

Monday February 28, 2011

Closing prices of February 25, 2011

Stocks finally succumbed to unrest in the Middle East and the threat of rising oil prices last week as they recorded a loss for the week. The S&P 500 was down 1.72% on the week with the Dow Jones Industrials leading major indexes lower with a loss of 2.1%. For the S&P 1500 the 1.73% drop was the worst weekly loss since November 12<sup>th</sup>, but unless stocks drop by close to 3% Monday February will be the sixth straight monthly gain for this broad index.

Last week we speculated that the problems in the Middle East could be the catalyst for the pullback that everyone had been waiting for but which refused to show up. We want to repeat our comment from last week regarding the possible end to the recent leg up for stocks. **"While it is obvious the rally will end at some point, the data regarding other similar rallies points to higher prices after the pause."** So far nothing has occurred to change our opinion that we will see more gains in the future. Unfortunately in the short-term the picture is less clear.

**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 occur when investors are bearish. Last week we said our options indicator had moved above the neutral line of 1.00 to 1.03, and while that was not the extreme level seen at tops, it was the same level hit in mid-January when the market went sideways for two weeks. Last week's drop in stocks didn't create the pessimism we like to see, and our indicator is currently at 1.01. Stocks can go either way with this just above neutral reading. This is back to being a short-term trader's market for the time being.

**Earnings season is coming to an end with 480 of the S&P 500 having reported so far.** Of those, 68.5% have exceeded expectations, 7.3% have been in line, and 24.2% 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.**

Overall it has been a good earnings season. Worries about spiking interest rates are out of the way, at least temporarily, and have been replaced by worries about rising oil and other commodity prices. Until those worries become reality, it will be difficult to argue that equities are overvalued. Currently S&P 500 projected earnings for 2011 are above \$96 and rising. **The current S&P 500 P/E is 15.56. 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 above \$109, projecting earnings growth of 13.5%. A 15 P/E on \$109 equates to 1635 on the S&P 500, almost 24% higher than current levels.**

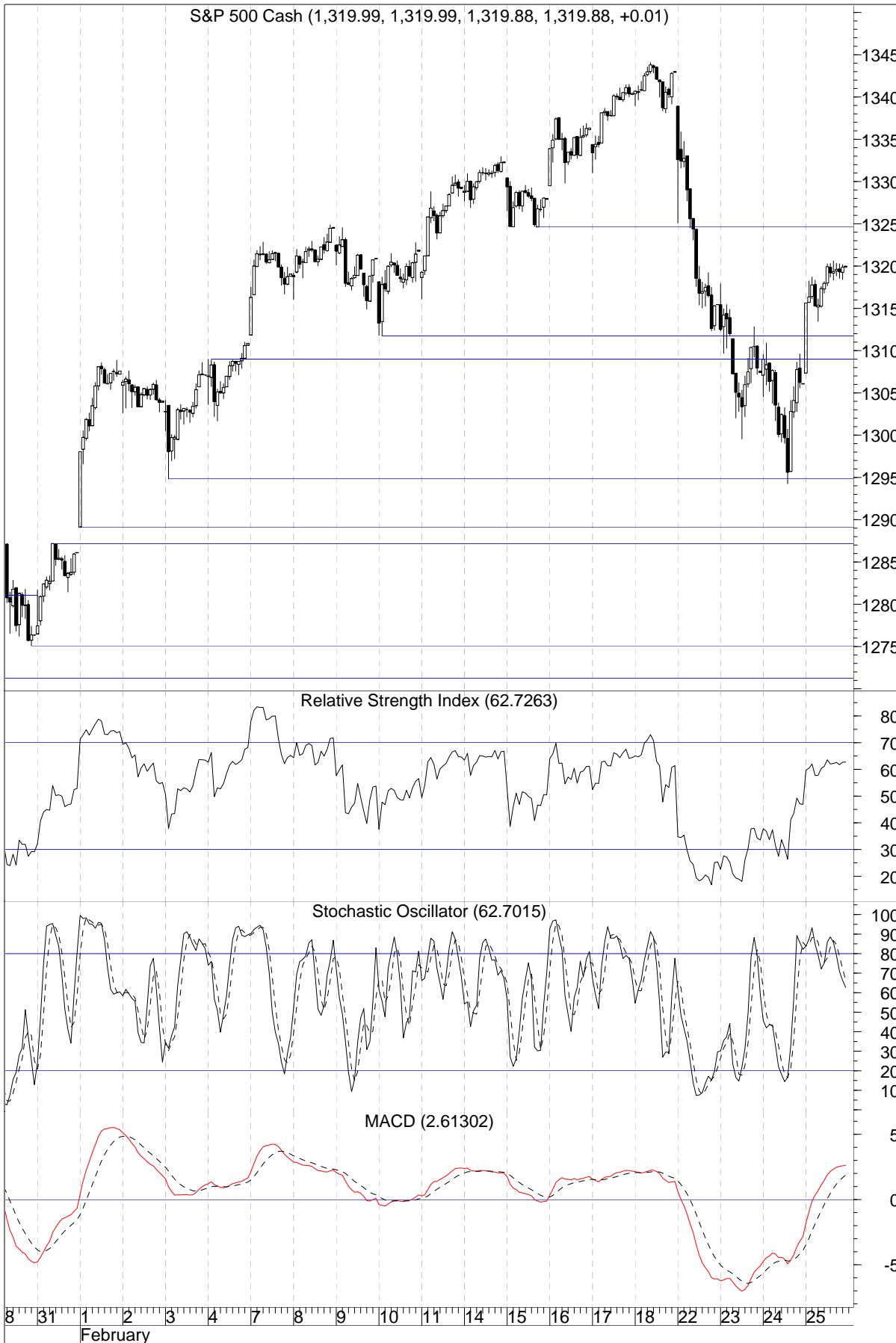
We left the best three-month period for stocks when January ended, but we are still in the best 6-month period. February is the weakest of the six, but that has not mattered until last week. **As far as the presidential cycle, we have left year two and entered year three. Since 1939 the Dow Jones Industrial 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

I, Wayne S. Kaufman, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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The S&P 500 gapped down at the open Tuesday and kept going as it finally broke through short-term support levels. After getting very oversold at the 1295 support level it bounced, closing the week at about the 50% retracement of the drop from the recent high to the 1295 area.

30-minute momentum indicators are mixed.

S&P 500 Cash (1,307.34, 1,320.61, 1,307.34, 1,319.88, +13.78)



The daily chart of the S&P 500 shows a hammer candle on Thursday. Hammers are bottoming candles. This was the first time since November the index closed below the 20-sma for two days.

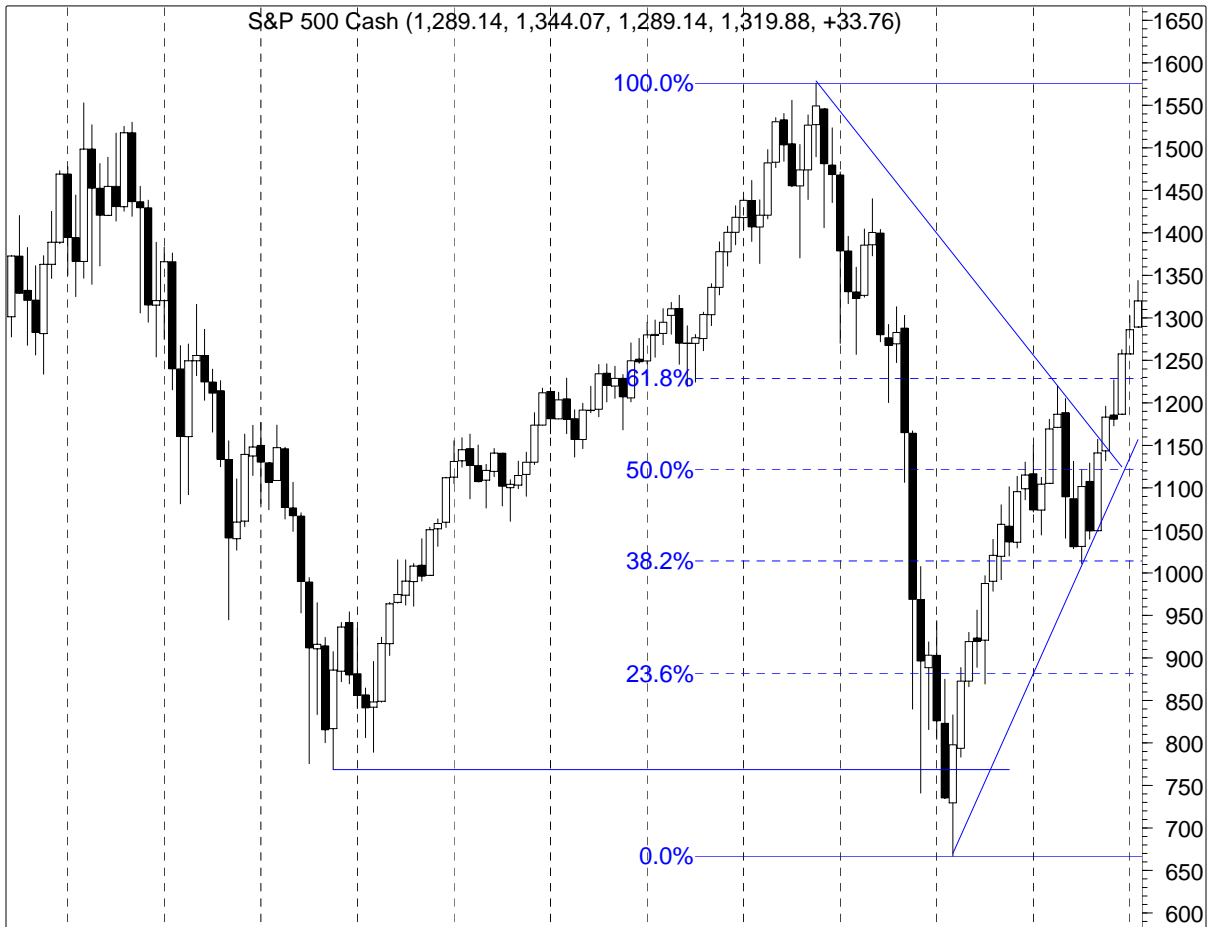
Daily momentum indicators are not completely oversold, but the RSI and stochastic hit levels on Thursday where they have found support recently.



Last week's weekly candle on the S&P 500 is a bearish hanging man. It requires confirmation during the following week to have a negative interpretation.

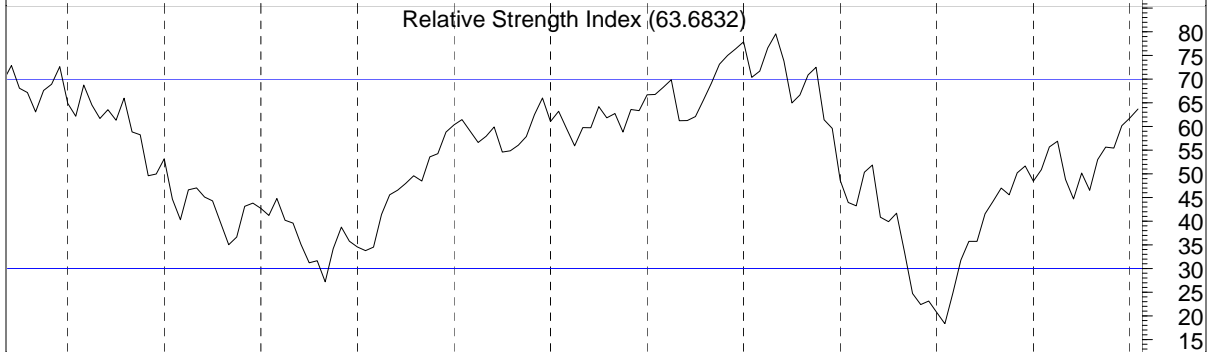
Weekly momentum indicators are at high levels and the RSI and stochastic appear to be rolling over.

S&P 500 Cash (1,289.14, 1,344.07, 1,289.14, 1,319.88, +33.76)



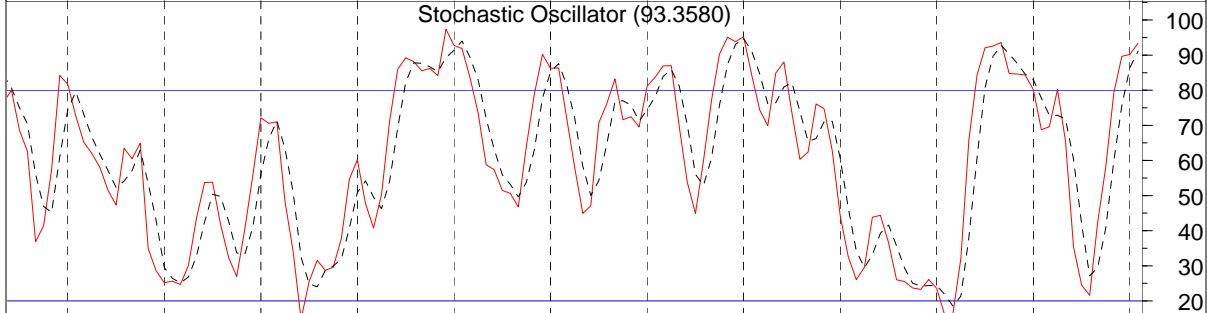
The monthly chart of the S&P 500 shows it got up to 1344.07 before last week's selloff, not far from 1361.50, the Fibonacci 76.4% retracement of the recent bear market.

Relative Strength Index (63.6832)

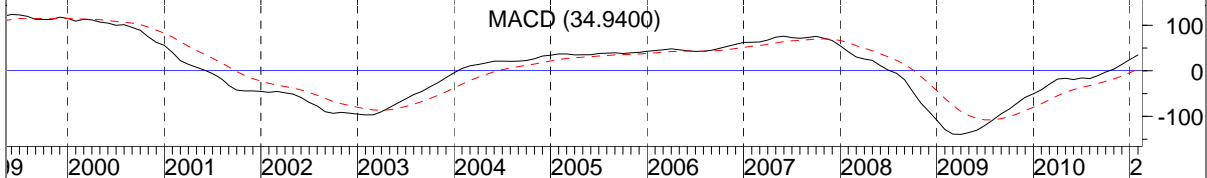


Monthly momentum indicators are still pointing higher with only the stochastic in the overbought zone.

Stochastic Oscillator (93.3580)



MACD (34.9400)



NASDAQ 100 (2,326.13, 2,349.51, 2,325.71, 2,346.29, +32.98)



The Nasdaq 100 gapped lower on Tuesday, then found support at the 50-sma Wednesday. It printed a hammer candle Thursday before gapping up Friday. Gaps higher after hitting lows are usually bullish.

Daily momentum indicators reached pretty low levels.

NASDAQ 100 (2,353.81, 2,366.43, 2,284.65, 2,346.29, -46.18)



The weekly chart of the Nasdaq 100 shows a gap down after hitting a new high. Gaps down after highs are bearish, with the gap being a resistance level.

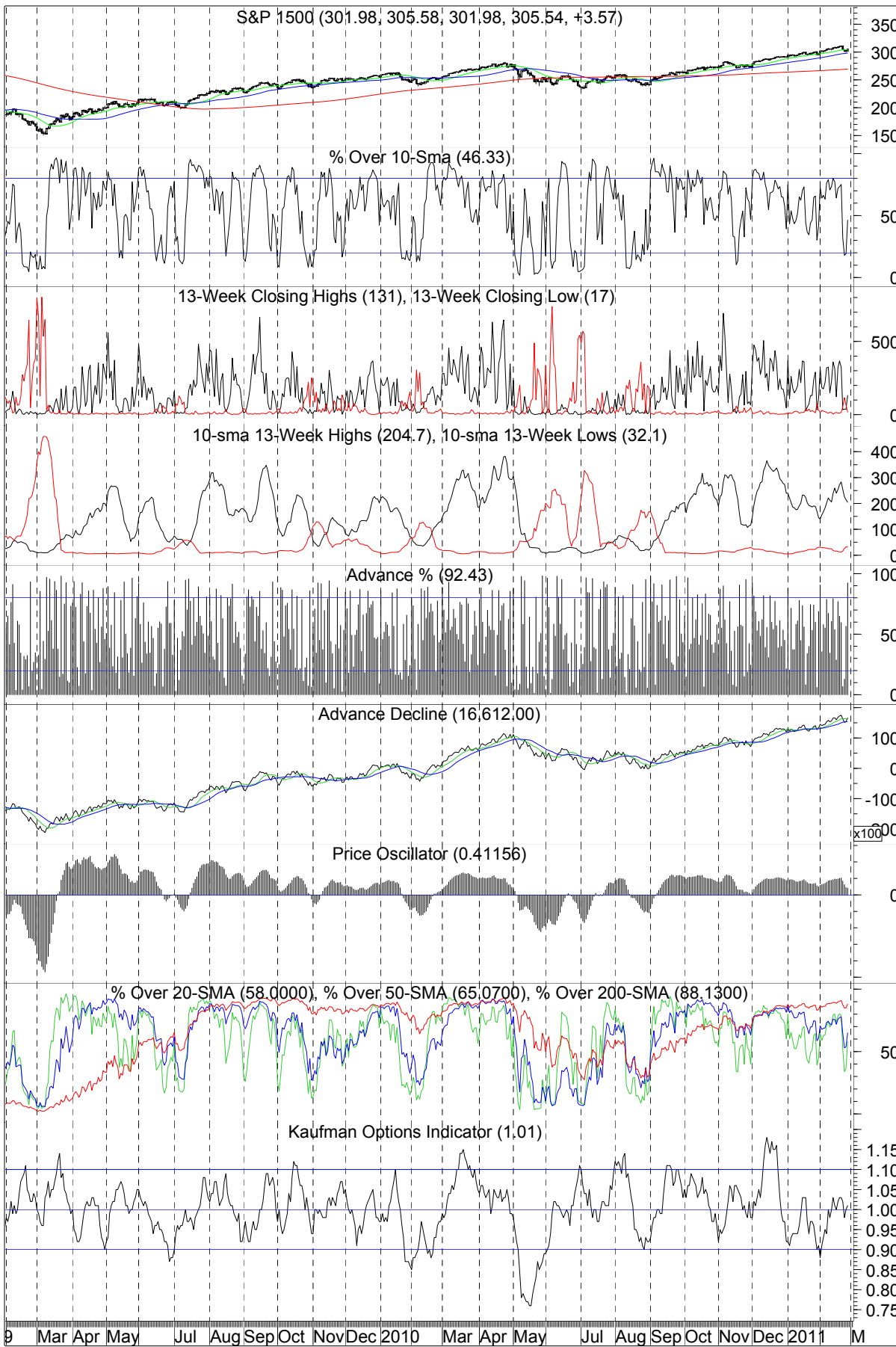
Weekly momentum indicators are at high levels and appear to be turning down but have not yet broken recent support levels.



The monthly chart of the Nasdaq 100 shows it recently broke the Fibonacci 38.2% retracement level of the bear market of 2000 - 2002. Last week it fell back towards that level, which is at 2331.31. The 50% level is at 2805.80.

Monthly momentum indicators are still pointing higher with only the stochastic in the overbought zone.





The percent over 10-sma hit 18% Wednesday, the first time in the oversold zone since November.

Closing highs dried up last week, which is to be expected at the start of a pull back.

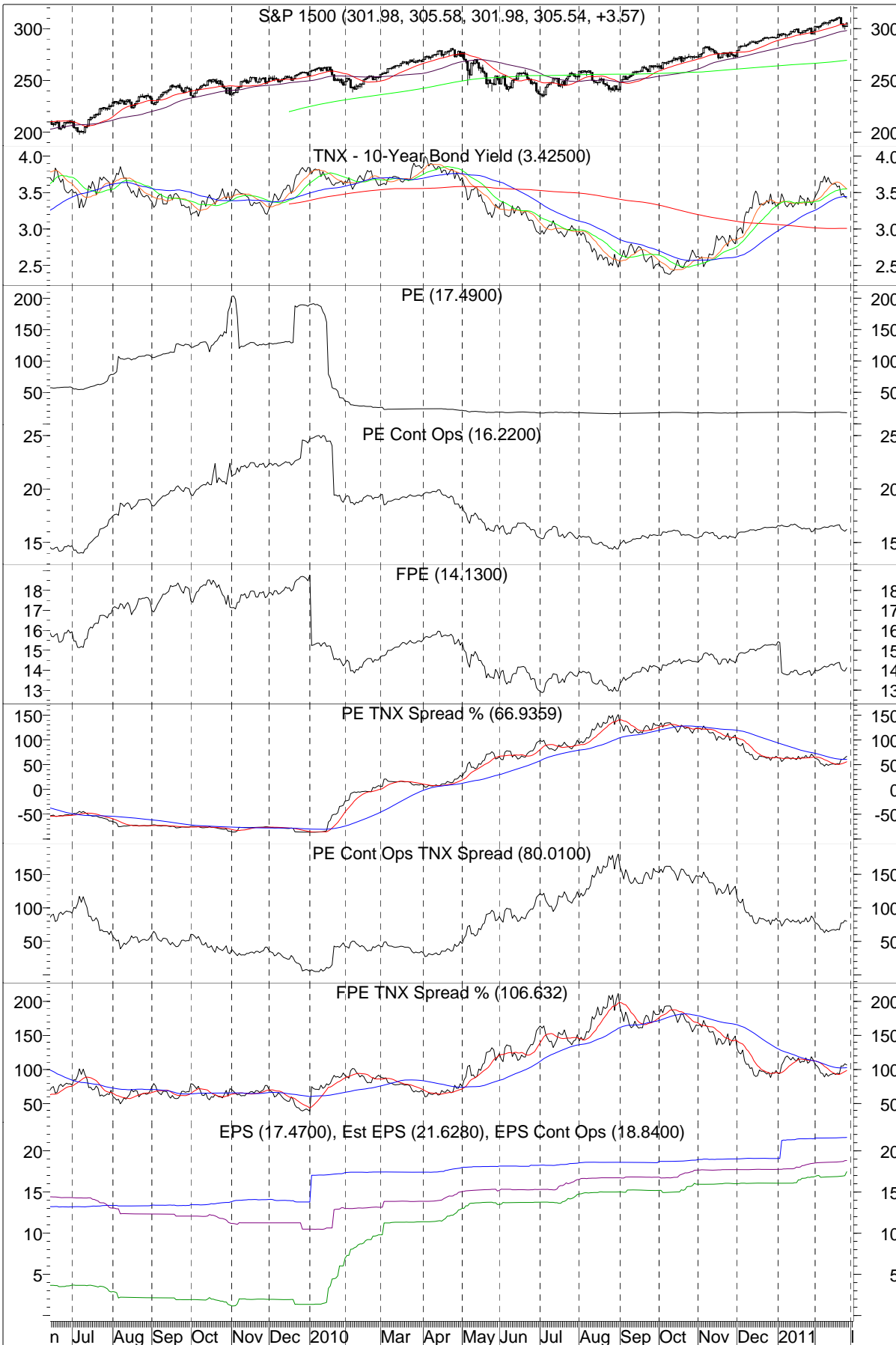
The 10-sma of 13-week closing lows has started to expand. Friday had 92.42% of stocks advancing, the first time over 90% since 2/1.

Unfortunately volume was 22% below Thursday's and 11.4% below the 10-sma and 14.4% below the 30-sma.

The AD line recently made a new high, pointing to higher prices on the index in the future.

Short-term numbers here show weakness, but the longer-term percent over 200-sma is still very bullish at 88.13%.

Our proprietary options indicator hit 1.03 on 2/17, not an extreme overbullish reading but the level where stocks had topped out prior to last week's pull back. At 1.01 it is just over neutral and doesn't tell us too much right now.



10-year bond yields have fallen back to the 50-sma after the early February breakout.

P/E ratios are in a sideways range.

Spreads between equity and bond yields are widening again as reported and projected earnings are rising and bond yields are falling.

480 of the S&P 500 have reported earnings. 68.5% have exceeded estimates, 7.3% have been as expected, and 24.2% have disappointed.

## Indexes, Sectors, and Industry Groups

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
NYSE Composite	8378.05	1.23%	-1.53%	-1.40%	2.94%	5.20%	5.20%	8520.27	2011-02-18	6355.83	2010-07-01
Bank of New York Mellon ADR	146.12	1.25%	-1.62%	-1.49%	2.20%	4.27%	4.27%	148.80	2011-02-18	109.79	2010-05-25
S&P 500	1319.88	1.06%	-1.72%	-1.53%	2.62%	4.95%	4.95%	1344.07	2011-02-18	1010.91	2010-07-01
S&P 1500	305.54	1.18%	-1.73%	-1.55%	2.82%	5.04%	5.04%	311.19	2011-02-18	232.54	2010-07-01
S&P Smallcap 600	433.51	2.21%	-1.76%	-1.49%	4.18%	4.28%	4.28%	442.54	2011-02-18	315.22	2010-08-24
S&P Midcap 400	964.21	2.05%	-1.83%	-1.76%	4.26%	6.28%	6.28%	983.84	2011-02-18	692.75	2010-07-01
Nasdaq Composite	2781.05	1.58%	-1.87%	-1.78%	3.00%	4.83%	4.83%	2840.51	2011-02-18	2061.14	2010-07-01
Nasdaq 100	2346.29	1.43%	-1.93%	-2.14%	2.82%	5.79%	5.79%	2403.52	2011-02-16	1700.04	2010-07-01
Dow Jones Industrials	12130.45	0.51%	-2.10%	-1.52%	2.01%	4.78%	4.78%	12391.29	2011-02-18	9614.32	2010-07-02

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Energy	577.37	1.21%	1.07%	1.65%	6.17%	13.94%	13.94%	582.50	2011-02-23	365.74	2010-07-01
Utilities	160.58	0.59%	-0.45%	-0.45%	-0.28%	0.78%	0.78%	164.42	2010-10-20	138.57	2010-05-25
Consumer Staples	304.14	0.43%	-0.93%	-0.70%	1.97%	0.19%	0.19%	307.16	2011-02-18	260.65	2010-07-01
Health Care	373.21	0.62%	-1.48%	-1.23%	1.92%	2.31%	2.31%	379.29	2011-02-18	318.89	2010-07-01
Telecom Services	124.83	1.00%	-1.87%	-1.76%	0.84%	-3.03%	-3.03%	132.76	2011-01-05	98.67	2010-05-06
Information Technology	428.40	1.33%	-2.28%	-2.33%	1.62%	5.90%	5.90%	439.61	2011-02-18	323.47	2010-07-01
Consumer Discretionary	308.41	1.06%	-2.34%	-1.90%	5.11%	4.36%	4.36%	315.79	2011-02-18	225.71	2010-07-01
Financials	225.73	1.41%	-2.35%	-2.14%	2.28%	5.10%	5.10%	231.18	2011-02-16	178.83	2010-08-25
Materials	242.71	1.41%	-3.02%	-4.01%	1.44%	1.29%	1.29%	253.05	2011-02-17	168.44	2010-07-01
Industrials	318.54	0.92%	-3.31%	-3.01%	1.49%	5.78%	5.78%	329.63	2011-02-18	232.54	2010-07-06

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Energy	577.37	1.21%	1.07%	1.65%	6.17%	13.94%	13.94%	582.50	2011-02-23	365.74	2010-07-01
Food, Beverage & Tobacco	356.93	0.63%	0.56%	0.45%	4.28%	1.28%	1.28%	357.12	2011-02-25	294.78	2010-05-25
Utilities	160.58	0.59%	-0.45%	-0.45%	-0.28%	0.78%	0.78%	164.42	2010-10-20	138.57	2010-05-25
Real Estate	130.19	1.82%	-0.84%	-0.42%	2.42%	7.97%	7.97%	131.83	2011-02-16	90.99	2010-02-25
Media	225.75	1.73%	-0.89%	-0.17%	11.17%	13.85%	13.85%	227.80	2011-02-18	158.61	2010-02-25
Pharmaceuticals, Biotech & Life Sci	333.91	0.33%	-1.37%	-1.50%	0.70%	-1.10%	-1.10%	352.33	2010-03-23	299.26	2010-07-01
Health Care Equip & Services	392.32	1.17%	-1.68%	-0.74%	4.24%	9.25%	9.25%	399.50	2011-02-18	296.30	2010-08-31
Insurance	198.78	1.28%	-1.68%	-1.10%	4.11%	5.61%	5.61%	202.29	2011-02-18	156.79	2010-05-25
Semiconductors & Equipment	372.17	2.20%	-1.84%	-1.77%	3.18%	10.21%	10.21%	380.50	2011-02-18	262.69	2010-08-31
Household & Personal Products	374.27	0.02%	-1.85%	-1.33%	0.72%	-1.04%	-1.04%	390.72	2011-01-25	339.42	2010-05-06
Telecom Services	124.83	1.00%	-1.87%	-1.76%	0.84%	-3.03%	-3.03%	132.76	2011-01-05	98.67	2010-05-06
Banks	153.21	2.00%	-1.92%	-2.19%	0.98%	2.97%	2.97%	165.92	2010-04-21	115.69	2010-08-31
Software & Services	549.16	0.96%	-2.23%	-1.77%	1.46%	4.33%	4.33%	562.10	2011-02-18	410.27	2010-07-01
Consumer Durables & Apparel	173.39	1.28%	-2.30%	-0.69%	4.29%	2.87%	2.87%	177.47	2011-02-18	127.38	2010-07-06
Technology Hardware & Equipmen	462.20	1.46%	-2.50%	-3.21%	1.26%	6.32%	6.32%	483.22	2011-02-09	350.49	2010-08-27
Retailing	511.83	0.28%	-2.84%	-2.76%	2.77%	0.68%	0.68%	529.38	2011-02-16	379.61	2010-07-01
Materials	242.71	1.41%	-3.02%	-4.01%	1.44%	1.29%	1.29%	253.05	2011-02-17	168.44	2010-07-01
Capital Goods	347.80	1.05%	-3.09%	-2.72%	1.73%	7.48%	7.48%	358.95	2011-02-18	250.06	2010-07-06
Diversified Financials	352.65	1.17%	-3.17%	-3.01%	1.86%	5.15%	5.15%	382.07	2010-04-15	278.07	2010-08-31
Consumer Services	467.42	0.76%	-3.19%	-2.81%	2.44%	-0.06%	-0.06%	483.97	2011-02-18	371.65	2010-07-01
Commercial & Professional Service	146.74	0.96%	-3.20%	-2.95%	-0.30%	0.83%	0.83%	151.59	2011-02-18	122.63	2010-06-08
Food & Staples Retailing	193.19	0.32%	-3.65%	-2.91%	-2.32%	-1.28%	-1.28%	203.40	2011-01-26	162.45	2010-07-01
Automobiles & Components	114.82	2.00%	-4.26%	-4.82%	-0.99%	-2.82%	-2.82%	130.31	2011-01-13	74.25	2010-06-29
Transportation	331.48	0.35%	-4.31%	-4.29%	0.96%	0.26%	0.26%	347.39	2011-02-18	247.54	2010-07-06

## INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Russia RSX	40.24	2.68%	3.12%	2.94%	6.15%	6.15%	40.85	2011-01-18	26.06	2010-05-25
Indonesia IDX	27.10	0.48%	1.76%	4.27%	-6.88%	-6.88%	31.05	2010-11-09	19.73	2010-05-25
South Africa EZA	68.31	1.92%	0.92%	4.15%	-8.53%	-8.53%	75.27	2011-01-03	23.00	2010-05-06
Canada EWC	33.18	1.75%	0.21%	6.04%	7.03%	7.03%	33.29	2011-02-18	22.75	2010-05-06
Switzerland EWL	25.46	0.51%	0.08%	2.83%	1.52%	1.52%	25.59	2011-02-18	18.70	2010-05-25
Sweden EWD	31.26	0.87%	-0.35%	-3.01%	0.10%	0.10%	32.94	2011-01-27	19.00	2010-05-06
Brazil EWZ	73.89	0.12%	-0.51%	0.94%	-4.53%	-4.53%	81.55	2010-11-04	57.03	2010-05-25
Netherlands EWN	22.27	0.72%	-0.62%	2.58%	5.60%	5.60%	22.64	2011-02-18	16.64	2010-05-25
France EWQ	26.51	1.53%	-0.67%	1.96%	8.43%	8.43%	26.90	2011-02-18	19.24	2010-05-25
Hong Kong EWH	18.54	2.15%	-0.75%	-3.39%	-2.01%	-2.01%	20.24	2010-11-08	14.08	2010-05-21
Thailand THD	61.20	1.44%	-0.90%	4.44%	-5.28%	-5.28%	68.70	2010-11-09	41.10	2010-02-25
Australia EWA	26.03	1.96%	-1.07%	4.66%	2.32%	2.32%	26.36	2011-02-18	18.26	2010-05-25
Latin America ILF	51.89	1.01%	-1.10%	1.01%	-3.66%	-3.66%	54.83	2010-11-05	39.18	2010-05-25
Emerging Markets EEM	45.52	1.20%	-1.10%	-0.63%	-4.45%	-4.45%	48.59	2010-11-09	35.19	2010-05-25
Belgium EWK	13.65	0.66%	-1.16%	1.79%	3.96%	3.96%	14.52	2010-11-04	8.93	2010-05-06
Malaysia EWM	14.09	0.64%	-1.25%	-0.84%	-2.02%	-2.02%	14.98	2011-01-13	10.52	2010-02-25
Singapore EWS	13.17	2.17%	-1.35%	-4.15%	-4.91%	-4.91%	14.56	2010-11-09	10.47	2010-05-25
BRIC EEB	45.29	0.96%	-1.35%	0.89%	-1.84%	-1.84%	48.27	2010-11-09	23.23	2010-05-06
United Kingdom EWU	18.22	1.67%	-1.40%	3.76%	4.89%	4.89%	18.55	2011-02-18	13.25	2010-05-25
Japan EWJ	11.42	1.29%	-1.68%	4.44%	4.63%	4.63%	11.63	2011-02-18	9.15	2010-06-07
China 25 FXI	41.84	1.65%	-1.92%	-1.67%	-2.90%	-2.90%	47.99	2010-11-08	36.24	2010-05-06
Germany EWG	25.55	0.67%	-1.94%	1.51%	6.73%	6.73%	26.30	2011-02-18	17.97	2010-05-25
South Korea EWY	58.50	1.19%	-2.02%	-4.72%	-4.40%	-4.40%	63.73	2011-02-02	40.65	2010-05-25
Taiwan EWT	14.63	1.39%	-2.04%	-6.04%	-6.34%	-6.34%	16.08	2011-02-07	10.81	2010-06-08
Mexico EWW	60.52	1.15%	-2.04%	-0.39%	-2.26%	-2.26%	63.46	2011-01-18	45.11	2010-05-25
Spain EWP	41.82	1.19%	-2.15%	-0.12%	13.83%	13.83%	45.29	2010-04-14	29.85	2010-06-08
Austria EWO	22.48	0.36%	-2.26%	-0.31%	0.67%	0.67%	23.21	2011-02-09	14.91	2010-06-08
Italy EWI	18.38	1.55%	-2.80%	1.38%	12.21%	12.21%	19.04	2010-04-14	13.21	2010-06-07
India IFN	29.59	1.20%	-3.03%	-0.87%	-15.72%	-15.72%	36.88	2010-11-08	23.97	2010-05-25
Israel EIS	56.45	1.53%	-4.16%	-0.81%	-6.73%	-6.73%	61.79	2011-01-19	45.00	2010-05-06
Chile ECH	67.85	1.40%	-4.28%	-4.92%	-14.76%	-14.76%	80.35	2010-12-20	27.26	2010-05-06
Vietnam VNM	24.30	1.29%	-7.73%	-16.21%	-7.18%	-7.18%	30.34	2010-12-13	21.81	2010-08-25
Turkey TUR	58.78	1.40%	-7.88%	-2.02%	-11.22%	-11.22%	79.00	2010-11-09	44.40	2010-05-06