

Monday April 12, 2010

Closing prices of April 9, 2010

The terrific rally off the February 5<sup>th</sup> low continued last week with major indexes again posting fresh 52-week highs. The small and mid-cap indexes led last week, as they have all year, which is a good sign relative to liquidity and the willingness to assume risk on the part of investors. The Transportation Index made a new high, confirming the high in the Dow Jones Industrials and keeping Dow Theory proponents happy. **In fact, the Nasdaq 100 is now only 10.93% off the high it made for the bull market of 2002 – 2007, which was on 10/31/2007.** It needs to rally 12.28% from here to surpass that level.

Last week we said some negative divergences had developed and statistics of selling had begun to increase. We also said this seemed to be standard fare as equities work off the overbullish condition that we discussed in prior weeks. We added that this type of activity is also not unusual ahead of an earnings season. Last week's rally erased any divergences, and all of our statistics of market breadth made new highs, confirming the new highs in the indexes and pointing to higher prices in the future.

In the short-term stocks remain overbought, which we consider to be a sign of strength. It does, however, leave equities vulnerable to pullbacks and periods of consolidation. Therefore, in the short-term investors still need to be careful with entry points. Longer-term we remain bullish for many reasons. Market breadth is very strong, showing broad-based participation. Sellers have not been aggressive. We recently came through a period where investors shrugged off bad news and stocks moved higher. Unless catalysts arise which cause sellers to step off the sidelines, pullbacks should not be too deep, and the path of least resistance for stocks will remain higher. The economy continues to improve and many companies are revising their forecasts up.

Also, we have entered the second year of this bull market, and we are still well shy of the average length of prior bull markets. We are also well shy of the average percentage gain seen by prior bull markets. Therefore, we think this bull market still has a ways to go. However, we do think that the tone of the market is changing, with the initial blastoff phase of the bull market now complete. This means that selectivity will be more important, and the market will not bail investors out of their mistakes.

We have entered an important period. Obamacare is still dominating the news. The sovereign debt issue is still on the front pages. At the end of March the Fed ended its \$1.25 trillion program of purchasing mortgage backed securities backed by Fannie Mae, Freddie Mac, and Ginnie Mae. At the end of April the homebuyer's tax credit is due to expire. Less widely discussed is an IMF report due in April on an international financial transaction tax. In addition, we now have to worry about the Bipartisan National Commission on Fiscal Responsibility and Reform, which may simply be a smokescreen with the purpose of helping the government raise taxes. There is increasing talk of the United States adopting a VAT tax, which would be as disastrous here as it has been in Europe. Most important of all, we are about to enter earnings season for the first quarter.

**Based on the S&P 500 the short-term, intermediate-term, and the long-term trends are up. Investors need to be careful with entry points, aware of sector rotation, and should not hesitate to move out of lagging stocks and sectors and into leaders.**

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# The Kaufman Report

Trade what you see, not what you think.

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**S&P 1500 Data:** (Data available daily at John Thomas Financial)

P/E: 19.77 FP/E: 15.75 Percent over 10-sma: 72.93%. Percent over 50-sma: 89.40%

13-Week Closing Highs: 319. 13-Week Closing Lows: 3. 52-week closing highs: 239.

Kaufman Options Indicator: 1.04. Put/Call Ratio: 0.711

New High Reversals: 26. New Low Reversals: 2.

Volume: -8% versus yesterday. 99% of the 10-day average. 93% of the 30-day average.

Up Stocks: 69.79%. Up Volume: 74.93%. Up Points: 82.92%. Up Dollars: 94.15%, 148% of 10-sma. Dn Dollars 22% of 10-sma.

Earnings: 499 of the S&P 500 have reported so far this earnings season. 72.2% have had positive surprises, 10.3% have been in line, and 17.5% have had negative surprises.

Federal Funds Futures project an 84.0% probability of no change to the current 0.25 % target rate and a 16.0% probability of a cut to 0.00% when the FOMC meets on 4/28. For the meeting of 6/23 the probabilities are 77.2% for no change, 8.4% for 0.50, and 14.4% for 0.00%.

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## Indexes, Sectors, and Industry Groups

|                             | Price    | Daily | WTD   | 5-Days | MTD   | QTD   | YTD    | 52H      | 52L     |
|-----------------------------|----------|-------|-------|--------|-------|-------|--------|----------|---------|
| Bank of New York Mellon ADR | 139.04   | 1.19% | 0.68% | 0.68%  | 2.48% | 2.48% | 1.97%  | 142.19   | 92.53   |
| S&P Midcap 400              | 814.48   | 0.87% | 2.16% | 2.16%  | 3.11% | 3.11% | 12.08% | 814.92   | 508.45  |
| NYSE Composite              | 7629.05  | 0.84% | 1.19% | 1.19%  | 2.43% | 2.43% | 6.18%  | 7630.52  | 5176.41 |
| Nasdaq Composite            | 2454.05  | 0.71% | 2.14% | 2.14%  | 2.34% | 2.34% | 8.15%  | 2454.12  | 1598.93 |
| Nasdaq 100                  | 1994.43  | 0.69% | 1.78% | 1.78%  | 1.84% | 1.84% | 7.21%  | 1994.48  | 1295.10 |
| S&P 1500                    | 274.34   | 0.68% | 1.48% | 1.48%  | 2.26% | 2.26% | 7.67%  | 274.36   | 187.46  |
| S&P 500                     | 1194.37  | 0.67% | 1.38% | 1.38%  | 2.13% | 2.13% | 7.11%  | 1194.66  | 826.83  |
| Dow Jones Industrials       | 10997.35 | 0.64% | 0.64% | 0.64%  | 1.30% | 1.30% | 5.46%  | 11000.98 | 7791.95 |
| S&P Smallcap 600            | 372.41   | 0.49% | 2.47% | 2.47%  | 3.36% | 3.36% | 11.96% | 372.88   | 235.24  |

|                        | Price  | Daily | WTD    | 5-Days | MTD    | QTD    | YTD    | 52H    | 52L    |
|------------------------|--------|-------|--------|--------|--------|--------|--------|--------|--------|
| Energy                 | 447.72 | 1.11% | 2.37%  | 2.37%  | 4.05%  | 4.05%  | 4.13%  | 456.99 | 337.27 |
| Telecom Services       | 108.94 | 0.89% | -0.23% | -0.23% | 0.73%  | 0.73%  | -4.97% | 117.00 | 96.72  |
| Consumer Discretionary | 267.72 | 0.88% | 2.73%  | 2.73%  | 3.49%  | 3.49%  | 13.89% | 267.80 | 166.20 |
| Information Technology | 384.04 | 0.83% | 1.80%  | 1.80%  | 1.90%  | 1.90%  | 3.59%  | 384.20 | 250.99 |
| Consumer Staples       | 288.63 | 0.62% | -0.33% | -0.33% | 0.17%  | 0.17%  | 5.22%  | 290.45 | 219.37 |
| Utilities              | 153.37 | 0.55% | 0.47%  | 0.47%  | 1.77%  | 1.77%  | -2.92% | 161.50 | 127.77 |
| Industrials            | 277.66 | 0.52% | 1.03%  | 1.03%  | 1.62%  | 1.62%  | 14.27% | 277.68 | 170.97 |
| Financials             | 222.82 | 0.45% | 2.81%  | 2.81%  | 3.75%  | 3.75%  | 14.98% | 223.23 | 124.05 |
| Health Care            | 372.17 | 0.40% | -0.69% | -0.69% | -0.14% | -0.14% | 2.75%  | 384.95 | 270.73 |
| Materials              | 210.95 | 0.29% | 1.27%  | 1.27%  | 3.09%  | 3.09%  | 5.58%  | 213.44 | 137.99 |

|  | Price  | Daily | WTD    | 5-Days | MTD    | QTD    | YTD    | 52H    | 52L    |
|--|--------|-------|--------|--------|--------|--------|--------|--------|--------|
| Real Estate                            | 106.88 | 1.75% | 3.17%  | 3.17%  | 3.71%  | 3.71%  | 13.48% | 107.94 | 52.78  |
| Media                                  | 182.43 | 1.65% | 2.09%  | 2.09%  | 2.99%  | 2.99%  | 11.52% | 183.28 | 107.04 |
| Consumer Durables & Apparel            | 151.95 | 1.32% | 2.93%  | 2.93%  | 3.73%  | 3.73%  | 15.90% | 152.02 | 88.19  |
| Energy                                 | 447.72 | 1.11% | 2.37%  | 2.37%  | 4.05%  | 4.05%  | 4.13%  | 456.99 | 337.27 |
| Semiconductors & Equipment             | 324.43 | 1.03% | 1.24%  | 1.24%  | 1.50%  | 1.50%  | 3.87%  | 327.61 | 214.97 |
| Software & Services                    | 501.22 | 0.93% | 2.05%  | 2.05%  | 1.91%  | 1.91%  | 0.93%  | 504.78 | 331.93 |
| Telecom Services                       | 108.94 | 0.89% | -0.23% | -0.23% | 0.73%  | 0.73%  | -4.97% | 117.00 | 96.72  |
| Food, Beverage & Tobacco               | 322.03 | 0.84% | -0.34% | -0.34% | 0.41%  | 0.41%  | 5.07%  | 324.19 | 236.03 |
| Automobiles & Components               | 95.36  | 0.74% | 0.68%  | 0.68%  | 1.49%  | 1.49%  | 22.66% | 101.97 | 37.21  |
| Technology Hardware & Equipment        | 412.30 | 0.69% | 1.75%  | 1.75%  | 2.00%  | 2.00%  | 5.84%  | 412.86 | 263.47 |
| Capital Goods                          | 302.25 | 0.60% | 1.02%  | 1.02%  | 1.73%  | 1.73%  | 15.73% | 302.57 | 179.91 |
| Utilities                              | 153.37 | 0.55% | 0.47%  | 0.47%  | 1.77%  | 1.77%  | -2.92% | 161.50 | 127.77 |
| Pharmaceuticals, Biotech & Life Scienc | 345.25 | 0.46% | -0.59% | -0.59% | -0.02% | -0.02% | 1.62%  | 359.71 | 260.29 |
| Food & Staples Retailing               | 195.65 | 0.44% | 0.42%  | 0.42%  | 0.66%  | 0.66%  | 6.87%  | 196.37 | 159.75 |
| Retailing                              | 468.26 | 0.43% | 3.69%  | 3.69%  | 4.11%  | 4.11%  | 13.90% | 468.26 | 303.74 |
| Commercial & Professional Services     | 139.62 | 0.37% | 0.89%  | 0.89%  | 1.15%  | 1.15%  | 4.34%  | 140.08 | 105.55 |
| Diversified Financials                 | 364.28 | 0.36% | 3.39%  | 3.39%  | 4.55%  | 4.55%  | 13.29% | 366.41 | 208.62 |
| Banks                                  | 156.42 | 0.32% | 4.40%  | 4.40%  | 5.19%  | 5.19%  | 24.79% | 157.19 | 76.78  |
| Household & Personal Products          | 374.56 | 0.32% | -1.05% | -1.05% | -0.84% | -0.84% | 3.82%  | 383.05 | 271.53 |
| Insurance                              | 185.63 | 0.29% | 0.11%  | 0.11%  | 0.90%  | 0.90%  | 12.64% | 186.57 | 110.75 |
| Materials                              | 210.95 | 0.29% | 1.27%  | 1.27%  | 3.09%  | 3.09%  | 5.58%  | 213.44 | 137.99 |
| Consumer Services                      | 420.66 | 0.29% | 2.59%  | 2.59%  | 3.74%  | 3.74%  | 13.54% | 420.66 | 281.37 |
| Health Care Equip & Services           | 364.61 | 0.28% | -0.88% | -0.88% | -0.37% | -0.37% | 5.01%  | 371.77 | 245.84 |
| Transportation                         | 286.18 | 0.21% | 1.09%  | 1.09%  | 1.28%  | 1.28%  | 12.27% | 286.79 | 184.06 |

## INTERNATIONAL ETFs

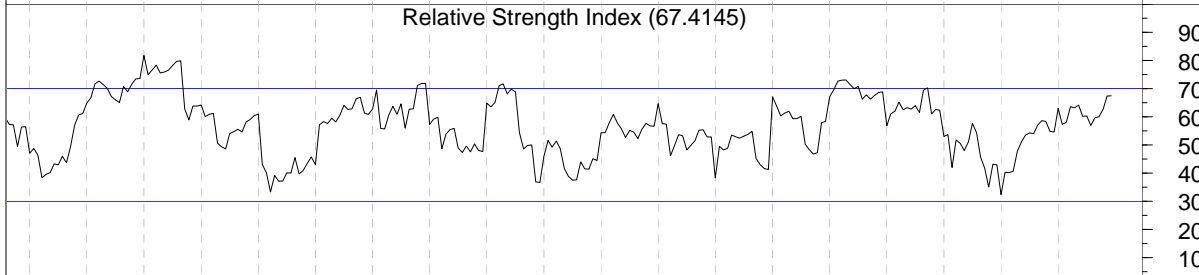
|                           | Price | Daily | WTD    | MTD    | QTD    | YTD    | 52H   | 52L   |
|---------------------------|-------|-------|--------|--------|--------|--------|-------|-------|
| Spain EWP                 | 43.96 | 3.36% | 1.62%  | 4.07%  | 4.07%  | -8.49% | 52.67 | 31.97 |
| Austria EWO               | 20.71 | 2.37% | 3.24%  | 4.86%  | 4.86%  | 5.88%  | 23.59 | 12.76 |
| China 25 FXI              | 44.59 | 1.87% | 3.05%  | 5.91%  | 5.91%  | 5.51%  | 46.66 | 30.07 |
| Turkey TUR                | 62.09 | 1.82% | 6.05%  | 8.34%  | 8.34%  | 15.19% | 62.18 | 26.51 |
| France EWQ                | 25.49 | 1.76% | -0.31% | 1.72%  | 1.72%  | -1.39% | 27.32 | 17.35 |
| Italy EWI                 | 18.33 | 1.72% | -1.45% | 0.49%  | 0.49%  | -6.05% | 21.77 | 13.13 |
| Netherlands EWN           | 21.01 | 1.69% | 0.24%  | 2.99%  | 2.99%  | 2.69%  | 21.51 | 12.79 |
| Switzerland EWL           | 23.12 | 1.67% | -1.15% | 0.09%  | 0.09%  | 3.86%  | 23.57 | 15.11 |
| Belgium EWK               | 13.24 | 1.53% | 0.53%  | 1.69%  | 1.69%  | 3.76%  | 13.95 | 8.20  |
| Russia RSX                | 35.89 | 1.50% | 2.02%  | 4.48%  | 4.48%  | 15.07% | 35.92 | 16.18 |
| Germany EWG               | 22.17 | 1.37% | -0.27% | 1.37%  | 1.37%  | -1.20% | 23.40 | 15.74 |
| Mexico EWW                | 55.03 | 1.36% | 2.10%  | 3.11%  | 3.11%  | 12.60% | 55.03 | 29.97 |
| United Kingdom EWU        | 16.74 | 1.33% | 0.97%  | 2.89%  | 2.89%  | 3.33%  | 17.20 | 10.73 |
| Hong Kong EWH             | 16.77 | 1.08% | 1.27%  | 2.95%  | 2.95%  | 7.09%  | 16.79 | 11.13 |
| Vietnam VNM               | 26.11 | 0.93% | 1.40%  | 3.78%  | 3.78%  | 2.43%  | 32.15 | 23.17 |
| Sweden EWD                | 26.24 | 0.92% | 0.15%  | 3.35%  | 3.35%  | 11.66% | 26.45 | 14.98 |
| Malaysia EWM              | 12.07 | 0.84% | 2.12%  | 3.34%  | 3.34%  | 13.65% | 12.08 | 7.51  |
| Australia EWA             | 24.79 | 0.81% | 1.31%  | 3.25%  | 3.25%  | 8.54%  | 24.82 | 13.55 |
| Chile ECH                 | 56.98 | 0.80% | 2.56%  | 3.71%  | 3.71%  | 4.00%  | 60.94 | 34.75 |
| India IFN                 | 32.83 | 0.74% | 2.63%  | 4.09%  | 4.09%  | 6.94%  | 33.00 | 18.13 |
| Israel EIS                | 58.70 | 0.70% | -0.73% | -0.27% | -0.27% | 7.90%  | 60.68 | 33.90 |
| Latin America ILF         | 49.78 | 0.69% | 1.28%  | 3.13%  | 3.13%  | 4.16%  | 50.25 | 27.36 |
| Singapore EWS             | 11.88 | 0.68% | 1.11%  | 3.30%  | 3.30%  | 3.39%  | 11.90 | 6.78  |
| Taiwan EWT                | 13.01 | 0.62% | 1.01%  | 3.67%  | 3.67%  | 0.31%  | 13.46 | 8.62  |
| MSCI Emerging Markets EEM | 43.78 | 0.61% | 1.30%  | 3.93%  | 3.93%  | 5.49%  | 46.66 | 26.48 |

S&P 500 Cash (1,194.34, 1,194.39, 1,194.34, 1,194.37, +0.02)

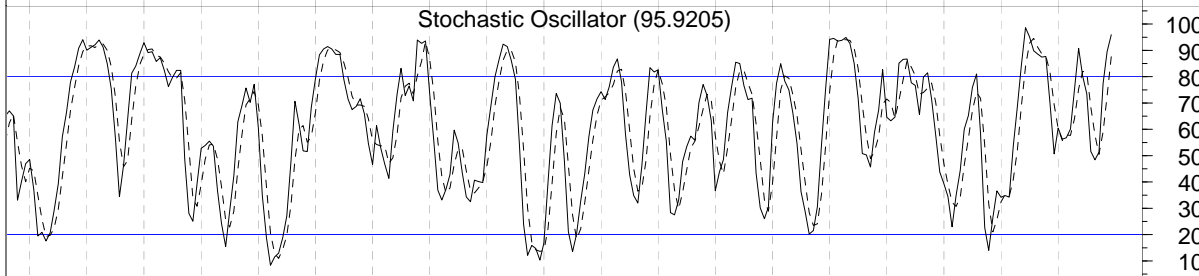


The 30-minute chart of the S&P 500 shows a steady rise to new highs Friday.

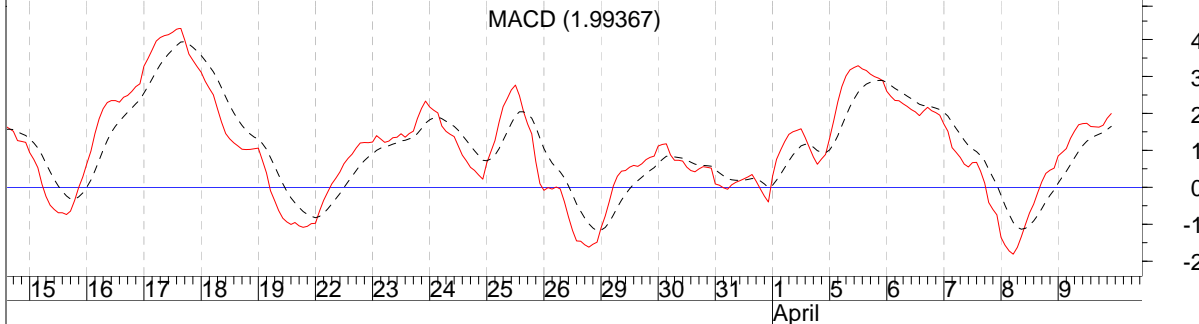
Relative Strength Index (67.4145)



Stochastic Oscillator (95.9205)



MACD (1.99367)



Momentum indicators are at high or overbought levels but have not yet turned down.

S&P 500 Cash (1,187.47, 1,194.66, 1,187.15, 1,194.37, +7.93)



The daily chart of the S&P 500 shows a steady march higher with very few pullbacks since the end of February.

Daily momentum indicators remain at high or overbought levels.



The weekly chart of the S&P 500 highlights the persistence of the rally with 8 of 9 up weeks since early February.

Weekly momentum indicators remain at overbought or high levels.

NASDAQ 100 (1,984.01, 1,994.48, 1,978.04, 1,994.43, +13.70)



The daily chart of the Nasdaq 100 shows new highs after overcoming some resistance at the end of March.

Here too momentum indicators are at high or overbought levels.

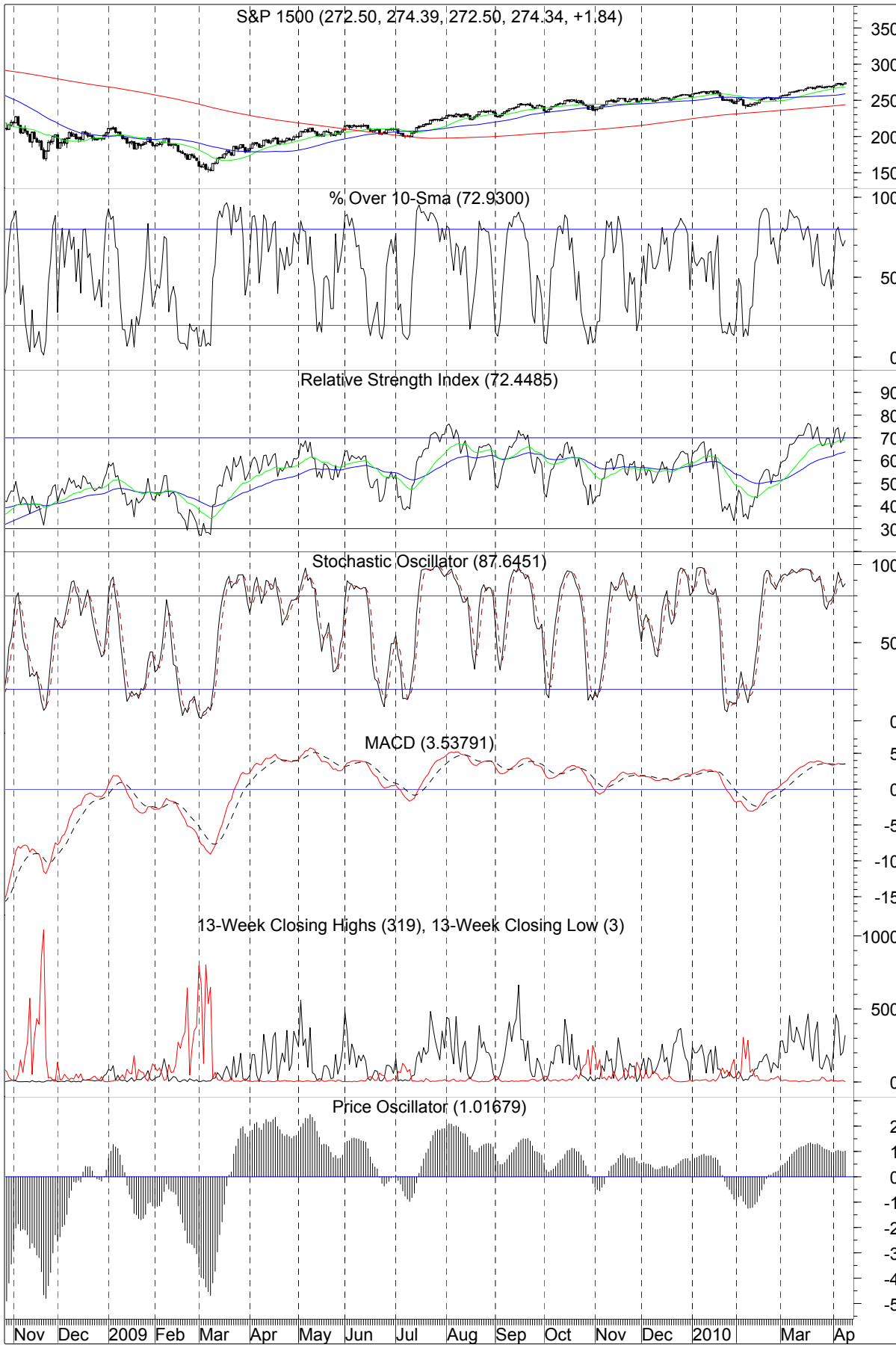


NASDAQ 100 (1,964.03, 1,994.48, 1,958.01, 1,994.43, +34.87)



The weekly chart of the Nasdaq 100 shows it is only 10.93% off the 10/31/2007 high of 2,239.23. To get there the index needs to climb another 12.28%.

Once again, weekly momentum indicators remain at overbought or high levels.

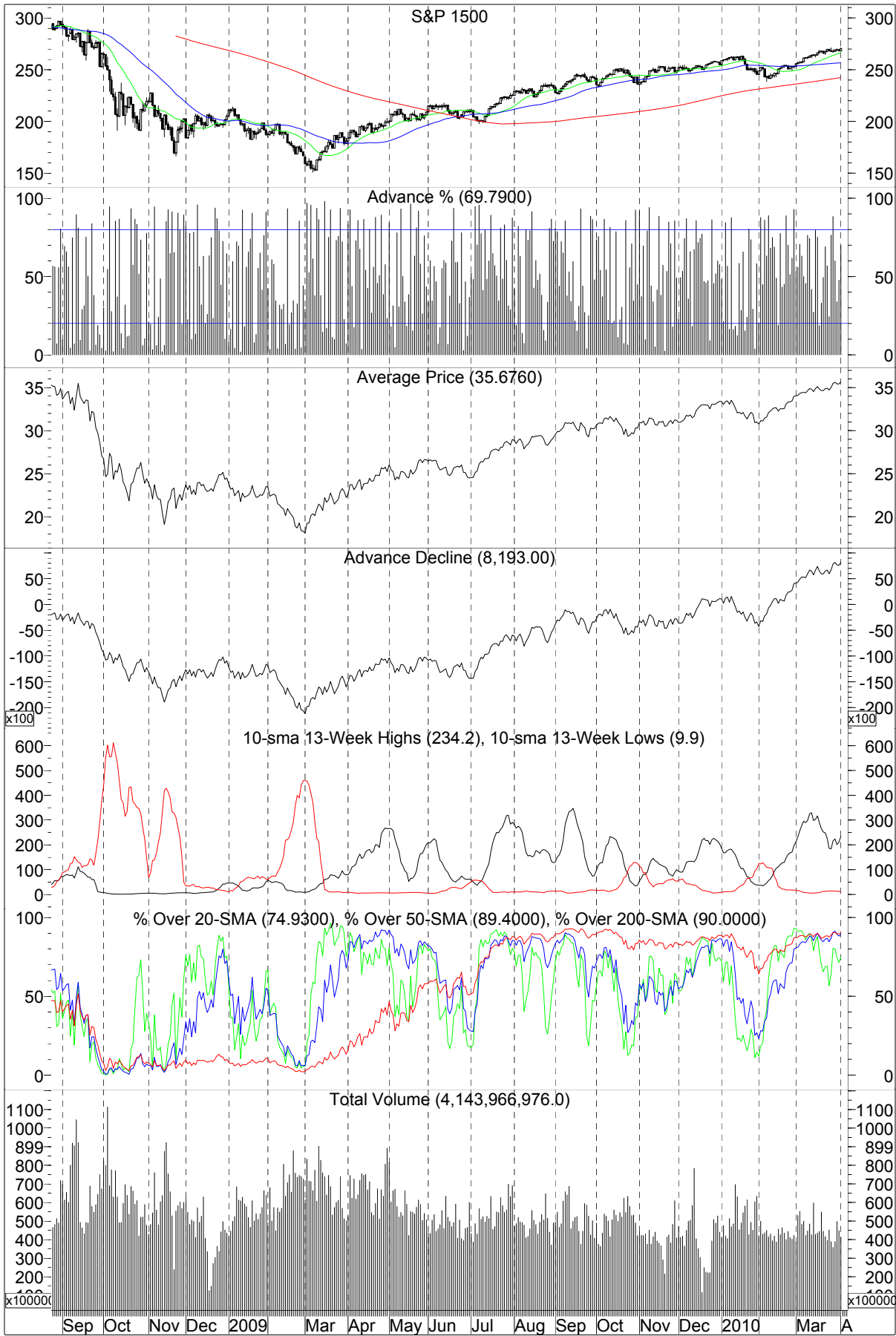


72.93% of stocks are over their own 10-sma.

Momentum indicators remain at overbought or high levels.

14-week closing highs continue to swamp 13-week lows.

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

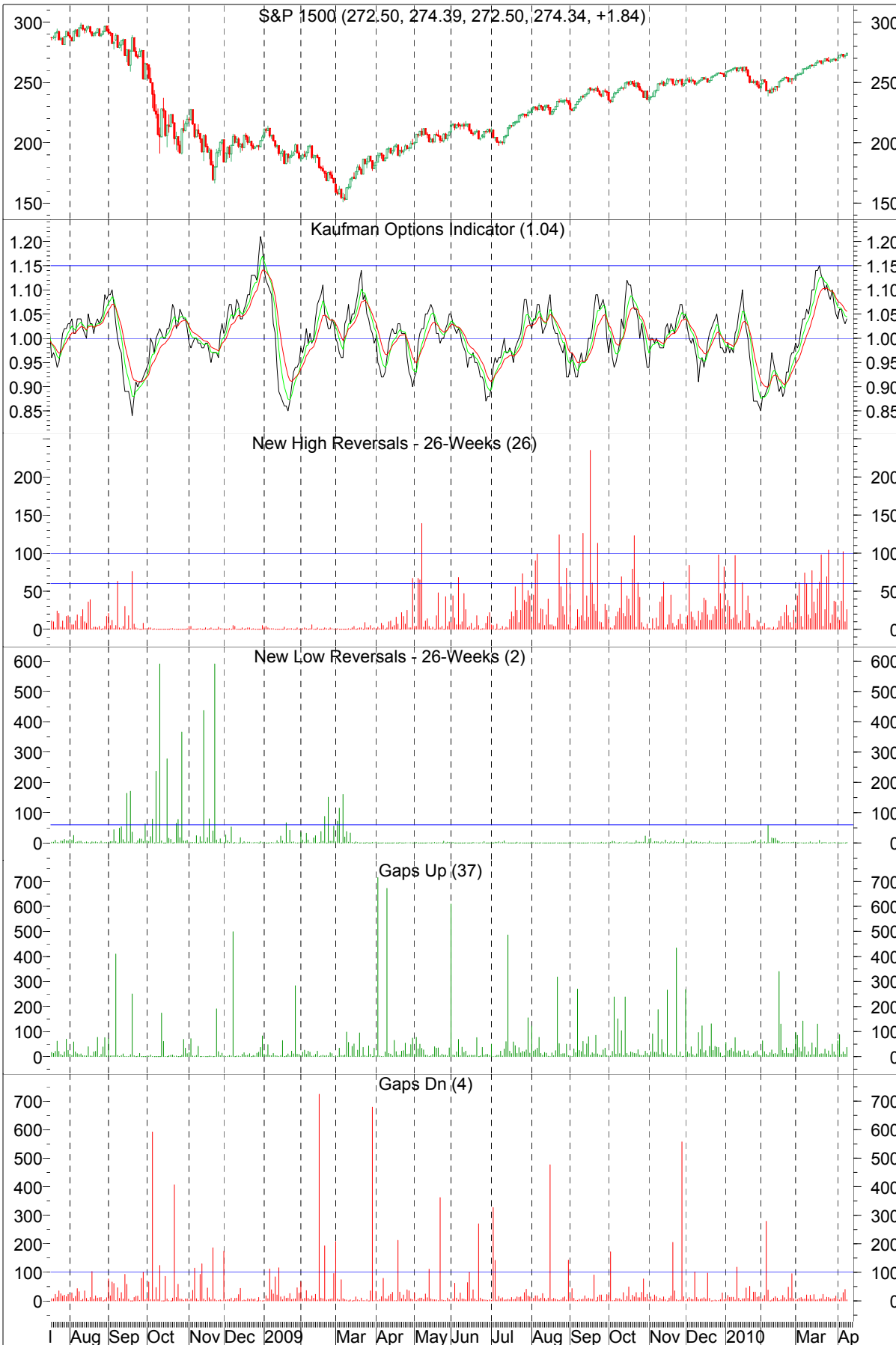


69.79% of stocks traded higher Friday.

Average price and the AD line are made new highs. All of our statistics of market breadth have made new highs, confirming the high in the S&P 1500 and pointing to higher prices in the future.

The percentages of stocks over important moving averages remain at bull market levels.

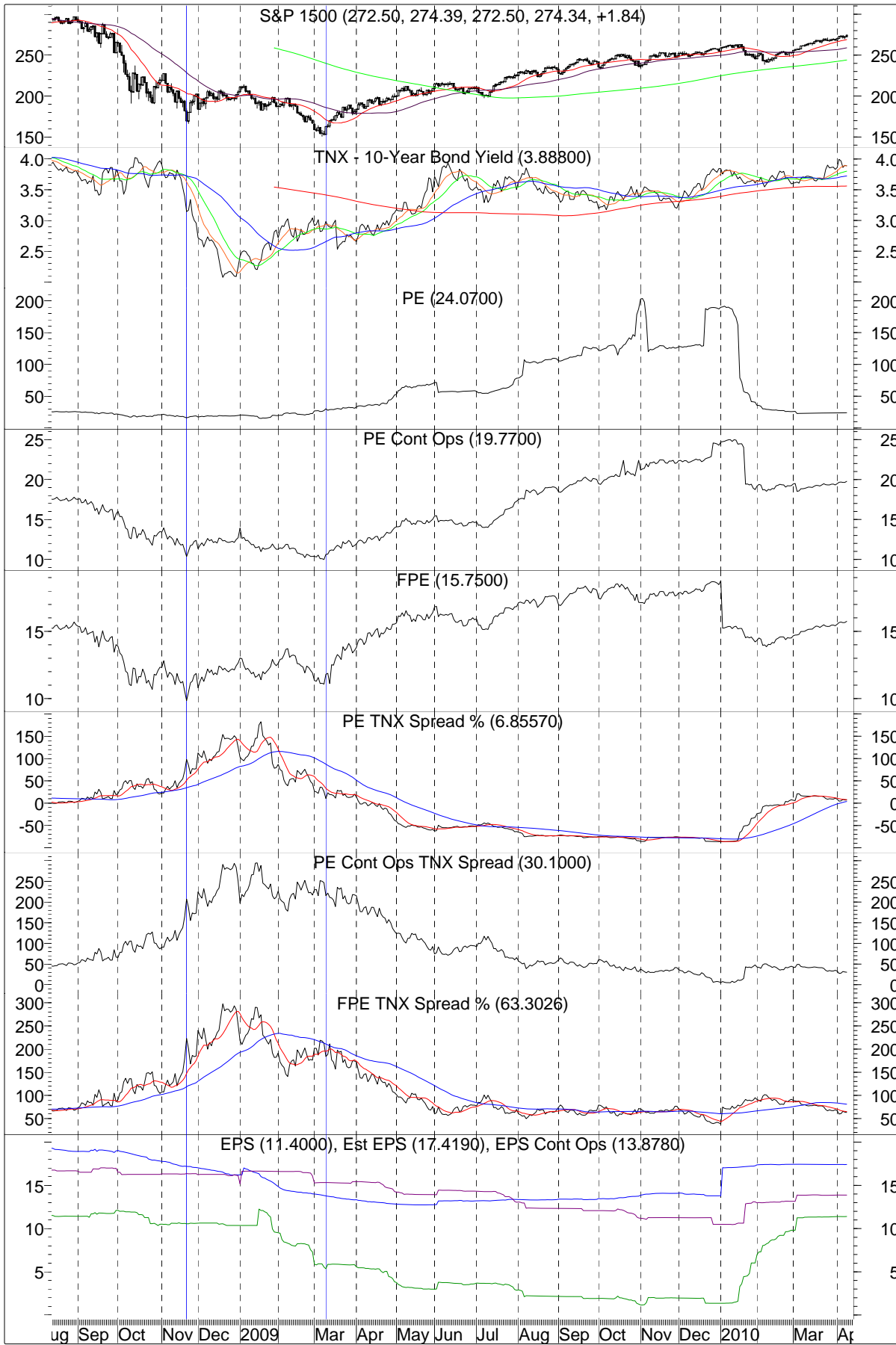
The Kaufman Report - Wayne S. Kaufman, CMT



After reaching extreme overbullish levels our proprietary options indicator has moved down closer to neutral. We don't like to see excessive optimism.



Our statistics of supply (red) versus demand (green) shows that buying has been decreasing lately, not unusual ahead of an earnings season, but sellers seem to be even more reticent. As we have said many times, as long as sellers remain on the sidelines the path of least resistance will be higher.

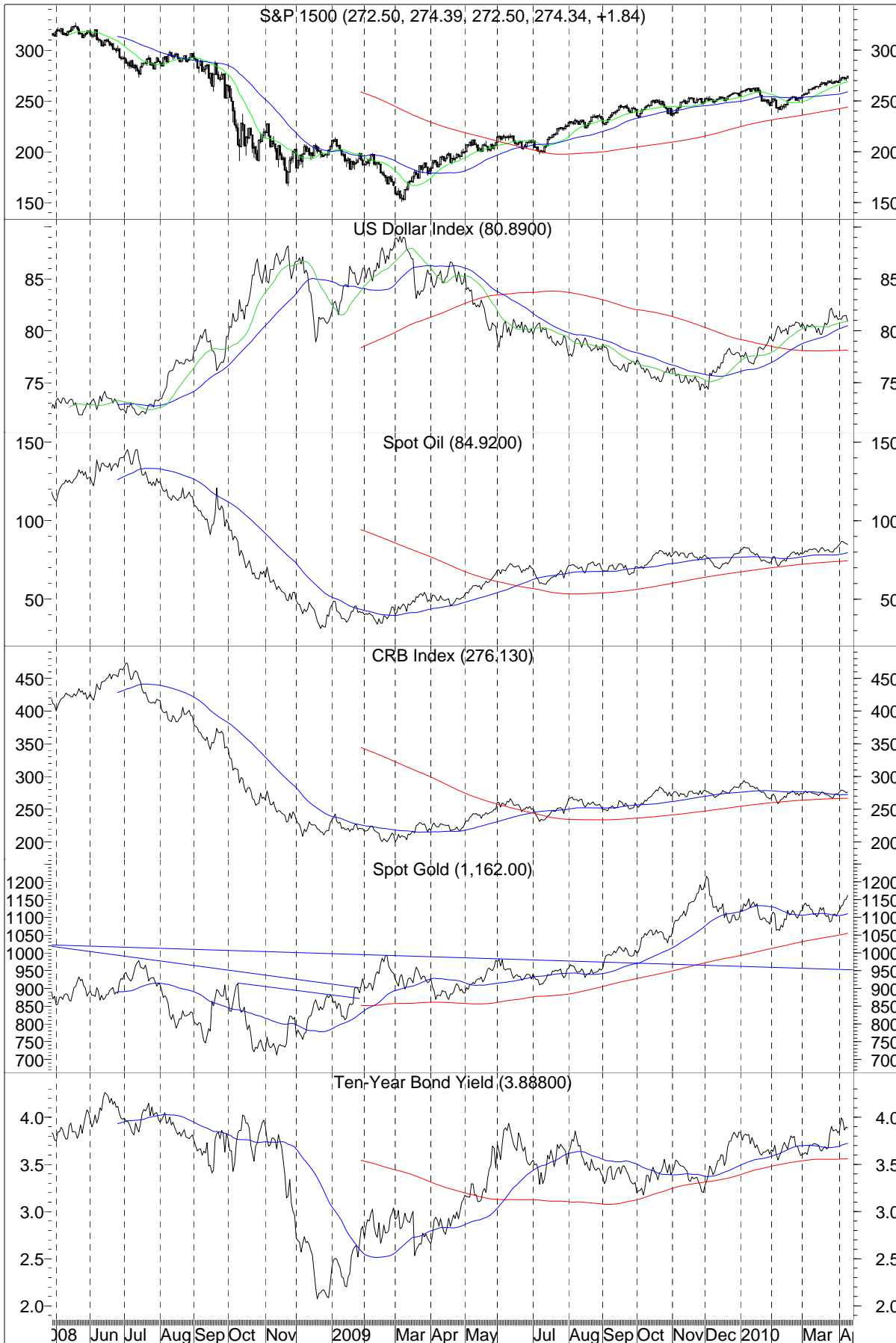


Bond yields have been rising and as we said last week a move over 4% will trigger debate between bulls who say rates rise as the economy improves and bears who say it will kill the rally in stocks. Depending on other factors, we are in the bull camp.

P/E ratios have been very steady recently after plunging in January.

Spreads between equity and bond yields remain at levels which should be supportive for equities.

Our earnings metrics are flat lining, a condition which will end now that we are entering earnings season.



The U.S. Dollar Index is just below its 20-sma (green) and just above its 50-sma. It is just below a resistance zone.

Last week oil hit the highest level since October 2008. It became overbought on the daily chart before pulling back slightly. It is not overbought on the weekly chart.

On March 22nd we said sentiment for gold had turned bearish, which should be a setup for a rally soon. It bottomed on March 24th, and has since rallied and taken out the march and January highs. We think it will make new highs, as it already has in other currencies, but short-term it is nearing overbought levels and there is too much bullishness developing.