

Wednesday September 22, 2010

Closing prices of September 21, 2010

**In our report dated September 14th we discussed the rally's impressive breadth and said "This powerful rally has caused a breadth thrust move to be recorded, which is a signal that a major move higher has begun. Based on this we think there is a strong chance the recent trading range will be broken to the upside." We added "the tone of the market may have changed, and stocks may be breaking out of the recent trading range shortly."**

That breakout occurred on Monday September 20th. It was an impressive breakout with 94.86% of the S&P 1500 trading higher on the day. It also had the most 13-week closing highs since April 23<sup>rd</sup>. One problem was that the Transportation Index did not break out also. That changed Tuesday as the transports made a marginal move above the high of its trading range. Also, we would like to see more robust volume. However, as we said on 9/14, sellers have stepped to the sidelines, and as long as that is the case the path of least resistance will be higher. The recent rally is also impressive in that it is occurring during a period where seasonality is usually negative.

One of the reasons we felt a breakout could occur was that options buyers had not become overly bullish. Unfortunately that has changed, and our proprietary options indicator is showing a lot of call buying. With stocks getting overbought too much bullishness can be a damper on the rally and cause a pullback or at least some consolidation.

Valuations based on spreads between bond and equity yields remain at levels where stocks should be attractive. The story here is very simple. Forecast earnings have made little headway since the beginning of the year, and have come down slightly due to some pre-announcements. However, the big picture will become clearer during the upcoming earnings season.

If forecasts are met or even exceeded as they have been in recent earnings seasons, stocks will continue to look cheap. If guidance is positive during earnings season, investors should feel more confident putting money into equities, especially since we will be just ahead of the seasonally strongest three month period of the year, the November – January period.

Globally the picture for equities is also improving. Of the thirty-one country ETFs we follow, nine just made 52-week highs, with another three very close. Of the twenty-four S&P industry groups in the U.S. three made 52-week highs Monday, those being Real Estate, Telecom Services, and Food, Beverage, and Tobacco.

In the short-term, stocks are overbought so investors need to be careful with entry points. We are still in a period of negative seasonality which lasts through the end of the month. Then we enter the always fun month of October, so investors will need to remain on their toes.

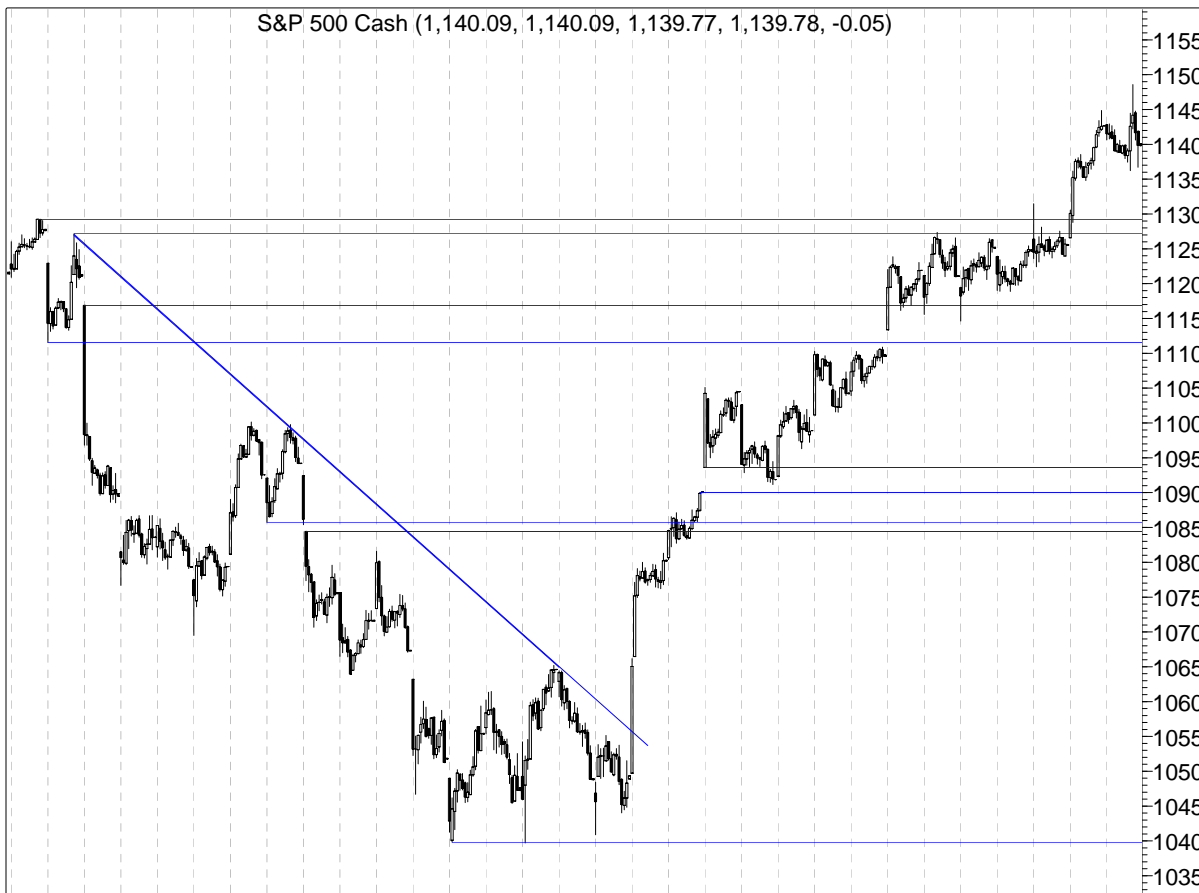
**Based on the S&P 500 the short, intermediate, and long-term trends are up. Stocks are overbought and options buyers are showing a high level of bullishness, so stocks can pull back at any time. However, as we said on 9/14, the tone of the market may have changed, so pullbacks that are without intensity should be probably be viewed as entry points for investors.**

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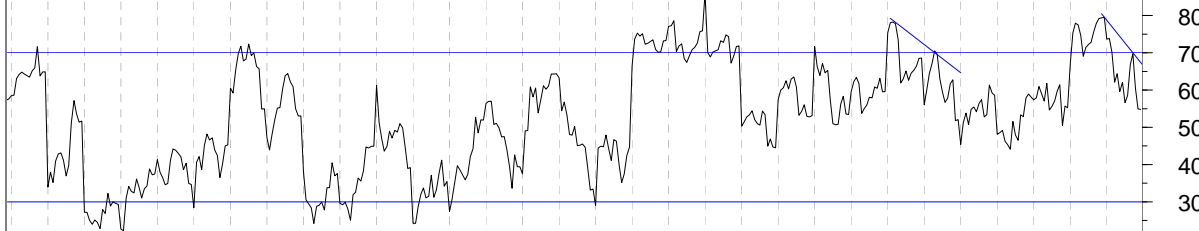
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S&P 500 Cash (1,140.09, 1,140.09, 1,139.77, 1,139.78, -0.05)



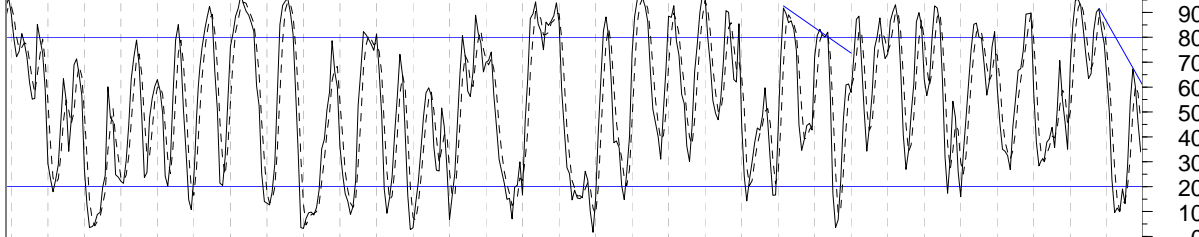
The 30-minute chart of the S&P 500 shows the index breaking multiple resistance levels since breaking the August down trend line.

Relative Strength Index (54.7974)

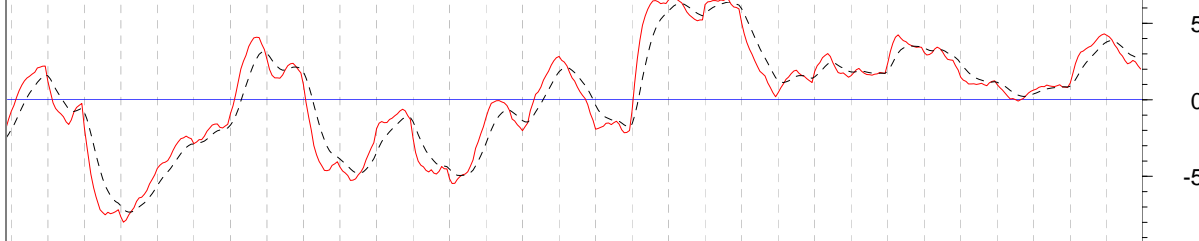


30-minute momentum indicators are showing negative divergences.

Stochastic Oscillator (33.9264)



MACD (2.00723)



9 10 11 12 13 16 17 18 19 20 23 24 25 26 27 30 31 1 2 3 7 8 9 10 13 14 15 16 17 20 21  
September



The daily chart of the S&P 500 shows it hit the highest level since 5/18 but then reversed to close lower. In doing so it printed a spinning top candle, a sign of indecision, and was a key reversal day.

Daily momentum indicators are at high or overbought levels.

S&P 500 Cash (1,126.57, 1,148.59, 1,126.57, 1,139.78, +14.19)



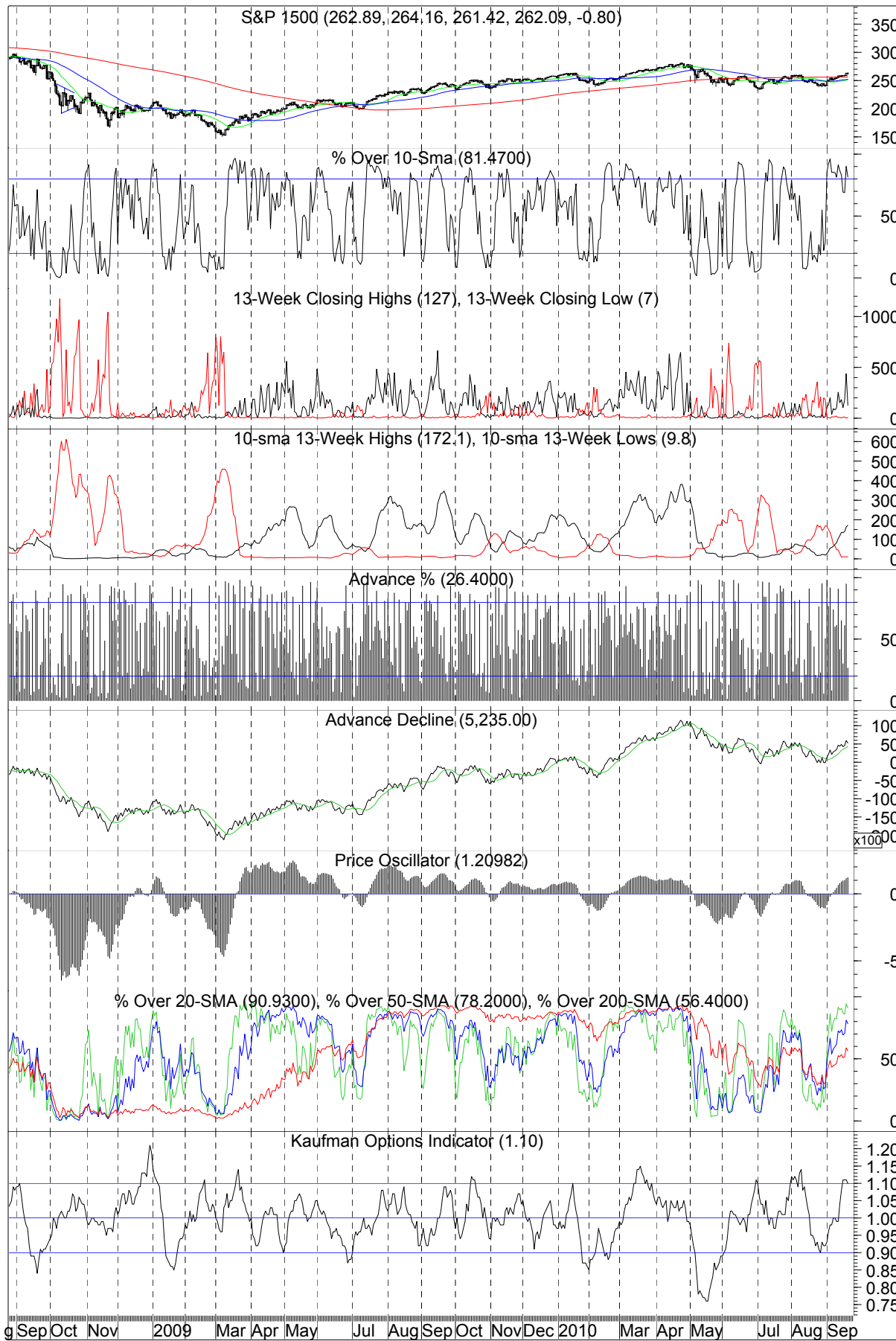
The weekly chart of the S&P 500 shows the index above the 20, 40, and 80-week moving averages, which are all sloping up. The MAs are tightly bunched, a condition which will not last too much longer.

Only the stochastic is at a high level.



The monthly chart of the S&P 500 shows the down trend line from the 2007 high is coming into play.

Monthly momentum indicators are still at neutral or low levels, while the stochastic has just made a positive crossover.



Since 9/1 the percent over 10-sma, currently at 81.47%, has only gone under 80% on two days. The low was 68.93%.

On 9/20 there were 438 13-week closing highs, the most since 627 on 4/23.

The 10-sma of 13-week highs is well above its counterpart of new lows.

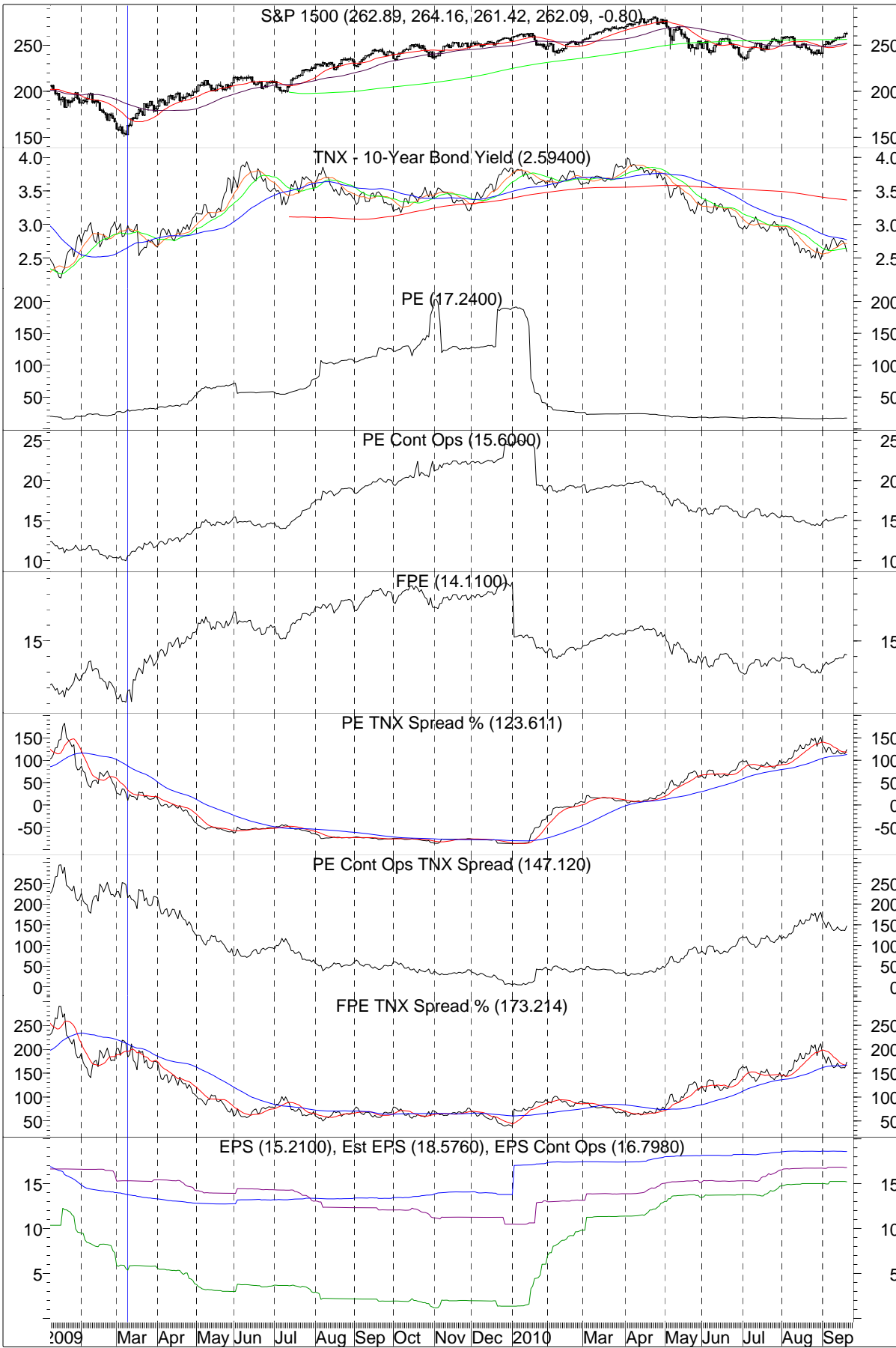
26.4% of the S&P 1500 traded higher Tuesday.

The AD line remains above its 10-sma and on 9/20 hit the highest level since 6/18.

Our price oscillator, a good indicator of trends, is well into positive territory.

These numbers of stocks over various MAs have improved greatly.

Our proprietary options indicator showed too much bullishness around 8/10, too much pessimism at the end of August, and is again showing lots of call buying by options traders. This is a caution sign.



10-year bond yields ran into the 50-sma and turned down.

The recent rally has moved P/E ratios up.

Spreads between bond and equity yields have narrowed but are still at levels where stocks should be attractive.

Earning forecasts have come down a few cents recently. The real story will be told during the upcoming earnings season. Guidance hasn't changed much since January, and if companies make their numbers and raise guidance stocks will continue to look cheap.



## Indexes, Sectors, and Industry Groups

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Dow Jones Industrials	10761.03	0.07%	1.44%	2.23%	7.45%	10.10%	3.19%	11258.01	4/26/2010	9430.08	10/2/2009
Nasdaq 100	1989.11	-0.02%	1.70%	3.14%	12.54%	14.37%	6.92%	2059.42	4/26/2010	1652.44	11/2/2009
Bank of New York Mellon ADR	131.48	-0.13%	1.50%	0.89%	8.56%	16.34%	-3.57%	142.19	1/11/2010	109.79	5/25/2010
S&P 500	1139.78	-0.26%	1.26%	1.67%	8.62%	10.58%	2.21%	1219.80	4/26/2010	1010.91	7/1/2010
Nasdaq Composite	2349.35	-0.28%	1.46%	2.60%	11.13%	11.38%	3.53%	2535.28	4/26/2010	2024.27	11/2/2009
NYSE Composite	7245.95	-0.28%	1.28%	1.17%	8.08%	12.00%	0.85%	7743.74	4/15/2010	6355.83	7/1/2010
S&P 1500	262.09	-0.30%	1.26%	1.67%	8.72%	10.50%	2.87%	281.21	4/26/2010	232.54	7/1/2010
S&P Midcap 400	789.05	-0.60%	1.05%	1.47%	9.34%	10.86%	8.58%	852.90	4/26/2010	651.79	11/2/2009
S&P Smallcap 600	353.58	-0.77%	1.87%	2.16%	9.73%	7.81%	6.30%	396.63	4/26/2010	294.26	11/2/2009

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Telecom Services	121.11	0.31%	1.86%	3.22%	7.55%	18.69%	5.65%	121.97	9/21/2010	98.67	5/6/2010
Industrials	270.63	0.16%	1.68%	2.37%	11.12%	13.58%	11.38%	292.21	4/30/2010	220.05	11/2/2009
Health Care	352.55	0.09%	1.44%	2.02%	8.45%	7.85%	-2.67%	384.95	1/20/2010	318.89	7/1/2010
Energy	410.89	-0.10%	1.64%	0.62%	6.96%	10.05%	-4.43%	464.76	4/26/2010	365.74	7/1/2010
Consumer Staples	287.97	-0.12%	0.85%	1.44%	5.27%	9.64%	4.98%	290.45	3/23/2010	259.91	10/5/2009
Information Technology	364.46	-0.14%	1.26%	3.03%	11.08%	10.47%	-1.68%	397.46	4/26/2010	323.47	7/1/2010
Consumer Discretionary	261.97	-0.42%	1.49%	1.97%	10.34%	14.04%	11.44%	284.57	4/26/2010	208.45	10/2/2009
Materials	202.41	-0.43%	0.18%	0.54%	7.63%	17.36%	1.30%	213.87	4/26/2010	168.44	7/1/2010
Utilities	158.11	-0.51%	0.78%	-0.33%	1.78%	10.23%	0.07%	161.50	12/14/2009	138.57	5/25/2010
Financials	198.45	-1.03%	0.98%	0.46%	8.88%	6.90%	2.41%	230.45	4/15/2010	178.83	8/25/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Transportation	296.99	0.54%	1.35%	0.64%	8.56%	16.96%	16.51%	304.63	5/3/2010	221.60	11/2/2009
Health Care Equip & Services	326.93	0.41%	2.13%	2.77%	10.13%	3.81%	-5.84%	371.77	1/20/2010	296.30	8/31/2010
Semiconductors & Equipment	289.48	0.41%	0.95%	1.80%	9.55%	1.88%	-7.32%	348.04	4/15/2010	262.69	8/31/2010
Telecom Services	121.11	0.31%	1.86%	3.22%	7.55%	18.69%	5.65%	121.97	9/21/2010	98.67	5/6/2010
Commercial & Professional Services	134.62	0.16%	1.48%	2.68%	8.34%	7.65%	0.61%	144.95	4/26/2010	122.63	6/8/2010
Capital Goods	290.29	0.06%	1.77%	2.78%	12.00%	13.20%	11.15%	318.38	4/30/2010	238.52	11/2/2009
Technology Hardware & Equipment	399.11	0.05%	1.56%	3.31%	12.32%	9.61%	2.46%	431.10	4/26/2010	349.27	10/2/2009
Household & Personal Products	367.00	0.00%	0.96%	1.74%	3.93%	3.84%	1.73%	383.05	3/23/2010	332.59	10/5/2009
Automobiles & Components	90.59	-0.05%	0.91%	3.95%	12.05%	19.91%	16.53%	107.25	4/26/2010	60.18	10/2/2009
Pharmaceuticals, Biotech & Life Scier	336.04	-0.06%	1.12%	1.67%	7.67%	9.89%	-1.09%	359.71	1/20/2010	299.26	7/1/2010
Food & Staples Retailing	178.96	-0.08%	0.91%	1.94%	8.53%	8.85%	-2.24%	196.37	3/30/2010	162.45	7/1/2010
Energy	410.89	-0.10%	1.64%	0.62%	6.96%	10.05%	-4.43%	464.76	4/26/2010	365.74	7/1/2010
Food, Beverage & Tobacco	336.01	-0.18%	0.77%	1.12%	4.59%	12.62%	9.64%	337.04	9/20/2010	288.92	9/30/2009
Consumer Services	433.96	-0.19%	1.78%	2.06%	8.96%	14.76%	17.13%	446.11	4/26/2010	335.30	11/2/2009
Retailing	445.27	-0.38%	1.50%	2.02%	12.23%	15.41%	8.31%	499.94	4/26/2010	365.61	10/2/2009
Insurance	181.35	-0.39%	1.31%	1.44%	8.43%	8.32%	10.04%	189.97	4/26/2010	156.74	11/3/2009
Materials	202.41	-0.43%	0.18%	0.54%	7.63%	17.36%	1.30%	213.87	4/26/2010	168.44	7/1/2010
Software & Services	473.41	-0.44%	1.10%	3.13%	10.47%	13.78%	-4.67%	512.69	4/15/2010	410.27	7/1/2010
Utilities	158.11	-0.51%	0.78%	-0.33%	1.78%	10.23%	0.07%	161.50	12/14/2009	138.57	5/25/2010
Media	180.41	-0.59%	1.35%	1.14%	8.17%	11.35%	10.28%	192.83	5/3/2010	140.73	11/3/2009
Consumer Durables & Apparel	148.00	-0.69%	1.69%	2.83%	11.89%	12.78%	12.89%	164.51	4/26/2010	111.87	9/28/2009
Banks	129.64	-1.15%	0.81%	-0.17%	9.99%	1.27%	3.42%	165.92	4/21/2010	115.69	8/31/2010
Diversified Financials	308.28	-1.18%	0.95%	0.06%	9.16%	6.57%	-4.13%	382.07	4/15/2010	278.07	8/31/2010
Real Estate	114.93	-1.79%	0.52%	1.04%	6.56%	16.90%	22.03%	117.42	9/20/2010	79.91	10/2/2009