

Monday February 14, 2011

Closing prices of February 11, 2011

Stocks traded higher again last week as the current rally leg continued unabated since it began December 1st. The S&P 500 was up 1.39% for the week as the S&P Smallcap Index led major indexes with a 2.61% gain. **For the S&P 500 it was the highest weekly close since June 13, 2008, while the Nasdaq 100 had its highest weekly close since February 9, 2001.**

Negative technical issues discussed in recent weeks are being resolved as the rally continues. New highs are expanding again while new lows are shrinking, and market breadth has been improving. The Advance Decline line continues to make new highs, confirming the new highs in the S&P 1500 and pointing towards higher prices in the future. Still, a pause or pullback can begin at any time.

Our proprietary options indicator has been showing pessimism on the part of options buyers for a while as investors have positioned for the pullback that never came. We have commented many times that we like pessimism, and that good rallies can begin when investors are bearish. That has been the case recently, but bullishness is starting to show. Our options indicator has moved above the neutral line of 1.00 and is now at 1.03. While this is not the extreme level seen at tops, it is the same level hit in mid-January when the market went sideways for two weeks.

Earnings season is now well underway with 371 of the S&P 500 having reported so far. Of those, 69.8% have exceeded expectations, 7.3% have been in line, and 22.9% have disappointed. So far this is a worse performance than last quarter, when 19% of the S&P 500 had worse than expected earnings, the highest percentage since 19.1% in Q2 2009. 70.7% beat estimates last quarter, a respectable number, but still the lowest since Q1 2009. **Therefore, in spite of our opinion that this bull market still has a ways to go, we are watchful for deteriorating trends that could change the current positive outlook.**

The recent move higher of interest rates has the potential to change this picture, as could the possible rise in other cost inputs. This earnings season will give us an idea if company profit margins are being pressured and forecasts in jeopardy. If not, it will be difficult to argue that equities are overvalued. Currently S&P 500 projected earnings for 2011 are about \$96. **The current S&P 500 P/E is 15.86. A 15 P/E on \$96 would put the index at 1440.** Should first quarter earnings season follow the recent trend and beat estimates handily, those numbers will move higher. Based on current trends this possibility seems reasonable. **Estimates for 2012 are around \$109, projecting earnings growth of 13.5%. A 15 P/E on \$109 equates to 1635 on the S&P 500, almost 25% higher than current levels.**

We have left the best three-month period for stocks as January ends, but we are still in the best 6-month period. February is the weakest of the six, but that has not mattered so far. **As far as the presidential cycle, we have left year two and entered 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 bearish in the face of such strong historical patterns.**

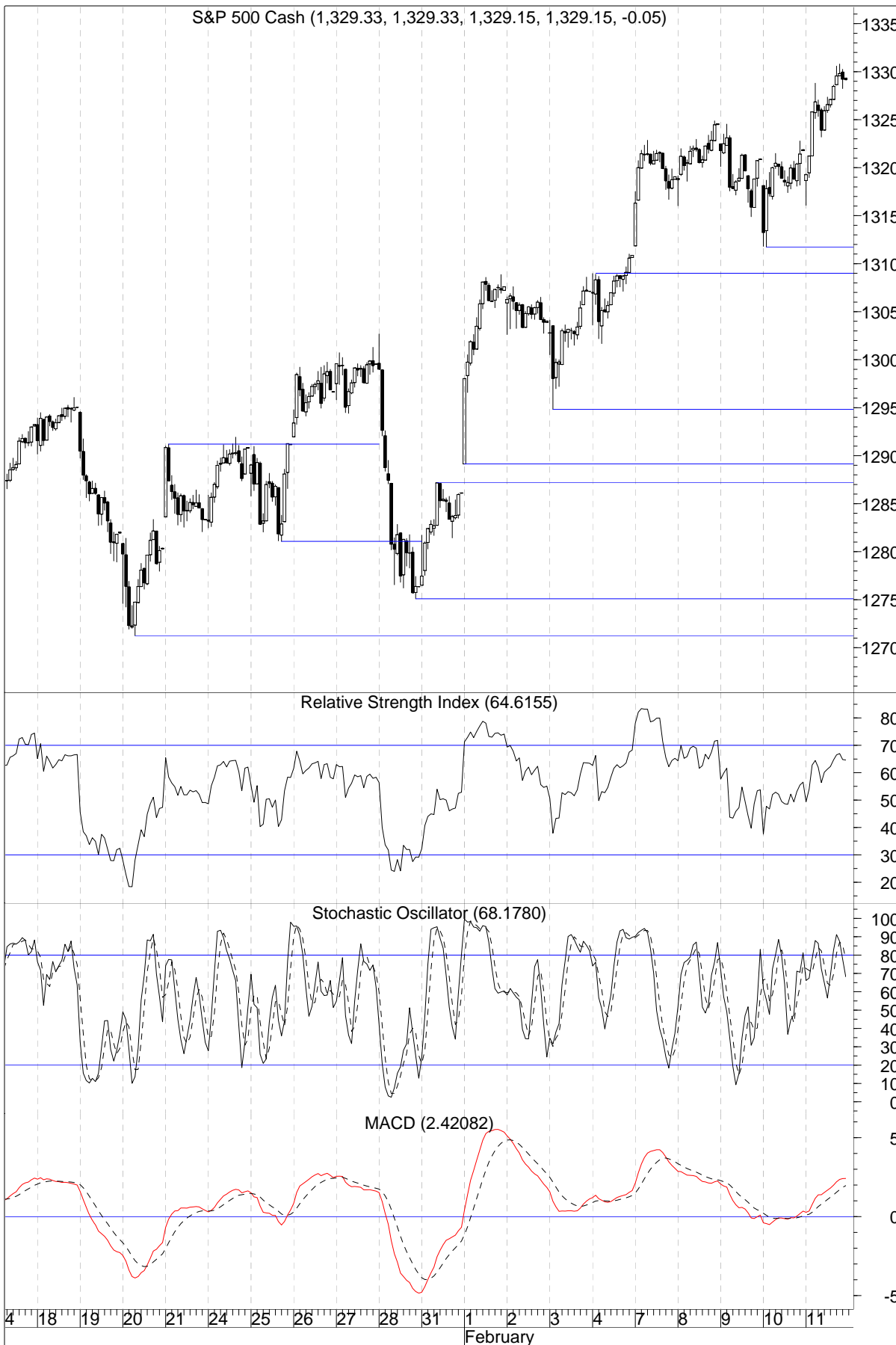
Based on the S&P 500 the short-term, intermediate-term and long-term trends remain up. Pullbacks that are without intensity should be viewed as entry points for investors. Investors need to be alert for sector rotation as earnings reports come in.

IMPORTANT DISCLOSURES

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S&P 500 Cash (1,329.33, 1,329.33, 1,329.15, 1,329.15, -0.05)



The 30-minute chart of the S&P 500 shows it made a new high Friday while hardly even threatening short-term support levels along the way.

30-minute momentum indicators are at high levels but not at an extreme.

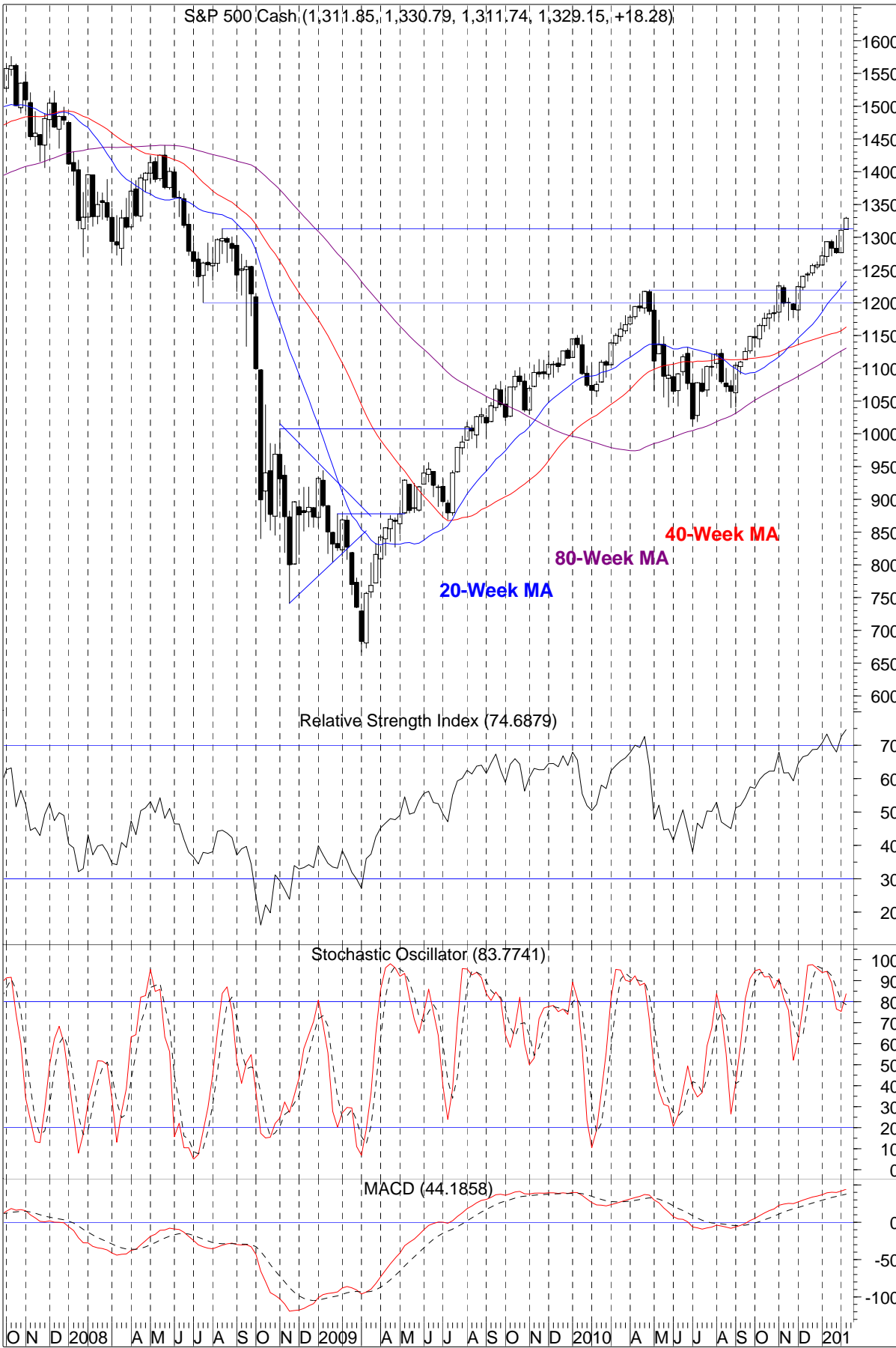
S&P 500 Cash (1,318.66, 1,330.79, 1,316.08, 1,329.15, +7.28)



The daily chart of the S&P 500 shows an incredible steady up trend with support being found at important moving averages.

Daily momentum indicators are at high levels but not yet rolling over.

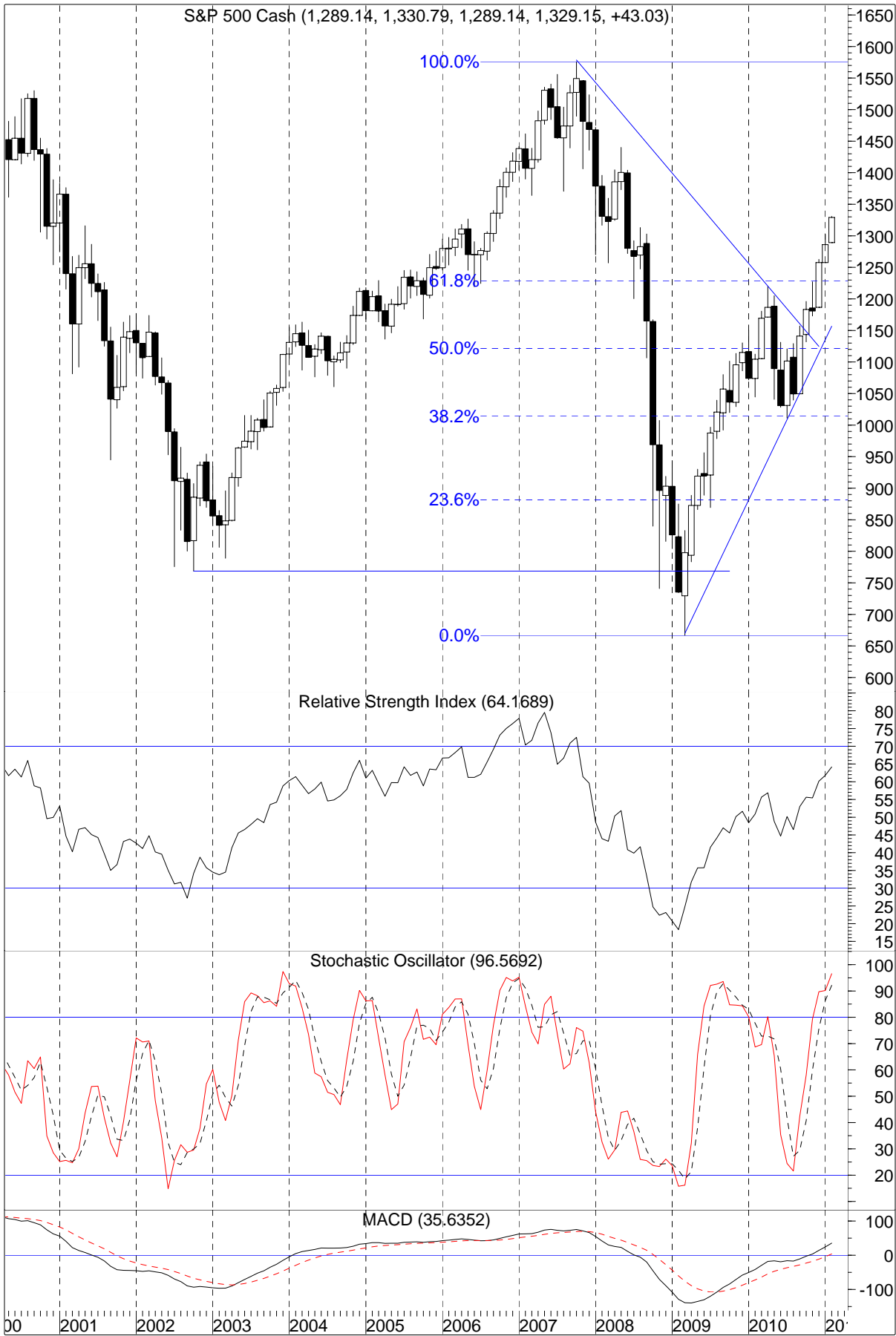
S&P 500 Cash (1,311.85, 1,330.79, 1,311.74, 1,329.15, +18.28)



The weekly chart of the S&P 500 shows it printed the highest weekly close since 6/13/2008.

Weekly momentum indicators are at high levels but have not rolled over.

S&P 500 Cash (1,289.14, 1,330.79, 1,289.14, 1,329.15, +43.03)



The monthly chart of the S&P 500 shows that in December it broke through the Fibonacci 61.8% retracement level of the recent bear market. The next important level is the 76.4% retracement at 1361.50, just 2.43% away.

Monthly momentum indicators continue to point higher, with only the stochastic at the overbought level.



The daily chart of the Nasdaq 100 shows Friday was another new high. The 50-sma hasn't been touched since Early September.

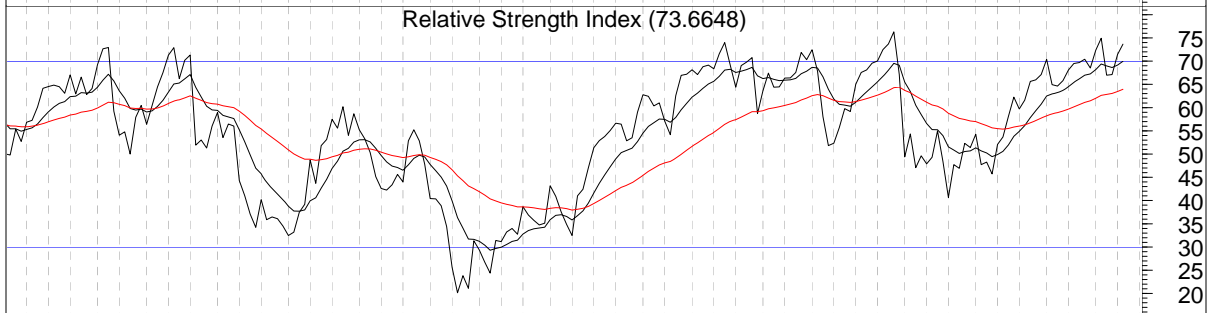
Daily momentum indicators are not yet rolling over.

NASDAQ 100 (2,340.44, 2,381.40, 2,338.87, 2,379.15, +40.95)



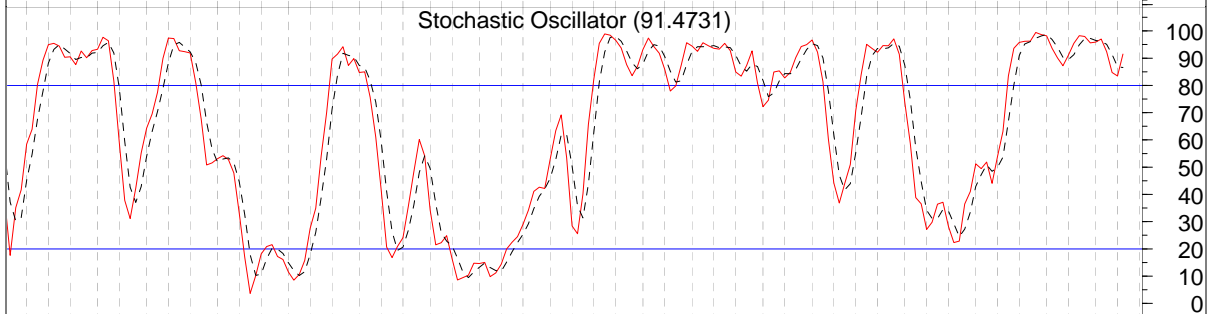
Another weekly closing high for the Nasdaq 100.

Relative Strength Index (73.6648)

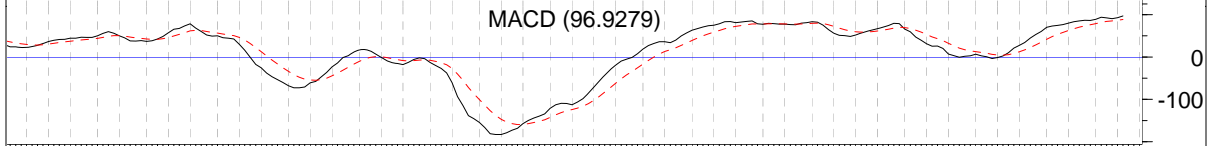


Weekly momentum indicators are at high levels but have not rolled over.

Stochastic Oscillator (91.4731)

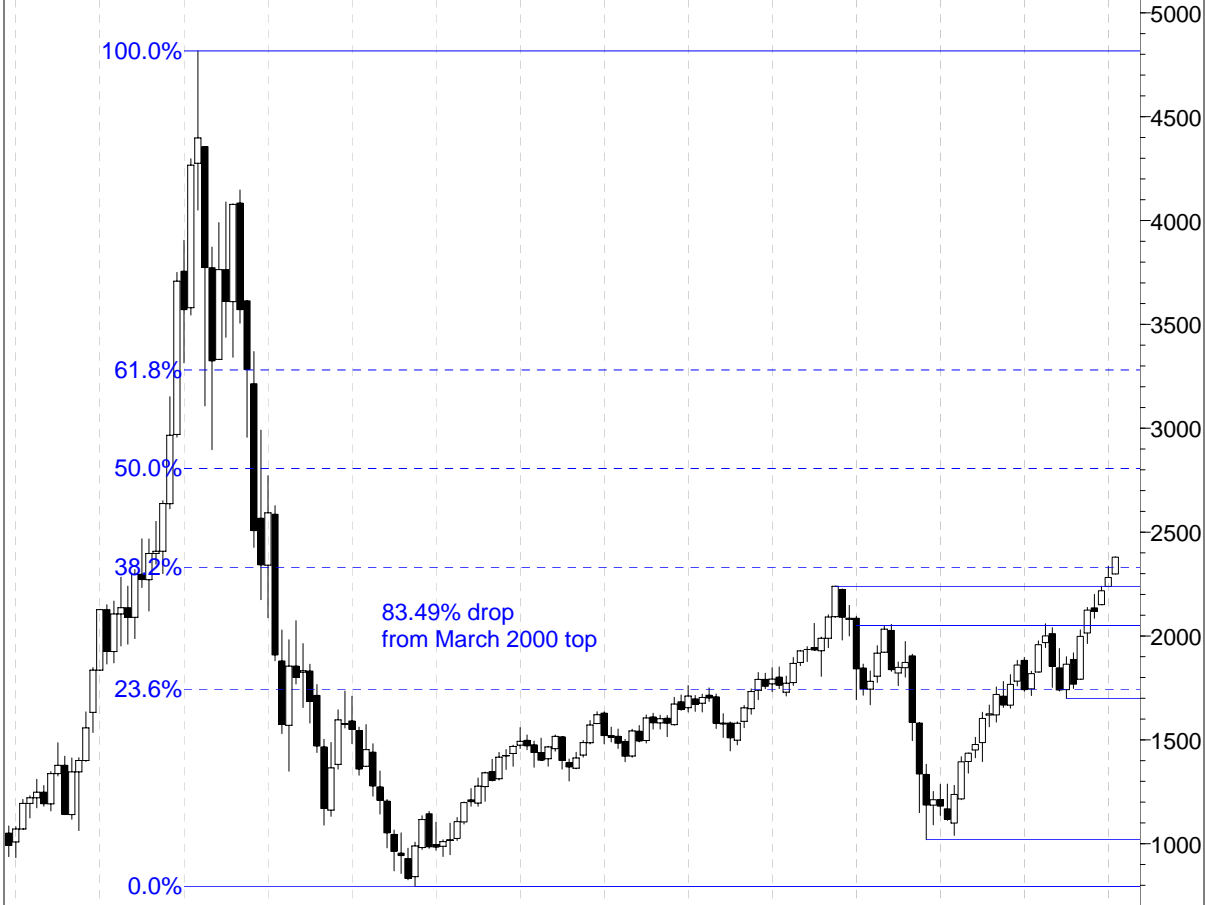


MACD (96.9279)

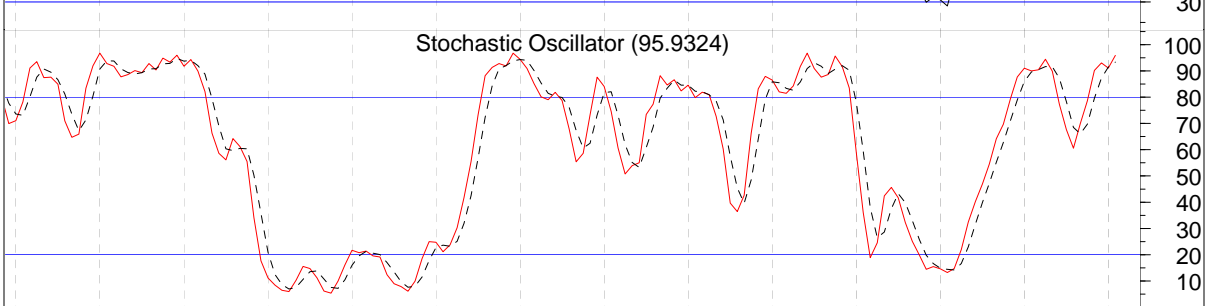
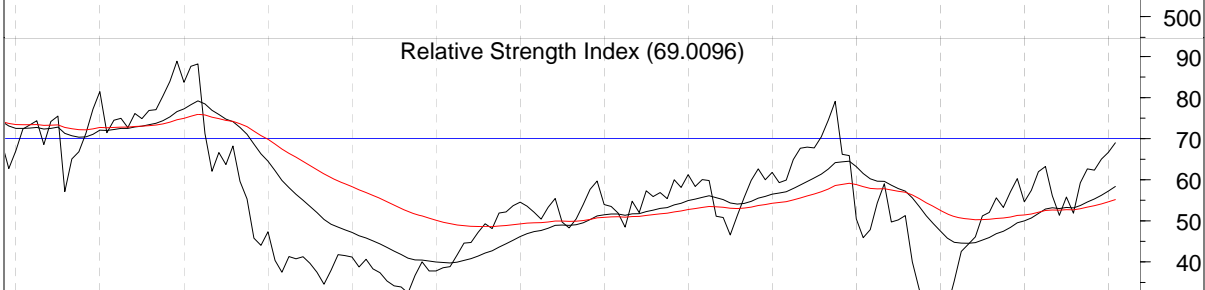


AMJ J A S O N D 2008 AMJ J A S O N D 2009 AMJ J A S O N D 2010 A M J J A S O N D 2011

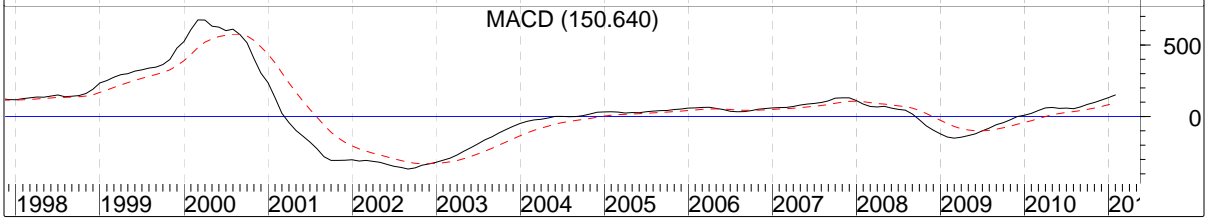
NASDAQ 100 (2,298.37, 2,381.40, 2,296.74, 2,379.15, +97.24)

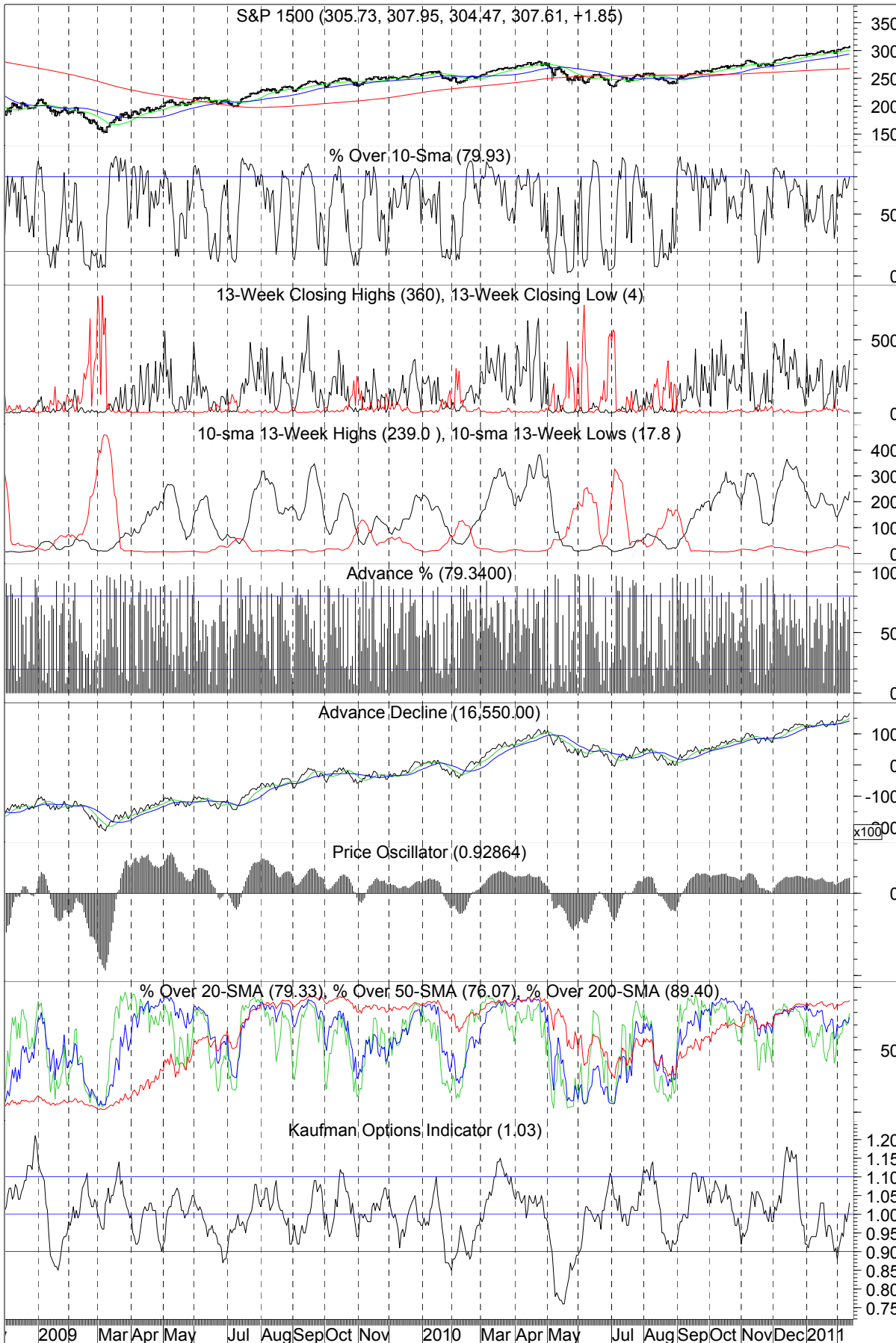


The monthly chart of the Nasdaq 100 shows it has broken through the Fibonacci 38.2% retracement level of the 2000 - 2002 bear market. The 50% retracement level is at 2805.80.



Monthly momentum indicators look fine.





The percent over 10-sma is just under the 80% overbought zone. It is the highest since 12/10/2010.

New highs are starting to rise again, while new lows are shrinking again.

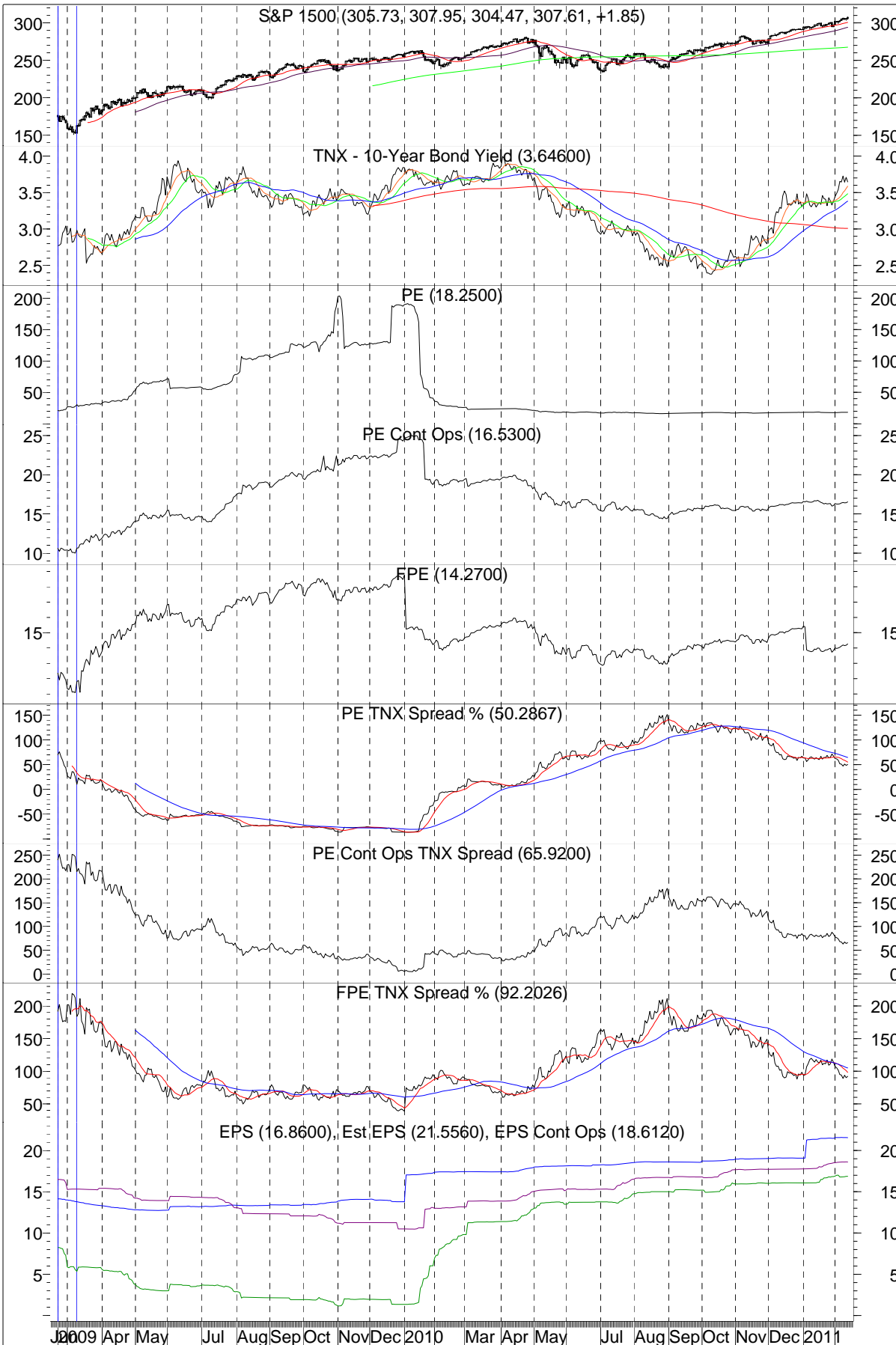
79.34% of stocks advanced Friday.

The AD line made another new high Friday, confirming the new high in the S&P 1500 index and pointing to higher prices in the future.

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

All bullish numbers here.

After staying in pessimistic territory under 1.00 as everyone positioned for the pullback that never came. Now it is at 1.03, showing bullishness but not yet an extreme amount. Still, 1.03 is the level hit in mid-January, when stocks went sideways for two weeks.



Bond yields broke out two weeks ago. They are getting overbought.

P/E ratios have been rising.

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

371 of the S&P 500 have reported earnings so far. 69.8% have exceeded estimates, 7.3% have been in line, and 22.9% have disappointed.

Indexes, Sectors, and Industry Groups

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
S&P Smallcap 600	435.28	1.05%	2.61%	2.61%	4.60%	4.70%	4.70%	435.28	2/11/2011	313.76	2/11/2010
S&P Midcap 400	969.50	0.97%	2.60%	2.60%	4.84%	6.86%	6.86%	970.03	2/11/2011	692.75	7/1/2010
Nasdaq 100	2379.15	0.63%	1.75%	1.75%	4.26%	7.27%	7.27%	2381.40	2/11/2011	1700.04	7/1/2010
S&P 1500	307.61	0.60%	1.54%	1.54%	3.52%	5.75%	5.75%	307.92	2/11/2011	232.54	7/1/2010
Dow Jones Industrials	12273.26	0.36%	1.50%	1.50%	3.21%	6.01%	6.01%	12285.94	2/11/2011	9614.32	7/2/2010
Nasdaq Composite	2809.44	0.68%	1.45%	1.45%	4.05%	5.90%	5.90%	2810.56	2/11/2011	2061.14	7/1/2010
S&P 500	1329.15	0.55%	1.39%	1.39%	3.35%	5.69%	5.69%	1330.79	2/11/2011	1010.91	7/1/2010
NYSE Composite	8374.89	0.45%	1.04%	1.04%	2.90%	5.16%	5.16%	8386.43	2/11/2011	6355.83	7/1/2010
Bank of New York Mellon ADR	145.17	0.16%	-0.20%	-0.20%	1.53%	3.60%	3.60%	147.07	2/8/2011	109.79	5/25/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Consumer Discretionary	312.34	0.95%	3.51%	3.51%	6.45%	5.68%	5.68%	312.73	2/11/2011	225.71	7/1/2010
Financials	229.90	1.39%	2.86%	2.86%	4.17%	7.05%	7.05%	230.45	4/15/2010	178.83	8/25/2010
Industrials	327.78	0.71%	2.85%	2.85%	4.43%	8.85%	8.85%	328.55	2/11/2011	232.54	7/6/2010
Telecom Services	128.13	0.67%	1.75%	1.75%	3.51%	-0.47%	-0.47%	132.76	1/5/2011	98.67	5/6/2010
Consumer Staples	304.79	0.51%	0.93%	0.93%	2.19%	0.40%	0.40%	306.25	1/26/2011	260.65	7/1/2010
Materials	247.83	0.46%	0.63%	0.63%	3.58%	3.43%	3.43%	249.28	2/7/2011	168.44	7/1/2010
Information Technology	435.90	0.33%	0.54%	0.54%	3.40%	7.75%	7.75%	438.14	2/7/2011	323.47	7/1/2010
Utilities	162.09	-0.18%	0.43%	0.43%	0.66%	1.73%	1.73%	164.42	10/20/2010	138.57	5/25/2010
Health Care	373.78	0.05%	0.03%	0.03%	2.08%	2.47%	2.47%	379.04	3/22/2010	318.89	7/1/2010
Energy	551.07	-0.04%	-0.26%	-0.26%	1.33%	8.75%	8.75%	559.41	2/7/2011	365.74	7/1/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Automobiles & Components	121.95	2.39%	5.63%	5.63%	5.16%	3.22%	3.22%	130.31	1/13/2011	74.25	6/29/2010
Media	221.91	0.98%	3.77%	3.77%	9.28%	11.91%	11.91%	222.44	2/11/2011	151.90	2/11/2010
Transportation	343.00	1.18%	3.48%	3.48%	4.47%	3.74%	3.74%	343.92	2/11/2011	244.13	2/11/2010
Diversified Financials	360.80	1.53%	3.45%	3.45%	4.21%	7.57%	7.57%	382.07	4/15/2010	278.07	8/31/2010
Retailing	524.28	0.79%	3.36%	3.36%	5.27%	3.13%	3.13%	524.53	2/11/2011	379.61	7/1/2010
Consumer Services	480.01	1.07%	2.88%	2.88%	5.20%	2.63%	2.63%	480.03	2/11/2011	366.91	2/11/2010
Banks	159.35	2.09%	2.85%	2.85%	5.02%	7.09%	7.09%	165.92	4/21/2010	115.69	8/31/2010
Capital Goods	357.48	0.65%	2.80%	2.80%	4.56%	10.47%	10.47%	358.31	2/11/2011	250.06	7/6/2010
Real Estate	130.82	0.82%	2.70%	2.70%	2.92%	8.50%	8.50%	130.95	2/11/2011	84.96	2/11/2010
Consumer Durables & Apparel	174.79	0.04%	2.60%	2.60%	5.13%	3.70%	3.70%	175.58	2/9/2011	127.38	7/6/2010
Household & Personal Products	384.21	0.91%	2.11%	2.11%	3.40%	1.59%	1.59%	390.72	1/25/2011	339.42	5/6/2010
Insurance	198.40	0.77%	1.77%	1.77%	3.91%	5.41%	5.41%	198.53	2/11/2011	156.79	5/25/2010
Telecom Services	128.13	0.67%	1.75%	1.75%	3.51%	-0.47%	-0.47%	132.76	1/5/2011	98.67	5/6/2010
Commercial & Professional Service	150.77	0.11%	1.46%	1.46%	2.44%	3.60%	3.60%	151.14	2/9/2011	122.63	6/8/2010
Health Care Equip & Services	390.62	0.85%	1.12%	1.12%	3.79%	8.78%	8.78%	391.54	2/11/2011	296.30	8/31/2010
Software & Services	557.16	0.26%	0.84%	0.84%	2.94%	5.85%	5.85%	559.54	2/8/2011	410.27	7/1/2010
Food, Beverage & Tobacco	349.62	0.47%	0.69%	0.69%	2.15%	-0.80%	-0.80%	356.38	12/20/2010	294.78	5/25/2010
Materials	247.83	0.46%	0.63%	0.63%	3.58%	3.43%	3.43%	249.28	2/7/2011	168.44	7/1/2010
Technology Hardware & Equipmen	475.12	0.34%	0.45%	0.45%	4.09%	9.29%	9.29%	483.22	2/9/2011	350.49	8/27/2010
Utilities	162.09	-0.18%	0.43%	0.43%	0.66%	1.73%	1.73%	164.42	10/20/2010	138.57	5/25/2010
Food & Staples Retailing	199.94	0.22%	0.33%	0.33%	1.09%	2.17%	2.17%	203.40	1/26/2011	162.45	7/1/2010
Semiconductors & Equipment	371.57	0.57%	-0.24%	-0.24%	3.01%	10.04%	10.04%	375.49	2/7/2011	262.69	8/31/2010
Energy	551.07	-0.04%	-0.26%	-0.26%	1.33%	8.75%	8.75%	559.41	2/7/2011	365.74	7/1/2010
Pharmaceuticals, Biotech & Life Sci	335.49	-0.37%	-0.54%	-0.54%	1.18%	-0.63%	-0.63%	352.33	3/23/2010	299.26	7/1/2010

INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Germany EWG	25.94	0.23%	2.17%	3.06%	8.35%	8.35%	26.15	2/9/2011	17.97	5/25/2010
India IFN	30.20	4.14%	1.31%	1.17%	-13.98%	-13.98%	36.88	11/8/2010	23.97	5/25/2010
Austria EWO	22.93	0.26%	1.19%	1.69%	2.69%	2.69%	23.21	2/9/2011	14.91	6/8/2010
Chile ECH	71.84	2.91%	1.07%	0.67%	-9.75%	-9.75%	80.35	12/20/2010	27.26	5/6/2010
Netherlands EWN	22.29	-0.04%	1.04%	2.67%	5.69%	5.69%	22.52	2/9/2011	16.64	5/25/2010
France EWQ	26.39	-0.08%	1.00%	1.50%	7.93%	7.93%	26.75	2/9/2011	19.24	5/25/2010
United Kingdom EWU	18.25	0.16%	0.88%	3.93%	5.07%	5.07%	18.38	2/8/2011	13.25	5/25/2010
Italy EWI	18.56	0.60%	0.60%	2.37%	13.31%	13.31%	19.04	4/14/2010	13.21	6/7/2010
Turkey TUR	62.58	1.44%	0.51%	4.32%	-5.48%	-5.48%	79.00	11/9/2010	44.40	5/6/2010
Israel EIS	57.10	-0.19%	0.48%	0.33%	-5.65%	-5.65%	61.79	1/19/2011	45.00	5/6/2010
Belgium EWK	13.63	0.37%	0.44%	1.64%	3.81%	3.81%	14.52	11/4/2010	8.93	5/6/2010
Canada EWC	32.22	0.31%	0.03%	2.97%	3.94%	3.94%	32.50	2/4/2011	22.75	5/6/2010
Sweden EWD	31.90	1.08%	-0.06%	-1.02%	2.15%	2.15%	32.94	1/27/2011	19.00	5/6/2010
South Africa EZA	66.99	2.10%	-0.12%	2.13%	-10.30%	-10.30%	75.27	1/3/2011	23.00	5/6/2010
Brazil EWZ	71.90	2.39%	-0.21%	-1.78%	-7.11%	-7.11%	81.55	11/4/2010	57.03	5/25/2010
Japan EWJ	11.33	0.04%	-0.22%	3.61%	3.80%	3.80%	11.43	2/8/2011	9.15	6/7/2010
Australia EWA	25.79	-0.27%	-0.27%	3.70%	1.38%	1.38%	26.36	2/9/2011	18.26	5/25/2010
Latin America ILF	51.23	1.49%	-0.39%	-0.27%	-4.88%	-4.88%	54.83	11/5/2010	39.18	5/25/2010
BRIC EEB	44.74	1.54%	-0.78%	-0.33%	-3.03%	-3.03%	48.27	11/9/2010	23.23	5/6/2010
Spain EWP	41.40	0.02%	-0.93%	-1.12%	12.68%	12.68%	45.29	4/14/2010	29.85	6/8/2010
Switzerland EWL	24.67	0.33%	-1.00%	-0.36%	-1.63%	-1.63%	25.30	2/1/2011	18.70	5/25/2010
Mexico EWW	61.31	1.51%	-1.18%	0.91%	-0.99%	-0.99%	63.46	1/18/2011	45.11	5/25/2010
Emerging Markets EEM	45.63	1.21%	-1.88%	-0.40%	-4.23%	-4.23%	48.59	11/9/2010	35.19	5/25/2010
Russia RSX	39.23	2.13%	-2.22%	0.36%	3.48%	3.48%	40.85	1/18/2011	26.06	5/25/2010
Malaysia EWM	14.16	-0.42%	-2.63%	-0.35%	-1.53%	-1.53%	14.98	1/13/2011	10.34	2/11/2010
China 25 FXI	41.68	0.75%	-2.78%	-2.04%	-3.27%	-3.27%	47.99	11/8/2010	36.24	5/6/2010
Vietnam VNM	27.20	-3.51%	-3.51%	-6.21%	3.90%	3.90%	30.34	12/13/2010	21.81	8/25/2010
Indonesia IDX	26.17	1.43%	-3.65%	0.69%	-10.08%	-10.08%	31.05	11/9/2010	19.73	5/25/2010
Singapore EWS	13.35	-0.45%	-3.82%	-2.84%	-3.61%	-3.61%	14.56	11/9/2010	10.47	5/25/2010
Thailand THD	57.87	0.57%	-4.14%	-1.25%	-10.43%	-10.43%	68.70	11/9/2010	39.38	2/12/2010
Hong Kong EWH	18.68	1.19%	-4.69%	-2.66%	-1.27%	-1.27%	20.24	11/8/2010	14.08	5/21/2010
South Korea EWY	59.30	-1.23%	-6.08%	-3.42%	-3.09%	-3.09%	63.73	2/2/2011	40.65	5/25/2010
Taiwan EWT	14.97	-2.17%	-6.53%	-3.87%	-4.18%	-4.18%	16.08	2/7/2011	10.81	6/8/2010