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The Kaufman Report

Trade what you see, not what you think.

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Friday September 25, 2009

Closing prices of September 24, 2009

On Sunday we discussed the overbought condition of stocks, the enormous amount of new high reversals last Thursday as investors showed an increased desire to take profits, our options indicator showing too much optimism, and our concern regarding valuations. We also discussed the U.S. Dollar index becoming oversold on daily and weekly charts, and mused that with the amazing relationship between the Dollar Index and stocks since the March low for equities, how would they react to a bounce in the Dollar?

All of these factors seemed to kick in this week, as our options indicator hit overbullish levels on Tuesday, more profit taking created a key reversal day Wednesday, and a bounce in the Dollar helped create a strong selloff Wednesday and Thursday. Stocks are not yet oversold, leaving more potential downside. **We said Sunday investor need to be cautious with entry points, and we reiterate that at this time.**

A key characteristic of this bull market has been investor's unwillingness to sell their stocks. We have said that until we see a change in their reluctance to sell stocks we don't expect pullbacks to be too deep. The next few sessions may become a good test of their fortitude in this regard. In spite of new highs being made recently on major indices, we are still in the volatile September – October period, so this may become adult swim only.

For quite a while traditional seasonality patterns for stocks have been turned upside down. The old bromide that says “sell Rosh Hashanah and buy Yom Kippur” is partly accurate so far this year. It would be nice if the “buy Yom Kippur” part worked as well as “sell Rosh Hashanah” has and foreshadowed a return to historical seasonal patterns which would call for a strong November through January period.

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 said Sunday very aggressive traders could enter short keeping in mind shorting is counter-trend at this time and they may have to cover quickly. They can maintain and still enter short positions with that same caveat.

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	Daily	WTD	MTD	QTD	YTD
Dow Jones Industrials	-0.42%	-0.78%	2.22%	14.92%	10.61%
Nasdaq 100	-0.84%	-0.66%	5.20%	15.74%	41.11%
S&P 500	-0.95%	-1.38%	2.96%	14.30%	16.33%
S&P 1500	-1.03%	-1.53%	3.11%	14.71%	17.16%
Nasdaq Composite	-1.12%	-0.90%	4.91%	14.85%	33.64%
NYSE Composite	-1.47%	-2.00%	3.30%	16.21%	19.20%
S&P Midcap 400	-1.66%	-2.77%	4.27%	18.05%	26.79%
S&P Smallcap 600	-1.67%	-2.26%	4.46%	17.66%	17.48%
Bank of New York Mellon ADR	-1.82%	-1.95%	4.22%	18.35%	27.45%

	Daily	WTD	MTD	QTD	YTD
Utilities	-0.12%	-0.79%	1.19%	5.10%	0.82%
Telecom Services	-0.15%	2.29%	2.56%	3.69%	-3.29%
Health Care	-0.32%	-1.20%	0.15%	8.11%	7.07%
Consumer Staples	-0.44%	0.52%	2.42%	9.61%	5.84%
Information Technology	-0.64%	-0.44%	3.93%	16.10%	44.06%
Consumer Discretionary	-0.91%	-1.75%	3.95%	17.48%	26.31%
Energy	-1.34%	-2.81%	4.09%	8.96%	5.43%
Industrials	-1.43%	-2.03%	7.14%	21.89%	12.52%
Financials	-1.77%	-2.62%	0.69%	23.62%	17.74%
Materials	-2.00%	-3.74%	4.31%	20.51%	35.31%

	Daily	WTD	MTD	QTD	YTD
Household & Personal Products	0.58%	3.35%	4.93%	12.51%	-0.34%
Consumer Services	0.11%	-1.17%	3.44%	10.03%	11.15%
Pharmaceuticals, Biotech & Life Sciences	0.07%	-0.30%	0.23%	7.18%	2.68%
Utilities	-0.12%	-0.79%	1.19%	5.10%	0.82%
Telecom Services	-0.15%	2.29%	2.56%	3.69%	-3.29%
Software & Services	-0.25%	0.07%	4.59%	11.57%	35.94%
Technology Hardware & Equipment	-0.53%	-1.02%	4.86%	19.06%	51.34%
Commercial & Professional Services	-0.54%	-1.15%	3.02%	11.12%	5.21%
Transportation	-0.63%	-1.94%	4.89%	19.22%	11.51%
Food & Staples Retailing	-0.65%	-0.45%	-0.70%	8.63%	2.62%
Retailing	-0.73%	-1.10%	3.66%	17.15%	35.31%
Food, Beverage & Tobacco	-0.80%	-0.30%	2.87%	8.77%	11.02%
Health Care Equip & Services	-1.19%	-3.18%	-0.02%	10.23%	17.88%
Insurance	-1.27%	-4.07%	-1.52%	27.04%	11.53%
Energy	-1.34%	-2.81%	4.09%	8.96%	5.43%
Media	-1.42%	-2.54%	5.95%	19.01%	21.26%
Automobiles & Components	-1.51%	-0.66%	-1.26%	23.63%	79.88%
Consumer Durables & Apparel	-1.54%	-3.25%	3.40%	25.23%	23.80%
Banks	-1.63%	-2.15%	1.22%	20.40%	-6.33%
Diversified Financials	-1.73%	-1.88%	0.57%	22.95%	35.37%
Capital Goods	-1.73%	-2.12%	8.19%	23.74%	13.55%
Materials	-2.00%	-3.74%	4.31%	20.51%	35.31%
Semiconductors & Equipment	-2.06%	0.22%	-0.87%	18.66%	42.64%
Real Estate	-3.62%	-5.67%	5.54%	29.59%	8.17%

INTERNATIONAL ETFs

	Daily	WTD	5-Days	MTD	QTD	YTD
Japan EWJ	0.10%	-0.69%	-0.20%	-1.17%	7.10%	5.43%
Malaysia EWM	-0.20%	-0.68%	-0.49%	5.37%	14.61%	39.92%
Vietnam VNM	-0.89%	-1.37%	-0.61%	4.84%		
Belgium EWK	-1.08%	-2.51%	-2.22%	6.22%	26.86%	46.62%
Switzerland EWL	-1.19%	-1.23%	-0.78%	3.95%	21.96%	16.50%
Singapore EWS	-1.22%	-1.22%	-2.04%	3.23%	17.07%	49.79%
Italy EWI	-1.38%	-2.73%	-2.49%	4.50%	22.91%	21.78%
Spain EWP	-1.45%	-1.62%	-0.82%	4.08%	23.56%	31.40%
Austria EWO	-1.53%	-1.93%	-2.52%	4.72%	31.83%	63.52%
Brazil EWZ	-1.55%	-0.78%	-0.35%	11.10%	22.09%	84.82%
Netherlands EWN	-1.58%	-2.22%	-1.23%	6.34%	28.78%	32.00%
Australia EWA	-1.71%	-1.18%	-1.09%	7.50%	29.70%	55.53%
France EWQ	-1.80%	-2.51%	-2.07%	5.13%	25.11%	22.36%
Taiwan EWT	-1.83%	-3.04%	-2.40%	8.95%	17.05%	55.60%
Latin America ILF	-1.86%	-2.95%	-2.63%	7.11%	18.31%	61.37%
South Korea EWY	-1.86%	-0.92%	-0.41%	11.42%	33.20%	65.68%
Germany EWG	-1.93%	-2.72%	-2.68%	4.35%	21.36%	13.53%
MSCI Emerging Markets EEM	-1.96%	-2.82%	-2.54%	7.42%	17.69%	51.90%
Hong Kong EWH	-2.13%	-2.44%	-3.01%	5.20%	10.41%	46.29%
BRIC EEB	-2.15%	-1.64%	-1.30%	9.52%	17.84%	63.88%
United Kingdom EWU	-2.22%	-3.26%	-3.68%	3.21%	16.81%	25.96%
Mexico EWW	-2.33%	-5.84%	-6.69%	-0.12%	14.98%	31.33%
Sweden EWD	-2.49%	-3.13%	-2.49%	2.49%	26.88%	51.03%
China 25 FXI	-2.65%	-4.98%	-5.42%	4.81%	7.38%	41.63%
Canada EWC	-3.00%	-3.75%	-3.93%	4.84%	16.39%	43.03%

S&P 500 Cash (1,062.56, 1,066.29, 1,045.85, 1,050.78, -10.09)

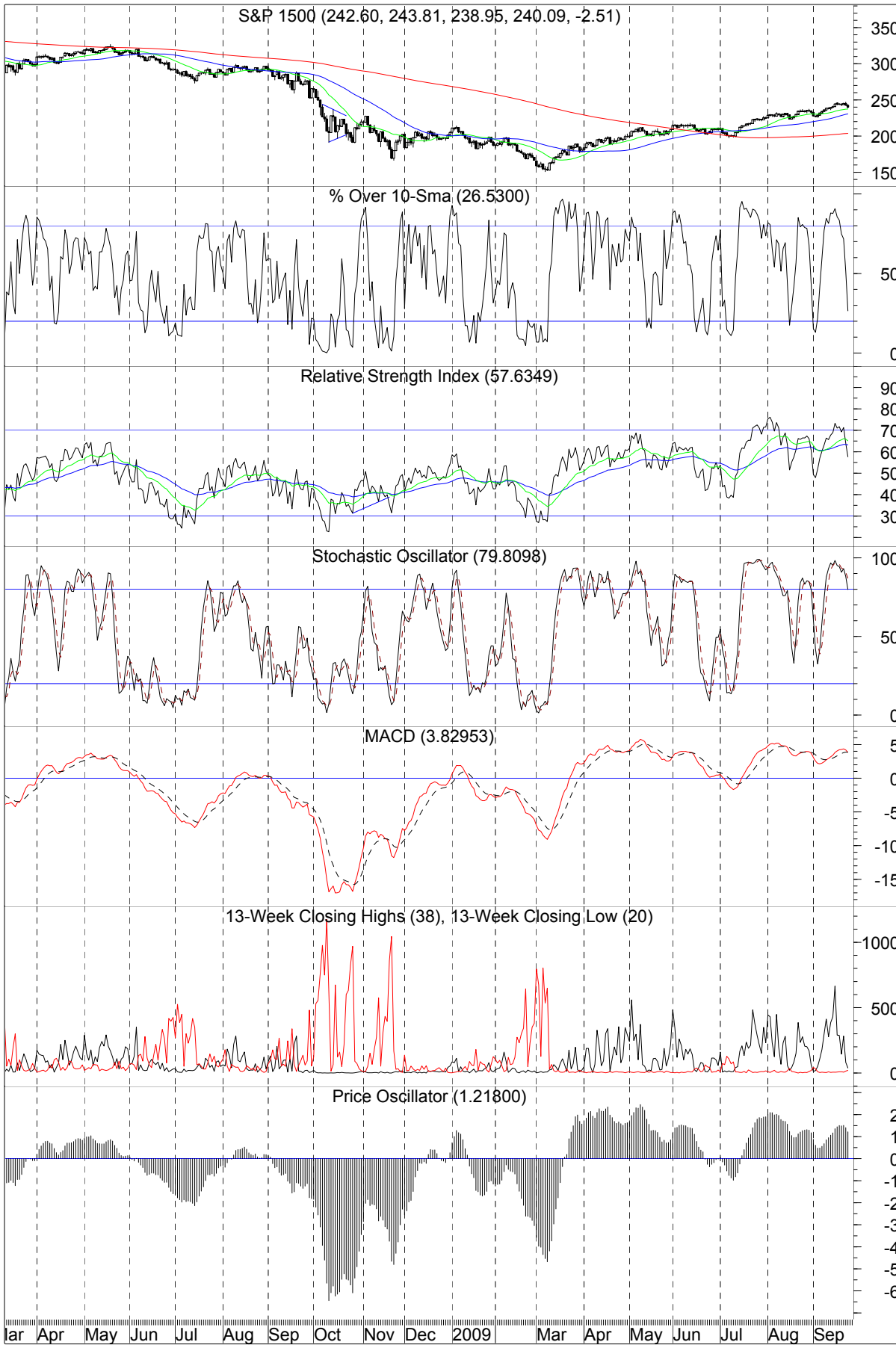


The S&P 500 followed through to the downside Thursday after Wednesday's reversal day and bearish engulfing candle. Momentum indicators are not yet oversold, so more downside is possible. The next support level is at the 1040 area. A break of the support line of the bearish rising wedge pattern would call for very defensive positions.

NASDAQ 100 (1,732.95, 1,734.92, 1,698.69, 1,709.76, -14.51)



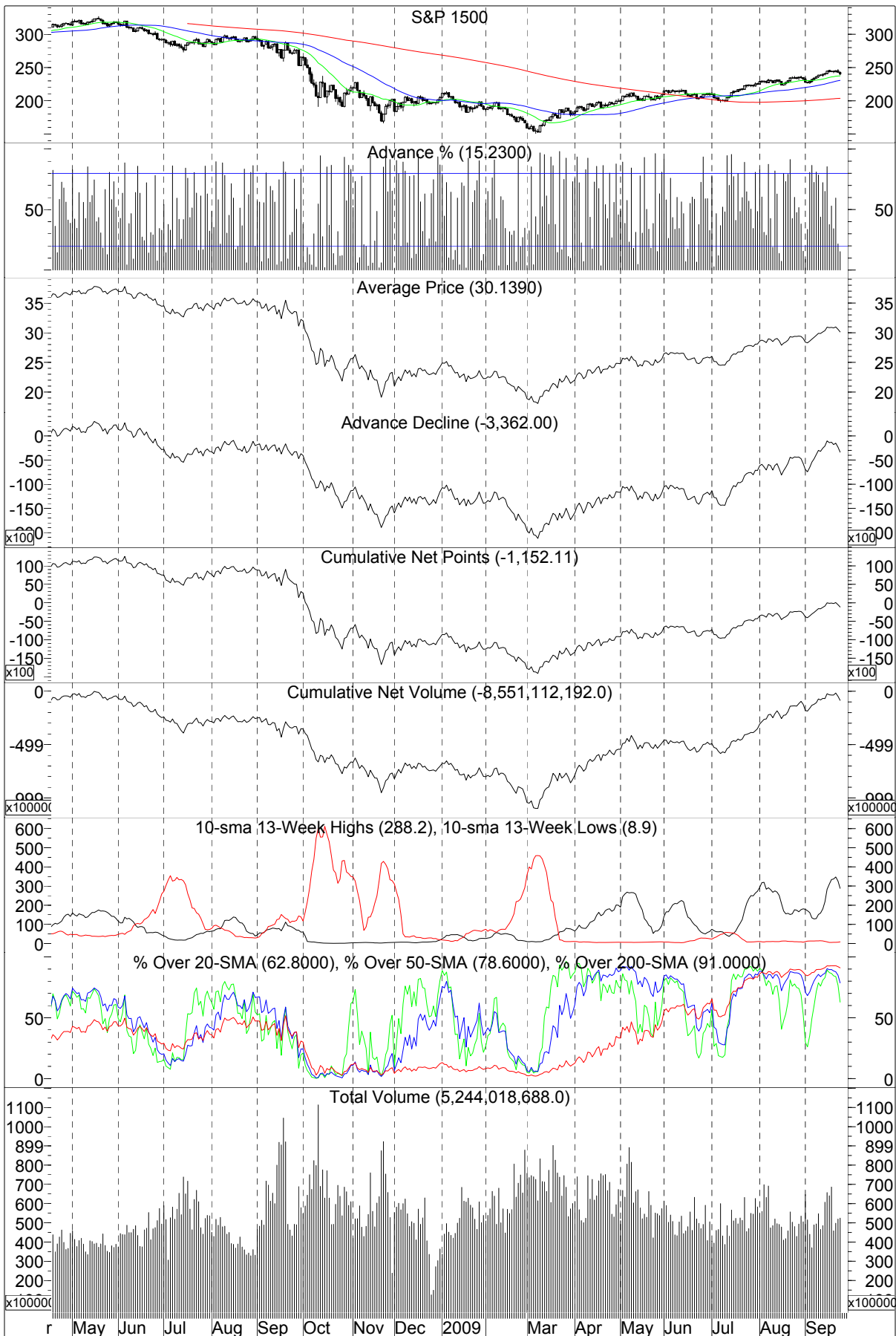
The Nasdaq 100 followed through to the downside after Wednesday's bearish shooting star candle. Momentum indicators are still at high levels with plenty of room to move lower.



The percent over 10-sma is almost oversold at 26.53%.

Momentum indicators are still at high levels.

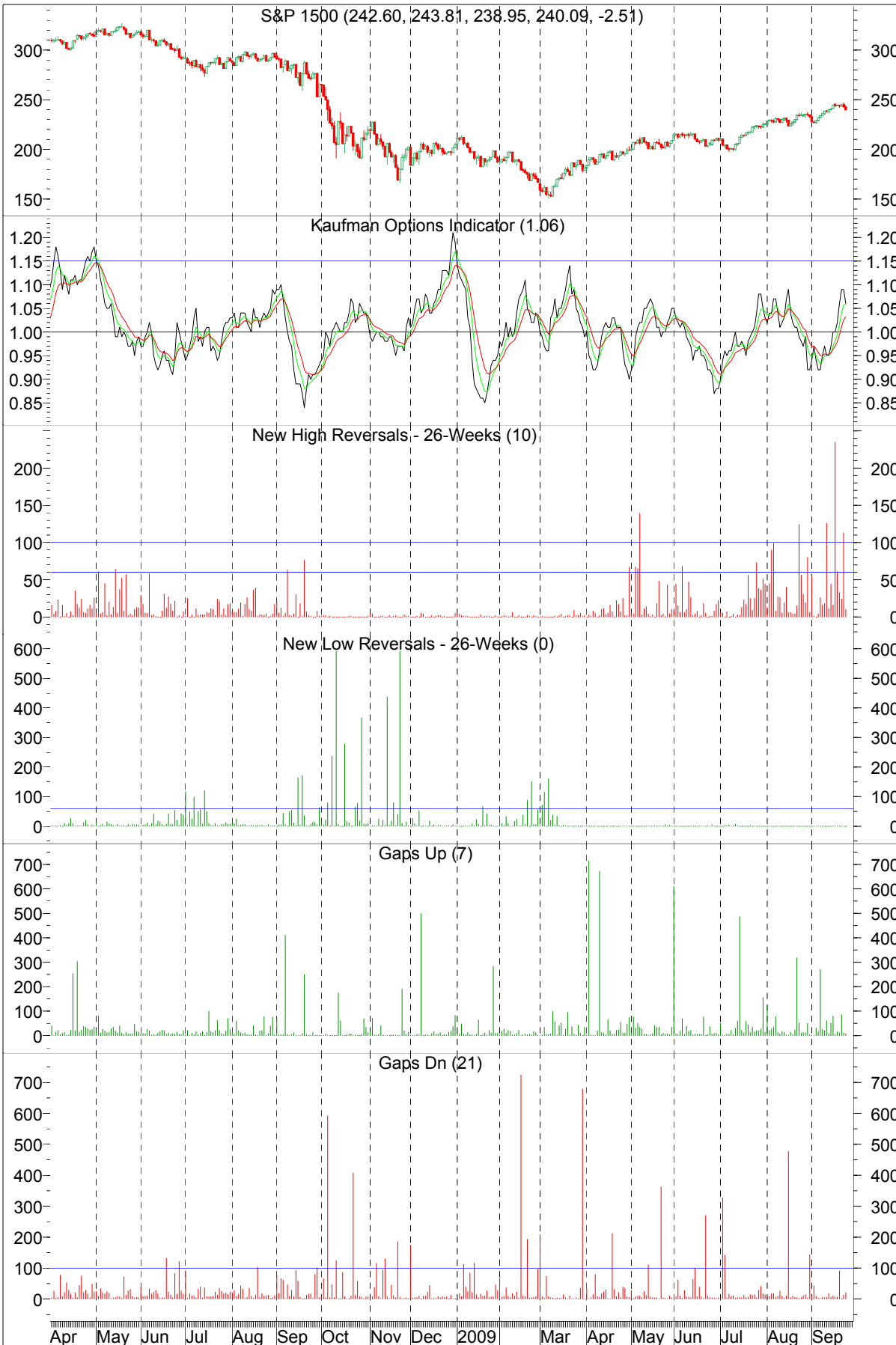
Our price oscillator is still in positive territory.



We commented Sunday that breadth numbers had been weakening during the prior week, which turned out to foreshadow the downdraft of the last two days.

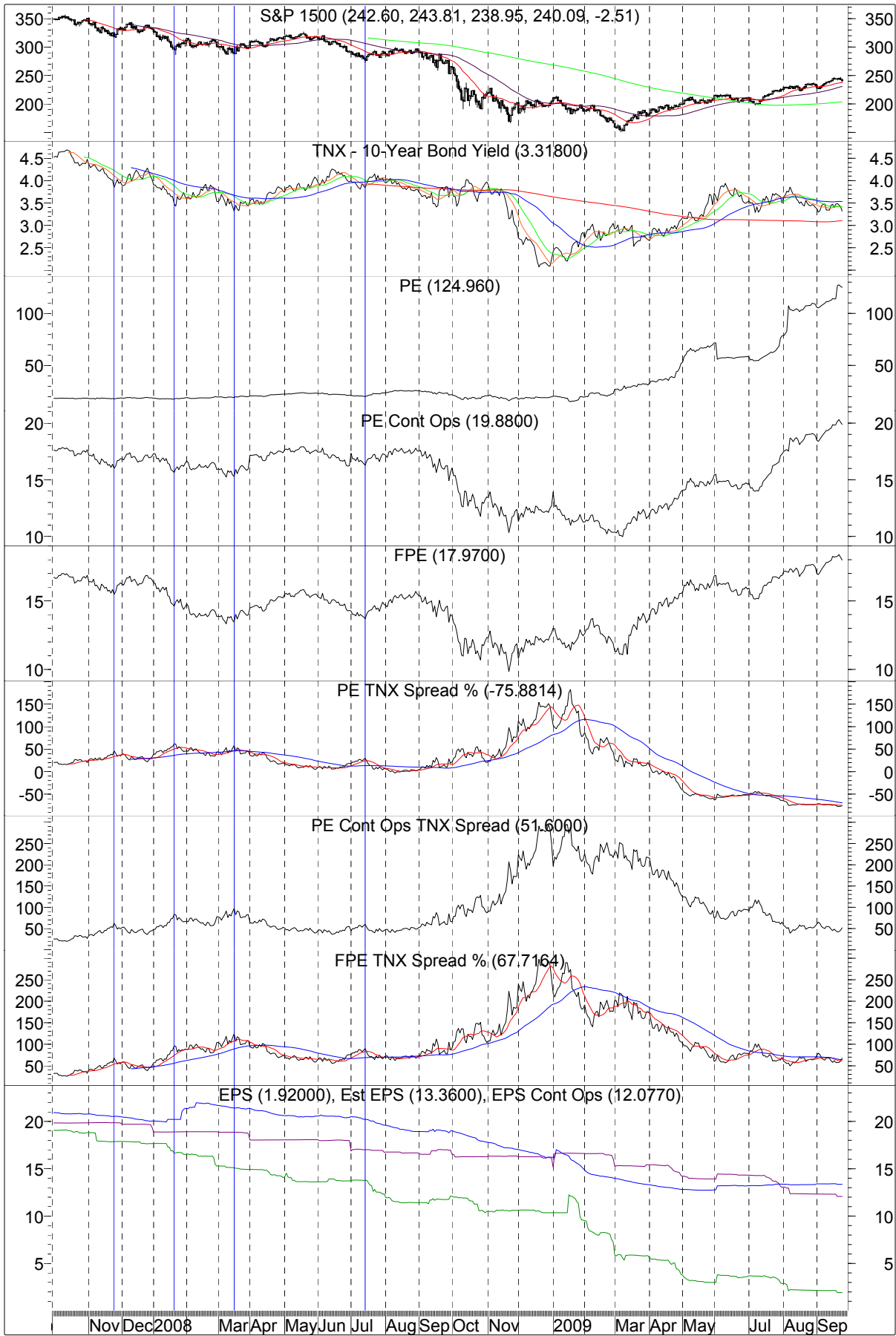
Volume has expanded during the last two days sell off.

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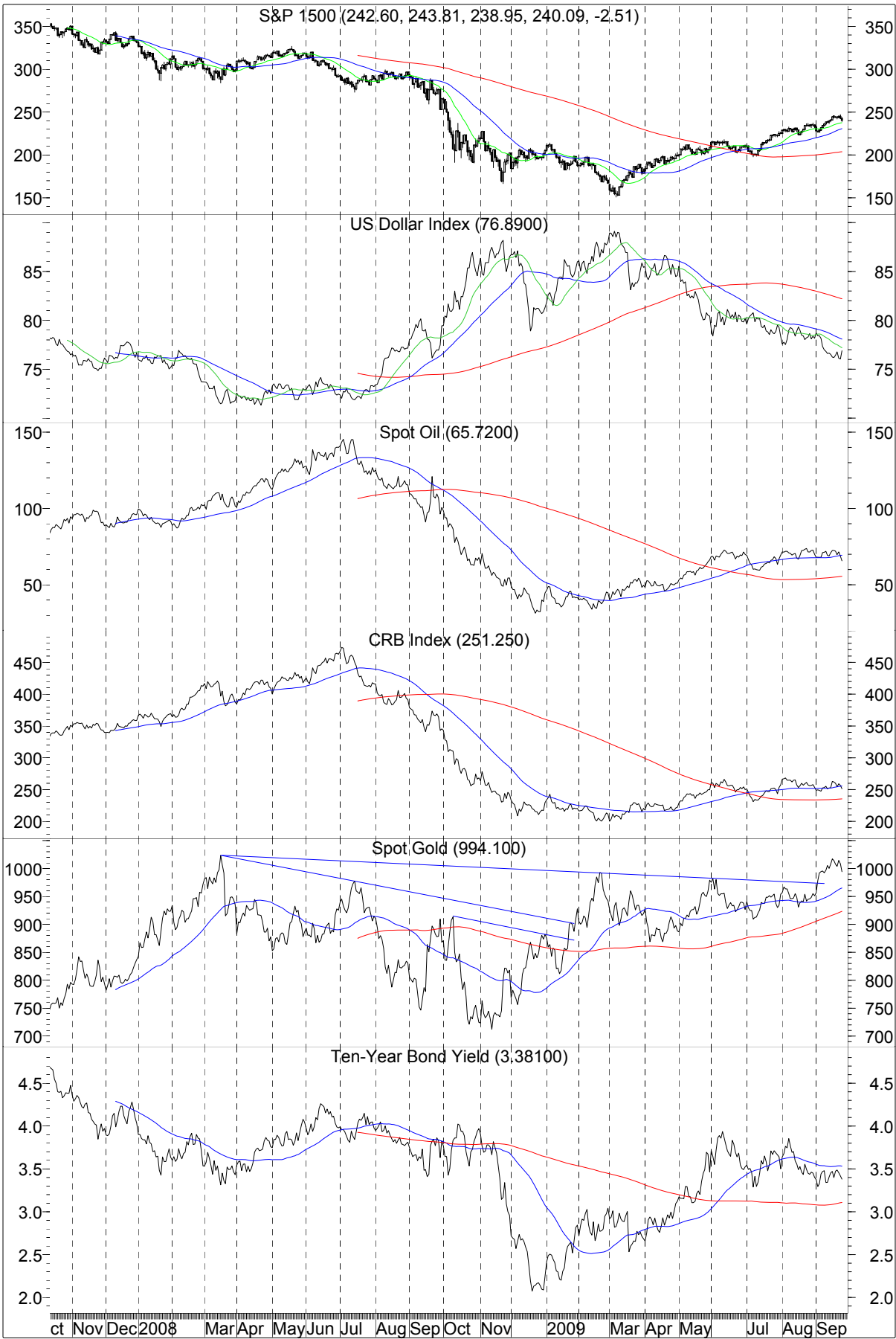


We said on Sunday that our proprietary options indicator was above neutral and showing optimism on the part of options buyers. We also said we hoped it wouldn't become overbullish, which unfortunately it did by hitting 1.09 on Tuesday.

We have also been highlighting the large amount of new high reversals, especially last Thursday's enormous 235. Spikes in this indicator usually precede periods of market weakness.



On Sunday we said "here we go again" as we expressed our concerns about valuations. Those concerns have not changed.



On Sunday we commented on the amazing relationship between stocks and the U.S. Dollar Index since March. We said the Dollar was getting oversold on daily and weekly charts, and we wondered what would happen to stocks if there was an oversold bounce in the Dollar? We got our answer Wednesday and Thursday as the Dollar bounced and equities plunged.

Crude oil broke under its 50-sma.