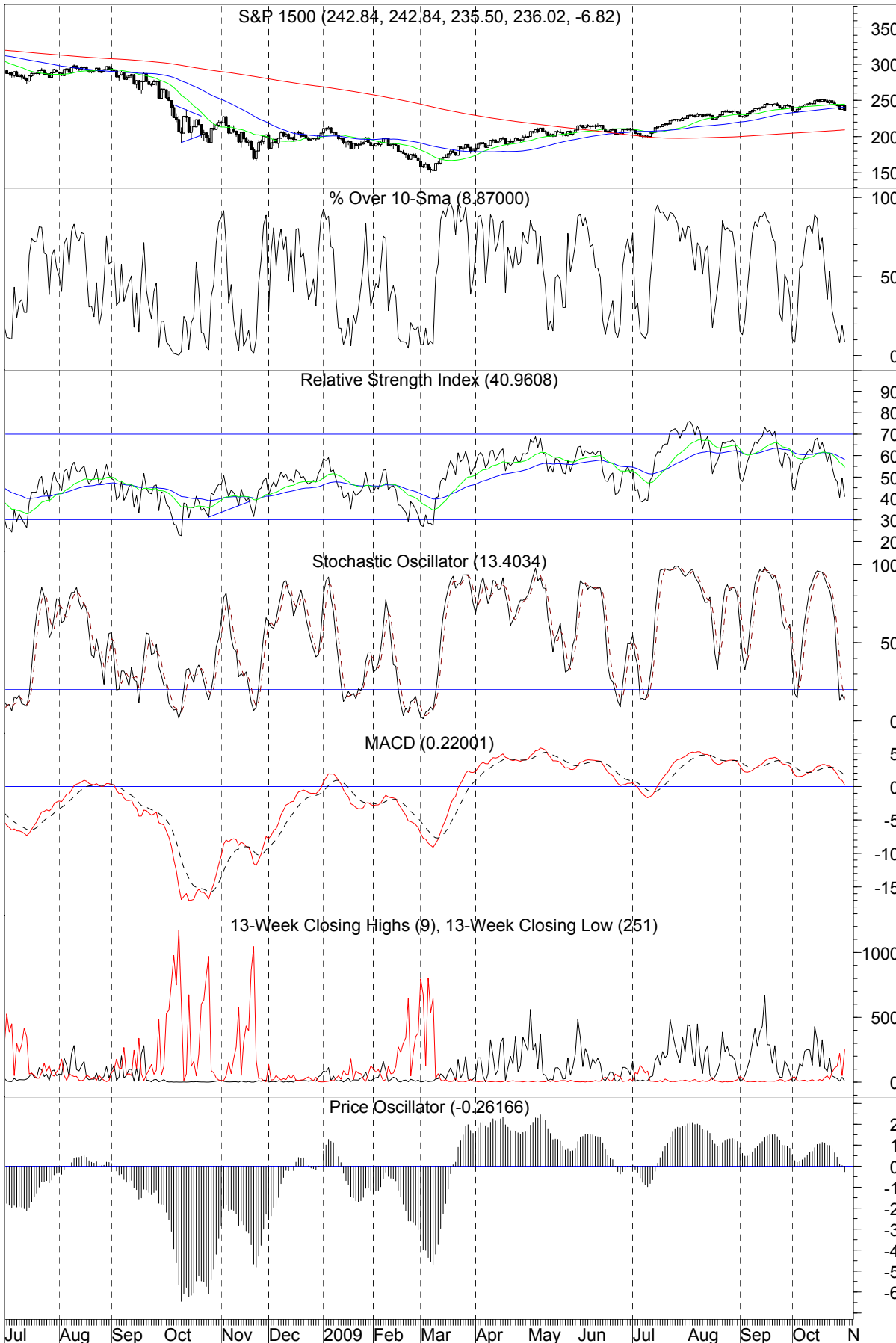
S O N D 2008 M A M J J A S O N D 2009 M A M J J A S O N

NASDAQ 100 (1,710.50, 1,780.83, 1,656.57, 1,667.13, -51.86)



The Nasdaq 100 has printed a shooting star on its monthly chart. Shooting stars are bearish candles seen at rally tops.





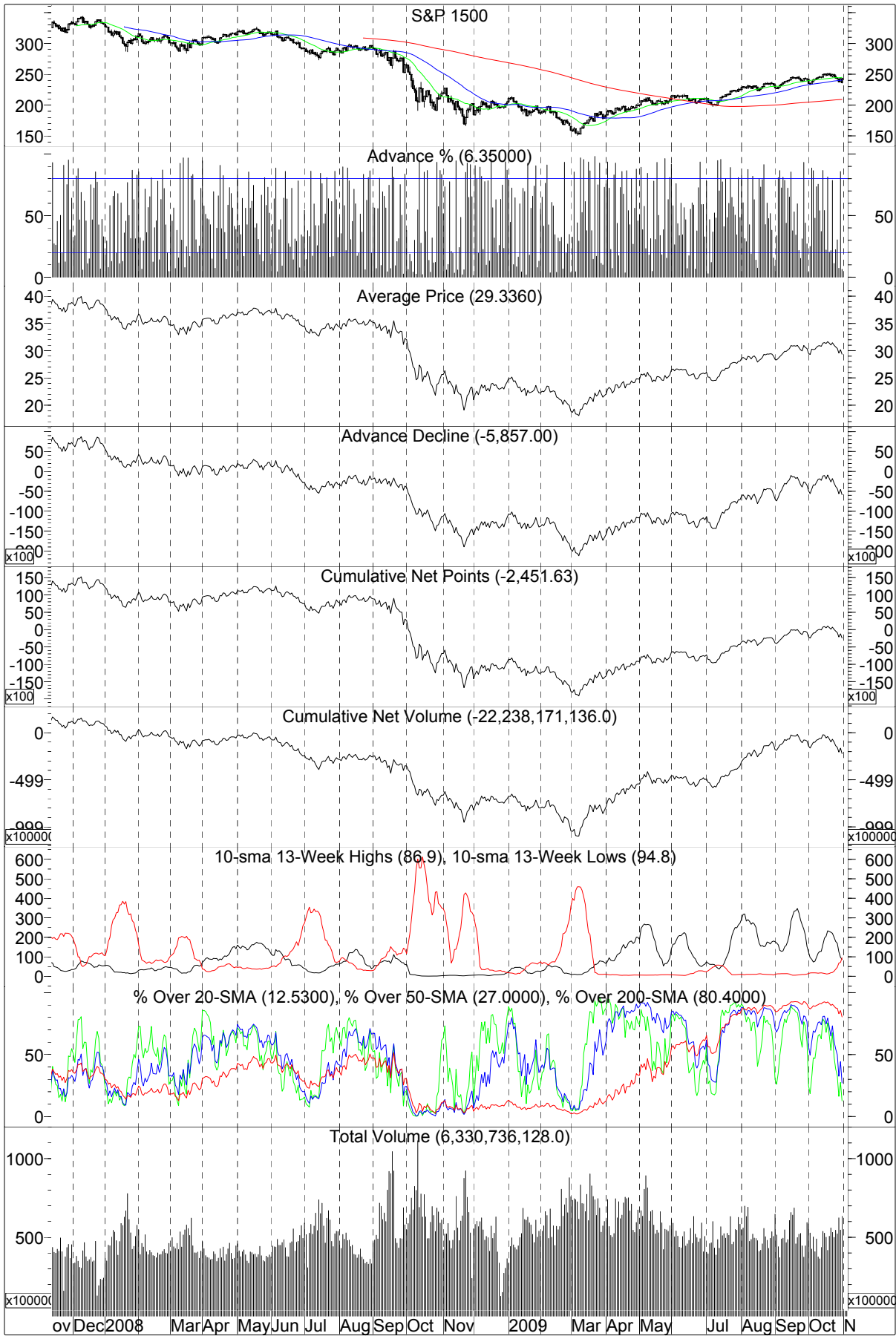
The percent over 10-sma remains very oversold at 8.87%.

The RSI is hanging on to the 40 level, which is a support level in bull markets.

The stochastic is oversold.

The number of 13-week closing highs is breaking out and on Friday hit the highest level since March 9th.

Our price oscillator, a good indicator of trends, has turned negative for the first time since July.

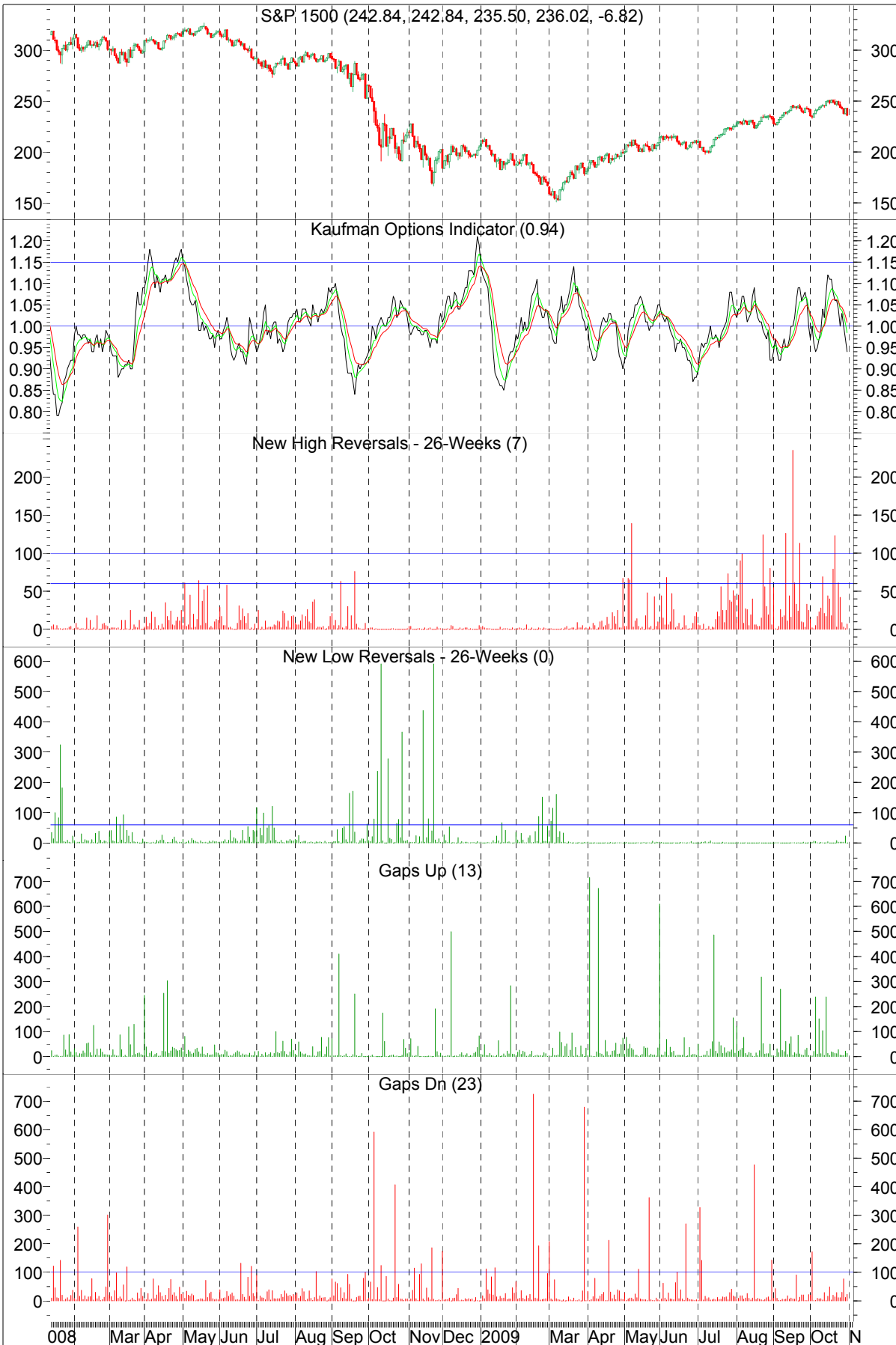


6.35% of stocks traded higher during Friday's 90% panic-selling down day.

The 10-sma of 13-week closing lows has crossed above its counterpart of closing highs for the first time since July, and it is at a higher level than it was then.

There has been a real collapse in the percents over 20 and 50-sma.

Volume expanded during last week's sell offs.

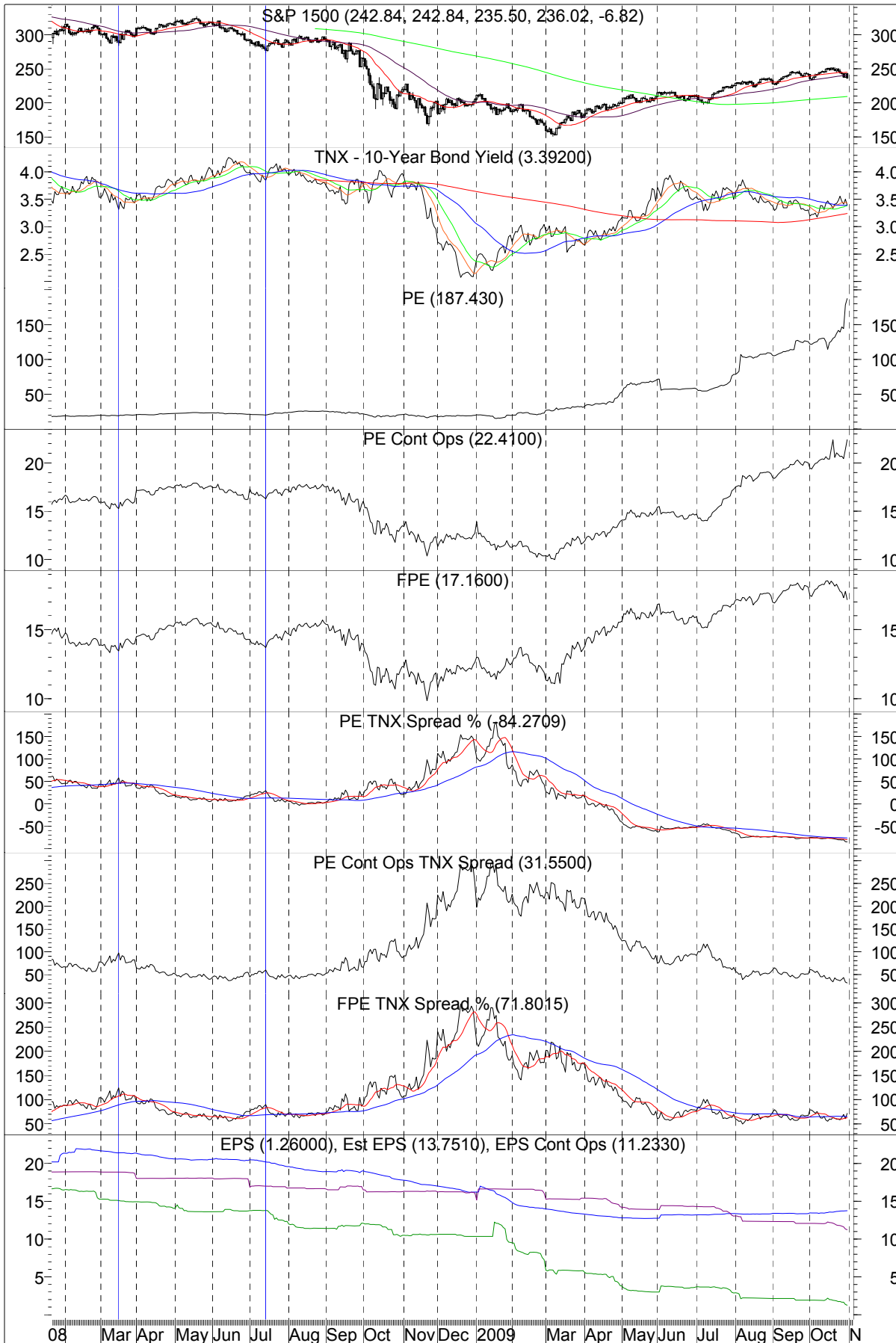


After giving us a warning by reaching overbullish levels in mid-October, our proprietary options indicator has dropped into the negative zone, showing pessimism. It can go lower than the current 0.94, but pessimism is what we need to see in order to have a bottom for stocks.

Last week we commented that the 123 new high reversals seen on 10/21 is a number usually seen ahead of periods of weakness or consolidation



We warned last week that our statistics of supply (red) versus demand (green) showed that both buyers and sellers had become reticent, and that a lack of buyers could leave equities vulnerable to bad news which could act as a catalyst for increased selling and cause a sharp drop in stocks. The increased selling last week did exactly that, and short-term selling stats are at levels last seen in March. This needs to turn around soon.



We have been warning about P/E levels for a long time, and so far this earnings season has done nothing to allay our fears.

Aggregate earnings estimates are now rising (blue) while aggregate earnings before charges and aggregate earnings from continuing operations continue to move lower. Analysts have a long history of being overly optimistic. Will they finally get it right this time?



The uncanny inverse relationship between stocks and the U.S. Dollar Index continues.

Last week we said the U.S. Dollar Index was showing a positive divergence on the daily RSI and the weekly chart was oversold. It popped sharply last week, and is now just under its 50-sma.

Crude oil pulled back to its 20-sma (not shown).

Gold seems to be consolidating.