

Monday December 28, 2009

Closing prices of December 24, 2009

Last Sunday (12/20) we said “we remain hopeful that shortly stocks will begin an end of the year rally.” That rally actually began Friday December 18th and it continued through last week with the S&P 500 breaking out of its recent tight trading range and major U.S. indexes recording 52-week highs.

We also said “recent call buying shows an expectation of a Santa Claus rally” and that while the call buying was not yet extreme it was a concern. That call buying continued during the week with the put/call ratio hitting very low numbers Monday and Tuesday and its 5-day moving average hitting 0.75 on Friday, the lowest since 0.765 on October 16th, which was just before a short-term top. The Kaufman Options indicator is at 1.05, not yet an extreme but showing too much optimism, so the options picture makes us cautious.

Another reason for caution is valuations based on spreads between equity and bond yields, which have narrowed dramatically. The spread based on aggregate earnings from continuing operations of the S&P 1500 and the 10-year bond yield is 14.75%, the lowest since 14.72% on July 23, 2007. That was just above the 10.61% of July 13, 2007, which marked a very important short-term top.

The good news is sellers are still not aggressive and seasonality is positive. Companies announcing guidance have been overwhelmingly positive. **In summary, we continue to follow the primary trend of the market, which remains up. However, we expect a pull back to occur sometime in the near-term and continuing our tradition of occasionally stating the obvious, disappointments in the upcoming earnings season will be met harshly.**

The recent strength in the Dollar has not hurt equities as the recent amazing inverse correlation between stocks and the U.S. Dollar Index has ended, at least for the time being. It has highlighted sector rotation taking place. **Investors need to be cognizant of sector rotation at this time.** Dollar strength has hurt the ADR Index, which is the worst performing major index in December. We are happy to see the rebound in small and mid-caps, which are the best performing major indexes for December. We said four weeks ago we were hoping to see the January Effect and a Santa Claus Rally, and strength in small-caps says investors are showing more willingness to take risk, which is something a healthy market needs.

Therefore, with volume low and news able to create sharp moves in either direction, this remains a bifurcated short-term trader’s market. We repeat our advice of the last couple of months that positions investors don’t have a good reason to hold onto should be considered as a source of funds. 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.

S&P 1500 Data:

Percent over 10-sma: 86.87%. Percent over 50-sma: 81.20%

13-Week Closing Highs: 367. 13-Week Closing Lows: 2. 52-week closing highs: 286.

Kaufman Options Indicator: 1.05 Put/Call Ratio: 0.74. New High Reversals: 26. New Low Reversals: 0

Volume: -62% versus yesterday. 27% of the 10-day average. 28% of the 30-day average.

Up Stocks: 77.08%. Up Volume: 86.28%. Up Points: 83.01%. Up Dollars: 96.54%, 97% of 10-sma. Dn Dollars 10% of 10-sma.

IMPORTANT DISCLOSURES

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| | Daily | WTD | MTD | QTD | YTD |
|-----------------------------|-------|-------|--------|-------|--------|
| Nasdaq 100 | 0.96% | 5.15% | 5.79% | 8.78% | 54.32% |
| Nasdaq Composite | 0.71% | 4.85% | 6.58% | 7.69% | 44.94% |
| Bank of New York Mellon ADR | 0.69% | 2.88% | 1.02% | 3.47% | 32.91% |
| S&P 500 | 0.53% | 2.77% | 2.82% | 6.57% | 24.71% |
| NYSE Composite | 0.52% | 2.71% | 2.29% | 4.98% | 26.02% |
| S&P 1500 | 0.52% | 2.95% | 3.47% | 6.59% | 25.69% |
| S&P Smallcap 600 | 0.52% | 5.11% | 10.04% | 6.29% | 25.56% |
| Dow Jones Industrials | 0.51% | 2.06% | 1.69% | 8.32% | 19.87% |
| S&P Midcap 400 | 0.51% | 4.00% | 8.02% | 7.05% | 37.42% |

| | Daily | WTD | MTD | QTD | YTD |
|------------------------|--------|-------|--------|--------|--------|
| Information Technology | 1.01% | 4.89% | 6.14% | 11.03% | 60.76% |
| Financials | 0.86% | 3.72% | -0.63% | -2.69% | 15.98% |
| Materials | 0.78% | 4.27% | 2.53% | 8.08% | 46.83% |
| Utilities | 0.70% | 1.00% | 6.73% | 7.61% | 8.34% |
| Energy | 0.48% | 2.78% | 0.22% | 6.33% | 12.64% |
| Industrials | 0.42% | 1.07% | 2.66% | 6.37% | 19.06% |
| Telecom Services | 0.37% | 2.68% | 5.14% | 6.43% | 3.18% |
| Consumer Staples | 0.30% | 1.33% | 0.32% | 5.25% | 12.30% |
| Consumer Discretionary | 0.11% | 2.48% | 5.61% | 9.92% | 40.46% |
| Health Care | -0.04% | 1.61% | 2.97% | 9.66% | 18.29% |

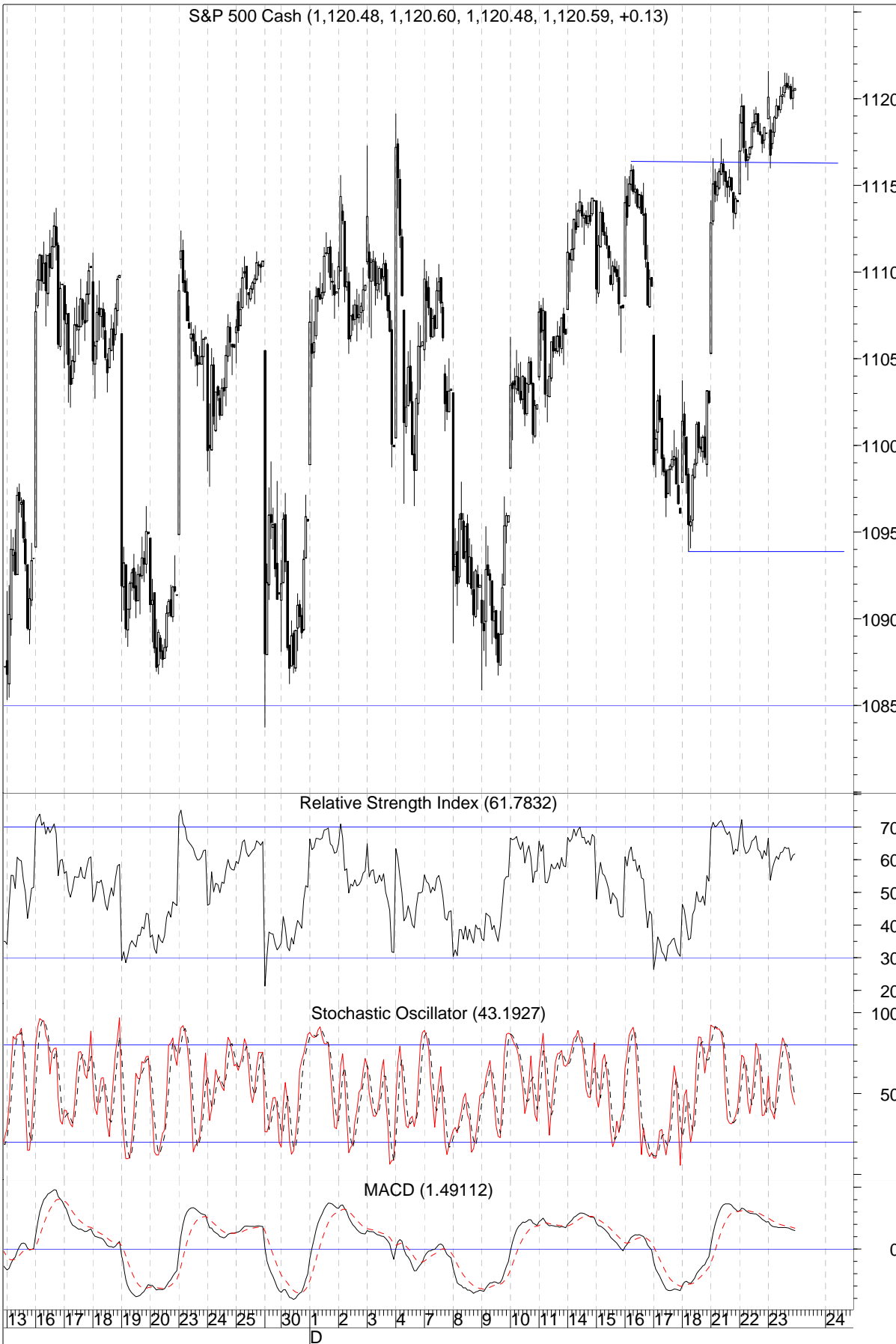
| | Daily | WTD | MTD | QTD | YTD |
|--|--------|--------|--------|--------|---------|
| Real Estate | 1.54% | 6.35% | 9.98% | 13.92% | 25.24% |
| Technology Hardware & Equipment | 1.32% | 4.91% | 5.33% | 8.49% | 65.33% |
| Semiconductors & Equipment | 1.22% | 5.82% | 9.78% | 7.70% | 54.75% |
| Banks | 1.09% | 3.64% | -3.24% | -1.90% | -7.88% |
| Materials | 0.78% | 4.27% | 2.53% | 8.08% | 46.83% |
| Diversified Financials | 0.75% | 3.53% | -1.97% | -5.53% | 29.20% |
| Utilities | 0.70% | 1.00% | 6.73% | 7.61% | 8.34% |
| Insurance | 0.60% | 3.20% | 1.84% | -1.74% | 12.71% |
| Software & Services | 0.57% | 4.58% | 5.96% | 15.53% | 57.36% |
| Capital Goods | 0.50% | 0.92% | 2.38% | 5.08% | 19.26% |
| Energy | 0.48% | 2.78% | 0.22% | 6.33% | 12.64% |
| Automobiles & Components | 0.47% | 5.14% | 7.07% | 22.20% | 118.57% |
| Food, Beverage & Tobacco | 0.46% | 1.63% | 1.84% | 5.66% | 18.73% |
| Telecom Services | 0.37% | 2.68% | 5.14% | 6.43% | 3.18% |
| Food & Staples Retailing | 0.36% | 2.12% | -0.83% | 3.23% | 6.31% |
| Media | 0.26% | 1.32% | 9.36% | 10.82% | 36.30% |
| Commercial & Professional Services | 0.19% | 1.80% | 3.61% | 4.89% | 10.86% |
| Consumer Durables & Apparel | 0.17% | 3.72% | 4.98% | 5.17% | 34.87% |
| Transportation | 0.16% | 1.39% | 3.39% | 11.72% | 21.35% |
| Consumer Services | 0.14% | 2.43% | 2.94% | 6.02% | 20.51% |
| Pharmaceuticals, Biotech & Life Sciences | 0.01% | 1.50% | 1.81% | 7.79% | 12.03% |
| Household & Personal Products | -0.08% | -0.01% | -1.62% | 6.46% | 6.59% |
| Retailing | -0.10% | 2.66% | 3.82% | 10.61% | 49.52% |
| Health Care Equip & Services | -0.14% | 1.83% | 5.40% | 13.50% | 33.39% |

INTERNATIONAL ETFs

| | Daily | WTD | MTD | QTD | YTD |
|---------------------------|--------------|------------|------------|------------|------------|
| Vietnam VNM | 2.04% | 9.18% | 0.66% | -11.24% | |
| Australia EWA | 2.04% | 0.62% | -3.43% | -0.31% | 60.81% |
| South Korea EWY | 1.61% | 3.16% | 6.51% | -0.23% | 69.00% |
| China 25 FXI | 1.48% | 1.49% | -3.02% | 3.57% | 45.69% |
| Brazil EWZ | 1.46% | 0.33% | -3.50% | 9.09% | 110.89% |
| Taiwan EWT | 1.12% | 2.51% | 3.27% | 2.52% | 66.40% |
| Latin America ILF | 1.07% | 1.35% | -0.96% | 10.49% | 86.14% |
| MSCI Emerging Markets EEM | 1.01% | 2.35% | 1.68% | 5.89% | 65.00% |
| Malaysia EWM | 0.76% | -0.56% | -2.21% | 4.73% | 45.68% |
| Japan EWJ | 0.71% | 0.41% | 3.87% | -0.10% | 3.65% |
| Germany EWG | 0.66% | 3.11% | 0.93% | 2.34% | 18.16% |
| Hong Kong EWH | 0.58% | -0.45% | -1.83% | 0.32% | 50.14% |
| Italy EWI | 0.56% | 2.08% | -0.41% | -3.67% | 19.95% |
| Spain EWP | 0.56% | 1.09% | -4.54% | -2.40% | 29.08% |
| Mexico EWW | 0.54% | 1.43% | 5.16% | 15.34% | 56.12% |
| United Kingdom EWU | 0.50% | 1.18% | -0.37% | 4.51% | 32.33% |
| Canada EWC | 0.42% | 3.07% | 1.81% | 3.53% | 51.35% |
| Singapore EWS | 0.35% | -1.13% | -0.09% | 5.58% | 60.99% |
| Switzerland EWL | 0.31% | 2.97% | 1.58% | 3.31% | 21.04% |
| Austria EWO | 0.26% | -2.01% | -7.72% | -10.67% | 50.54% |
| France EWQ | 0.19% | 2.00% | 0.62% | 0.19% | 24.32% |
| Belgium EWK | 0.10% | 0.31% | -2.43% | -0.92% | 47.42% |
| Sweden EWD | 0.04% | 2.86% | -2.06% | 2.42% | 52.51% |
| Netherlands EWN | -0.05% | 1.58% | 2.03% | 2.79% | 38.07% |
| BRIC EEB | -0.26% | 0.82% | -1.43% | 8.12% | 82.29% |

S&P 500 Cash (1,120.48, 1,120.60, 1,120.48, 1,120.59, +0.13)

The S&P 500 has broken out of the tight range it has been trading in.



The 30-minute momentum indicators are showing negative divergences.

S&P 500 Cash (1,121.08, 1,126.48, 1,121.08, 1,126.48, +5.89)



In breaking out of its recent tight trading range the S&P 500 moved above 1121, the 50% retracement of the entire bear market.

The stochastic is in the overbought zone while the other momentum indicators can still move higher.



The weekly chart of the S&P 500 shows it is trading at its highest level since early October 2009.

Momentum indicators are not yet overbought.



NASDAQ 100 (1,856.06, 1,869.90, 1,855.78, 1,869.84, +17.85)

The Nasdaq 100 broke out Monday and finished the week at its highest level since September 2008.

Relative Strength Index (69.1210)

Stochastic Oscillator (98.8314)

MACD (20.1056)

The RSI and stochastic are at high levels but have not turned down yet.

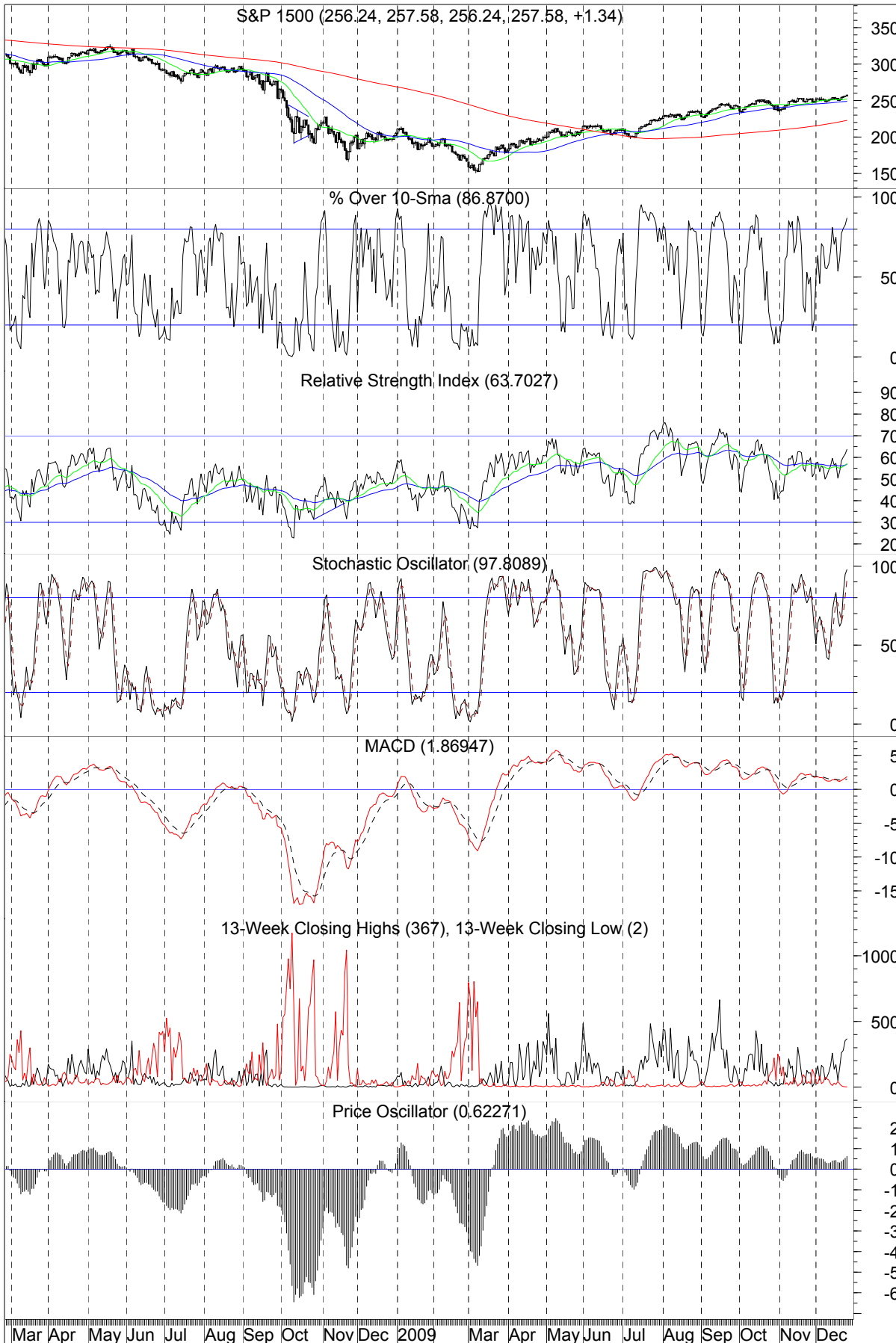
April May June July August September October November December

NASDAQ 100 (1,818.39, 1,869.90, 1,818.39, 1,869.84, +62.48)



The weekly chart of the Nasdaq 100 shows it had a strong week in its march higher.

The RSI and stochastic have entered the overbought zone. They have not turned down yet.



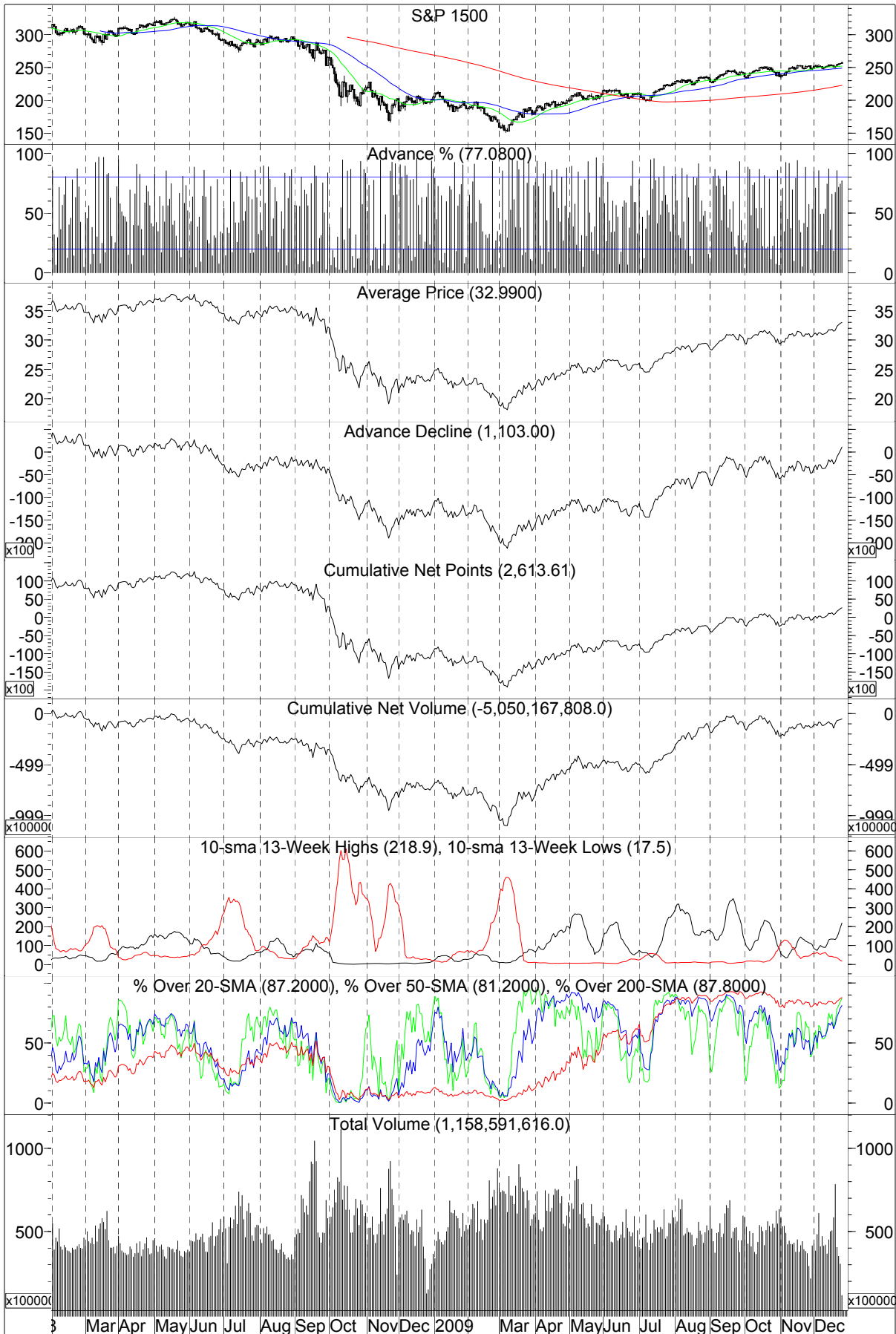
At 86.87% the percent over 10-sma is overbought.

The stochastic is in the overbought zone but the RSI and MACD have room to move higher.

13-week closing highs has broken out of its recent range but is still less than in October and September, showing investors selectivity.

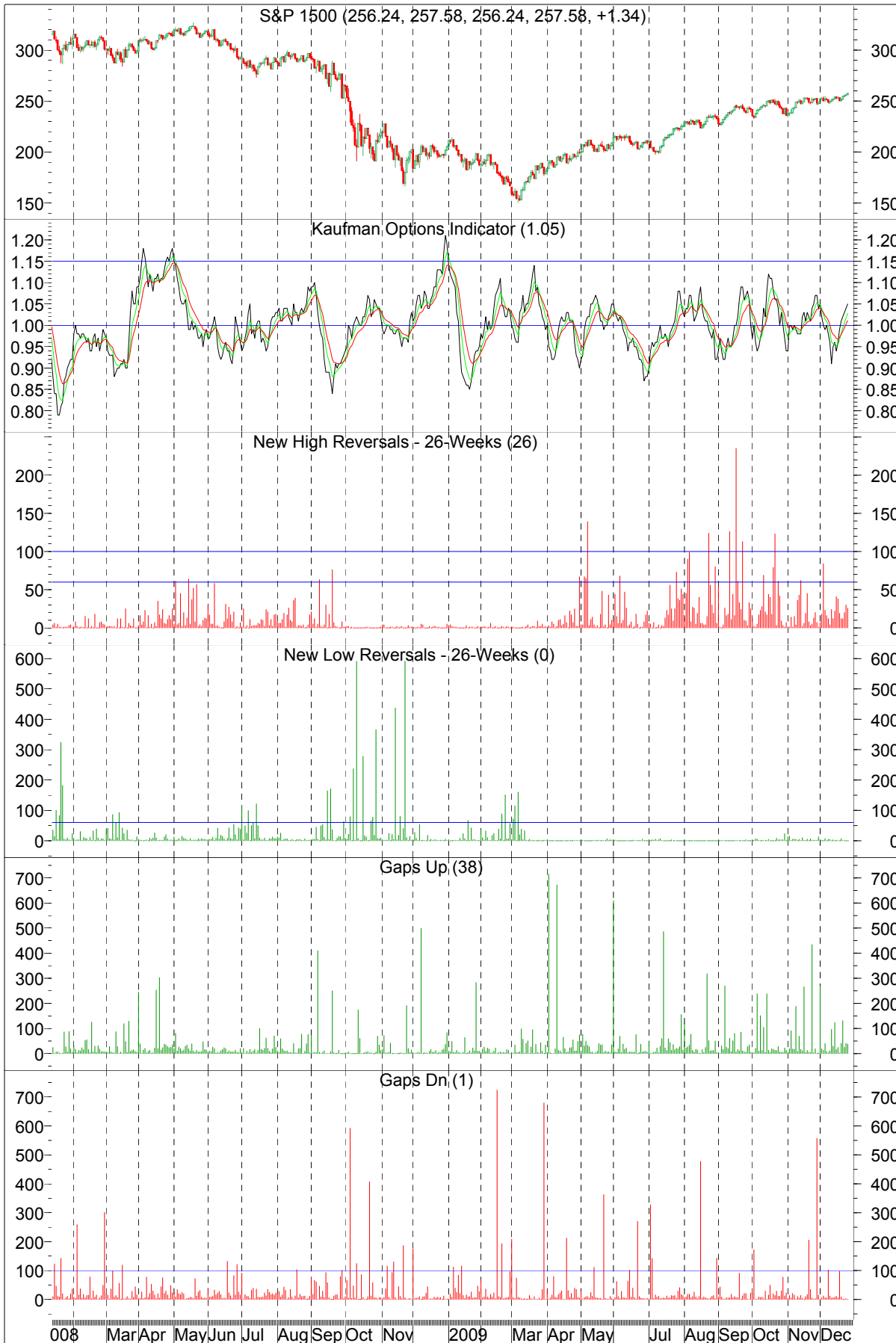
Our price oscillator, a good indicator of trends, remains in positive territory.

The Kaufman Report - Wayne S. Kaufman, CMT



Our statistics of market internals are making new highs except Net Volume.

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

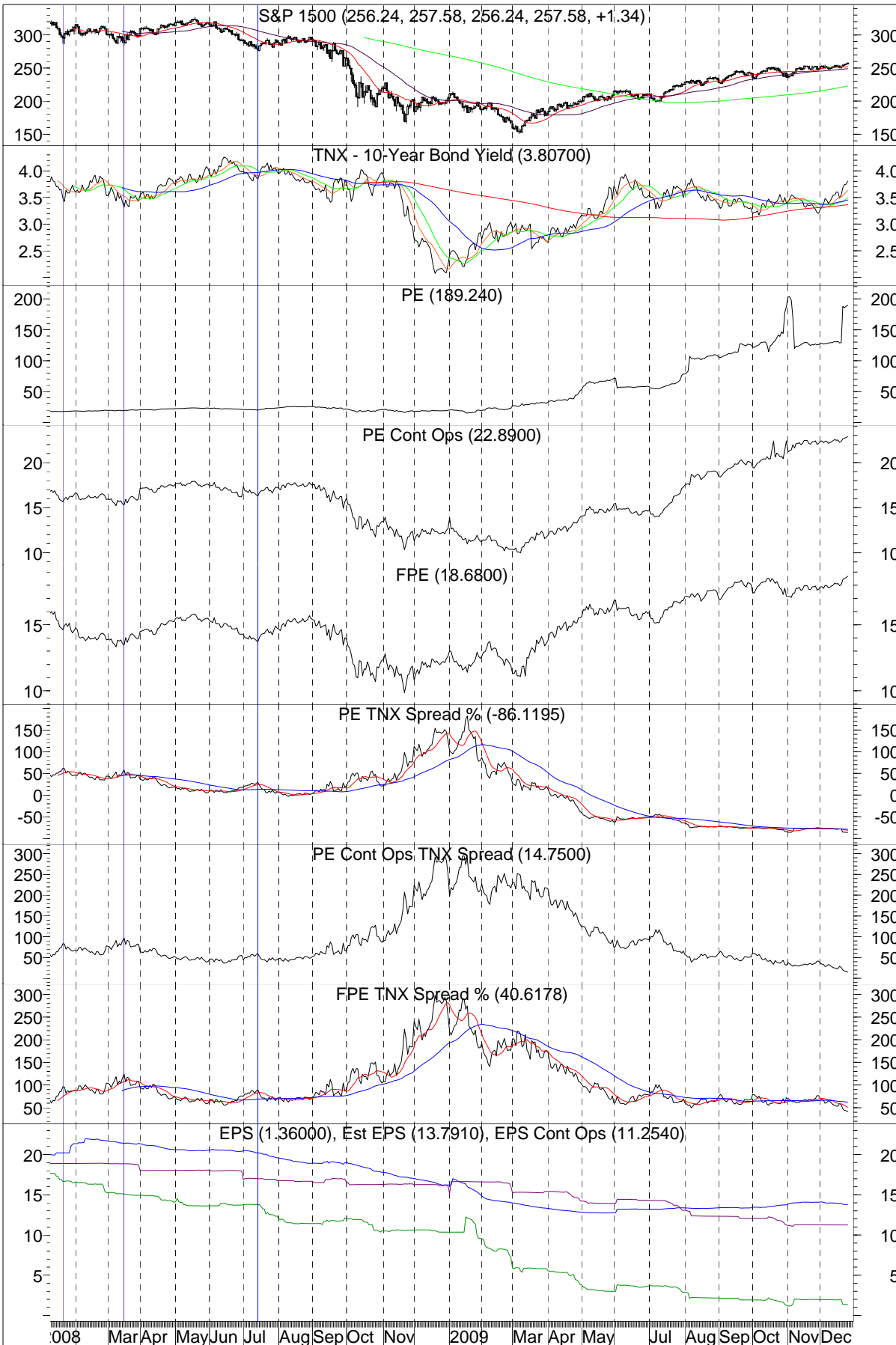


Our proprietary options indicator is showing bullishness on the part of options buyers. This leaves equities vulnerable to a pull back. The five day moving average of the put/call ratio is 0.75, the lowest since 0.765 on 10/16, just before a short-term top.

The Kaufman Report - Wayne S. Kaufman, CMT



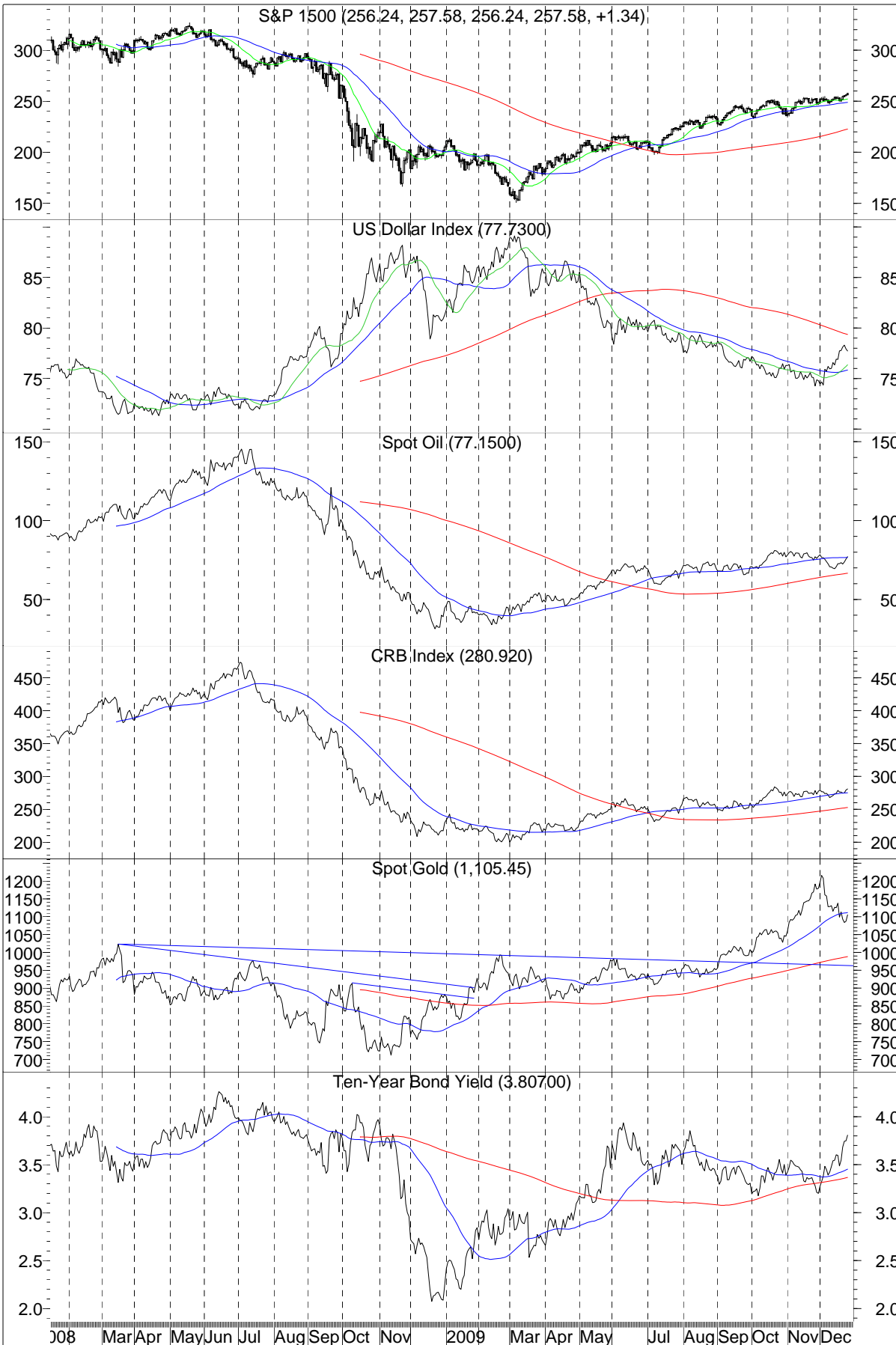
Our statistics of supply (red) versus demand (green) shows that much of the recent strength is due to a lack of sellers more than to enthusiasm on the part of buyers. With no sellers the path of least resistance should remain higher, but the low volume leaves equities vulnerable to sharp moves in either direction.



Bond yields have jumped to their highest level since August 8th.

P/E ratios continue to climb.

Spreads between bond and equity yields are shrinking as stock prices move up. The spread calculated using earnings based on continuing operations is 14.75%, the lowest since 14.72% on July 2007. That was just above the 10.61% of 7/13/2007, which marked an important short-term top.



Last week we said there was resistance in the 77 - 78 area, and the U.S. Dollar Index hit 78.45 before pulling back slightly. This pause may be short-term with the next resistance at the 80 - 82 area. Crude oil bounced off support and is now fighting the 50-sma.

Gold is nearing a short-term bottom.