

Friday August 28, 2009

Closing prices of August 27, 2009

Stocks sold off early Thursday but rebounded quickly and finished the day slightly higher. The Dow Jones Industrials, the S&P 500, and the Nasdaq 100 all recorded new post-March rally closing highs, although not intra-day highs. The technical picture has mixed interpretations as the bulls and bears have slugged it out this week. Some negative divergences have shown up, and they need to be erased quickly or they are red flags. Still, stocks are up so far for the week, and sellers remain reticent. August 17th, nine sessions ago, was the last day where total down dollars was more than 100% of its 10-day moving average.

Thursday's action should be heartening to the bulls, since the media is filled with market watchers (including us) reminding everyone that September is the worst month of the year. With that in mind, one would have thought that the early morning selloff would have convinced investors that discretion is the better part of valor, but they rushed in to buy the dip. Are they just squeezing the last few performance points out of August, or is this a sign that the rally still has legs?

With September's well-known reputation as the weakest month of the year and October being famous for market crashes there are many market forecasters who are predicting another plummet in equities during this time period. While we are expecting a big increase in volatility, unless the recent reluctance on the part of investors to part with their stocks changes, we do not expect pullbacks to be too deep. Still, with stocks overbought investors need to be cautious in the near-term.

Our strategy is simple. We will continue to be on the side of the primary trend, which is up. Market breadth remains very strong, with an amazing 89.7% of the S&P 1500 over their own 200-day moving averages, and 86.5% over their own 50-day. Until we see sellers becoming more aggressive we will be reluctant to call a top, and the path of least resistance will be up.

Caution is advised regarding entry points and we repeat our advice that investors use stop losses to make sure losses remain manageable. Very aggressive traders can enter short keeping in mind shorting is counter trend at this time and they may need to cover quickly. 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.

The S&P 1500 (235.31) was up 0.277% Thursday. Average price per share was up 0.22%. Volume was 105% of its 10-day average and 95% of its 30-day average. 51.67% of the S&P 1500 stocks were up, with up volume at 74.19% and up points at 61.01%. Up Dollars was 67.29% of total dollars, and was 58% of its 10-day moving average. Down Dollars was 36% of its 10-day moving average.

Percent over 10-sma: 78.40%. 13-Week Closing Highs: 201. 13-Week Closing Lows: 3.

Put/Call Ratio: 0.815. Kaufman Options Indicator: 0.99.

P/E Ratios: 109.67 (before charges), 19.08 (continuing operations), 17.65 (analyst estimates).

P/E Yield 10-year Bond Yield Spreads: -74% (earnings bef. charges), 51% (earnings continuing ops), and 64% (projected earnings).

491 of the S&P 500 have reported 2nd quarter earnings. According to Bloomberg, 72.2% had positive surprises, 8.8% were in line, and 19.0% have been negative. The year-over-year change has been -28.8% on a share-weighted basis, -21.3% market cap-weighted and -25.4% non-weighted. Ex-financial stocks these numbers are -27.8%, -23.0%, and -27.3 %, respectively.

IMPORTANT DISCLOSURES

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	Daily	WTD	5-Days	MTD	QTD	YTD
Bank of New York Mellon ADR	0.81%	0.95%	2.73%	4.33%	15.07%	23.92%
NYSE Composite	0.51%	0.69%	2.58%	4.64%	13.84%	16.77%
Dow Jones Industrials	0.39%	0.79%	2.47%	4.46%	13.42%	9.16%
S&P Midcap 400	0.37%	0.35%	2.29%	5.39%	14.49%	22.96%
S&P 500	0.28%	0.47%	2.34%	4.41%	12.15%	14.14%
S&P 1500	0.28%	0.45%	2.34%	4.48%	12.43%	14.82%
Nasdaq 100	0.24%	0.19%	1.66%	2.35%	11.08%	35.43%
Nasdaq Composite	0.16%	0.34%	1.94%	2.49%	10.50%	28.58%
S&P Smallcap 600	0.03%	0.22%	2.49%	4.27%	14.93%	14.75%

	Daily	WTD	5-Days	MTD	QTD	YTD
Financials	0.97%	1.03%	3.20%	13.12%	23.06%	17.20%
Industrials	0.84%	0.69%	3.23%	5.86%	15.65%	6.76%
Materials	0.59%	-1.09%	1.47%	2.81%	16.49%	30.79%
Information Technology	0.36%	0.44%	1.98%	2.95%	12.36%	39.42%
Consumer Discretionary	0.33%	1.04%	3.10%	5.16%	15.02%	23.66%
Health Care	0.21%	0.69%	1.84%	3.24%	9.19%	8.15%
Consumer Staples	-0.20%	0.17%	1.26%	1.00%	7.23%	3.54%
Utilities	-0.26%	-0.72%	1.23%	1.23%	4.96%	0.68%
Energy	-0.37%	0.09%	2.78%	2.60%	7.01%	3.55%
Telecom Services	-0.62%	0.41%	2.23%	-1.31%	2.25%	-4.64%

	Daily	WTD	5-Days	MTD	QTD	YTD
Diversified Financials	1.08%	1.27%	3.21%	12.60%	22.79%	35.20%
Capital Goods	1.05%	1.23%	3.97%	6.39%	16.51%	6.92%
Insurance	1.04%	2.10%	5.22%	15.50%	28.65%	12.94%
Automobiles & Components	1.02%	-1.18%	-0.14%	-3.00%	25.81%	83.06%
Real Estate	0.94%	1.57%	3.80%	12.15%	23.94%	3.45%
Consumer Durables & Apparel	0.61%	2.40%	3.53%	6.86%	23.37%	21.96%
Materials	0.59%	-1.09%	1.47%	2.81%	16.49%	30.79%
Banks	0.59%	-0.73%	1.20%	12.76%	18.76%	-7.61%
Technology Hardware & Equipment	0.57%	0.22%	1.48%	2.67%	14.67%	45.77%
Media	0.53%	1.59%	4.53%	7.12%	14.62%	16.78%
Health Care Equip & Services	0.52%	1.04%	2.03%	5.63%	11.62%	19.37%
Transportation	0.28%	-1.06%	0.92%	3.67%	14.85%	7.42%
Commercial & Professional Services	0.26%	0.32%	2.56%	7.01%	9.27%	3.46%
Semiconductors & Equipment	0.21%	1.22%	2.71%	1.22%	17.11%	40.78%
Retailing	0.17%	1.06%	3.30%	4.40%	14.79%	32.58%
Software & Services	0.14%	0.45%	2.36%	4.00%	7.88%	31.44%
Pharmaceuticals, Biotech & Life Sciences	0.08%	0.53%	1.76%	2.21%	8.13%	3.59%
Consumer Services	-0.06%	0.07%	1.34%	5.47%	8.61%	9.72%
Food, Beverage & Tobacco	-0.12%	-0.48%	0.81%	0.55%	6.60%	8.82%
Food & Staples Retailing	-0.21%	2.11%	2.91%	5.42%	9.58%	3.52%
Utilities	-0.26%	-0.72%	1.23%	1.23%	4.96%	0.68%
Energy	-0.37%	0.09%	2.78%	2.60%	7.01%	3.55%
Household & Personal Products	-0.38%	-0.54%	0.45%	-2.57%	6.03%	-6.08%
Telecom Services	-0.62%	0.41%	2.23%	-1.31%	2.25%	-4.64%

S&P 500 Cash (1,027.81, 1,033.33, 1,016.20, 1,030.98, +2.86)

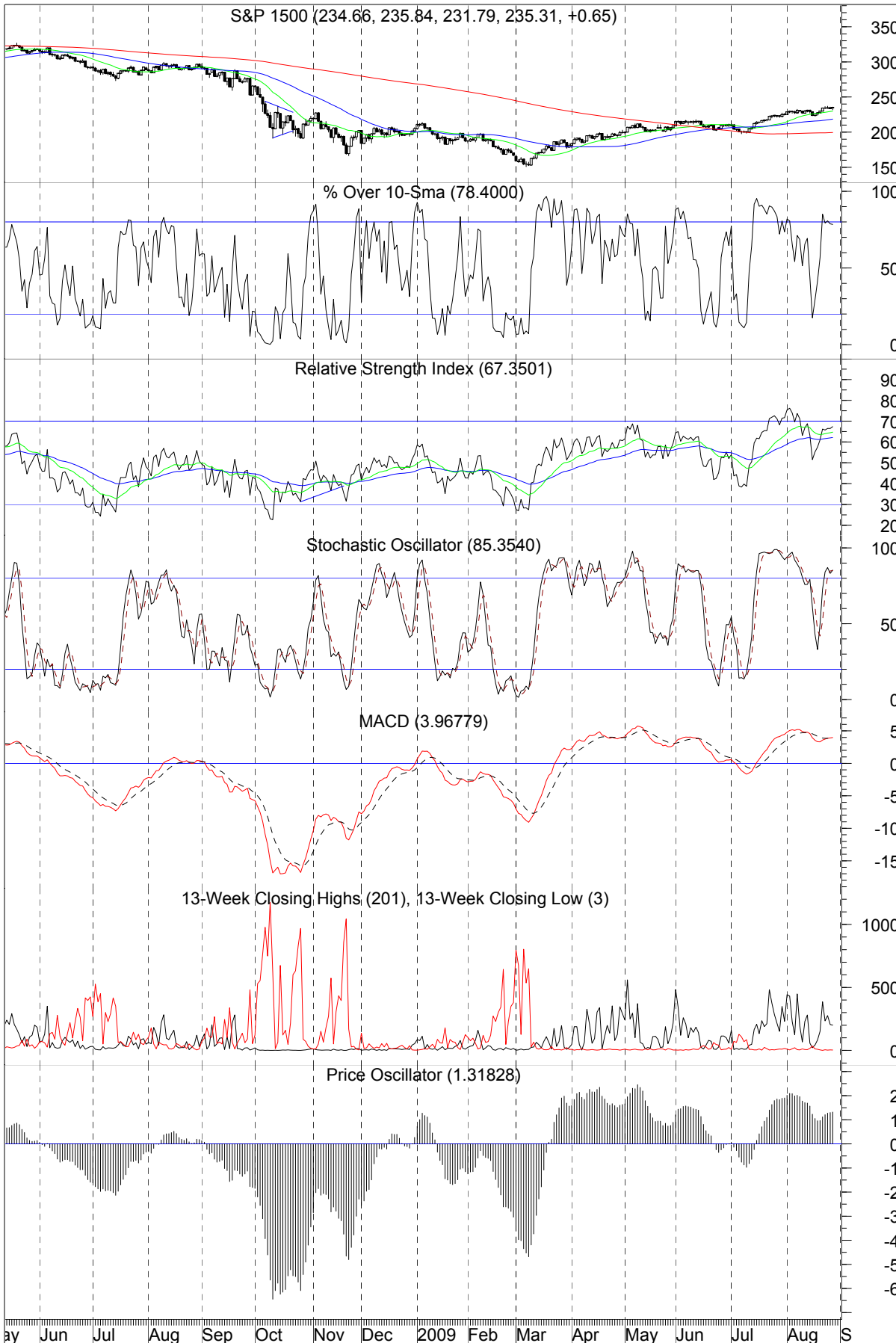


The S&P 500 sold off early Thursday but recovered quickly to close higher on the day. In doing so it printed a hanging man candle on the daily chart. A hanging man requires confirmation the following session in order to be bearish. Maybe more important is the new post-March closing high for the index. The 1030 area is the 40% Fibonacci retracement of the entire bear market, so it would be nice to see a decisive move through this level so we could focus on the 50% level at 1121.

NASDAQ 100 (1,636.13, 1,643.18, 1,611.73, 1,640.97, +3.97)



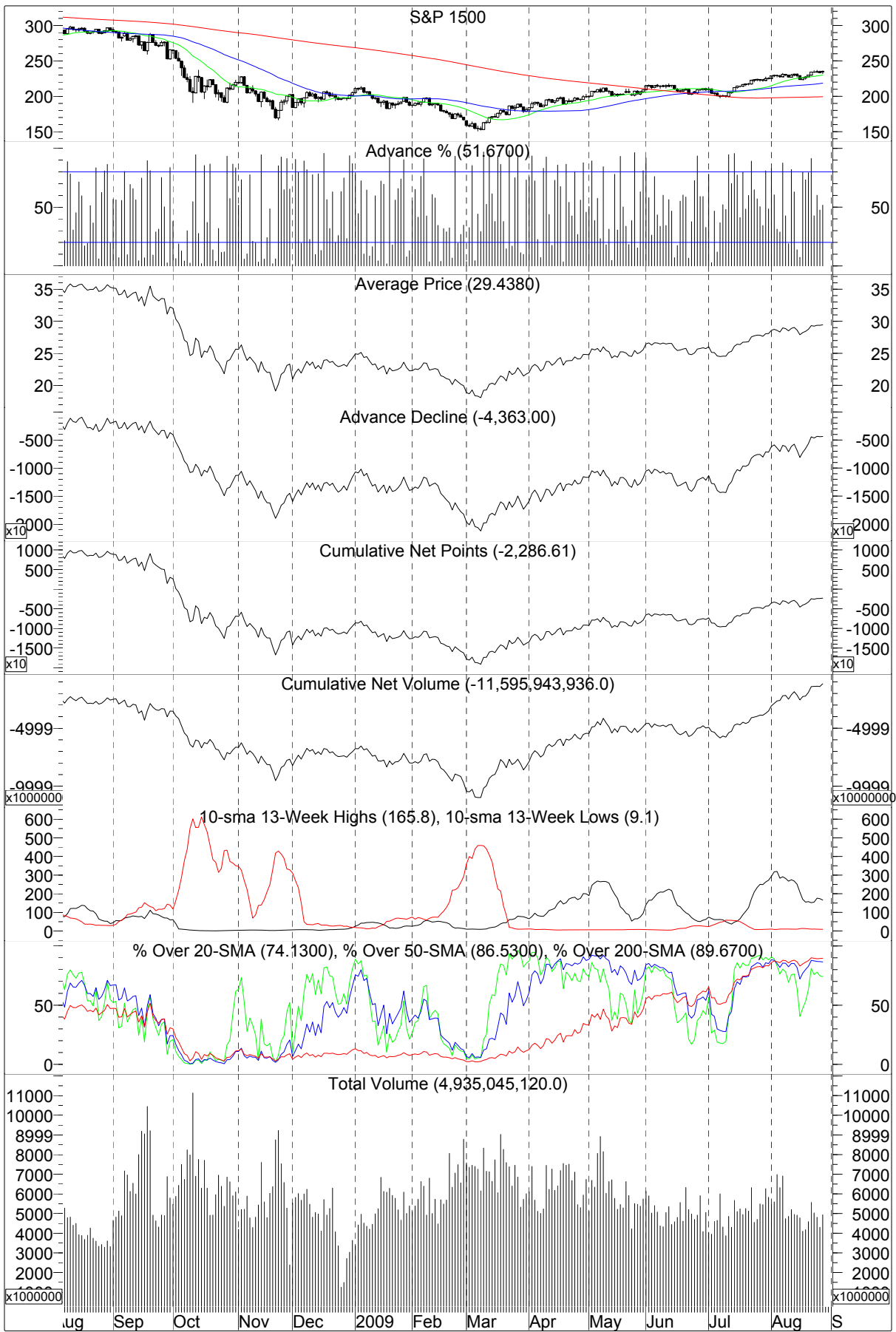
The Nasdaq 100 sold off early but found support at the 20-sma and rebounded to close higher on the day. In doing so it too printed a hanging man candle, which requires confirmation the next session to have a bearish interpretation. Here too the index printed a post-March closing high.



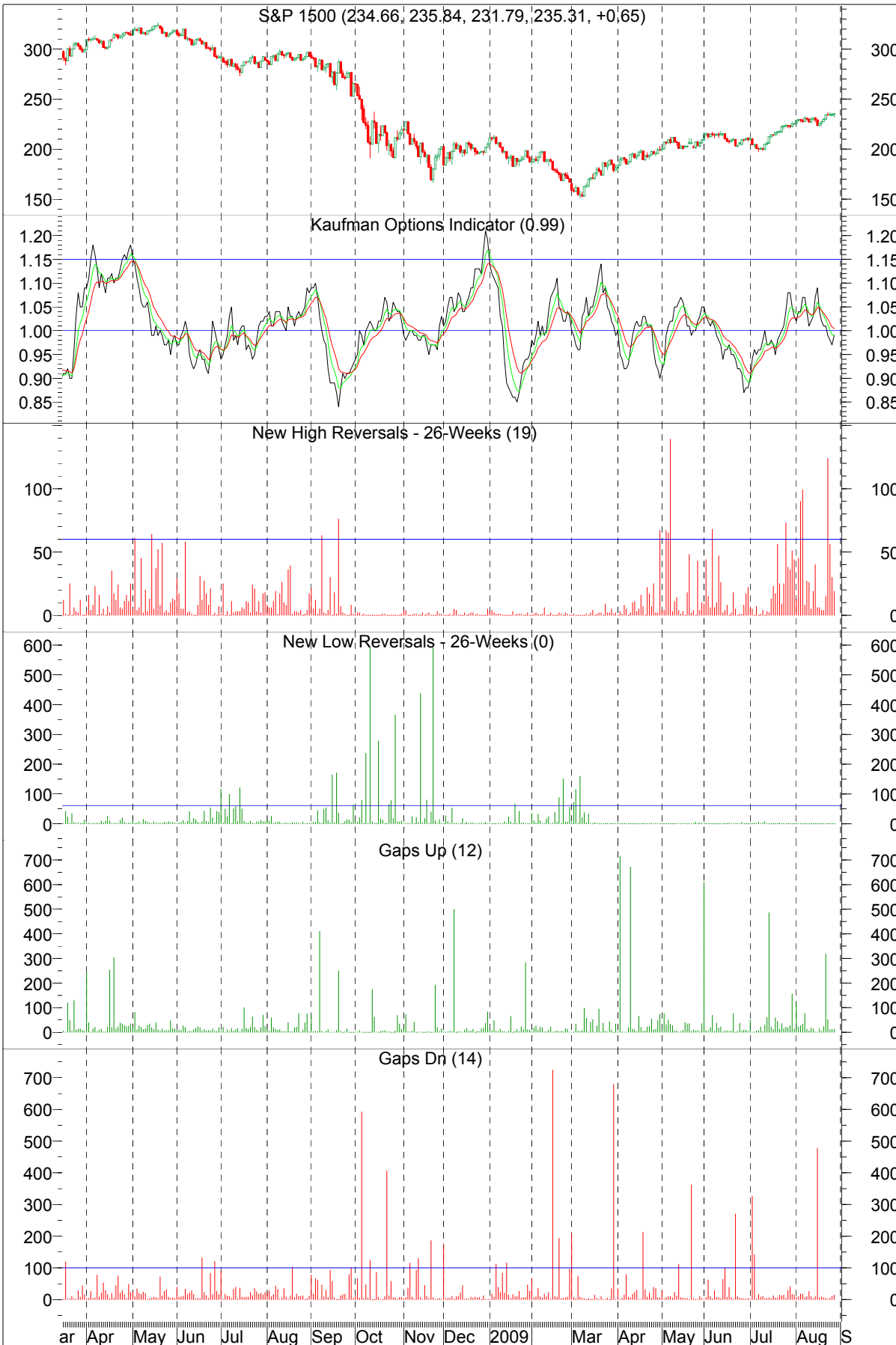
78.4% of the S&P 1500 are over their own 10-sma.

There is a negative divergence on the RSI.

There is a negative divergence in the number of 13-week closing highs. This needs to be cleared up quickly or it is a red flag.



The Kaufman Report - Wayne S. Kaufman, CMT



Our proprietary options indicator is neutral.