

Tuesday February 22, 2011

Closing prices of February 18, 2011

The recent action in the stock market reminds us of the movie "Groundhog Day" in which Bill Murray plays a weatherman who is living the same day over and over again. Stocks have developed a pattern of trading lower in the morning after which buyers step up and buy the dip. This resulted in another week where stocks traded higher as the current rally leg continued unabated since it began December 1st. The S&P 500 was up 1.04% for the week. **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 2, 2001 in spite of weakness in AAPL, which comprises 20% of the index.**

As we write this futures in American markets are down as crude oil is spiking due to unrest in the Middle East. Perhaps this will be the catalyst for the pullback that everyone has been waiting for but which refuses to show up. There have been tons of statistics popping up in the financial media regarding the relentlessness of the recent rally. **While it is obvious the rally will end at some point, the data regarding other similar rallies points to higher prices after the pause.**

Our proprietary options indicator had been showing pessimism on the part of options buyers for a while as investors 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 was 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 419 of the S&P 500 having reported so far. Of those, 69.0% have exceeded expectations, 6.9% have been in line, and 24.1% have disappointed. So far this is a worse performance than last quarter, when 19% of the S&P 500 had lower 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 15.98. A 15 P/E on \$96 would put the index at 1440.** Should projections follow the recent trend and those numbers will move higher. **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 22% higher than current levels.**

We left the best three-month period for stocks when January ended, 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.**

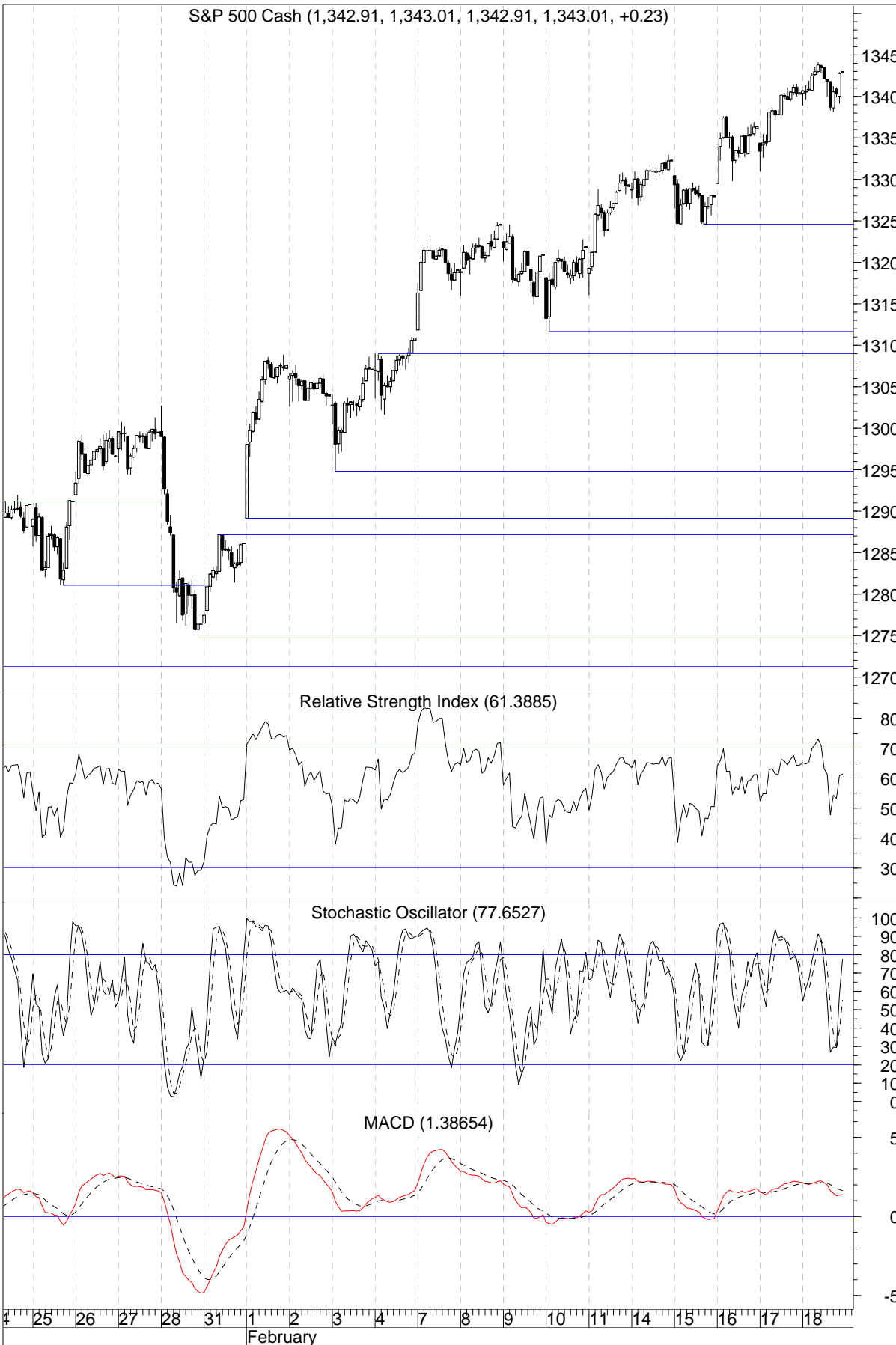
Based on the S&P 500 the short-term, intermediate-term and long-term trends remain up. Pullbacks that are without intensity should be viewed as entry points for investors. Investors need to be alert for sector rotation as earnings reports come in.

IMPORTANT DISCLOSURES

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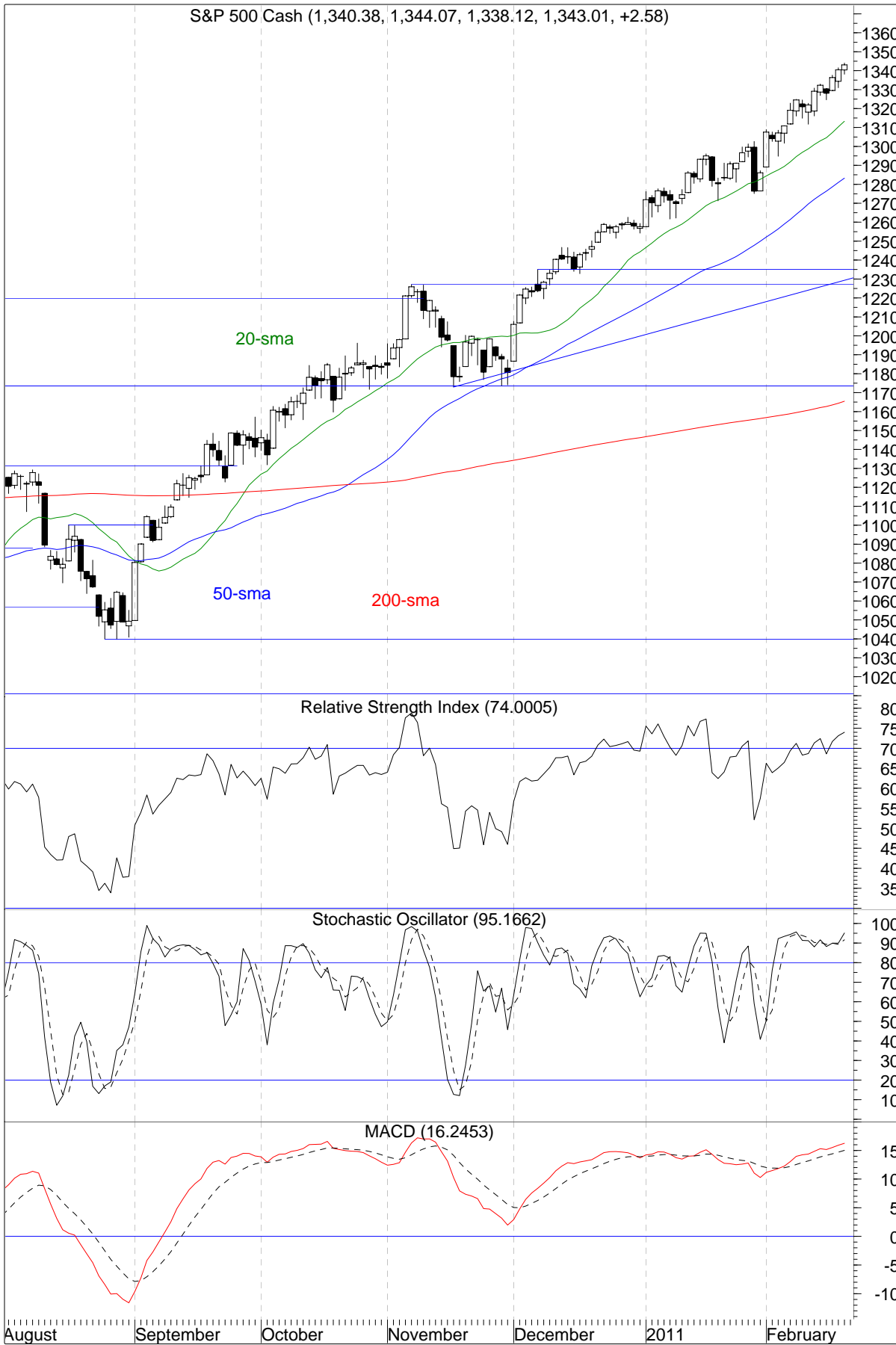
S&P 500 Cash (1,342.91, 1,343.01, 1,342.91, 1,343.01, +0.23)



Another new high Friday for the S&P 500 without challenging support levels along the way up.

30-minute momentum indicators are neutral.

S&P 500 Cash (1,340.38, 1,344.07, 1,338.12, 1,343.01, +2.58)



The daily chart of the S&P 500 shows the recent leg of the relentless up trend has only challenged the 20-sma two times. The lack of pull backs is unusual and can't last forever. The index is getting extended and is far away from important moving averages. However, this type of strength is a positive for the future.

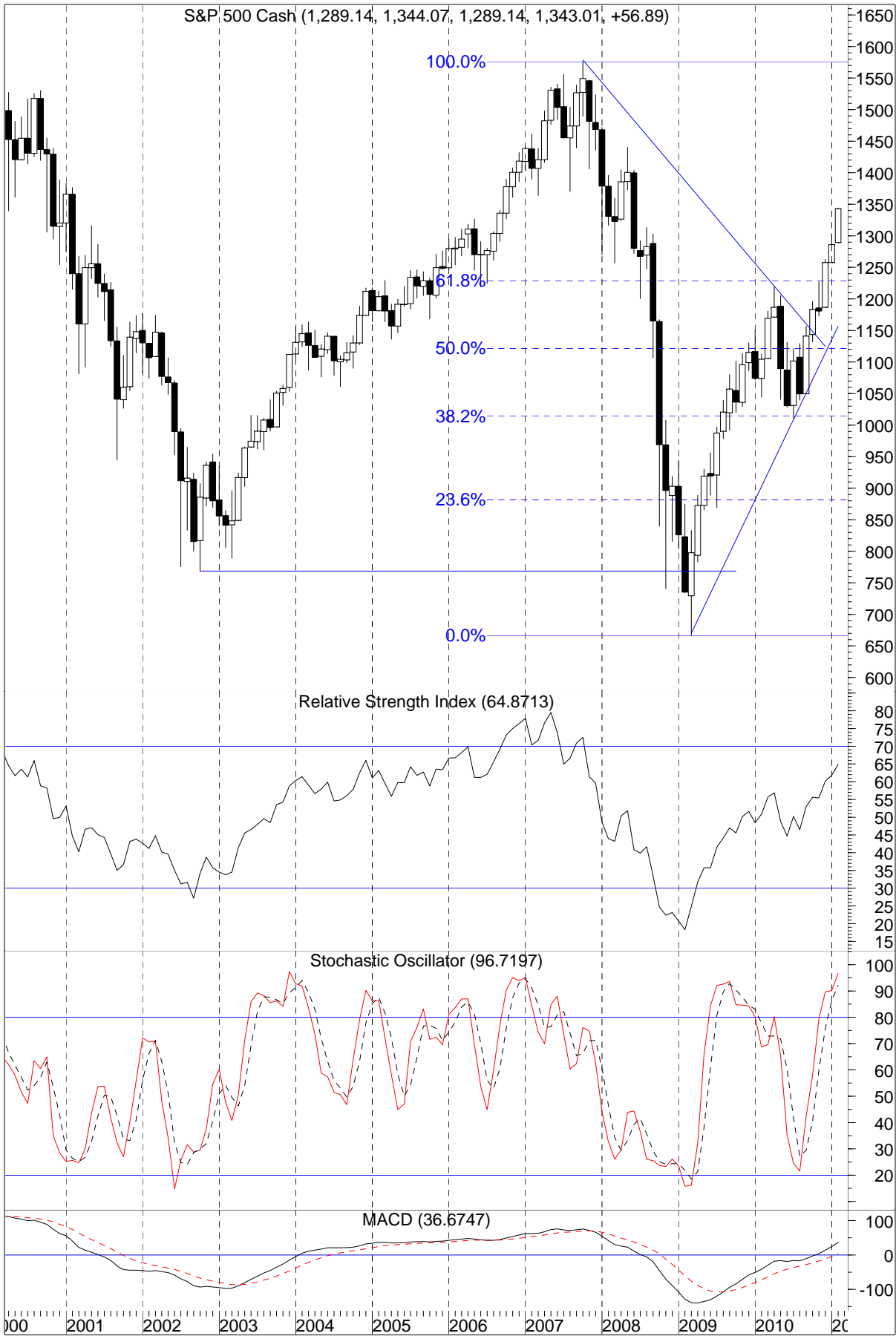
Daily momentum indicators are at high levels but are pointing higher.

S&P 500 Cash (1,328.73, 1,344.07, 1,324.61, 1,343.01, +13.86)



Another weekly closing high, the best since 6/13/2008.

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



February is historically not a strong month, but you wouldn't know that by this month's strong performance. In December the S&P 500 went through the Fibonacci 61.8% retracement level and hasn't looked back. The next important level is the 76.4% retracement at 1361.50, just 1.38% away.

Monthly momentum indicators continue to point higher, with only the stochastic in the overbought zone.

NASDAQ 100 (2,396.75, 2,400.47, 2,382.39, 2,392.47, -5.10)



The daily chart of the Nasdaq 100 ran into a problem Friday, most of which was caused by a bog drop in AAPL, which comprises 20% of the index.

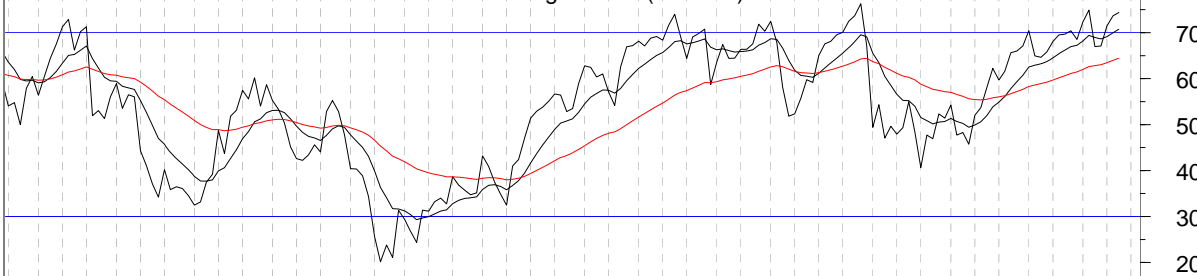
Daily momentum indicators are at high levels and look precarious. Again, AAPL has a large affect here.

NASDAQ 100 (2,379.52, 2,403.52, 2,371.19, 2,392.47, +13.32)



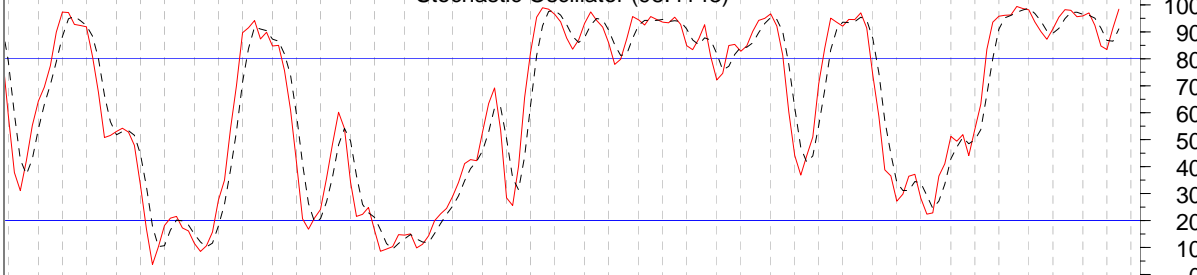
Another weekly high for the Nasdaq 100, the best since 2/2/2001.

Relative Strength Index (74.3700)

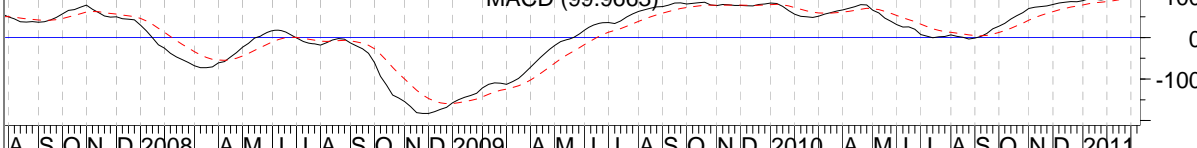


Weekly momentum indicators are at high levels but have not yet rolled over.

Stochastic Oscillator (98.4143)



MACD (99.9663)



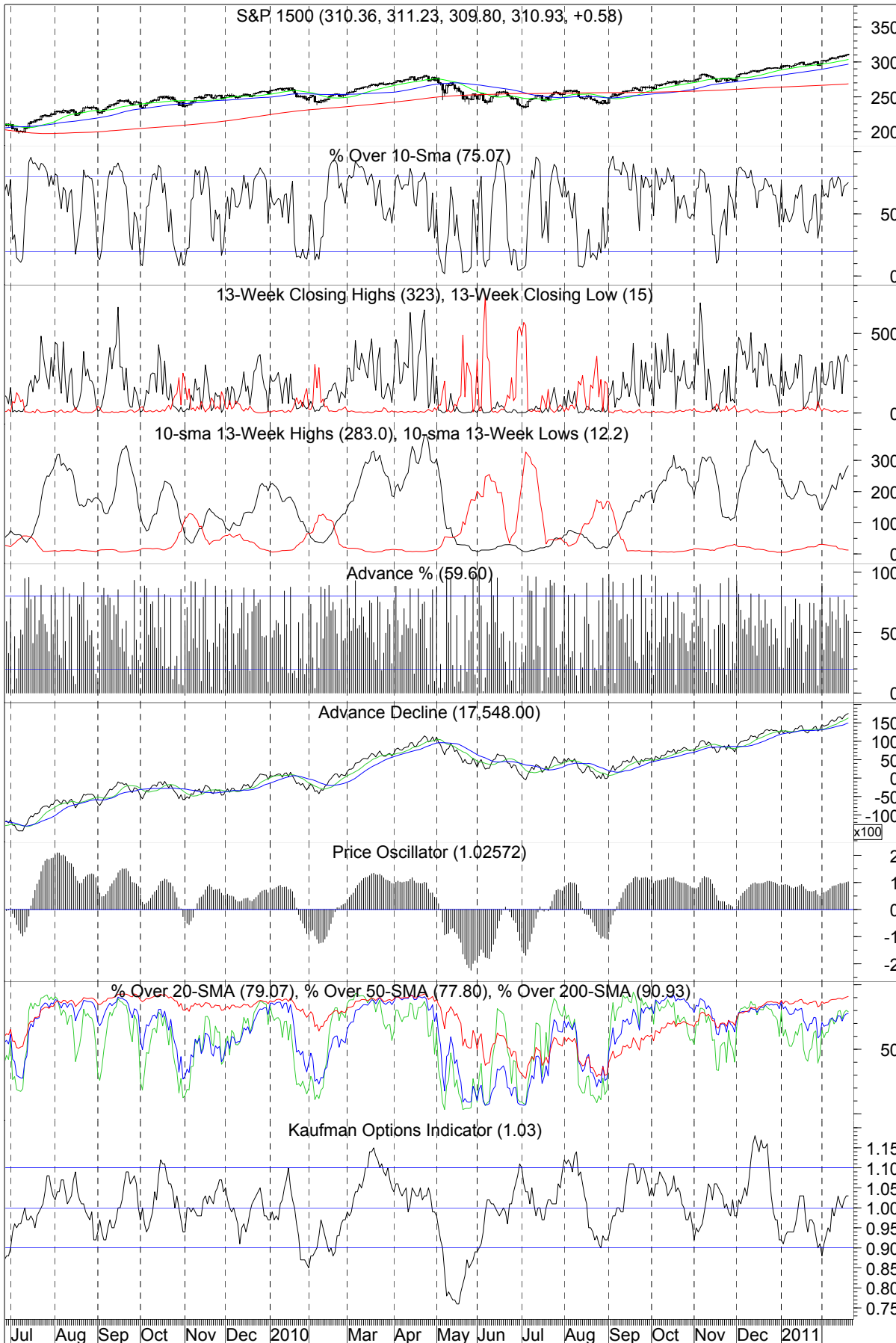
A S O N D 2008 A M J J A S O N D 2009 A M J J A S O N D 2010 A M J J A S O N D 2011

NASDAQ 100 (2,298.37, 2,403.52, 2,296.74, 2,392.47, +110.56)



The Nasdaq 100 has broken through the Fibonacci 38.2% retracement level of the 2000 - 2002 bear market after briefly pausing there in January. The 50% retracement level is at 2805.80, 17.3% away.

Monthly momentum indicators continue to point higher, with only the stochastic in the overbought zone.



75.07% of stocks are above their 10-sma, a high but not extreme level.

13-week closing highs have been expanding again, while new lows are retreating.

The 10-sma of new highs and new lows tells a simple story of a lack of sellers.

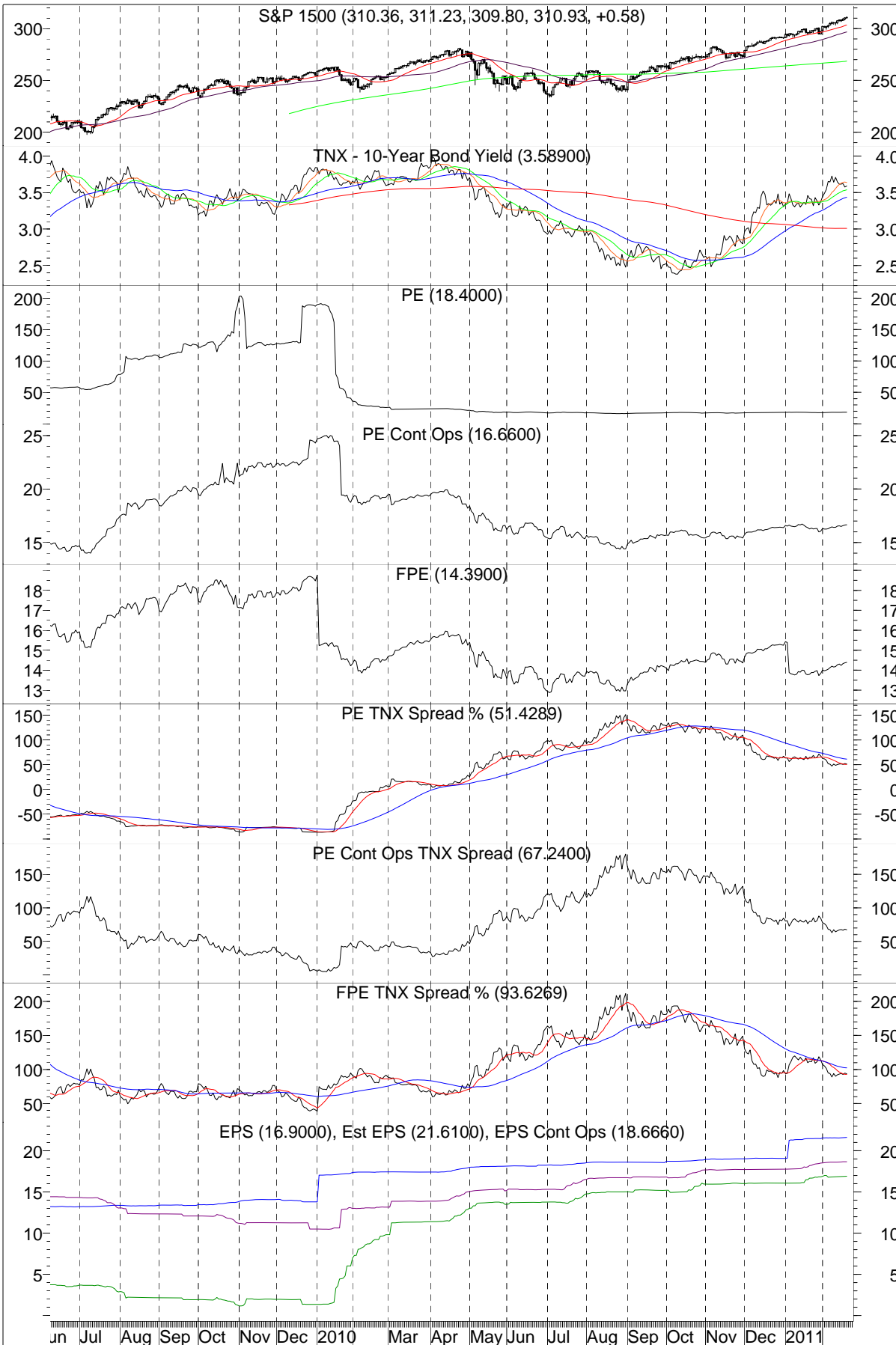
Breadth has not been very strong during this terrific rally.

The Advance Decline line continues to make new highs, confirming the new highs of the S&P 1500 index. There will be pull backs, but this points to higher prices in the future.

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

Bullish numbers here.

Our proprietary options indicator shows only moderate optimism at 1.03. Still, this coincides to levels where stocks have paused briefly recently.



After its recent breakout the 10-year yield has pulled back to just above its 20-sma. The breakout points to higher rates in the future.

P/E levels have been rising as stocks move higher.

Spreads between stock and bond yields were narrowing but have leveled off as rates moved down slightly. Based on these spreads stocks are still at levels where they are attractive versus bonds. The spread based on the forward P/E is still above levels seen at the April top for stocks, although not that far away.

419 of the S&P 500 have reported earnings so far. 69.0% have exceeded estimates, 6.9% have been in line, and 24.1% have disappointed.

INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Thailand THD	62.07	0.50%	7.26%	5.92%	-3.93%	-3.93%	68.70	11/9/2010	39.89	2/18/2010
Indonesia IDX	27.25	2.37%	4.13%	4.85%	-6.37%	-6.37%	31.05	11/9/2010	19.73	5/25/2010
Brazil EWZ	74.82	0.74%	4.06%	2.21%	-3.33%	-3.33%	81.55	11/4/2010	57.03	5/25/2010
Switzerland EWL	25.59	0.59%	3.73%	3.35%	2.03%	2.03%	25.59	2/18/2011	18.70	5/25/2010
Israel EIS	58.95	0.08%	3.24%	3.58%	-2.59%	-2.59%	61.79	1/19/2011	45.00	5/6/2010
Spain EWP	42.70	-0.09%	3.14%	1.98%	16.22%	16.22%	45.29	4/14/2010	29.85	6/8/2010
Latin America ILF	52.79	0.61%	3.05%	2.76%	-1.99%	-1.99%	54.83	11/5/2010	39.18	5/25/2010
Canada EWC	33.11	0.00%	2.76%	5.82%	6.81%	6.81%	33.29	2/18/2011	22.75	5/6/2010
BRIC EEB	45.91	0.00%	2.62%	2.27%	-0.50%	-0.50%	48.27	11/9/2010	23.23	5/6/2010
China 25 FXI	42.73	0.16%	2.52%	0.42%	-0.84%	-0.84%	47.99	11/8/2010	36.24	5/6/2010
Japan EWJ	11.60	-0.09%	2.43%	6.13%	6.32%	6.32%	11.63	2/18/2011	9.15	6/7/2010
Turkey TUR	63.95	0.20%	2.19%	6.60%	-3.41%	-3.41%	79.00	11/9/2010	44.40	5/6/2010
South Korea EWY	60.47	1.26%	1.97%	-1.51%	-1.18%	-1.18%	63.73	2/2/2011	40.65	5/25/2010
South Africa EZA	68.31	0.93%	1.97%	4.15%	-8.53%	-8.53%	75.27	1/3/2011	23.00	5/6/2010
Italy EWI	18.92	0.05%	1.94%	4.36%	15.51%	15.51%	19.04	4/14/2010	13.21	6/7/2010
Australia EWA	26.27	-0.15%	1.86%	5.63%	3.26%	3.26%	26.36	2/18/2011	18.26	5/25/2010
France EWQ	26.85	0.60%	1.74%	3.27%	9.82%	9.82%	26.90	2/18/2011	19.24	5/25/2010
Malaysia EWM	14.39	0.84%	1.62%	1.27%	0.07%	0.07%	14.98	1/13/2011	10.52	2/25/2010
Taiwan EWT	15.21	1.81%	1.62%	-2.31%	-2.62%	-2.62%	16.08	2/7/2011	10.81	6/8/2010
United Kingdom EWU	18.53	0.27%	1.53%	5.52%	6.68%	6.68%	18.55	2/18/2011	13.25	5/25/2010
Mexico EWW	62.25	0.74%	1.53%	2.45%	0.53%	0.53%	63.46	1/18/2011	45.11	5/25/2010
Emerging Markets EEM	46.31	0.61%	1.50%	1.09%	-2.80%	-2.80%	48.59	11/9/2010	35.19	5/25/2010
India IFN	30.65	0.43%	1.49%	2.68%	-12.70%	-12.70%	36.88	11/8/2010	23.97	5/25/2010
Netherlands EWN	22.61	0.89%	1.44%	4.15%	7.21%	7.21%	22.64	2/18/2011	16.64	5/25/2010
Belgium EWK	13.81	0.00%	1.32%	2.98%	5.18%	5.18%	14.52	11/4/2010	8.93	5/6/2010
Germany EWG	26.26	0.77%	1.23%	4.33%	9.69%	9.69%	26.30	2/18/2011	17.97	5/25/2010
Austria EWO	23.04	0.17%	0.48%	2.17%	3.18%	3.18%	23.21	2/9/2011	14.91	6/8/2010
Hong Kong EWH	18.76	0.43%	0.43%	-2.24%	-0.85%	-0.85%	20.24	11/8/2010	14.08	5/21/2010
Singapore EWS	13.37	0.15%	0.15%	-2.69%	-3.47%	-3.47%	14.56	11/9/2010	10.47	5/25/2010
Sweden EWD	31.56	0.62%	-1.05%	-2.07%	1.07%	1.07%	32.94	1/27/2011	19.00	5/6/2010
Russia RSX	38.79	-0.61%	-1.12%	-0.77%	2.32%	2.32%	40.85	1/18/2011	26.06	5/25/2010
Chile ECH	70.49	-0.54%	-1.88%	-1.22%	-11.44%	-11.44%	80.35	12/20/2010	27.26	5/6/2010
Vietnam VNM	25.62	-2.51%	-5.81%	-11.66%	-2.14%	-2.14%	30.34	12/13/2010	21.81	8/25/2010

Indexes, Sectors, and Industry Groups

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Bank of New York Mellon ADR	148.53	0.13%	2.31%	2.31%	3.88%	5.99%	5.99%	148.80	2/18/2011	109.79	5/25/2010
NYSE Composite	8507.90	0.12%	1.59%	1.59%	4.53%	6.83%	6.83%	8520.27	2/18/2011	6355.83	7/1/2010
S&P Smallcap 600	441.28	0.27%	1.38%	1.38%	6.05%	6.15%	6.15%	442.54	2/18/2011	315.22	8/24/2010
S&P Midcap 400	982.17	0.07%	1.31%	1.31%	6.21%	8.26%	8.26%	983.84	2/18/2011	692.75	7/1/2010
S&P 1500	310.93	0.19%	1.08%	1.08%	4.63%	6.89%	6.89%	311.19	2/18/2011	232.54	7/1/2010
S&P 500	1343.01	0.19%	1.04%	1.04%	4.42%	6.79%	6.79%	1344.07	2/18/2011	1010.91	7/1/2010
Dow Jones Industrials	12391.25	0.59%	0.96%	0.96%	4.20%	7.03%	7.03%	12391.29	2/18/2011	9614.32	7/2/2010
Nasdaq Composite	2833.95	0.08%	0.87%	0.87%	4.96%	6.83%	6.83%	2840.51	2/18/2011	2061.14	7/1/2010
Nasdaq 100	2392.47	-0.21%	0.56%	0.56%	4.85%	7.87%	7.87%	2403.52	2/16/2011	1700.04	7/1/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Energy	571.28	0.58%	3.67%	3.67%	5.05%	12.73%	12.73%	572.09	2/18/2011	365.74	7/1/2010
Health Care	378.82	0.25%	1.35%	1.35%	3.45%	3.85%	3.85%	379.29	2/18/2011	318.89	7/1/2010
Consumer Discretionary	315.79	0.44%	1.11%	1.11%	7.62%	6.85%	6.85%	315.79	2/18/2011	225.71	7/1/2010
Materials	250.27	-1.02%	0.98%	0.98%	4.60%	4.45%	4.45%	253.05	2/17/2011	168.44	7/1/2010
Consumer Staples	307.00	0.23%	0.72%	0.72%	2.93%	1.13%	1.13%	307.16	2/18/2011	260.65	7/1/2010
Information Technology	438.39	-0.06%	0.57%	0.57%	3.99%	8.37%	8.37%	439.61	2/18/2011	323.47	7/1/2010
Financials	231.16	0.21%	0.55%	0.55%	4.74%	7.63%	7.63%	231.18	2/16/2011	178.83	8/25/2010
Industrials	329.44	0.31%	0.50%	0.50%	4.96%	9.40%	9.40%	329.63	2/18/2011	232.54	7/6/2010
Utilities	161.30	0.00%	-0.49%	-0.49%	0.17%	1.23%	1.23%	164.42	10/20/2010	138.57	5/25/2010
Telecom Services	127.21	0.11%	-0.72%	-0.72%	2.77%	-1.18%	-1.18%	132.76	1/5/2011	98.67	5/6/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Energy	571.28	0.58%	3.67%	3.67%	5.05%	12.73%	12.73%	572.09	2/18/2011	365.74	7/1/2010
Media	227.77	0.73%	2.64%	2.64%	12.16%	14.87%	14.87%	227.80	2/18/2011	158.26	2/18/2010
Health Care Equip & Services	399.02	0.95%	2.15%	2.15%	6.02%	11.12%	11.12%	399.50	2/18/2011	296.30	8/31/2010
Semiconductors & Equipment	379.14	0.07%	2.04%	2.04%	5.11%	12.28%	12.28%	380.50	2/18/2011	262.69	8/31/2010
Insurance	202.18	0.60%	1.90%	1.90%	5.89%	7.42%	7.42%	202.29	2/18/2011	156.79	5/25/2010
Consumer Durables & Apparel	177.47	1.65%	1.54%	1.54%	6.74%	5.29%	5.29%	177.47	2/18/2011	127.38	7/6/2010
Food, Beverage & Tobacco	354.96	-0.11%	1.53%	1.53%	3.70%	0.72%	0.72%	356.38	12/20/2010	294.78	5/25/2010
Transportation	346.42	0.03%	1.00%	1.00%	5.51%	4.77%	4.77%	347.39	2/18/2011	247.54	7/6/2010
Materials	250.27	-1.02%	0.98%	0.98%	4.60%	4.45%	4.45%	253.05	2/17/2011	168.44	7/1/2010
Diversified Financials	364.18	0.17%	0.94%	0.94%	5.18%	8.58%	8.58%	382.07	4/15/2010	278.07	8/31/2010
Pharmaceuticals, Biotech & Life Sci	338.55	-0.13%	0.91%	0.91%	2.10%	0.28%	0.28%	352.33	3/23/2010	299.26	7/1/2010
Software & Services	561.69	0.47%	0.81%	0.81%	3.78%	6.71%	6.71%	562.10	2/18/2011	410.27	7/1/2010
Consumer Services	482.82	0.39%	0.58%	0.58%	5.82%	3.23%	3.23%	483.97	2/18/2011	371.65	7/1/2010
Commercial & Professional Service	151.59	0.25%	0.54%	0.54%	3.00%	4.16%	4.16%	151.59	2/18/2011	122.63	6/8/2010
Retailing	526.80	0.08%	0.48%	0.48%	5.78%	3.62%	3.62%	529.38	2/16/2011	379.61	7/1/2010
Capital Goods	358.88	0.37%	0.39%	0.39%	4.97%	10.90%	10.90%	358.95	2/18/2011	250.06	7/6/2010
Real Estate	131.29	0.42%	0.36%	0.36%	3.29%	8.88%	8.88%	131.83	2/16/2011	90.37	2/18/2010
Food & Staples Retailing	200.50	0.77%	0.28%	0.28%	1.38%	2.45%	2.45%	203.40	1/26/2011	162.45	7/1/2010
Technology Hardware & Equipmen	474.04	-0.73%	-0.23%	-0.23%	3.85%	9.04%	9.04%	483.22	2/9/2011	350.49	8/27/2010
Utilities	161.30	0.00%	-0.49%	-0.49%	0.17%	1.23%	1.23%	164.42	10/20/2010	138.57	5/25/2010
Telecom Services	127.21	0.11%	-0.72%	-0.72%	2.77%	-1.18%	-1.18%	132.76	1/5/2011	98.67	5/6/2010
Household & Personal Products	381.32	0.53%	-0.75%	-0.75%	2.62%	0.83%	0.83%	390.72	1/25/2011	339.42	5/6/2010
Automobiles & Components	119.93	-0.59%	-1.66%	-1.66%	3.42%	1.51%	1.51%	130.31	1/13/2011	74.25	6/29/2010
Banks	156.21	-0.27%	-1.97%	-1.97%	2.95%	4.98%	4.98%	165.92	4/21/2010	115.69	8/31/2010