

Monday September 21, 2009

Closing prices of September 18, 2009

Last Sunday we discussed the overbought condition of stocks and the large number of new high reversals (126) seen on Friday September 11th. We also said every time stocks reach a point where the rally seems ready to fade new information on the economy or company forecasts comes out which investors view positively and stocks move higher. In spite of the overbought condition and increased profit taking the S&P 500 rallied 2.45% last week, and this week finds us in a similar situation as last week.

Stocks remain overbought, Thursday produced a huge amount of 26-week new high reversals (235), and our options indicator is starting to show too much optimism. P/E ratios continue to move to levels which are troublesome while earnings and analyst forecasts show no real progress. This needs to change as we get into third quarter earnings season. **Therefore, once again investors need to be cautious with entry points.**

Still, we are currently in a good news cycle. We have stressed for months that a key characteristic of this bull market has been the unwillingness of investors to sell their stocks. That remains the case, and we believe it will take bad news to change that. As long as sellers remain unmotivated, with the exception of short-term pullbacks, the path of least resistance is up. We hope the FOMC meeting Wednesday and third quarter pre-announcement season will do nothing to change investor's desire to hold equities. A lack of negative pre-announcements, or more positive announcements, would certainly be welcome at this stage of the rally. More announcements of increased guidance would help allay our concerns about valuations.

The other key characteristic of this rally we have continually highlighted is huge global liquidity. Hopefully Mr. Bernanke and Company will not say anything Wednesday that foreshadows a change in this scenario.

September is known as the worst month of the year, and October is famous for market crashes. Many market watchers have been calling for a major plunge to occur during this period, although we have said we didn't see that happening. A sharp correction is certainly a possibility we will watch for, but as always, the more market participants there are expecting a certain outcome the less likely it is to occur.

We will remain on guard for any signs of a change in trend. We do think there is the potential for a deep correction at some point. However, as we have 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.

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. Caution is advised regarding entry points and stop losses should be used to keep losses manageable. Very aggressive traders can enter short keeping in mind shorting is counter-trend at this time and they may have to cover quickly.

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The S&P 1500 (244.38) was up 0.234% Friday. Average price per share was up 0.18%. Volume was 126% of its 10-day average and 133% of its 30-day average. 53% of the S&P 1500 stocks were up, with up volume at 48.60% and up points at 57.77%. Up Dollars was 64.76% of total dollars, and was 51% of its 10-day moving average. Down Dollars was 140% of its 10-day moving average.

For the week the index was up 2.56% on increasing and 30% above its 4-week average weekly volume.

The S&P 1500 is up 4.96% in September, up 16.76% quarter-to-date, up 19.25% year-to-date, and down 31.43% from the peak of 356.38 on 10/11/07. Average price per share is \$30.91, down 28.50% from the peak of \$43.23 on 6/4/07.

Percent over 10-sma: 83.47%. 13-Week Closing Highs: 288. 13-Week Closing Lows: 9.

Put/Call Ratio: 0.855. Kaufman Options Indicator: 1.02.

P/E Ratios: **114.06 (before charges)**, 19.86 (continuing operations), 18.22 (analyst estimates).

P/E Yield 10-year Bond Yield Spreads: **-75% (earnings bef. charges)**, 45% (earnings continuing ops), and 58% (projected earnings).

Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at \$19.18 and are now at \$2.14, a drop of 88.84%. Aggregate earnings from continuing operations peaked at \$19.95 in September 2007 and are now \$12.31, down 38.30%. Estimated aggregate earnings peaked at \$21.95 in February 2008 and are now \$13.41, a drop of 38.91%.

499 of the S&P 500 have reported 2nd quarter earnings. According to Bloomberg, 72.3% had positive surprises, 8.6% were in line, and 19.1% have been negative. The year-over-year change has been -28.9% on a share-weighted basis, -21.3% market cap-weighted and -25.5% non-weighted. Ex-financial stocks these numbers are -27.9%, -23.0%, and -27.3 %, respectively.

Federal Funds futures are pricing in a probability of 72.0% that the Fed will leave rates unchanged and a probability of 28.0% of cutting rates 25 basis points to 0.00% when they meet on September 23rd. They are pricing in a probability of 70.0% of no change, 26.8% of cutting 25 basis points to 0.00%, and 3.2% of raising 25 basis points to 0.50% when they meet on November 4th.

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	Daily	WTD	MTD	QTD	YTD
Dow Jones Industrials	0.37%	2.24%	3.41%	16.26%	11.89%
Bank of New York Mellon ADR	0.29%	2.09%	6.61%	21.06%	30.37%
Nasdaq Composite	0.29%	2.50%	6.16%	16.23%	35.25%
S&P 500	0.26%	2.45%	4.67%	16.21%	18.27%
Nasdaq 100	0.24%	2.36%	6.16%	16.79%	42.39%
S&P 1500	0.23%	2.56%	4.96%	16.76%	19.25%
NYSE Composite	0.21%	2.53%	5.62%	18.83%	21.88%
S&P Smallcap 600	0.17%	3.71%	7.05%	20.58%	20.39%
S&P Midcap 400	-0.06%	3.26%	7.18%	21.34%	30.33%

	Daily	WTD	MTD	QTD	YTD
Telecom Services	2.07%	0.06%	2.35%	3.47%	-3.50%
Consumer Staples	1.14%	1.13%	3.05%	10.28%	6.49%
Consumer Discretionary	0.76%	3.18%	6.61%	20.49%	29.55%
Utilities	0.35%	3.63%	2.35%	6.31%	1.97%
Information Technology	0.14%	1.55%	4.53%	16.77%	44.89%
Industrials	-0.01%	3.87%	9.35%	24.40%	14.84%
Energy	-0.05%	2.84%	7.05%	12.05%	8.43%
Financials	-0.06%	4.53%	3.33%	26.86%	20.82%
Materials	-0.11%	4.68%	8.25%	25.06%	40.42%
Health Care	-0.12%	0.25%	1.25%	9.29%	8.24%

	Daily	WTD	MTD	QTD	YTD
Household & Personal Products	2.54%	2.18%	4.10%	11.62%	-1.12%
Telecom Services	2.07%	0.06%	2.35%	3.47%	-3.50%
Commercial & Professional Services	1.25%	3.42%	5.52%	13.82%	7.77%
Food, Beverage & Tobacco	1.04%	1.72%	4.25%	10.23%	12.51%
Consumer Durables & Apparel	0.99%	5.63%	7.94%	30.72%	29.23%
Retailing	0.90%	3.53%	5.75%	19.52%	38.05%
Semiconductors & Equipment	0.87%	-0.47%	-0.23%	19.43%	43.57%
Media	0.68%	2.32%	9.45%	22.95%	25.27%
Consumer Services	0.68%	4.16%	5.38%	12.09%	13.24%
Real Estate	0.57%	9.47%	12.53%	38.17%	15.33%
Utilities	0.35%	3.63%	2.35%	6.31%	1.97%
Automobiles & Components	0.17%	-2.17%	-0.44%	24.65%	81.37%
Technology Hardware & Equipment	0.06%	2.17%	6.00%	20.36%	53.00%
Pharmaceuticals, Biotech & Life Sciences	0.04%	0.32%	0.57%	7.54%	3.03%
Diversified Financials	0.04%	3.87%	2.53%	25.35%	38.02%
Food & Staples Retailing	0.03%	-0.97%	-0.21%	9.16%	3.12%
Transportation	0.02%	-0.90%	6.98%	21.60%	13.73%
Software & Services	-0.04%	1.52%	4.48%	11.45%	35.79%
Energy	-0.05%	2.84%	7.05%	12.05%	8.43%
Materials	-0.11%	4.68%	8.25%	25.06%	40.42%
Capital Goods	-0.13%	5.32%	10.39%	26.26%	15.87%
Banks	-0.15%	5.64%	3.28%	22.86%	-4.42%
Health Care Equip & Services	-0.47%	0.10%	2.78%	13.31%	21.18%
Insurance	-0.55%	3.28%	2.09%	31.71%	15.62%

S&P 500 Cash (1,066.60, 1,071.52, 1,064.27, 1,068.30, +2.81)



The S&P 500 printed new intra-day and closing highs last week, with Wednesday's action piercing the rising resistance line of what may be a bearish rising wedge. It hit the highest level since 10/6/2008. Thursday and Friday doji-like candles were printed on high volume, showing indecision. High volume churn can be a sign of a short-term top. The index also moved above its 400-sma (not shown) and closed above it for the first time since 1/3/2008. It closed the week above the 400-sma, which is now at 1060.65. This has been an important moving average for many years in defining the long-term trend of equities.

The RSI and stochastic are at overbought levels. The MACD is still showing a positive crossover.



The weekly chart of the S&P 500 shows the index breaking through another resistance level and the 80-week moving average. The index has also broken through multiple Fibonacci retracement levels of the bear market, with the next one now the 50% level at 1121.

Weekly momentum indicators are at high levels but have not turned down yet.

NASDAQ 100 (1,728.91, 1,731.87, 1,716.45, 1,725.24, +4.15)



The Nasdaq 100 also printed new post-March highs last week, and here too we see doji on high volume. This was the highest level since 9/22/2008.

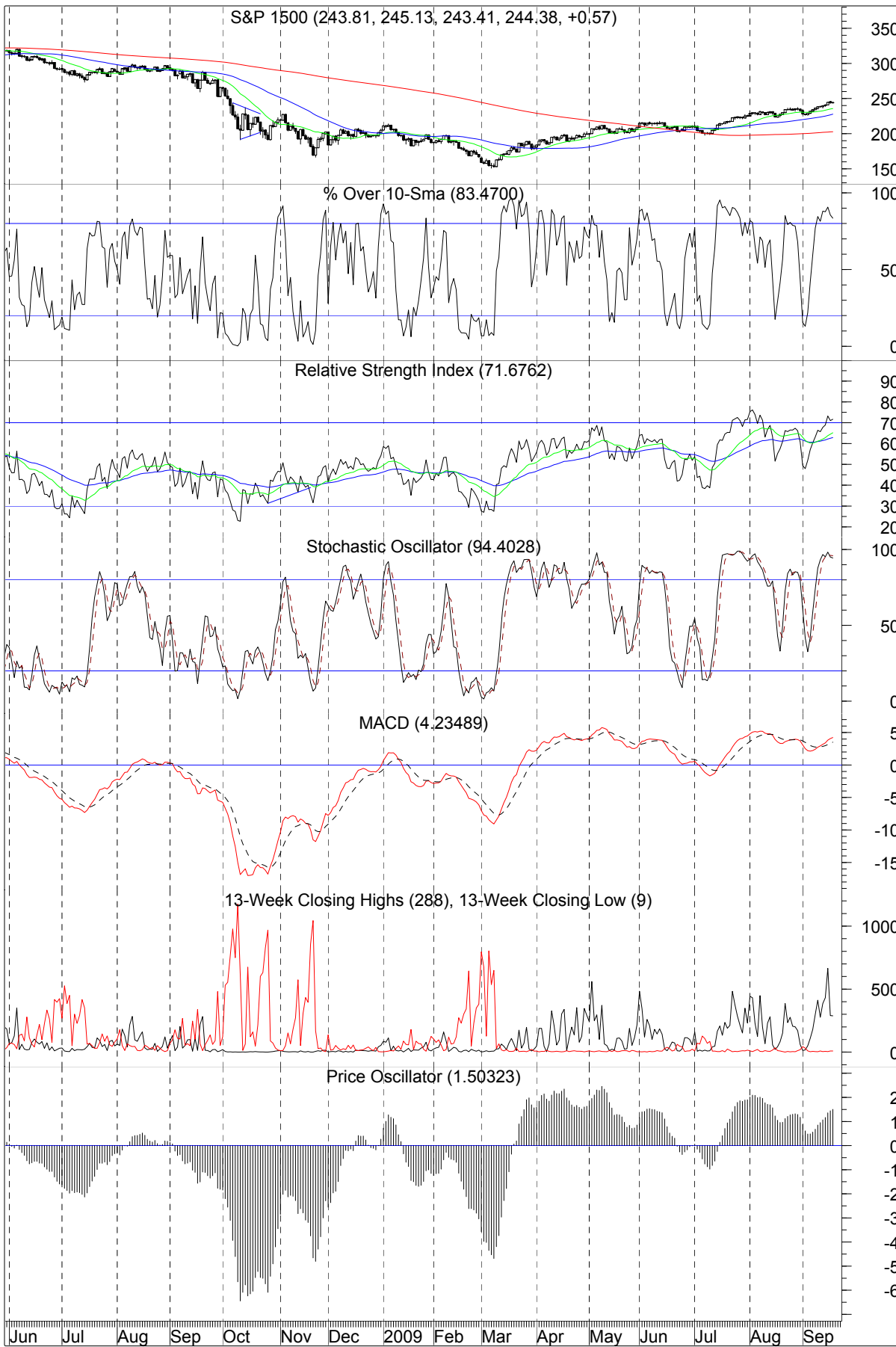
Momentum indicators are at high levels.

NASDAQ 100 (1,673.55, 1,732.42, 1,673.13, 1,725.24, +39.78)



The Nasdaq 100 broke through resistance on the weekly chart.

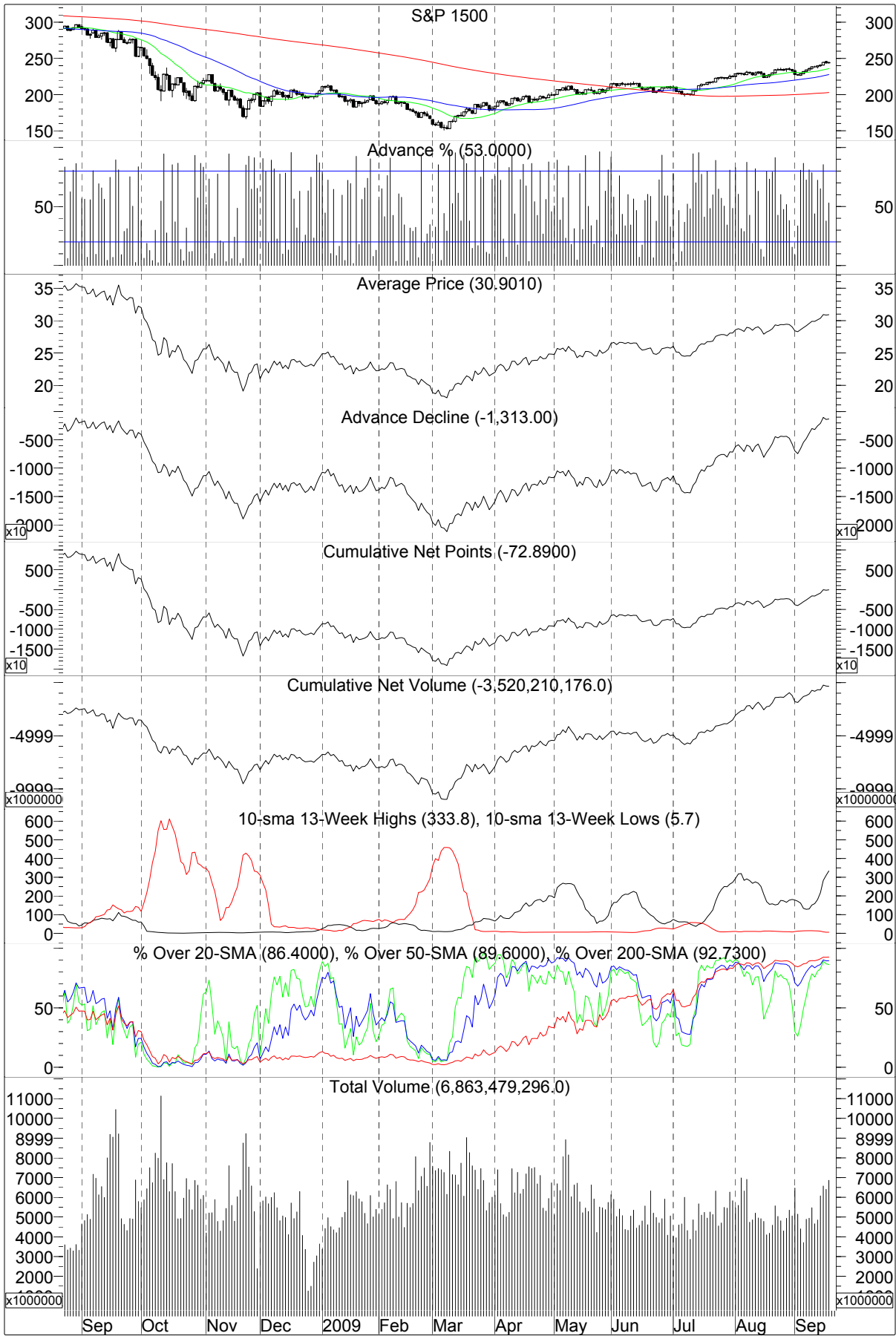
Momentum indicators are at high levels with the RSI and stochastic in the overbought zone.



Momentum indicators are at overbought levels.

Wednesday saw an explosion in 13-week closing highs. This was the most seen in many years. 26 and 52-week closing highs also surged. Unless markets plunge, we can expect to see a huge increase in 52-week highs in the weeks to come.

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



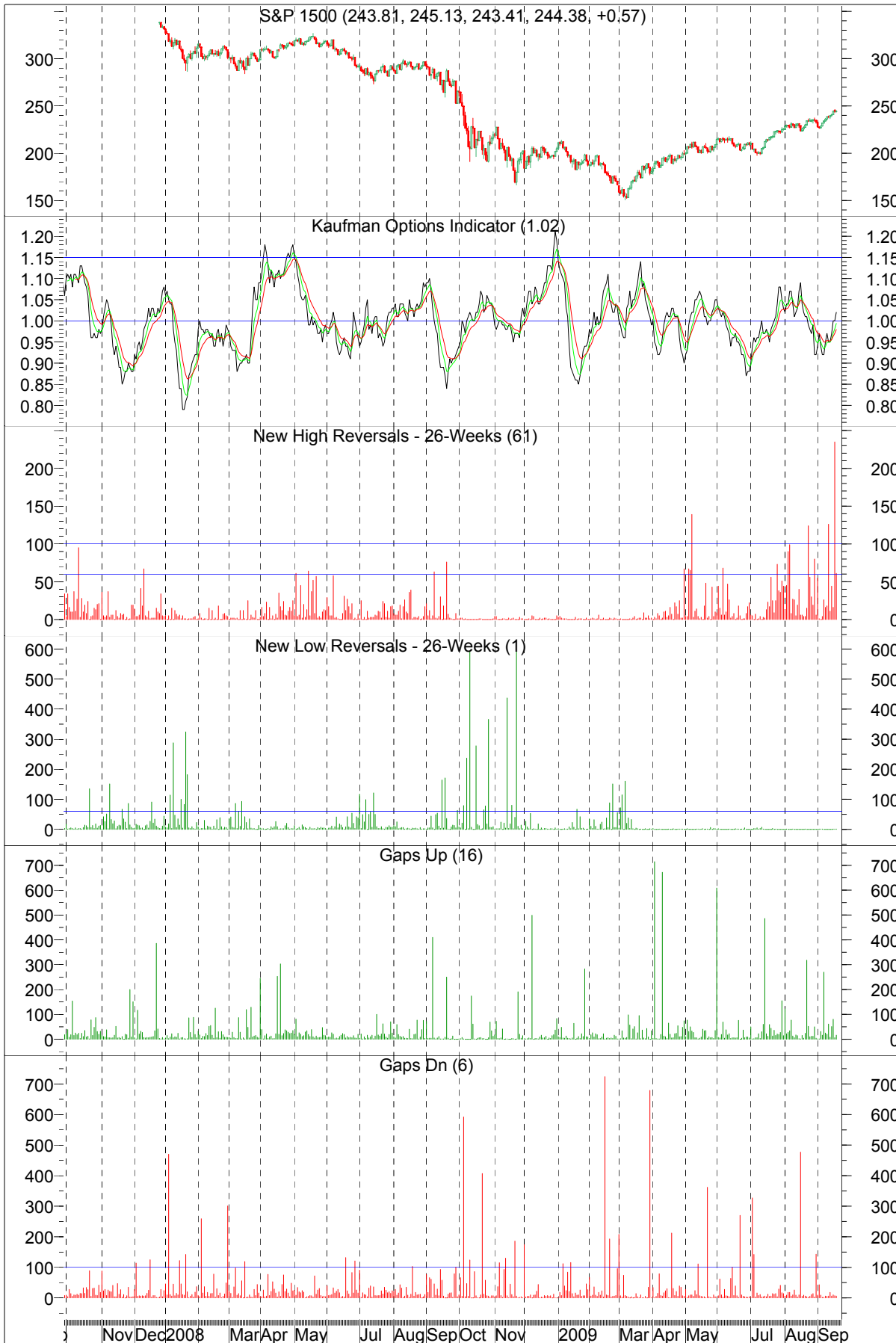
53.0% of stocks traded higher Friday. With the exception of Wednesday these numbers have been weakening the last week or so.

Internal statistics of the market have been making new highs, confirming the new highs in the S&P 1500.

After a period of consolidation the 10-sma of 13-week new highs is itself braking out to a new high.

Strong numbers here, with the percent over 200-sma the highest in many years.

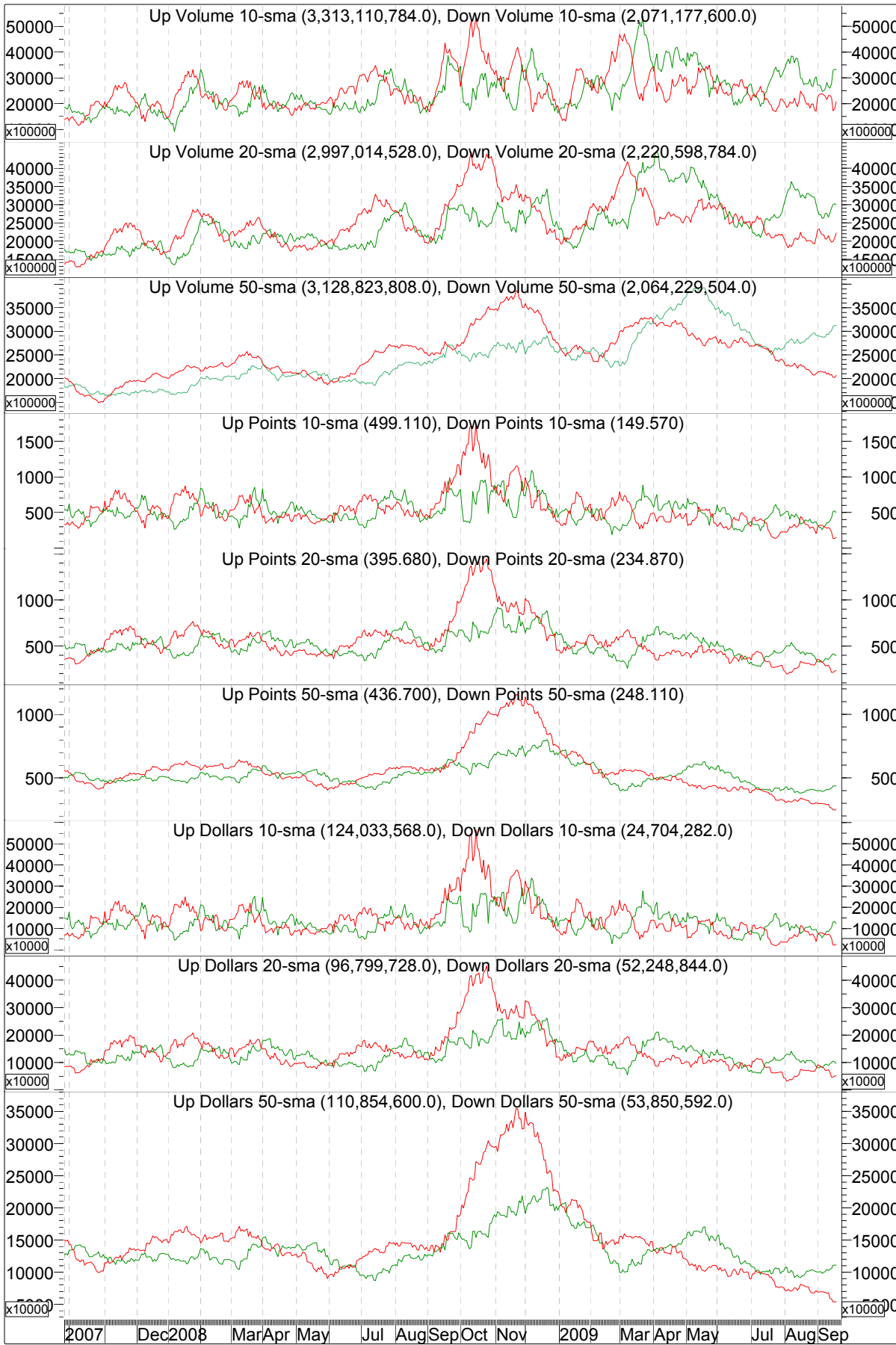
Big volume the last few days, with little to show for it Thursday and Friday. High volume churn can be a warning for the short-term.



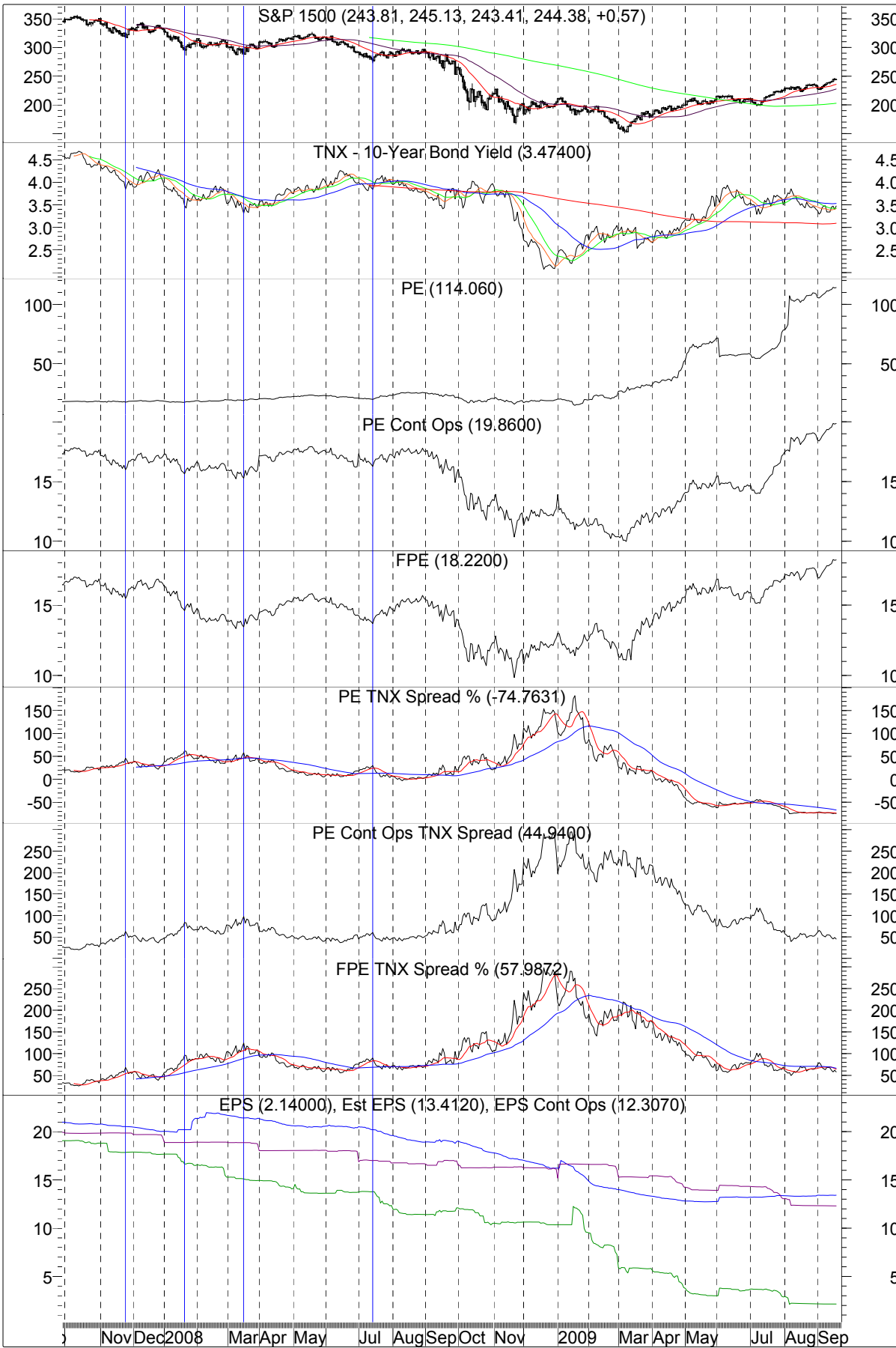
Our proprietary options indicator is back above neutral. This is due to lots of call buying recently. We prefer to see it below zero and showing pessimism, and we hope this will not turn into an overbullish situation.

We have been charting 26-week new high reversals since August 2005. 235 on Thursday was by far the most we have ever seen. It shows an increased desire by investors to take profits. Spike in reversals are frequently seen before periods of weakness.

The Kaufman Report - Wayne S. Kaufman, CMT



Our statistics of supply (red) versus demand (green) are all showing positive crossovers for all time frames. While the statistics of demand are not robust, statistics of supply are weak, in some cases at or near multi-year lows. As long as sellers are reticent, the path of least resistance for equities is up.



Here we go again! PE ratios continue to climb, and at some point this has to become a problem. Unless of course operating leverage kicks in and companies enter a period of big upside earnings surprises. We will find out about that in October as we enter third quarter earnings season. We can't wait!!!



Notice the amazing inverse relationship between stocks and the U.S. Dollar Index since march. The Dollar is getting oversold on the daily and weekly charts. What will happen to equities if there is an oversold bounce, or even the unimaginable, a change in trend?

After a failed breakout on 8/24, crude oil has been going sideways. Support is at the 67.5 area, and the 50-sma is turning up.

Gold got to 1024.28 after breaking out of its ascending triangle, just under its high of 1032.70. It is now overbought short-term.