

Monday September 28, 2009

Closing prices of September 25, 2009

Last Sunday we discussed the continuing overbought condition of stocks and the extraordinarily large number of new high reversals (235) seen on Thursday September 17th, and our options indicator which was starting to show too much optimism. We also said P/E ratios continued to move to levels which are troublesome while earnings and analyst forecasts show no real progress. **We concluded that once again investors needed to be cautious with entry points.**

Our wariness proved to be warranted as stocks retreated to 10-day lows after making new post-March highs on Wednesday. The new highs were concurrent with our options indicator hitting overbullish levels which usually leave stocks vulnerable to a drop. Unfortunately, even though equities are no longer overbought, our options indicator still shows too much bullishness. **Therefore, while a bounce can occur at any time, we think short-term traders entering long should be quicker to take profits from a bounce, while longer-term investors may want to wait for all of our indicators to give a lower risk oversold entry point.**

The old bromide that says “sell Rosh Hashanah and buy Yom Kippur” has worked so far this year and could provide that short-term bounce. It would be nice if “buy Yom Kippur” works as well as “sell Rosh Hashanah” has and foreshadows a return to historical seasonal patterns which would call for a strong November through January period. Seasonality has been upside down for a while.

We have stressed three characteristics of this bull market. Those are huge global liquidity, the belief that companies have become lean and mean creating operating leverage that will lead to upside earnings surprises, and the reticence of investors to sell their stocks. These remain intact, in spite of a pickup in selling last week. We have been in a good news cycle, although we are now entering the period where the upside surprise thesis and the good news cycle will be tested. 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. Bad economic news or disappointing earnings could certainly change investor’s desire to hang onto stocks.

September is known as the worst month of the year, and October is famous for market crashes. Many market watchers had been calling for a major plunge to occur during this period, although we said we didn’t see that happening. So far September has been a pleasant surprise, but with October’s track record a sharp correction is certainly a possibility. 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 remain or 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 (238.65) was down 0.60% Friday. Average price per share was also down 0.60%. Volume was 81% of its 10-day average and 88% of its 30-day average. 31.12% of the S&P 1500 stocks were up, with up volume at 26.81% and up points at 24.88%. Up Dollars was 9.27% of total dollars, and was 16% of its 10-day moving average. Down Dollars was 144% of its 10-day moving average.

For the week the index was down 2.35% on decreasing and about average weekly volume.

The S&P 1500 is up 2.50% in September, up 14.02% quarter-to-date, up 16.45% year-to-date, and down 33.03% from the peak of 356.38 on 10/11/07. Average price per share is \$29.96, down 30.70% from the peak of \$43.23 on 6/4/07.

Percent over 10-sma: 21.27%. 13-Week Closing Highs: 37. 13-Week Closing Lows: 17.

Kaufman Options Indicator: 1.07 Put/Call Ratio: 0.962.

P/E Ratios: **124.24 (before charges)**, 19.76 (continuing operations), 17.86 (analyst estimates).

P/E Yield 10-year Bond Yield Spreads: -76% (earnings bef. charges), 52% (earnings continuing ops), and 68% (projected earnings).

Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at \$19.18 and **are now at \$1.92, a drop of 89.99%**. Aggregate earnings from continuing operations peaked at \$19.95 in September 2007 and **are now \$12.08, down 39.45%**. Estimated aggregate earnings peaked at \$21.95 in February 2008 and **are now \$13.36, a drop of 39.13%**.

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 70.4% that the Fed will leave rates unchanged and a probability of 29.6% of cutting rates 25 basis points to 0.00% when they meet on November 4th. They are pricing in a probability of 69.1% of no change, 28.5% of cutting 25 basis points to 0.00%, and 2.4% of raising 25 basis points to 0.50% when they meet on December 16th.

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| | Daily | WTD | MTD | QTD | YTD |
|-----------------------------|--------|--------|-------|--------|--------|
| S&P Smallcap 600 | -0.34% | -2.75% | 4.11% | 17.26% | 17.08% |
| Dow Jones Industrials | -0.44% | -1.58% | 1.78% | 14.42% | 10.13% |
| Bank of New York Mellon ADR | -0.46% | -2.68% | 3.75% | 17.81% | 26.87% |
| NYSE Composite | -0.57% | -2.76% | 2.71% | 15.55% | 18.52% |
| S&P 1500 | -0.60% | -2.34% | 2.50% | 14.02% | 16.45% |
| S&P 500 | -0.61% | -2.24% | 2.33% | 13.60% | 15.62% |
| S&P Midcap 400 | -0.61% | -3.31% | 3.63% | 17.33% | 26.01% |
| Nasdaq Composite | -0.79% | -1.97% | 4.07% | 13.94% | 32.59% |
| Nasdaq 100 | -0.91% | -1.80% | 4.24% | 14.68% | 39.82% |

| | Daily | WTD | MTD | QTD | YTD |
|------------------------|--------|--------|--------|--------|--------|
| Energy | -0.10% | -2.86% | 3.99% | 8.85% | 5.32% |
| Health Care | -0.12% | -1.20% | 0.03% | 7.98% | 6.94% |
| Consumer Staples | -0.24% | -0.85% | 2.17% | 9.34% | 5.58% |
| Utilities | -0.34% | -1.47% | 0.85% | 4.74% | 0.47% |
| Telecom Services | -0.39% | -0.18% | 2.16% | 3.28% | -3.67% |
| Information Technology | -0.70% | -1.27% | 3.21% | 15.29% | 43.05% |
| Consumer Discretionary | -0.87% | -3.34% | 3.05% | 16.46% | 25.22% |
| Industrials | -1.08% | -3.08% | 5.98% | 20.57% | 11.31% |
| Financials | -1.11% | -3.63% | -0.43% | 22.25% | 16.43% |
| Materials | -1.15% | -4.75% | 3.11% | 19.12% | 33.75% |

| | Daily | WTD | MTD | QTD | YTD |
|--|--------|--------|--------|--------|--------|
| Consumer Services | 0.33% | -1.52% | 3.78% | 10.38% | 11.52% |
| Household & Personal Products | 0.15% | 0.94% | 5.09% | 12.67% | -0.19% |
| Real Estate | 0.08% | -6.13% | 5.63% | 29.70% | 8.26% |
| Food, Beverage & Tobacco | 0.04% | -1.28% | 2.91% | 8.81% | 11.07% |
| Pharmaceuticals, Biotech & Life Sciences | 0.01% | -0.33% | 0.24% | 7.19% | 2.69% |
| Energy | -0.10% | -2.86% | 3.99% | 8.85% | 5.32% |
| Utilities | -0.34% | -1.47% | 0.85% | 4.74% | 0.47% |
| Telecom Services | -0.39% | -0.18% | 2.16% | 3.28% | -3.67% |
| Health Care Equip & Services | -0.40% | -3.10% | -0.41% | 9.79% | 17.41% |
| Technology Hardware & Equipment | -0.49% | -1.57% | 4.34% | 18.48% | 50.60% |
| Semiconductors & Equipment | -0.51% | -1.15% | -1.38% | 18.05% | 41.91% |
| Insurance | -0.56% | -4.08% | -2.07% | 26.33% | 10.90% |
| Banks | -0.57% | -2.56% | 0.64% | 19.71% | -6.87% |
| Media | -0.82% | -3.99% | 5.08% | 18.04% | 20.26% |
| Capital Goods | -0.82% | -2.80% | 7.29% | 22.72% | 12.62% |
| Consumer Durables & Apparel | -0.88% | -5.05% | 2.49% | 24.12% | 22.70% |
| Software & Services | -1.03% | -0.92% | 3.52% | 10.43% | 34.54% |
| Materials | -1.15% | -4.75% | 3.11% | 19.12% | 33.75% |
| Food & Staples Retailing | -1.21% | -1.69% | -1.89% | 7.31% | 1.38% |
| Commercial & Professional Services | -1.23% | -3.58% | 1.75% | 9.74% | 3.91% |
| Automobiles & Components | -1.26% | -2.07% | -2.50% | 22.07% | 77.62% |
| Retailing | -1.45% | -3.40% | 2.15% | 15.45% | 33.35% |
| Diversified Financials | -1.63% | -3.52% | -1.07% | 20.94% | 33.16% |
| Transportation | -1.97% | -3.90% | 2.82% | 16.86% | 9.30% |

INTERNATIONAL ETFs

| | Daily | WTD | 5-Days | MTD | QTD | YTD |
|---------------------------|--------|--------|--------|--------|--------|--------|
| Brazil EWZ | 0.99% | 0.20% | 0.20% | 12.20% | 23.30% | 86.65% |
| Australia EWA | 0.96% | -0.23% | -0.23% | 8.53% | 30.95% | 57.03% |
| Vietnam VNM | 0.93% | -0.45% | -0.45% | 5.82% | | |
| South Korea EWY | 0.76% | -0.17% | -0.17% | 12.26% | 34.21% | 66.93% |
| Italy EWI | 0.55% | -2.24% | -2.19% | 5.08% | 23.58% | 22.45% |
| Mexico EWW | 0.54% | -5.63% | -5.33% | 0.42% | 15.60% | 32.04% |
| MSCI Emerging Markets EEM | 0.42% | -2.47% | -2.41% | 7.87% | 18.18% | 52.54% |
| Latin America ILF | 0.41% | -2.62% | -2.55% | 7.56% | 18.80% | 62.03% |
| Singapore EWS | 0.38% | -0.85% | -0.84% | 3.62% | 17.52% | 50.35% |
| Hong Kong EWH | 0.33% | -2.17% | -2.12% | 5.55% | 10.77% | 46.77% |
| Malaysia EWM | 0.29% | -0.39% | -0.39% | 5.68% | 14.94% | 40.33% |
| BRIC EEB | 0.29% | -1.37% | -1.35% | 9.84% | 18.19% | 64.36% |
| Taiwan EWT | 0.08% | -3.05% | -2.96% | 9.04% | 17.15% | 55.73% |
| China 25 FXI | 0.07% | -5.17% | -4.91% | 4.88% | 7.45% | 41.73% |
| Netherlands EWN | -0.17% | -2.44% | -2.38% | 6.16% | 28.56% | 31.77% |
| France EWQ | -0.20% | -2.78% | -2.70% | 4.93% | 24.87% | 22.12% |
| Germany EWG | -0.27% | -3.08% | -2.99% | 4.07% | 21.02% | 13.22% |
| Belgium EWK | -0.31% | -2.90% | -2.82% | 5.89% | 26.46% | 46.16% |
| Austria EWO | -0.47% | -2.45% | -2.40% | 4.23% | 31.21% | 62.75% |
| Spain EWP | -0.48% | -2.14% | -2.10% | 3.58% | 22.97% | 30.77% |
| United Kingdom EWU | -0.65% | -4.04% | -3.89% | 2.54% | 16.05% | 25.14% |
| Japan EWJ | -0.79% | -1.50% | -1.47% | -1.96% | 6.26% | 4.59% |
| Sweden EWD | -0.85% | -4.12% | -3.96% | 1.61% | 25.80% | 49.74% |
| Canada EWC | -1.00% | -4.94% | -4.71% | 3.78% | 15.22% | 41.59% |
| Switzerland EWL | -1.06% | -2.34% | -2.29% | 2.84% | 20.67% | 15.26% |

S&P 500 Cash (1,049.48, 1,053.47, 1,041.17, 1,044.38, -6.40)



The S&P 500 a spinning top Friday as it bounced just above the 20-sma and a support level. Spinning tops, which are candles with small real bodies, show that the prior move may be losing momentum. There is one trend line connecting prior bottoms (purple) that if broken would call for a test of the trend line connecting the March and July lows. Each of these trend lines could be considered the lower boundaries of a bearish rising wedge. The lower one is of greater importance.

Momentum indicators are no longer overbought but are not yet oversold, although the stochastic is close. The MACD just showed a negative crossover.



The weekly chart of the S&P 500 shows the index closed back under the 80-week moving average, which is an important trend line defining the long-term. It also fell back below its daily equivalent, the 400-sma, which is now at 1056.86. We have discussed both of these extensively in recent weeks and we consider them extremely important relative to the bull market bear market rally debate.

Weekly momentum indicators look like they are getting topy, but the MACD has not crossed over negatively yet.

NASDAQ 100 (1,696.99, 1,710.29, 1,690.68, 1,694.15, -15.61)



The Nasdaq 100 printed an inverted hammer Friday as the index tried to find support not far above the 20-sma. Hammers are bottoming candles.

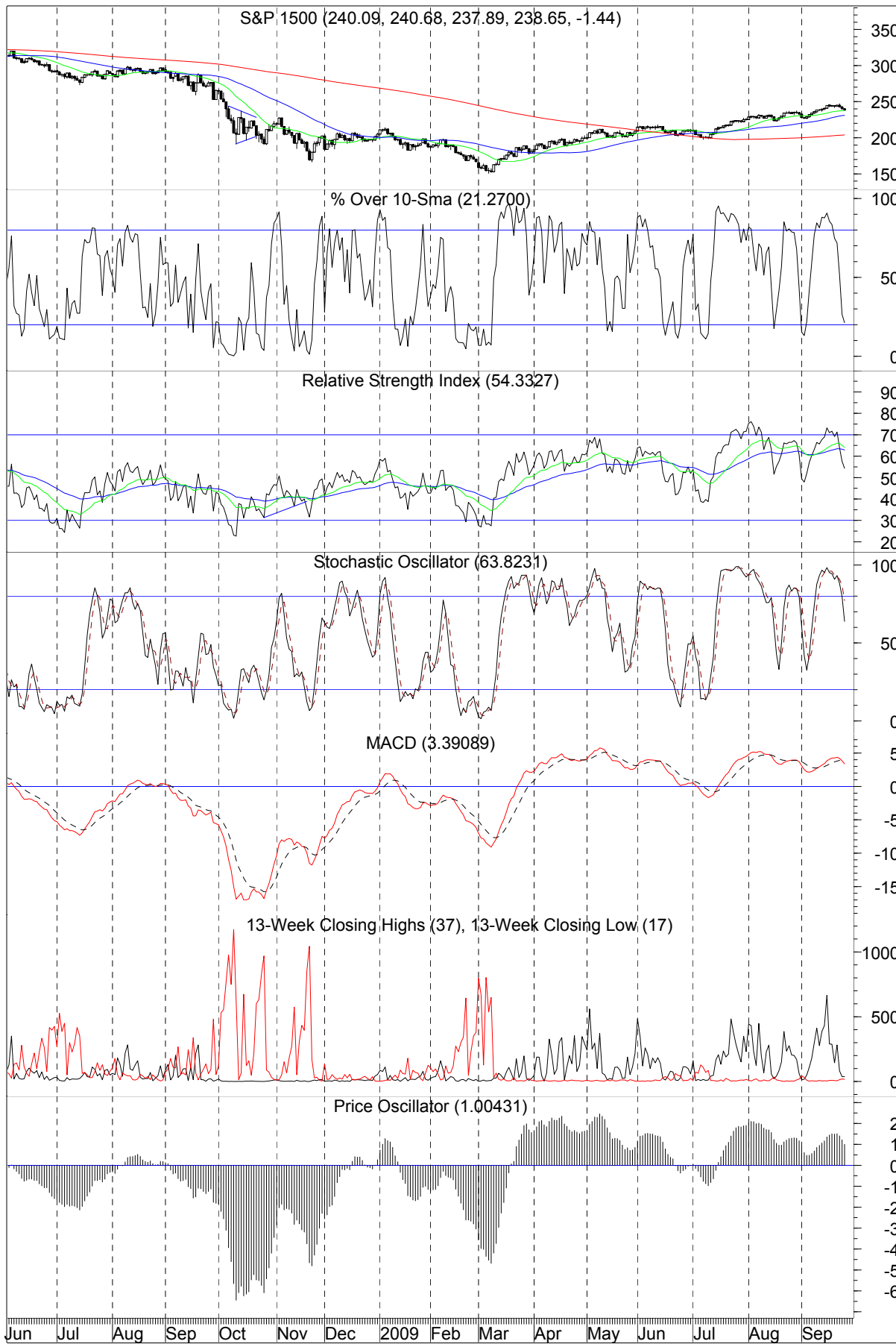
Momentum indicators have turned down from overbought levels and look like there is plenty of room to move lower. The MACD just crossed over negatively.

NASDAQ 100 (1,717.37, 1,754.54, 1,690.68, 1,694.15, -31.09)



The Nasdaq 100 printed a shooting star candle on the weekly chart. Shooting stars are bearish candles that appear at the end of up trends.

Momentum indicators remain at high levels.

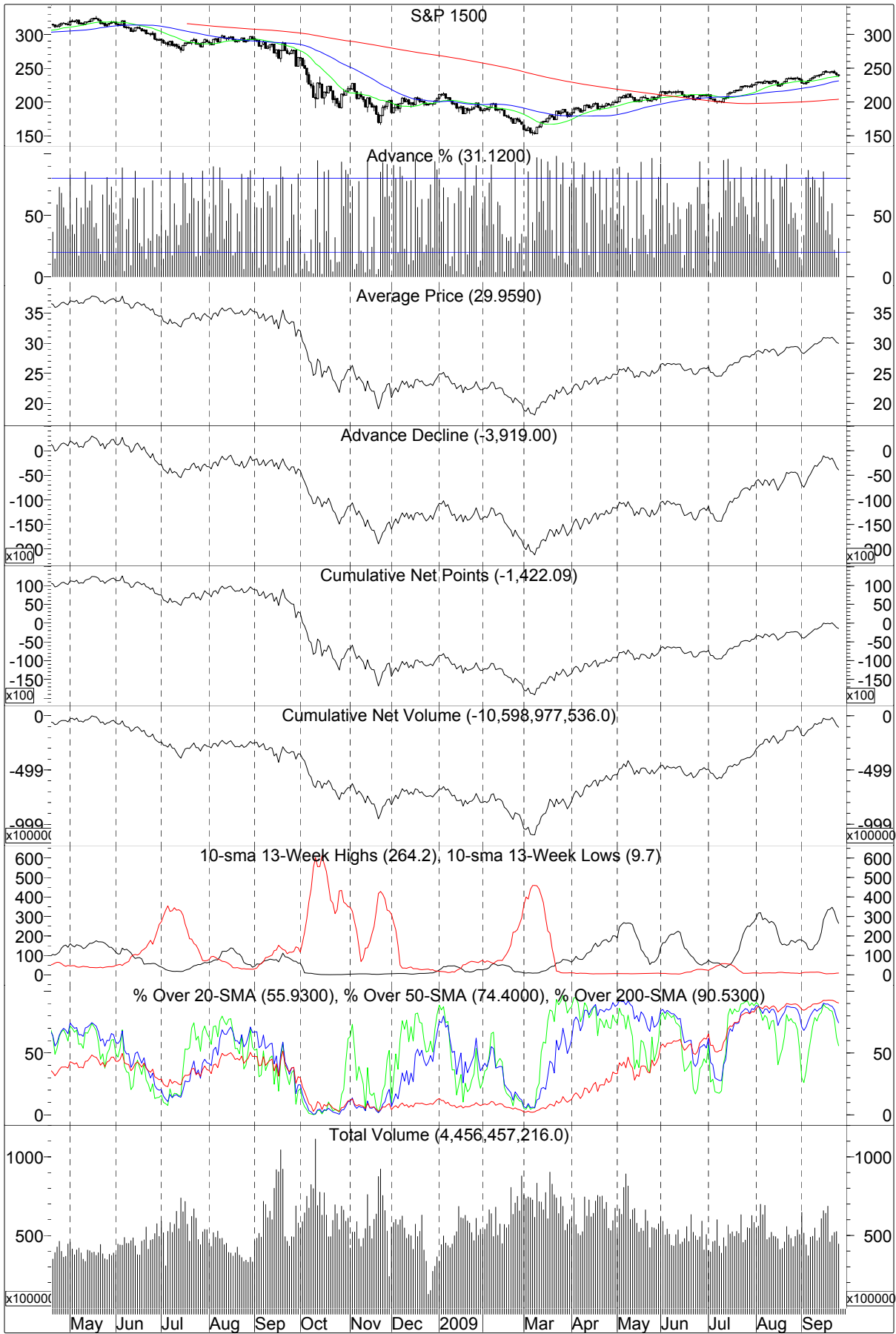


The percent over 10-sma is almost oversold and could certainly bounce from here.

Our other momentum indicators are not yet oversold, and the MACD has just crossed over negatively.

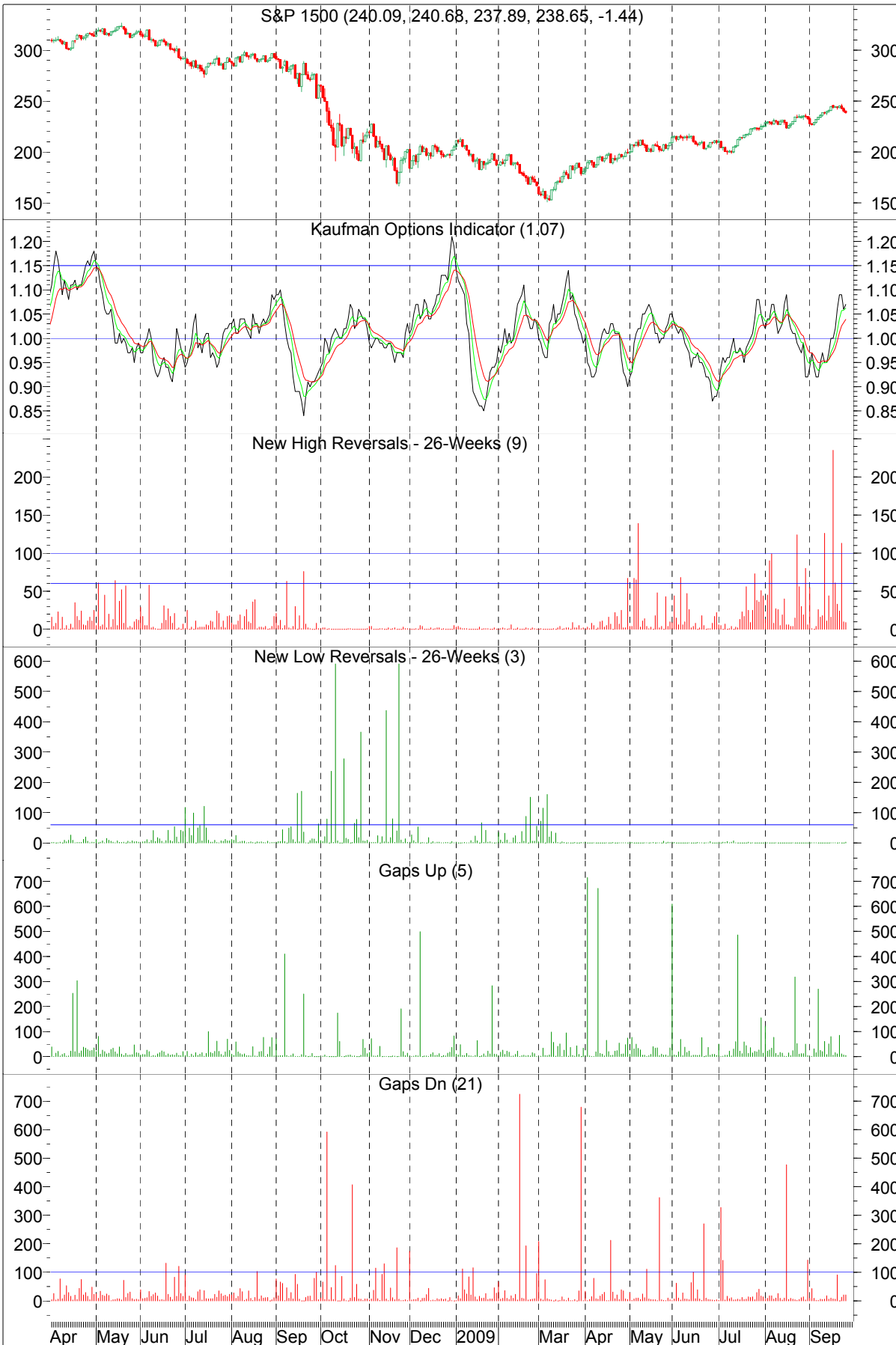
13-week lows have only picked up a little.

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



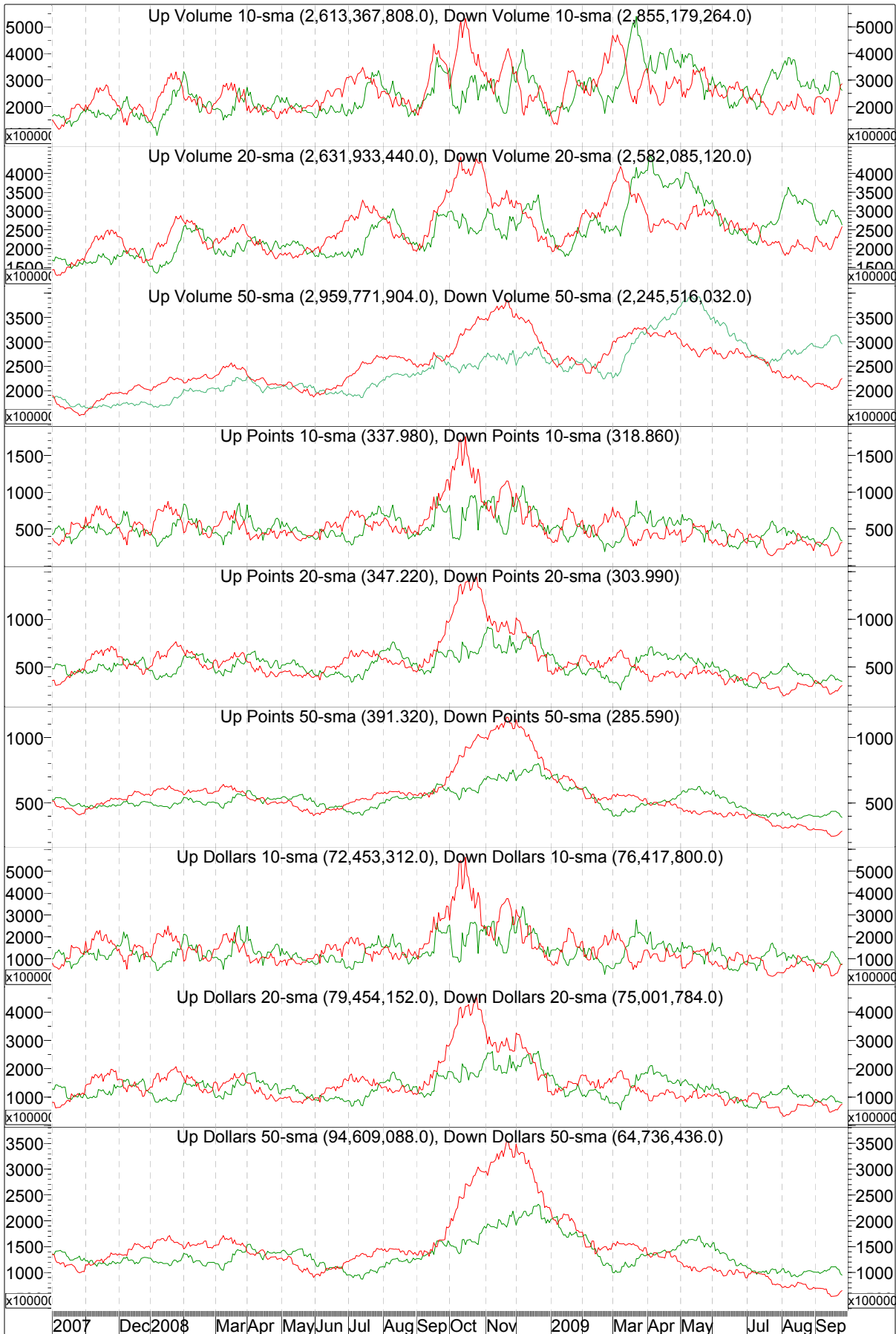
Market breadth has been weak the last two weeks.

All of our statistics of market internals made new highs last week confirming the new highs in the S&P 1500.

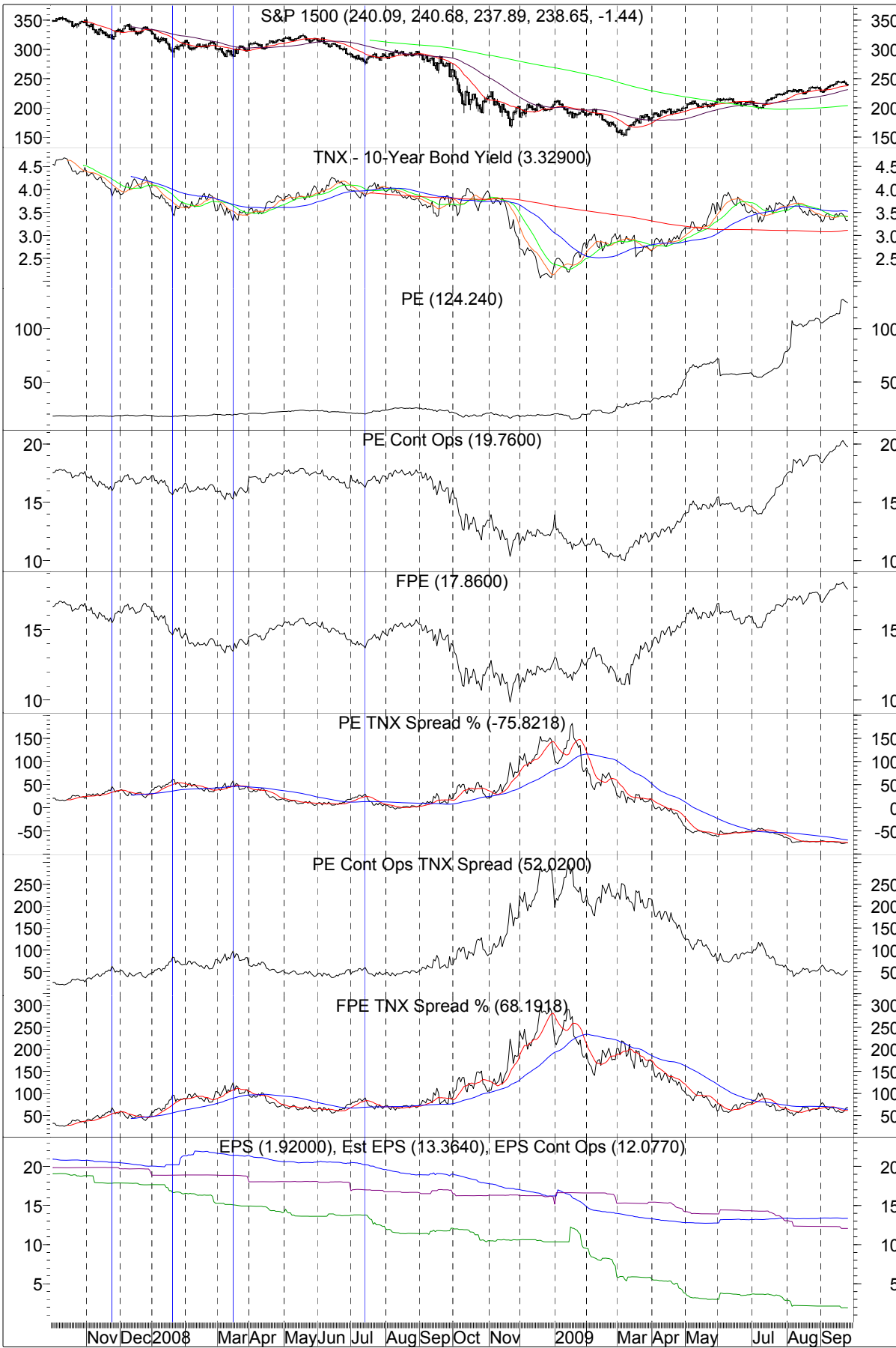


Our proprietary options indicator remains at high levels leaving stocks vulnerable to a further drop.

There were 235 new high reversals on September 17th, a huge number. This is when a stock makes a new high but closes lower on the day.



Our statistics of supply (red) versus demand (green) shows a couple of negative crossovers on 10-day moving averages. Longer-term selling statistics remain muted, and the recent weakness seems more due to a lack of buyers than a big increase in selling intensity.



P/E ratios remain a source of concern.

Spreads between equity and bond yields, along with the actual earnings data they are derived from, are moving sideways as there is little important earnings information until Q3 earnings season gets underway in a couple of weeks.



The amazing inverse relationship between stocks and the U.S. Dollar continued last week as Dollar strength helped stocks pull back. The Dollar is at resistance, with more important resistance at the 78 area.

Last Sunday we said oil was going sideways after the failed breakout of 8/24. Last week it fell below the 50-sma and broke a support level. It is just above some support with the next level around 63.

Gold is pulling back after its recent breakout. It wouldn't be unusual to move back to the recently broken trend line, which is also around the 50-sma.