

Monday November 23, 2009

Closing prices of November 20, 2009

We have been saying for a while that with sellers being reticent the path of least resistance for equities was higher. More recently we have discussed the increasing selectivity in the market along with negative divergences that have been appearing. Lastly, we have discussed the low volume in the market, leaving equities vulnerable to sharp moves in either direction based on news.

All of these factors seemed to kick in last week as major indexes made new highs mid-week only to give the gains back as the S&P 500 and the Nasdaq 100 finished marginally lower on the week. The major news culprits were slumping home starts, bad news regarding mortgage delinquencies, and a tech downgrade. The net result was a 90% down day Thursday and bearish candles being printed on the weekly charts of the major indexes with the S&P 500 and Nasdaq 100 posting key reversals.

In the short-term stocks are no longer overbought, but most indicators are not yet oversold. Negative divergences still persist. For example, only 303 stocks in the S&P 1500 made new 13-week closing highs with the index making a new high on 11/16, compared to 429 13-week closing highs on 10/14. Also, only 44.73% of the S&P 1500 are above their own 50-day moving averages. This is an important red flag. Volume remains muted. Therefore, with volume low and news able to create sharp moves in either direction, this is a bifurcated short-term trader's market, and caution is advised. In addition, the U.S. Dollar Index is showing short-term strength. With the amazing inverse correlation seen recently between the Dollar and equities, further Dollar strength could put more pressure on stocks.

Investors 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. Based on the S&P 500 the short-term, intermediate-term and long-term trends are 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 long-term 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. At this time the lean and mean thesis and upside surprise scenario has proven to be correct. We hope that the earnings trend will be the next to improve.

S&P 1500 Data: Percent over 10-sma: 28.00%.

13-Week Closing Highs: 34. 13-Week Closing Lows: 75. 52-week closing highs: 25.

Kaufman Options Indicator: 1.01 Put/Call Ratio: 0.915. New High Reversals: 3.

Volume: -11% versus yesterday. 94% of the 10-day average. 81% of the 30-day average.

Up Stocks: 41.45%. Up Volume: 35.44%. Up Points: 35.27%. Up Dollars: 19.88%, 18% of 10-sma. Down Dollars 89% of 10-sma.

IMPORTANT DISCLOSURES

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	Daily	WTD	MTD	QTD	YTD
S&P Smallcap 600	-0.10%	-0.45%	3.34%	-2.63%	15.01%
Dow Jones Industrials	-0.14%	0.46%	6.23%	6.24%	17.57%
S&P 500	-0.32%	-0.19%	5.33%	3.24%	20.83%
S&P 1500	-0.33%	-0.31%	5.17%	2.72%	21.13%
NYSE Composite	-0.47%	-0.50%	5.12%	2.51%	23.06%
Nasdaq 100	-0.50%	-1.35%	5.83%	2.64%	45.62%
Nasdaq Composite	-0.50%	-1.01%	4.94%	1.11%	36.08%
S&P Midcap 400	-0.56%	-1.54%	4.31%	-0.50%	27.73%
Bank of New York Mellon ADR	-0.77%	-1.48%	4.31%	2.59%	31.77%

	Daily	WTD	MTD	QTD	YTD
Health Care	0.55%	1.90%	7.87%	5.38%	13.68%
Utilities	0.24%	-0.54%	2.32%	-0.96%	-0.29%
Consumer Staples	0.05%	0.59%	4.34%	5.43%	12.49%
Materials	-0.12%	1.44%	11.01%	5.09%	42.77%
Telecom Services	-0.17%	0.76%	3.47%	-1.54%	-4.55%
Industrials	-0.30%	-0.26%	8.24%	3.20%	15.50%
Consumer Discretionary	-0.56%	-1.14%	6.91%	4.25%	33.22%
Financials	-0.57%	-0.43%	3.79%	-2.48%	16.24%
Information Technology	-0.64%	-1.30%	5.06%	4.66%	51.54%
Energy	-0.88%	-0.86%	2.21%	5.43%	11.70%

	Daily	WTD	MTD	QTD	YTD
Pharmaceuticals, Biotech & Life Sciences	0.87%	3.01%	7.95%	5.38%	9.52%
Food, Beverage & Tobacco	0.33%	0.35%	4.28%	5.00%	17.98%
Utilities	0.24%	-0.54%	2.32%	-0.96%	-0.29%
Consumer Services	0.24%	-0.14%	8.85%	3.44%	17.59%
Transportation	0.12%	0.53%	12.48%	8.42%	17.76%
Food & Staples Retailing	0.01%	1.06%	2.41%	4.45%	7.56%
Retailing	-0.07%	-1.20%	5.30%	6.11%	43.43%
Health Care Equip & Services	-0.11%	-0.38%	7.75%	5.30%	23.75%
Materials	-0.12%	1.44%	11.01%	5.09%	42.77%
Telecom Services	-0.17%	0.76%	3.47%	-1.54%	-4.55%
Capital Goods	-0.40%	-0.38%	7.49%	1.98%	15.75%
Commercial & Professional Services	-0.44%	-1.40%	3.99%	1.10%	6.86%
Household & Personal Products	-0.49%	0.64%	6.43%	7.33%	7.47%
Diversified Financials	-0.53%	-0.87%	4.01%	-3.44%	32.06%
Insurance	-0.55%	-1.15%	2.68%	-3.63%	10.55%
Semiconductors & Equipment	-0.55%	-2.67%	3.21%	-2.82%	39.64%
Real Estate	-0.60%	-0.24%	6.02%	2.17%	12.33%
Software & Services	-0.61%	-0.89%	5.59%	8.76%	48.15%
Banks	-0.70%	1.33%	3.27%	-0.57%	-6.64%
Technology Hardware & Equipment	-0.70%	-1.26%	5.12%	3.58%	57.84%
Energy	-0.88%	-0.86%	2.21%	5.43%	11.70%
Consumer Durables & Apparel	-1.07%	-3.09%	3.00%	-0.44%	27.67%
Automobiles & Components	-1.09%	1.27%	17.33%	11.85%	100.06%
Media	-1.34%	-1.46%	7.17%	2.78%	26.42%

INTERNATIONAL ETFs

	Daily	WTD	MTD	QTD	YTD
Singapore EWS	0.80%	1.06%	8.49%	5.77%	61.28%
Japan EWJ	0.76%	-2.90%	-2.51%	-6.34%	-2.82%
South Korea EWY	0.70%	2.13%	7.46%	-2.74%	64.75%
Malaysia EWM	0.55%	-0.36%	4.48%	8.09%	50.34%
Taiwan EWT	0.00%	-1.05%	6.55%	0.41%	62.98%
China 25 FXI	-0.16%	-1.75%	6.95%	8.99%	53.32%
Vietnam VNM	-0.18%	-0.89%	-1.75%		
Hong Kong EWH	-0.31%	-1.39%	2.12%	2.19%	52.94%
Switzerland EWL	-0.32%	-1.36%	2.81%	1.20%	18.55%
BRIC EEB	-0.35%	-0.14%	9.82%	9.43%	84.50%
MSCI Emerging Markets EEM	-0.42%	-0.96%	8.20%	4.47%	62.80%
Sweden EWD	-0.44%	-2.69%	5.96%	7.38%	59.90%
Mexico EWW	-0.57%	-1.49%	7.91%	7.72%	45.80%
Canada EWC	-0.58%	-0.39%	8.05%	1.14%	47.85%
Belgium EWK	-0.67%	-0.75%	5.89%	2.39%	52.35%
Australia EWA	-0.94%	-3.48%	6.25%	3.10%	66.31%
Latin America ILF	-0.97%	-0.57%	9.06%	9.46%	84.41%
Brazil EWZ	-1.00%	0.17%	9.09%	11.01%	114.60%
Germany EWG	-1.02%	-0.58%	6.48%	0.77%	16.34%
Netherlands EWN	-1.13%	-2.33%	4.72%	1.43%	36.24%
France EWQ	-1.37%	-2.08%	5.80%	-0.19%	23.84%
Austria EWO	-1.40%	-1.79%	6.18%	-0.59%	67.51%
United Kingdom EWU	-1.50%	-1.34%	6.33%	6.19%	34.45%
Spain EWP	-1.55%	-1.24%	5.14%	1.88%	34.73%
Italy EWI	-1.67%	-3.26%	4.01%	-2.20%	21.78%

S&P 500 Cash (1,094.66, 1,094.66, 1,086.81, 1,091.38, -3.52)



The S&P 500 made new intra-day and closing highs last week. Short-term support is at 1085 - 1087.

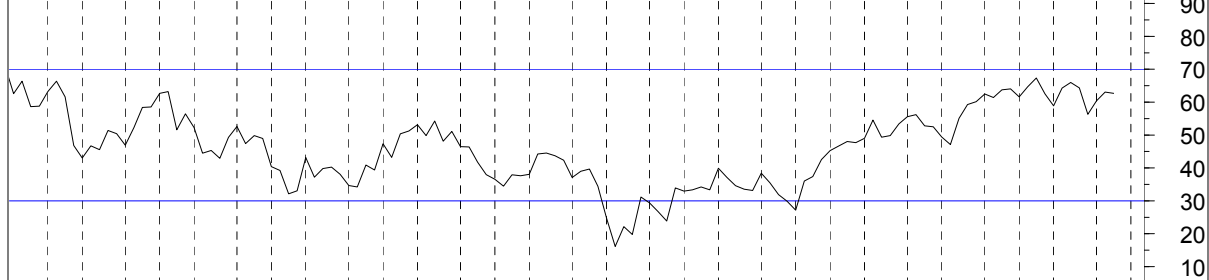
Last week we said the lower tops on the RSI pointed to a weakening rally. The stochastic has joined the RSI in showing a negative divergence. Our momentum indicators are moving lower but are not yet oversold, with the MACD nearing a negative crossover.

S&P 500 Cash (1,094.13, 1,113.69, 1,086.81, 1,091.38, -2.10)

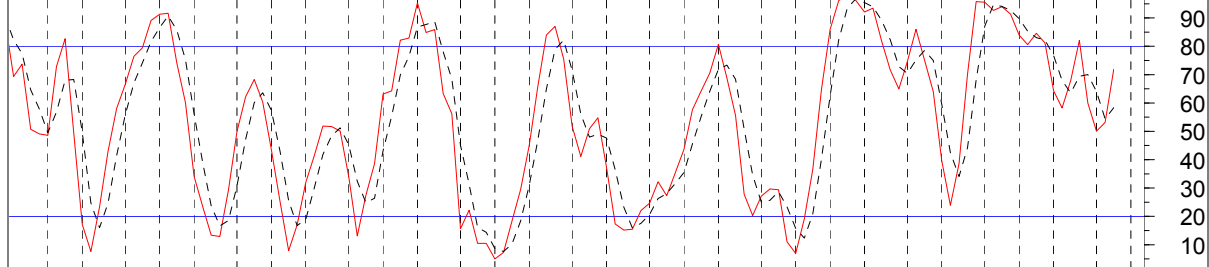


The weekly chart of the S&P 500 shows a shooting star candle. Shooting stars are bearish candles frequently seen at tops.

Relative Strength Index (62.6722)

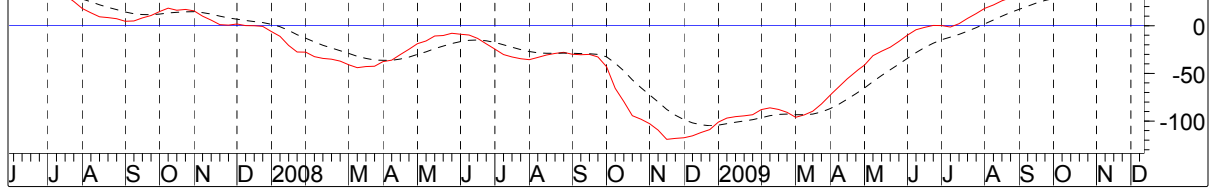


Stochastic Oscillator (71.8928)



Weekly momentum indicators show negative divergences.

MACD (39.1743)



NASDAQ 100 (1,794.88, 1,814.25, 1,758.00, 1,764.39, -24.22)



The Nasdaq 100 printed a key reversal on the weekly chart. That is where a new high is made but is accompanied by a lower close.

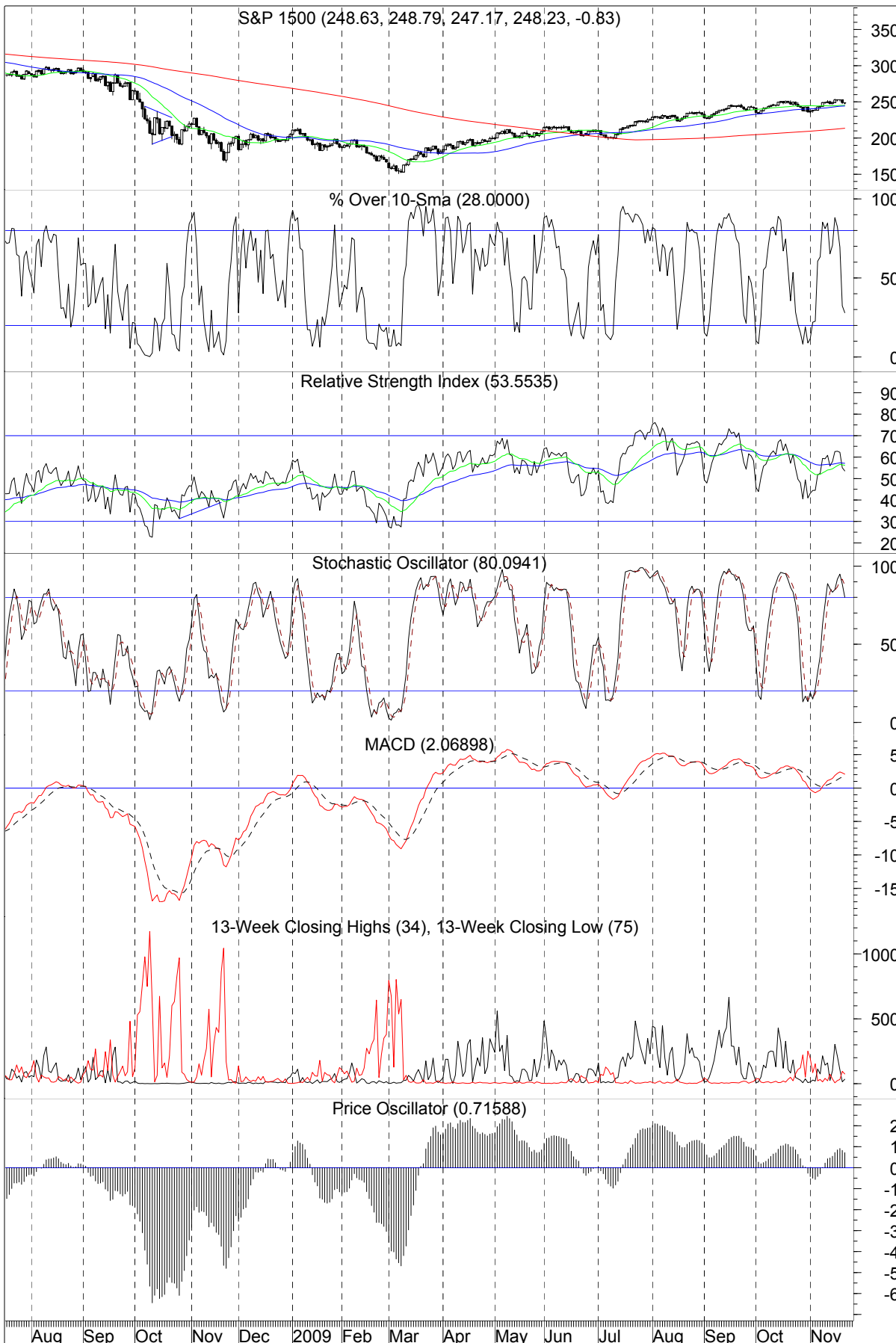
The RSI and stochastics are showing negative divergences.

NASDAQ 100 (1,760.54, 1,768.35, 1,758.00, 1,764.39, -8.80)



The Nasdaq 100 made new highs last week before taking a sharp drop after running into the rising resistance line.

Momentum indicators appear to be rolling over.



28.0% of the S&P 1500 are over their 10-sma.

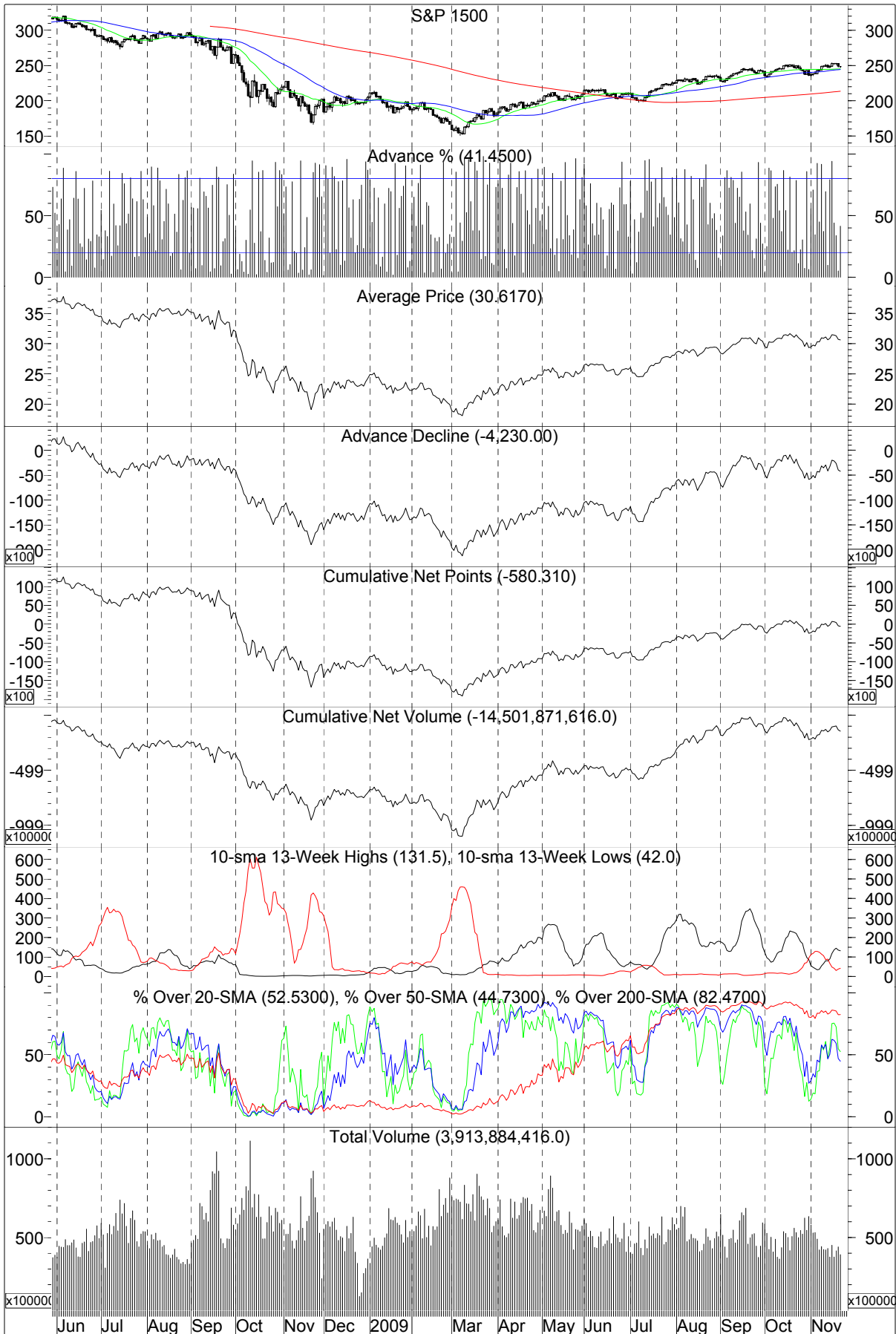
The RSI is showing a negative divergence.

The stochastic is still at a high level and is showing a negative crossover.

The S&P 1500 made a new high on 11/16 but only 303 stocks made 13-week closing highs, a negative divergence compared to the 429 on 10/14.

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

The Kaufman Report - Wayne S. Kaufman, CMT

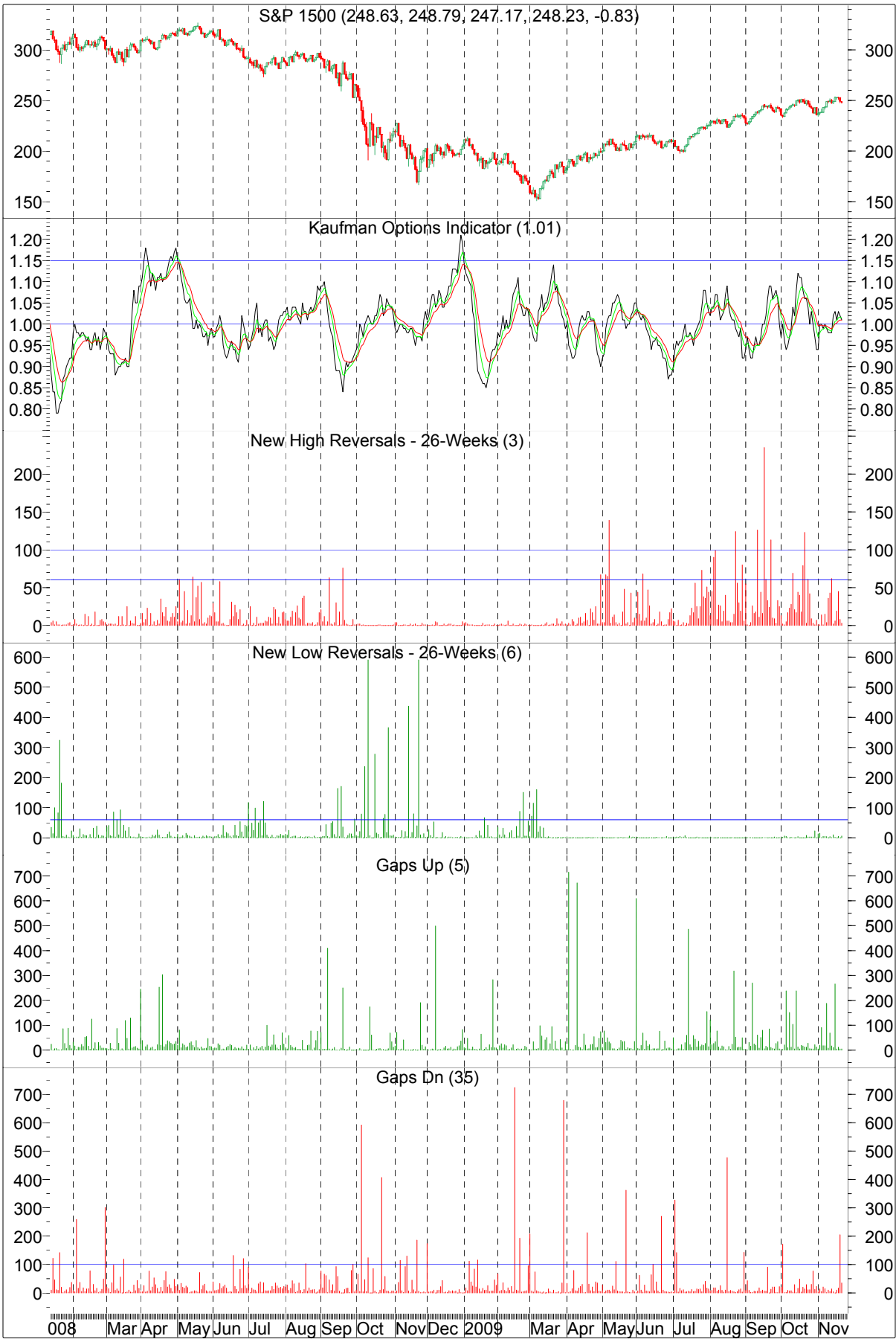


In spite of the S&P 1500 index making new highs last week the average price per share did not due to under performance in small caps. This negative divergence is present in the AD line, cumulative net points, and cumulative net volume.

Only 44.73% of stocks are over their own 50-day moving average compared to much higher numbers in October and September.

Decreasing volume as stocks made new highs is not a prescription for a sustainable rally.

The Kaufman Report - Wayne S. Kaufman, CMT

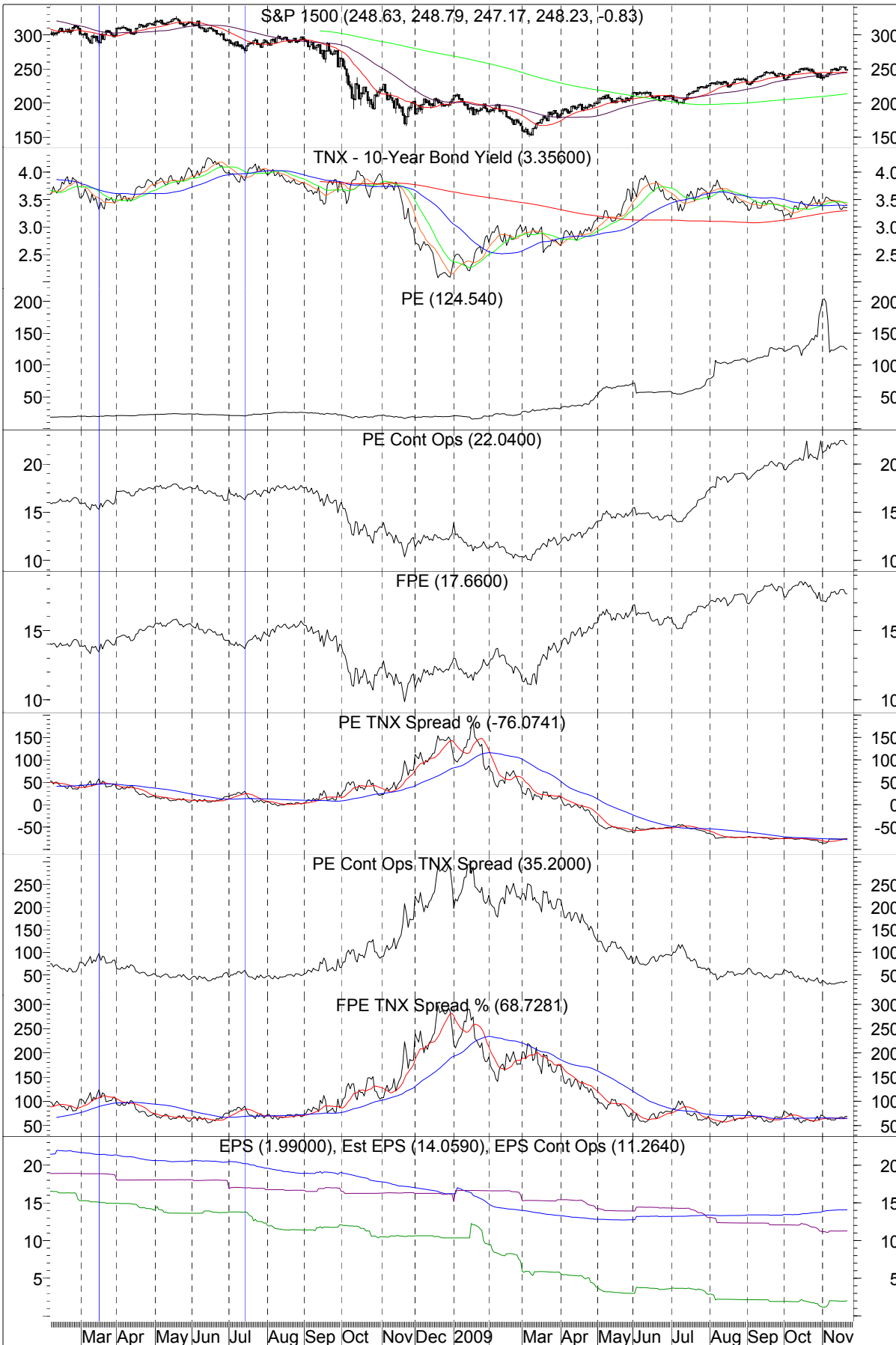


Our proprietary options indicator is just above the neutral line.

The Kaufman Report - Wayne S. Kaufman, CMT



Our statistics of supply (red) and demand (green) show a reticence on the part of both buyers and sellers. As we said last Sunday, with low volume and not much conviction on either side, news can create sharp moves in either direction.



Spreads between bond and equity yields continue to flat line.

Aggregate earnings from continuing operations and earnings before charges remain weak, but estimates bottomed at the end of May and are rising. Let's hope the analysts finally get it correct.



The amazing inverse relationship between the U.S. Dollar Index and equities continues. The 50-sma of the Dollar Index (blue) is just above price. The weekly chart (not shown) is showing a bullish engulfing candle which is also an outside bar, so short-term Dollar strength may continue here and cause a short-squeeze. Crude oil is just above its 50-sma which is at 74.95. Dollar strength will not help oil prices.

Gold made another all-time high last week and remains overbought on its daily and weekly charts. There is also a near unanimous consensus that gold is going higher, which sets it up for a short-term correction especially if the Dollar strengthens.