

Monday October 25, 2010

Closing prices of October 22, 2010

Equities rallied again last week although the gains were more modest with the Dow Jones Industrials leading the major indexes with a 0.63% gain. Once more stocks overcame a potential negative, this time the raising of interest rates in China was the culprit, before buyers took over once again. We are deep into earnings season, and investors appear to be focusing on individual company reports instead of political or macroeconomic news. So far 159 of the S&P 500 have reported, with 79.1% beating analyst estimates, 7% as expected, and 13.9% missing their numbers according to Bloomberg.

**We pointed out recently that the S&P 500 was nearing a “golden cross” and that occurred last week as it joined the Dow Jones Industrials, the Dow Jones Transports, the Nasdaq 100, and the Bank of NY Mellon ADR Index among other indexes in having its 50-day moving average cross back over its 200-day moving average and undoing the widely reported “death cross” of July.** This rally has been broad as nineteen of the thirty-three international ETFs we follow have recorded 52-week highs so far in October.

**In the short-term a pullback is possible at any time.** Negative divergences exist on some indicators, although so far during this rally equities have ignored them when they have appeared. Also, on Monday the percentage of stocks in the S&P 1500 that are above their own 50-day moving averages hit 91.8%, a number where stocks have topped in the past. We have warned there is too much unanimity of opinion regarding the U.S. Dollar and bond yields, as well as gold, and that investors need to be on guard for reversals in these which can spark profit taking and sector rotation. Tuesday's drop highlighted how twitchy markets are about these issues. There is a bullish engulfing candle on the weekly chart of the 10-year bond yield, so interest rates may continue their recent move higher. In addition, investors may become cautious ahead of the upcoming election.

**Longer-term we remain optimistic. As we near month's end, the S&P 500 is just points away from its April monthly close of 1186.69. The Dow Industrials are well above their April close of 11,008.61. The Nasdaq 100 is well above its April monthly close of 2000.63, and is also above 2089.10, the monthly close of November 2007. Strong monthly closes in the major indexes will reinforce our belief that this rally still has a way to go.**

**We have continually stressed that valuations for equities were very attractive.** Spreads between bond and equity yields have narrowed but remain at levels where stocks are attractive versus bonds. Interestingly, in spite of aggregate current earnings moving higher as companies report, aggregate estimates have barely budged. **Should projections follow the trend of current earnings and begin to get ratcheted higher that could certainly be a catalyst for another leg higher for stocks.**

A lot of credit for the rally is probably due to the hope for major changes in Washington in November as well as to historical stock market patterns. **November through January is historically the best three-month period of the year. As far as the presidential cycle, we will soon be leaving year two and entering year three. Since 1939 the Dow Jones Industrial Average has not had a single down year three, with the average gain being 16.6%. In addition, based on the S&P 500 since 1914, from the low of year two to the high of year three the average move has been 49.2%. Through the last seven presidential cycles since 1982, the average low-to-high move has been 50.06%. From this year's S&P 500 low of 1010 that would equate to a move to 1500 sometime in 2011. We are not forecasting that, just highlighting that it is difficult to be very bearish in the face of such strong historical patterns.**

**In the short-term investors need to be careful with entry points. Some indicators have negative divergences, and investors may become cautious ahead of the upcoming election. Based on the S&P 500 the short, intermediate, and long-term trends are up. Pullbacks that are without intensity should be viewed as entry points for investors.**

## IMPORTANT DISCLOSURES

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## Indexes, Sectors, and Industry Groups

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Dow Jones Industrials	11132.56	-0.13%	0.63%	0.63%	3.19%	3.19%	6.76%	11258.01	4/26/2010	9614.32	7/2/2010
S&P Midcap 400	824.91	0.77%	0.63%	0.63%	2.84%	2.84%	13.52%	852.90	4/26/2010	651.79	11/2/2009
S&P 500	1183.08	0.24%	0.59%	0.59%	3.67%	3.67%	6.10%	1219.80	4/26/2010	1010.91	7/1/2010
S&P 1500	272.40	0.30%	0.57%	0.57%	3.63%	3.63%	6.91%	281.21	4/26/2010	232.54	7/1/2010
Nasdaq Composite	2479.39	0.80%	0.43%	0.43%	4.68%	4.68%	9.27%	2535.28	4/26/2010	2024.27	11/2/2009
Nasdaq 100	2104.21	0.68%	0.31%	0.31%	5.31%	5.31%	13.11%	2106.24	10/21/2010	1652.44	11/2/2009
S&P Smallcap 600	373.96	0.65%	0.04%	0.04%	4.30%	4.30%	12.43%	396.63	4/26/2010	294.26	11/2/2009
NYSE Composite	7522.91	0.10%	0.03%	0.03%	3.32%	3.32%	4.70%	7743.74	4/15/2010	6355.83	7/1/2010
Bank of New York Mellon ADR	137.28	0.01%	-0.92%	-0.92%	3.51%	3.51%	0.68%	142.19	1/11/2010	109.79	5/25/2010

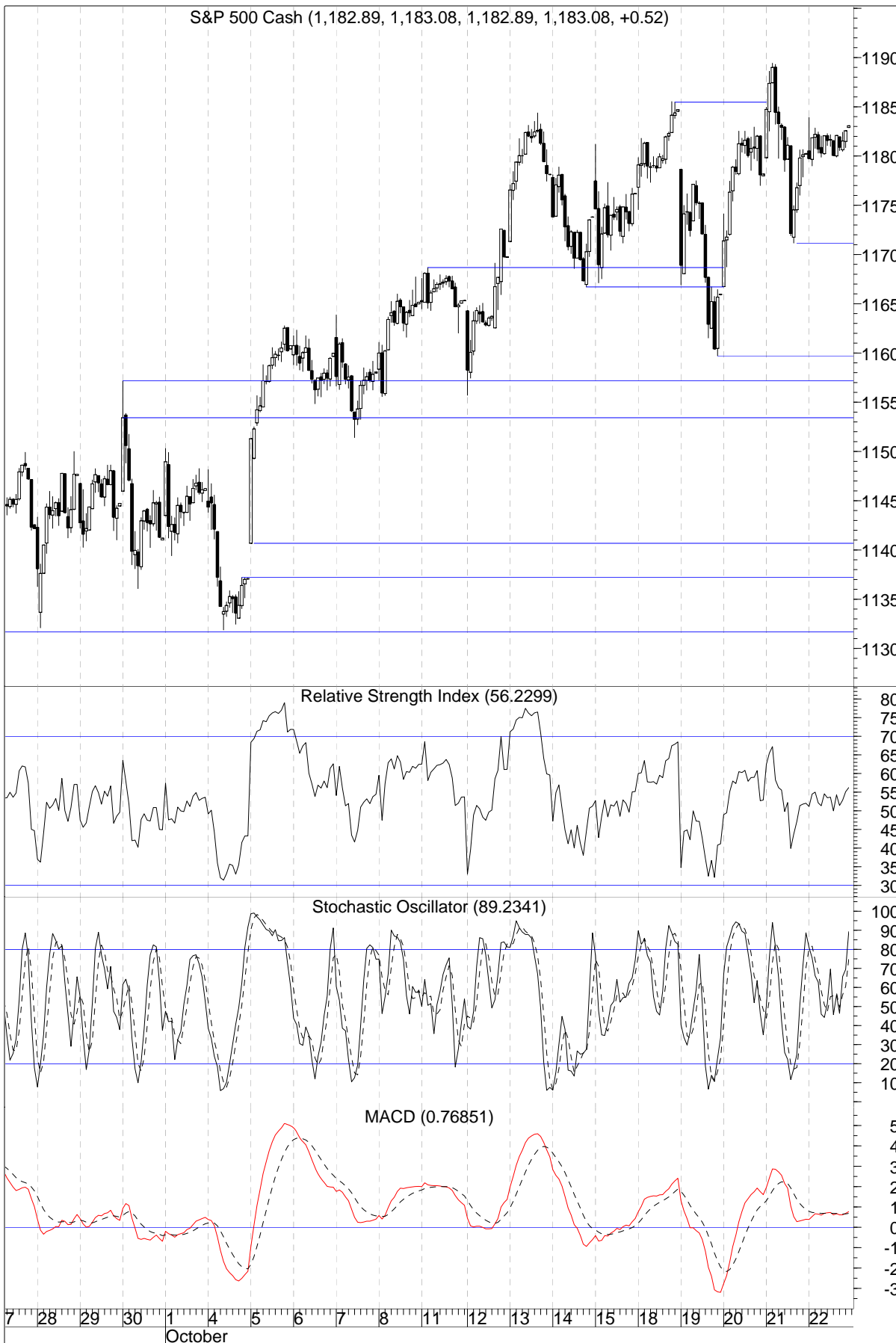
	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Financials	196.61	0.07%	1.91%	1.91%	1.78%	1.78%	1.46%	230.45	4/15/2010	178.83	8/25/2010
Consumer Discretionary	275.46	0.50%	0.76%	0.76%	4.53%	4.53%	17.18%	284.57	4/26/2010	209.69	11/2/2009
Industrials	280.55	0.05%	0.69%	0.69%	3.59%	3.59%	15.46%	292.21	4/30/2010	220.05	11/2/2009
Consumer Staples	296.80	0.25%	0.46%	0.46%	2.96%	2.96%	8.20%	297.60	10/21/2010	260.65	7/1/2010
Energy	444.07	0.73%	0.36%	0.36%	5.91%	5.91%	3.28%	464.76	4/26/2010	365.74	7/1/2010
Health Care	362.26	0.07%	0.29%	0.29%	2.40%	2.40%	0.01%	384.95	1/20/2010	318.89	7/1/2010
Information Technology	388.38	0.55%	0.20%	0.20%	5.58%	5.58%	4.77%	397.46	4/26/2010	323.47	7/1/2010
Telecom Services	120.96	-0.31%	0.02%	0.02%	-0.47%	-0.47%	5.51%	124.78	10/5/2010	98.67	5/6/2010
Utilities	161.82	-0.57%	-0.04%	-0.04%	1.54%	1.54%	2.42%	164.42	10/20/2010	138.57	5/25/2010
Materials	212.54	-0.62%	-0.63%	-0.63%	5.11%	5.11%	6.37%	215.86	10/13/2010	168.44	7/1/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Banks	129.02	0.45%	6.28%	6.28%	2.84%	2.84%	2.93%	165.92	4/21/2010	115.69	8/31/2010
Consumer Services	450.99	1.38%	1.84%	1.84%	5.05%	5.05%	21.73%	451.41	10/22/2010	335.30	11/2/2009
Automobiles & Components	101.55	0.82%	1.49%	1.49%	12.90%	12.90%	30.63%	107.25	4/26/2010	60.62	10/30/2009
Real Estate	118.10	-0.31%	1.31%	1.31%	5.88%	5.88%	25.40%	119.84	10/21/2010	80.03	10/28/2009
Semiconductors & Equipment	306.38	1.18%	1.13%	1.13%	2.89%	2.89%	-1.91%	348.04	4/15/2010	262.69	8/31/2010
Commercial & Professional Service	139.62	0.20%	1.10%	1.10%	3.15%	3.15%	4.34%	144.95	4/26/2010	122.63	6/8/2010
Health Care Equip & Services	339.14	0.59%	1.01%	1.01%	2.27%	2.27%	-2.33%	371.77	1/20/2010	296.30	8/31/2010
Transportation	314.82	0.58%	0.97%	0.97%	5.31%	5.31%	23.51%	314.86	10/22/2010	221.60	11/2/2009
Insurance	183.39	0.04%	0.94%	0.94%	2.74%	2.74%	11.28%	189.97	4/26/2010	156.74	11/3/2009
Diversified Financials	298.98	0.02%	0.94%	0.94%	-0.04%	-0.04%	-7.02%	382.07	4/15/2010	278.07	8/31/2010
Software & Services	504.47	0.59%	0.77%	0.77%	6.68%	6.68%	1.58%	512.69	4/15/2010	410.27	7/1/2010
Household & Personal Products	376.04	-0.03%	0.76%	0.76%	4.49%	4.49%	4.24%	383.05	3/23/2010	339.42	5/6/2010
Capital Goods	299.23	-0.09%	0.59%	0.59%	3.20%	3.20%	14.57%	318.38	4/30/2010	238.52	11/2/2009
Media	188.13	-0.17%	0.59%	0.59%	5.52%	5.52%	15.00%	192.83	5/3/2010	140.73	11/3/2009
Food & Staples Retailing	185.54	0.44%	0.57%	0.57%	1.08%	1.08%	1.35%	196.37	3/30/2010	162.45	7/1/2010
Retailing	469.37	0.65%	0.53%	0.53%	2.51%	2.51%	14.17%	499.94	4/26/2010	376.96	11/3/2009
Energy	444.07	0.73%	0.36%	0.36%	5.91%	5.91%	3.28%	464.76	4/26/2010	365.74	7/1/2010
Food, Beverage & Tobacco	346.38	0.30%	0.29%	0.29%	3.08%	3.08%	13.02%	346.89	10/21/2010	293.65	11/3/2009
Telecom Services	120.96	-0.31%	0.02%	0.02%	-0.47%	-0.47%	5.51%	124.78	10/5/2010	98.67	5/6/2010
Utilities	161.82	-0.57%	-0.04%	-0.04%	1.54%	1.54%	2.42%	164.42	10/20/2010	138.57	5/25/2010
Pharmaceuticals, Biotech & Life Sci	343.72	-0.19%	-0.05%	-0.05%	2.47%	2.47%	1.17%	359.71	1/20/2010	299.26	7/1/2010
Consumer Durables & Apparel	154.57	0.24%	-0.33%	-0.33%	2.37%	2.37%	17.90%	164.51	4/26/2010	119.47	10/28/2009
Materials	212.54	-0.62%	-0.63%	-0.63%	5.11%	5.11%	6.37%	215.86	10/13/2010	168.44	7/1/2010
Technology Hardware & Equipmen	426.25	0.31%	-0.76%	-0.76%	5.16%	5.16%	9.42%	431.19	10/18/2010	350.49	8/27/2010

## INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Mexico EWW	56.81	0.62%	1.61%	7.21%	7.21%	16.25%	61.60	5/6/2010	42.90	11/3/2009
Italy EWI	17.97	0.08%	1.55%	6.93%	6.93%	-7.92%	21.55	10/22/2009	13.21	6/7/2010
Germany EWG	23.84	0.29%	1.45%	8.36%	8.36%	6.24%	24.02	10/21/2010	17.97	5/25/2010
Sweden EWD	30.04	0.70%	1.14%	3.69%	3.69%	27.83%	30.27	10/21/2010	19.00	5/6/2010
France EWQ	25.55	0.31%	0.63%	6.50%	6.50%	-1.16%	27.32	1/11/2010	19.24	5/25/2010
Russia RSX	34.37	0.50%	0.61%	5.66%	5.66%	10.20%	36.91	4/14/2010	26.06	5/25/2010
Belgium EWK	14.10	0.28%	0.43%	6.17%	6.17%	10.50%	14.21	10/21/2010	8.93	5/6/2010
Spain EWP	43.37	0.91%	0.25%	6.69%	6.69%	-9.72%	52.67	11/25/2009	29.85	6/8/2010
Austria EWO	21.32	0.42%	0.14%	8.20%	8.20%	9.00%	23.07	10/22/2009	14.91	6/8/2010
Japan EWJ	10.15	0.74%	0.05%	2.63%	2.63%	4.16%	10.71	4/15/2010	9.15	6/7/2010
Turkey TUR	77.01	1.49%	-0.04%	9.97%	9.97%	42.88%	77.64	10/18/2010	44.15	11/27/2009
India IFN	38.54	-1.46%	-0.23%	5.97%	5.97%	25.54%	39.55	10/13/2010	26.61	5/25/2010
Indonesia IDX	87.85	0.70%	-0.30%	1.43%	1.43%	41.31%	89.67	10/5/2010	54.47	10/28/2009
Hong Kong EWH	18.98	0.11%	-0.47%	4.63%	4.63%	21.20%	19.24	10/20/2010	14.08	5/21/2010
Malaysia EWM	13.94	0.22%	-0.57%	1.46%	1.46%	31.26%	14.19	10/13/2010	10.18	2/5/2010
Chile ECH	73.78	-0.03%	-0.65%	-0.32%	-0.32%	34.66%	76.05	10/11/2010	27.27	5/6/2010
Singapore EWS	13.76	0.36%	-0.72%	4.08%	4.08%	19.76%	13.99	10/15/2010	10.37	2/5/2010
Thailand THD	63.89	0.52%	-0.75%	2.95%	2.95%	50.36%	64.93	10/13/2010	37.65	2/5/2010
Netherlands EWN	21.09	0.14%	-0.85%	3.79%	3.79%	3.08%	21.50	1/11/2010	16.64	5/25/2010
Taiwan EWT	13.46	0.52%	-0.96%	-0.66%	-0.66%	3.78%	13.78	10/7/2010	10.81	6/8/2010
China 25 FXI	45.67	-1.02%	-1.15%	6.66%	6.66%	8.07%	46.66	11/16/2009	36.24	5/6/2010
United Kingdom EWU	16.94	0.36%	-1.22%	3.55%	3.55%	4.57%	17.26	10/18/2010	13.25	5/25/2010
Israel EIS	57.30	-0.21%	-1.27%	4.35%	4.35%	5.33%	60.68	3/26/2010	45.00	5/6/2010
Emerging Markets EEM	46.03	0.11%	-1.48%	2.81%	2.81%	10.92%	47.03	10/15/2010	35.21	5/25/2010
Switzerland EWL	23.63	-1.17%	-1.54%	3.55%	3.55%	6.15%	24.17	10/15/2010	18.70	5/25/2010
Latin America ILF	51.56	0.47%	-1.58%	2.02%	2.02%	7.89%	53.03	10/15/2010	39.21	5/25/2010
South Africa EZA	68.43	0.13%	-1.60%	1.80%	1.80%	22.26%	70.89	10/18/2010	23.00	5/6/2010
Canada EWC	28.59	-0.17%	-1.69%	2.00%	2.00%	8.58%	29.58	10/13/2010	22.75	5/6/2010
South Korea EWY	54.70	1.33%	-1.69%	2.26%	2.26%	14.82%	56.04	10/6/2010	40.65	5/25/2010
Australia EWA	24.34	0.58%	-1.99%	2.53%	2.53%	6.57%	25.14	1/11/2010	18.26	5/25/2010
BRIC EEB	45.24	-0.40%	-2.94%	1.16%	1.16%	6.55%	47.06	10/15/2010	23.23	5/6/2010
Vietnam VNM	24.15	-0.82%	-3.40%	-1.23%	-1.23%	-5.26%	32.15	10/22/2009	21.81	8/25/2010
Brazil EWZ	76.10	-0.75%	-5.35%	-1.10%	-1.10%	2.00%	81.30	10/13/2010	57.18	5/25/2010

S&P 500 Cash (1,182.89, 1,183.08, 1,182.89, 1,183.08, +0.52)



The S&P 500 made a new intra-day rally high Thursday but not a closing high.

30-minute momentum indicators seem poised to move higher.

S&P 500 Cash (1,180.52, 1,183.93, 1,178.99, 1,183.08, +2.82)



Friday's trading was in a very tight range. We have been saying the S&P 500 would have a "golden cross" soon, and that happened Friday as the 50-sma crossed over the 200-sma.

The daily momentum indicators are showing negative divergences. So far during this rally that has not mattered.



The weekly chart of the S&P 500 shows another up week last week. The 20-week moving average is nearing a crossover of the 40-week ma. All the moving averages are pinched tightly together, a condition which won't last much longer. The index is just under its 200-week moving average (not shown), which acted as resistance in April.

Weekly momentum indicators still look good, although the weekly stochastic is overbought. The MACD, a slower moving indicator, is moving higher after a positive crossover from the neutral line.

S&P 500 Cash (1,143.49, 1,189.43, 1,131.87, 1,183.08, +41.88)



The monthly chart of the S&P 500 shows that so far in October it has not pulled back after piercing the down trend line. The index is not far from 1186.69, which was the closing high in April.

Monthly momentum indicators are moving up with plenty of room to move higher.

NASDAQ 100 (2,089.22, 2,105.44, 2,086.89, 2,104.21, +14.11)



On Friday the Nasdaq 100 closed just under the rally closing high it made on Monday.

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

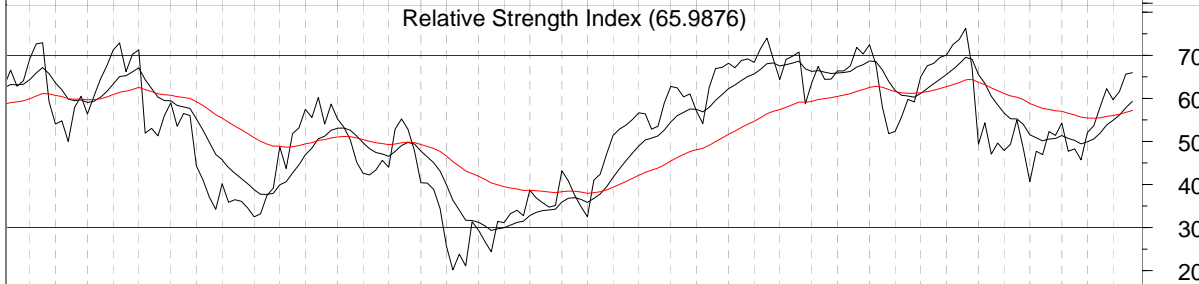


NASDAQ 100 (2,100.21, 2,106.24, 2,054.61, 2,104.21, +6.48)



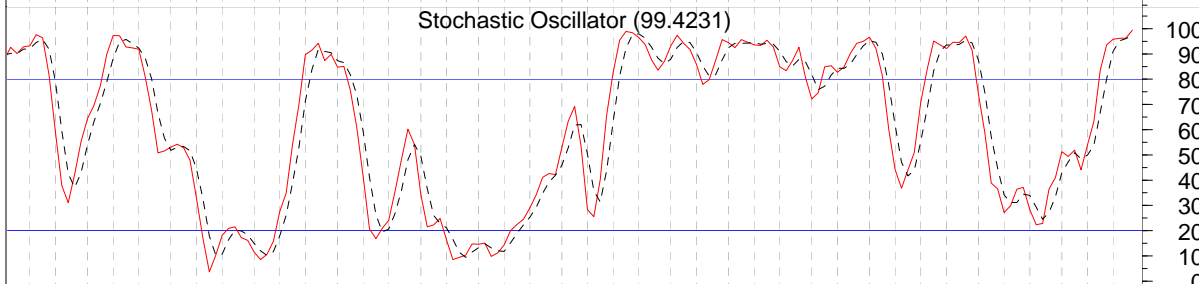
After breaking a resistance level two weeks ago the Nasdaq 100 followed through last week. The weekly chart did print a hanging man candle, which is bearish if confirmed by the following candle.

Relative Strength Index (65.9876)

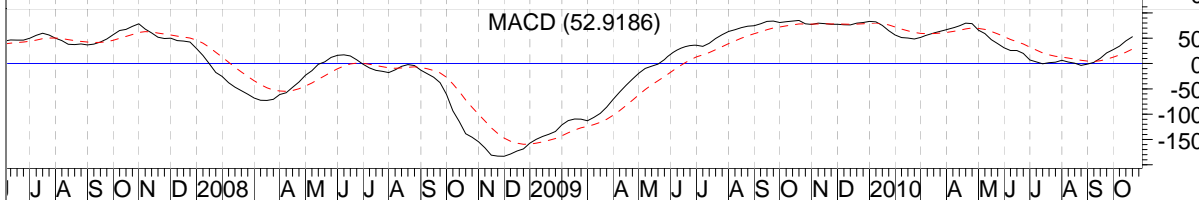


Weekly momentum indicators still seem to be pointing higher.

Stochastic Oscillator (99.4231)



MACD (52.9186)



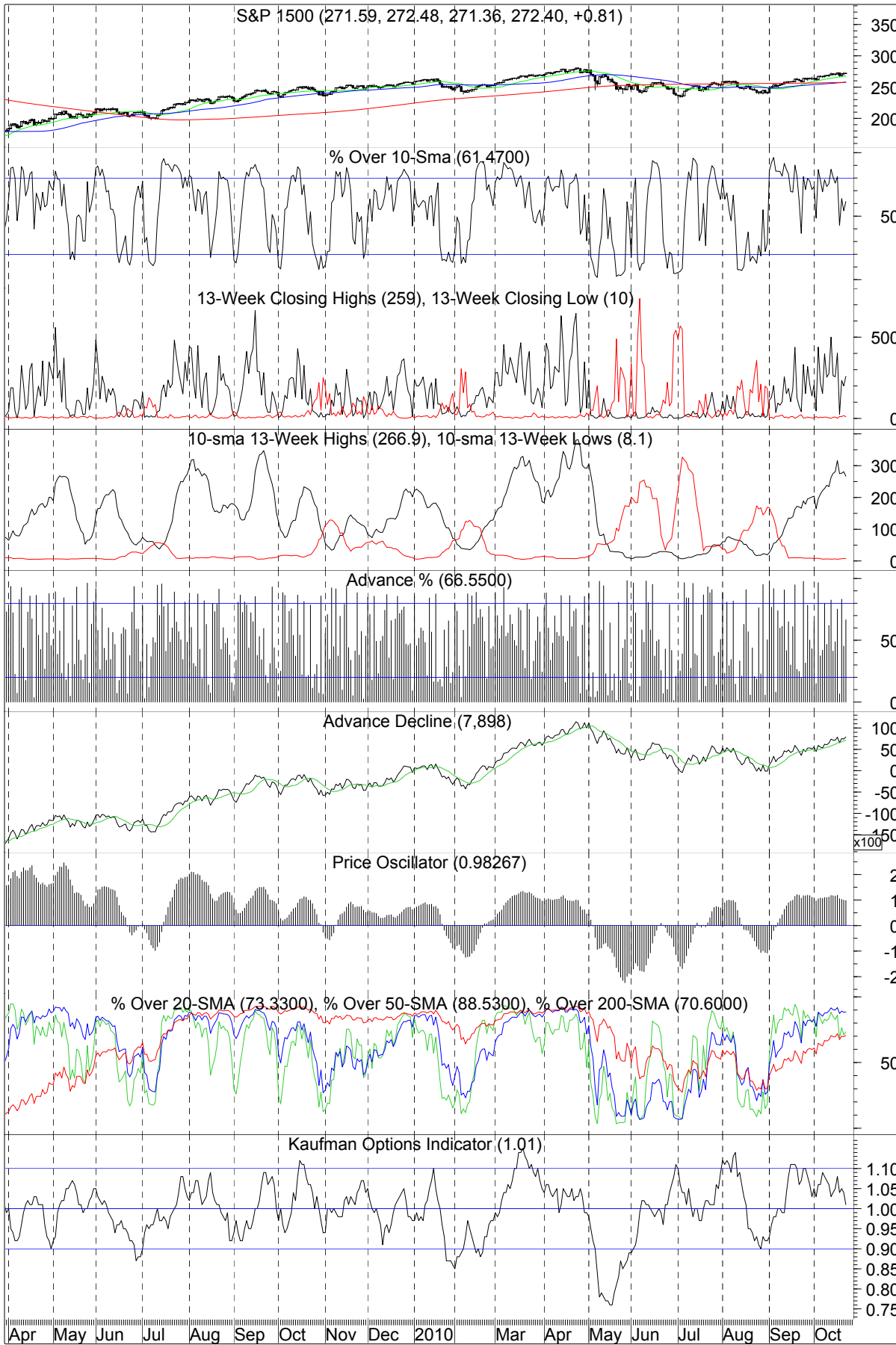
J A S O N D 2008 A M J J A S O N D 2009 A M J J A S O N D 2010 A M J J A S O

NASDAQ 100 (2,014.47, 2,097.73, 1,963.68, 2,097.73, +99.69)



The monthly chart of the Nasdaq 100 shows it broke a resistance level in October. A close above 2089.10, the close of October 2007, will leave 2238.98 in October 2007 as the only monthly close higher since January 2001.

Monthly momentum indicators have plenty of room to move higher.



Only 61.47% of stocks are over their own 10-sma, showing the rally's increasing selectivity.

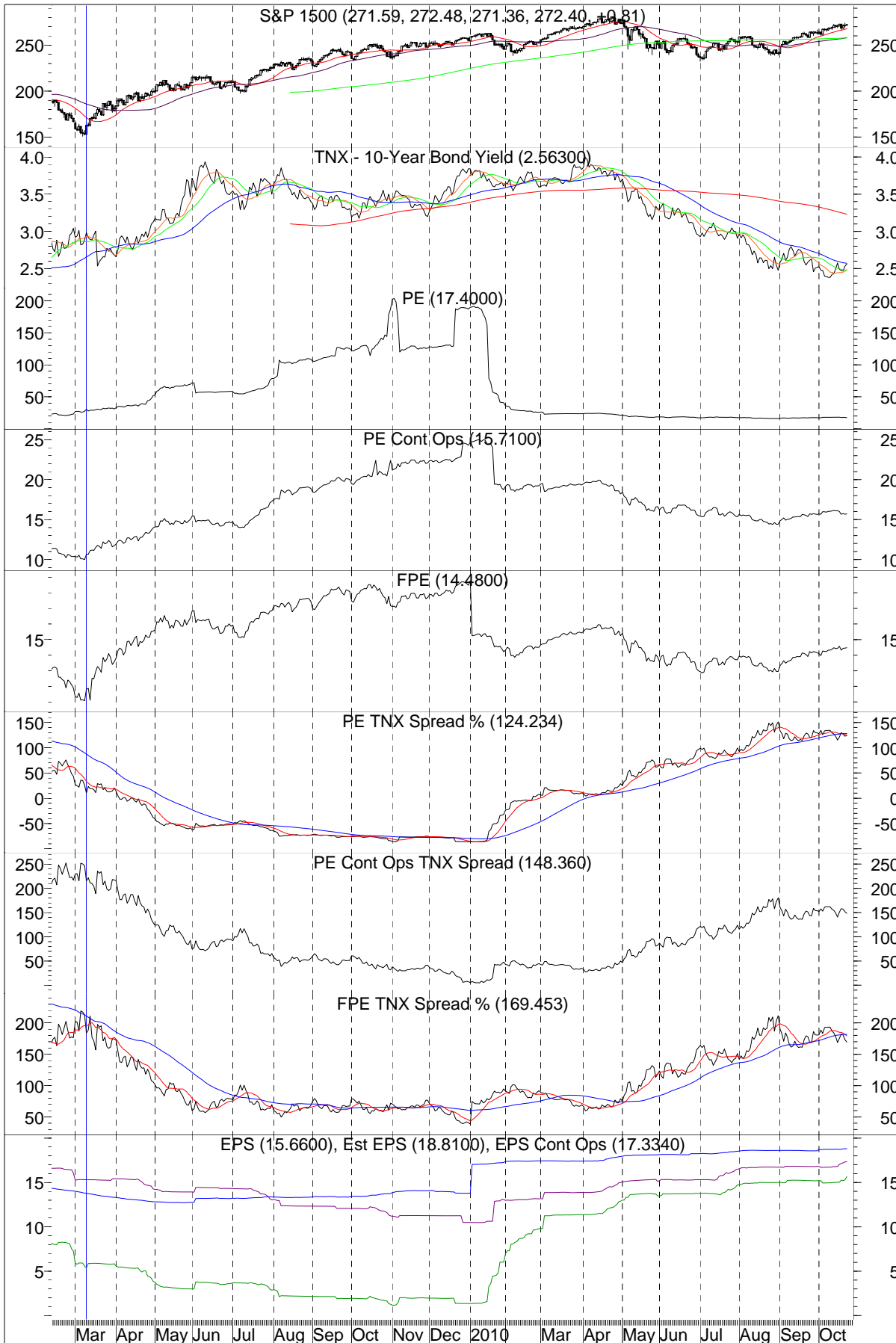
The new rally closing high on 10/18 (Monday) had 402 stocks making 13-week closing highs versus 500 on 10/13, also a sign of increasing selectivity.

66.55% of stocks traded higher Friday.

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

The percentage of stocks over their own 20-sma has been weakening.

Our proprietary options indicator is just above neutral.



10-year bond yields have bounced to the 50-sma. There is a bullish engulfing candle on the weekly chart (not shown).

P/Es based on current earnings are flat, while the forward P/E is rising as estimates are not yet moving much higher.

Spreads between equity and bond yields are narrowing but are still at levels where stocks should be attractive versus bonds.

Earnings per share numbers are rising but estimates are being stubborn, not moving much higher yet. So far 159 of the S&P 500 have reported, with 79.1% beating, 7% in line, and 13.9% missing their numbers, according to Bloomberg.