

Monday January 24, 2011

Closing prices of January 21, 2011

Stocks finally ran into some difficulty last week after a long period of gains with little volatility. Sellers came off the sidelines causing key reversal weeks (new highs with closes lower than the prior week) in major indexes. Interestingly, the Dow Jones Industrials continued chugging higher and made new intra-day and closing highs Friday, but other major indexes all logged losses for the week.

The good news is we get a reset on many of the clock watcher statistics which have become so prominent, such as the amount of trading days with no one-percent drop. The bad news is charts of varying time frames are still at overbought levels. **Until that condition is worked off stocks will be vulnerable to declines and false breakouts, and we are back to viewing this as a short-term traders market.**

**Earnings season is now well underway with 81 of the S&P 500 having reported so far.** Of those, 70.4% have exceeded expectations, 7.4% have been in line, and 22.2% have disappointed. Last quarter 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.

We have been saying for quite a while that we were hoping for a replay of January 2010, when aggregate reported and projected earnings jumped up dramatically. So far projections are following that script, and over the next few weeks we will see if they move even higher and reported numbers follow suit. If so, equity valuations will be compelling. Based on the spread between 10-year bond yields and earnings yields, valuations are still at the level of early December. A strong earnings season could make these numbers even better and push equities higher.

**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 starting to be 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 nearing \$96. **A conservative 14 P/E using \$96 puts the S&P 500 at 1344. The current S&P 500 P/E is 16.06. 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 now in the \$108 range, projecting earnings growth of over 13%.

We will be leaving the best three-month period for stocks as January ends, but seasonality remains positive. **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 are 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.**

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S&P 500 Cash (1,283.34, 1,283.35, 1,283.31, 1,283.35, +0.02)



The S&P 500 made a fresh 52-week high Tuesday before selling off and breaking some short-term support levels.

30-minute momentum indicators are neutral but with some negative crossovers.

S&P 500 Cash (1,283.63, 1,291.21, 1,282.07, 1,283.35, +3.09)



The daily chart of the S&P 500 shows it tested its 20-sma for the first time since November and bounced off it. The closes of the last three days have been very close together.

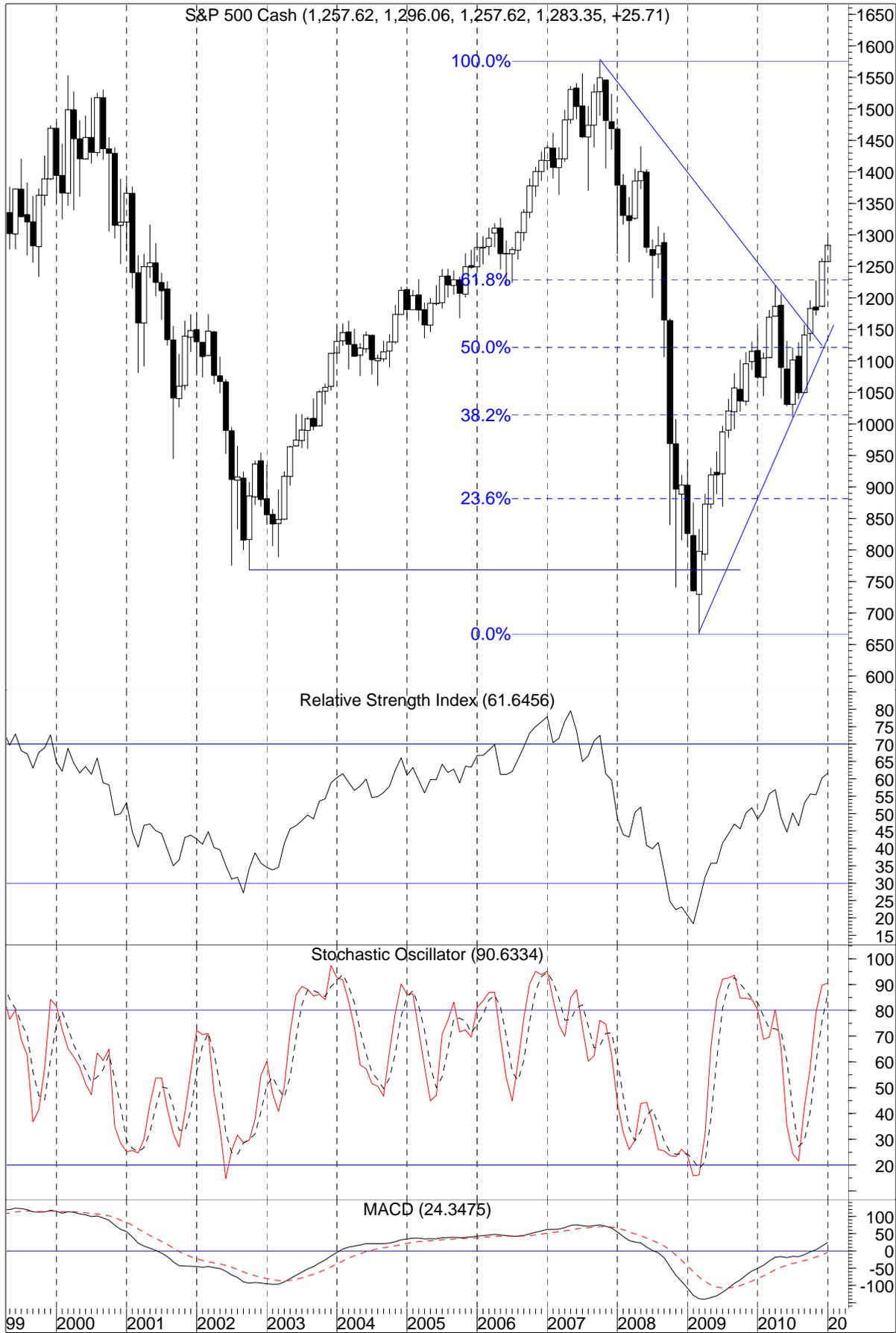
Daily momentum indicators have rolled over and fallen from overbought levels. They are not yet oversold or at recent levels of support.



Last week we said the S&P 500 was nearing round number resistance at 1300 and it got to 1296.06 before pulling back creating a key reversal week.

The RSI surpassed the level from April and is starting to move lower. The other weekly momentum indicators are also still at high levels.

S&P 500 Cash (1,257.62, 1,296.06, 1,257.62, 1,283.35, +25.71)



The monthly chart of the S&P 500 shows it surpassed the Fibonacci 61.8% retracement level of the recent bear market. The next important level is 1361.50, which is the 76.4% retracement.

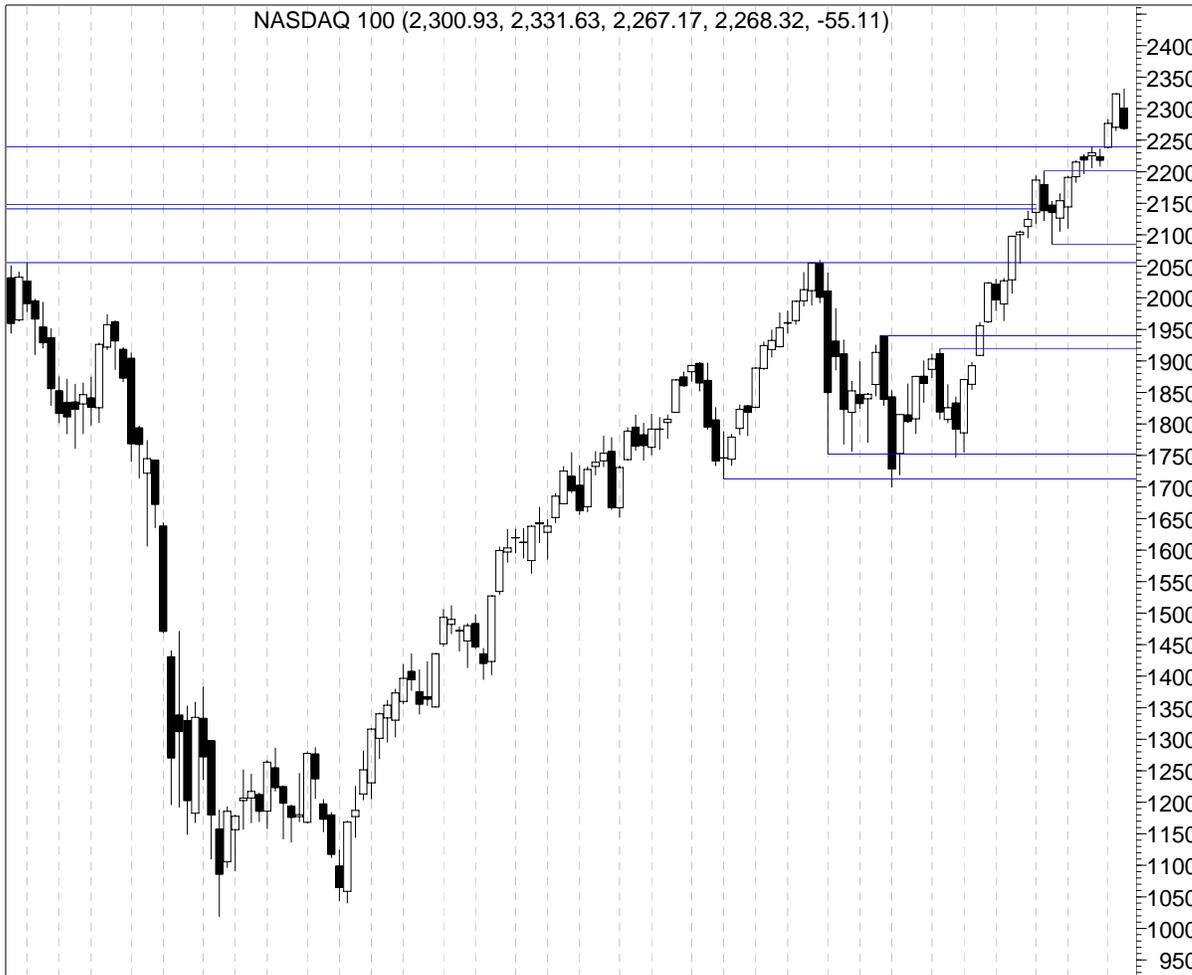
The monthly stochastic is in the overbought zone, but the other monthly momentum indicators are not yet at overbought levels.



The daily chart of the Nasdaq 100 looks ugly as lots of selling came in after it made a fresh 52-week intra-day high on Wednesday. It is just below its 20-sma for the first time since the end of December.

Daily momentum indicators have rolled over from overbought levels and look ugly.

NASDAQ 100 (2,300.93, 2,331.63, 2,267.17, 2,268.32, -55.11)



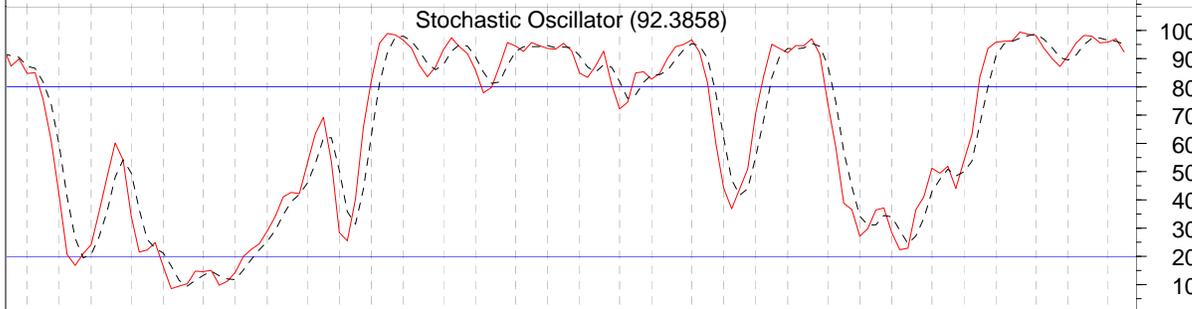
The Nasdaq 100 also printed a key reversal week on its weekly chart.

Relative Strength Index (66.9682)

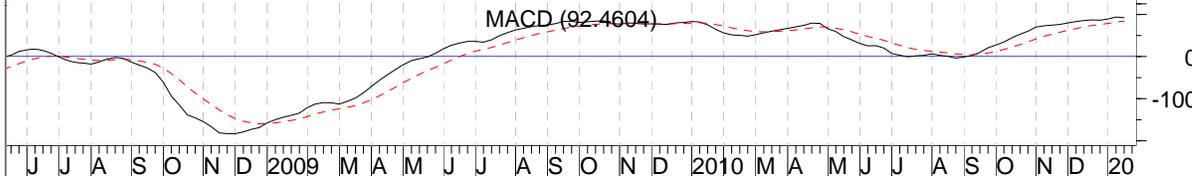


Weekly momentum indicators are rolling over from overbought levels.

Stochastic Oscillator (92.3858)



MACD (92.4604)

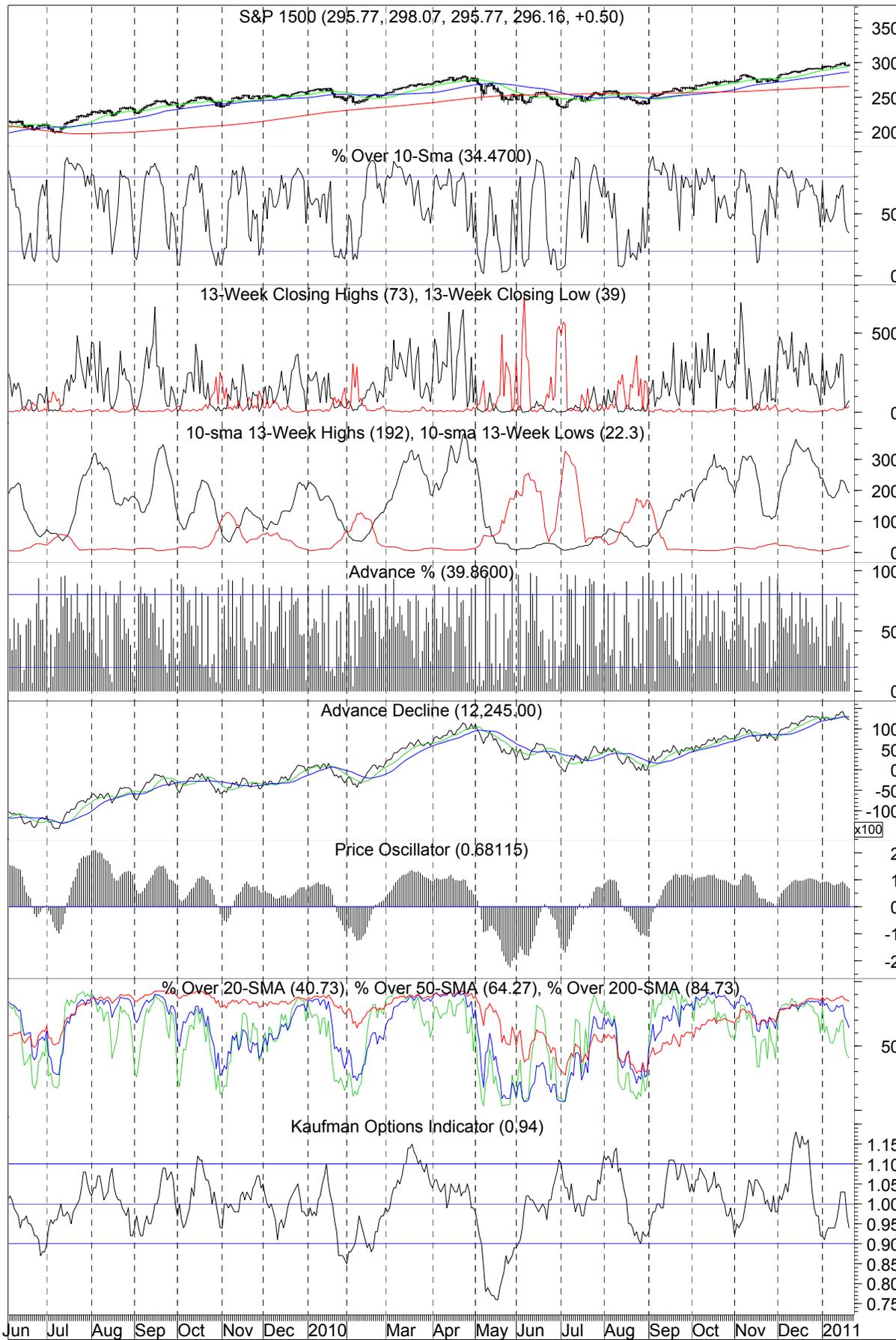


NASDAQ 100 (2,238.66, 2,323.43, 2,237.73, 2,323.43, +46.73)



Last week we pointed out that the Nasdaq 100 was just under the 38.2% retracement level of its 2000 - 2002 bear market. That number was 2331.31. The index hit 2331.63 on Wednesday before reversing.

Monthly momentum indicators have not turned down yet from high or overbought levels.



The percent of stocks over their own 10-sma is 34.47, the lowest since 11/23.

New highs have been drying up, which is typical of pullbacks, while new lows Friday were the most since 11/30.

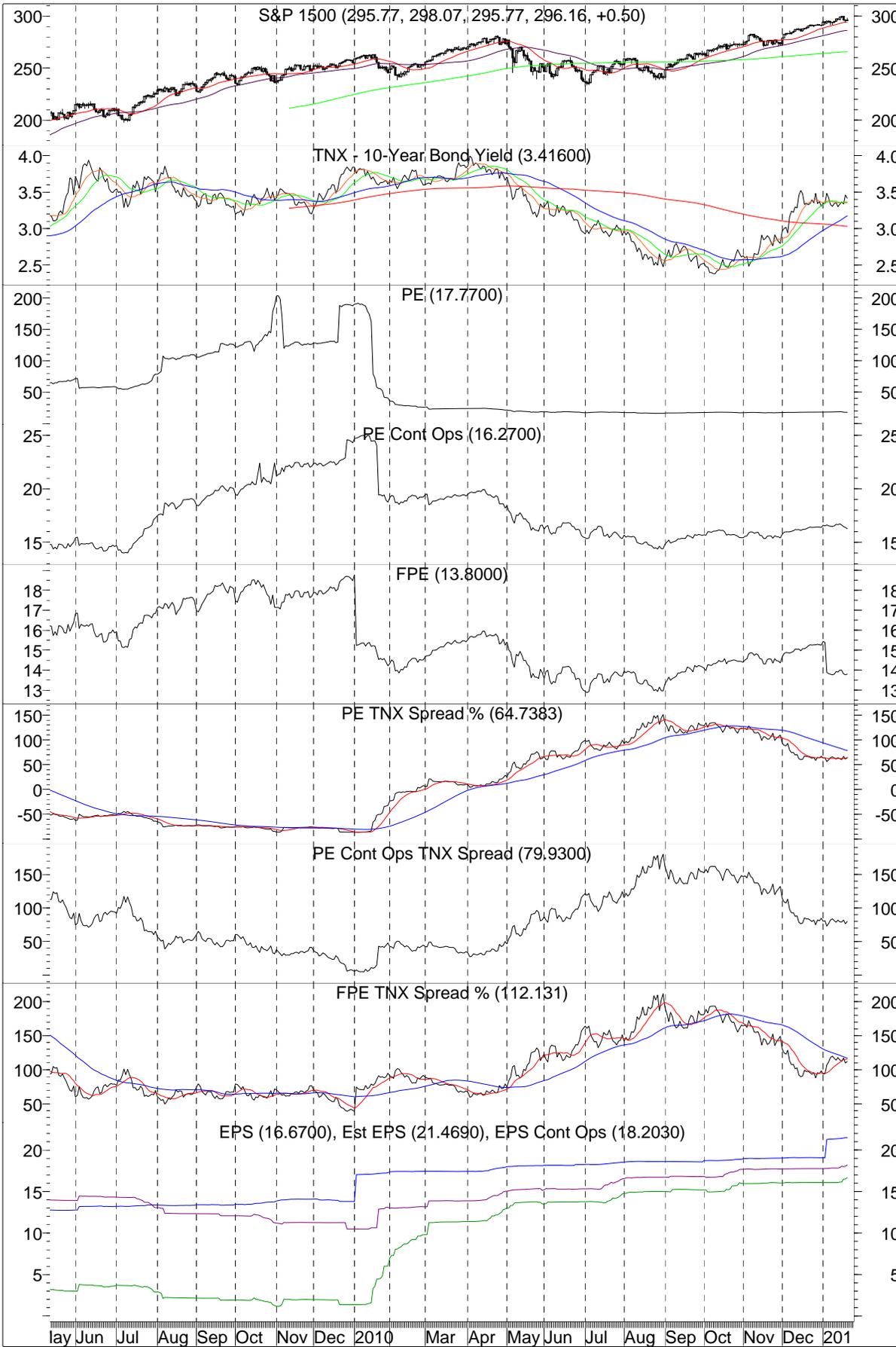
Breadth has been weak with no days of advancers over 80% since 1/3 and before that 12/16.

The AD line made a new high Tuesday, which points to higher prices longer-term, but it rapidly moved below its 10-sma.

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

The short-term numbers here are weak, but 84.73% over their own 200-day moving average is still bullish.

Call buyers drove our proprietary options indicator from a pessimistic 0.91 on 1/4 to an optimistic 1.03 on 1/14. It is back to 0.94, so we don't believe this pullback will be extreme.



10-year bond yields are back over their 20-sma and are not yet overbought on the daily chart. A breakout from the recent range will target a move near 4%.

The forward P/E, which is based on forecasts, has moved back down to a low level.

Spreads between bond and equity yields have been moving sideways and are at levels where stocks should be attractive versus bonds. A spike in bond yields could change this equation.

Only 81 of the S&P 500 have reported in this earnings season, but earnings and estimates have been moving higher as we had hoped. The next two weeks are obviously very important.

## Indexes, Sectors, and Industry Groups

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Dow Jones Industrials	11871.84	0.41%	0.72%	1.19%	2.54%	2.54%	2.54%	11905.48	1/21/2011	9614.32	7/2/2010
S&P 500	1283.35	0.24%	-0.76%	-0.03%	2.04%	2.04%	2.04%	1296.06	1/18/2011	1010.91	7/1/2010
NYSE Composite	8105.75	0.36%	-0.84%	-0.17%	1.78%	1.78%	1.78%	8200.24	1/19/2011	6355.83	7/1/2010
Bank of New York Mellon ADR	142.93	0.34%	-0.85%	-0.31%	2.00%	2.00%	2.00%	145.35	1/19/2011	109.79	5/25/2010
S&P 1500	296.16	0.17%	-0.96%	-0.22%	1.81%	1.81%	1.81%	299.72	1/19/2011	232.54	7/1/2010
S&P Midcap 400	914.36	-0.26%	-1.79%	-1.10%	0.78%	0.78%	0.78%	939.56	1/18/2011	681.91	2/5/2010
Nasdaq 100	2268.32	-0.78%	-2.37%	-1.61%	2.28%	2.28%	2.28%	2331.63	1/19/2011	1700.04	7/1/2010
Nasdaq Composite	2689.54	-0.55%	-2.39%	-1.67%	1.38%	1.38%	1.38%	2766.17	1/18/2011	2061.14	7/1/2010
S&P Smallcap 600	410.43	-0.56%	-3.66%	-2.75%	-1.27%	-1.27%	-1.27%	426.29	1/14/2011	309.16	2/5/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Utilities	162.44	-0.06%	0.68%	1.12%	1.94%	1.94%	1.94%	164.42	10/20/2010	138.57	5/25/2010
Industrials	311.03	1.15%	0.27%	0.74%	3.29%	3.29%	3.29%	312.91	1/21/2011	232.54	7/6/2010
Consumer Staples	304.03	0.03%	0.15%	0.11%	0.15%	0.15%	0.15%	305.42	12/21/2010	260.65	7/1/2010
Health Care	372.40	0.07%	0.05%	0.14%	2.09%	2.09%	2.09%	381.76	1/21/2010	318.89	7/1/2010
Energy	524.23	0.69%	-0.35%	0.80%	3.45%	3.45%	3.45%	530.66	1/19/2011	365.74	7/1/2010
Consumer Discretionary	298.33	0.11%	-0.41%	0.22%	0.95%	0.95%	0.95%	300.70	1/18/2011	222.51	2/5/2010
Telecom Services	124.27	0.44%	-1.14%	-1.06%	-3.47%	-3.47%	-3.47%	132.76	1/5/2011	98.67	5/6/2010
Financials	221.68	0.84%	-1.66%	0.04%	3.22%	3.22%	3.22%	230.45	4/15/2010	178.83	8/25/2010
Information Technology	416.48	-0.68%	-1.72%	-0.81%	2.95%	2.95%	2.95%	426.10	1/19/2011	323.47	7/1/2010
Materials	233.32	-0.23%	-3.32%	-3.21%	-2.63%	-2.63%	-2.63%	243.56	1/3/2011	168.44	7/1/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Media	206.79	1.03%	1.84%	2.14%	4.29%	4.29%	4.29%	207.81	1/21/2011	150.49	2/5/2010
Capital Goods	336.78	1.56%	0.80%	1.34%	4.07%	4.07%	4.07%	338.73	1/21/2011	250.06	7/6/2010
Food & Staples Retailing	200.14	-0.10%	0.80%	0.98%	2.27%	2.27%	2.27%	201.39	1/21/2011	162.45	7/1/2010
Utilities	162.44	-0.06%	0.68%	1.12%	1.94%	1.94%	1.94%	164.42	10/20/2010	138.57	5/25/2010
Household & Personal Products	384.43	0.04%	0.54%	0.59%	1.65%	1.65%	1.65%	384.80	1/20/2011	339.42	5/6/2010
Real Estate	123.54	0.76%	0.54%	1.56%	2.46%	2.46%	2.46%	123.93	1/18/2011	84.72	2/10/2010
Commercial & Professional Service	147.12	0.27%	0.34%	1.28%	1.09%	1.09%	1.09%	147.84	1/19/2011	122.63	6/8/2010
Health Care Equip & Services	377.57	0.48%	0.13%	0.92%	5.14%	5.14%	5.14%	380.45	1/18/2011	296.30	8/31/2010
Software & Services	541.83	-0.78%	0.11%	0.88%	2.93%	2.93%	2.93%	549.02	1/21/2011	410.27	7/1/2010
Pharmaceuticals, Biotech & Life Sci	339.60	-0.14%	0.00%	-0.26%	0.59%	0.59%	0.59%	357.87	1/21/2010	299.26	7/1/2010
Consumer Services	467.88	-0.06%	-0.10%	1.08%	0.03%	0.03%	0.03%	479.39	12/7/2010	363.27	2/5/2010
Food, Beverage & Tobacco	347.79	0.08%	-0.28%	-0.45%	-1.32%	-1.32%	-1.32%	356.38	12/20/2010	293.85	2/5/2010
Energy	524.23	0.69%	-0.35%	0.80%	3.45%	3.45%	3.45%	530.66	1/19/2011	365.74	7/1/2010
Insurance	189.75	0.27%	-0.77%	0.10%	0.81%	0.81%	0.81%	191.94	1/18/2011	156.79	5/25/2010
Retailing	502.18	-0.47%	-1.01%	-0.32%	-1.22%	-1.22%	-1.22%	516.57	1/3/2011	379.61	7/1/2010
Telecom Services	124.27	0.44%	-1.14%	-1.06%	-3.47%	-3.47%	-3.47%	132.76	1/5/2011	98.67	5/6/2010
Banks	152.38	1.84%	-1.58%	1.04%	2.41%	2.41%	2.41%	165.92	4/21/2010	115.69	8/31/2010
Transportation	333.00	-0.29%	-1.95%	-1.91%	0.72%	0.72%	0.72%	342.02	1/18/2011	239.94	2/5/2010
Semiconductors & Equipment	350.43	-0.57%	-2.02%	-0.57%	3.78%	3.78%	3.78%	359.02	1/18/2011	262.69	8/31/2010
Consumer Durables & Apparel	163.92	-0.62%	-2.32%	-1.33%	-2.75%	-2.75%	-2.75%	174.61	12/22/2010	124.75	2/5/2010
Diversified Financials	351.97	0.74%	-2.54%	-0.68%	4.94%	4.94%	4.94%	382.07	4/15/2010	278.07	8/31/2010
Materials	233.32	-0.23%	-3.32%	-3.21%	-2.63%	-2.63%	-2.63%	243.56	1/3/2011	168.44	7/1/2010
Technology Hardware & Equipmen	446.36	-0.59%	-3.78%	-2.90%	2.68%	2.68%	2.68%	465.05	1/19/2011	350.49	8/27/2010
Automobiles & Components	123.85	0.40%	-3.95%	-3.96%	4.82%	4.82%	4.82%	130.31	1/13/2011	74.25	6/29/2010

**INTERNATIONAL ETFs**

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Spain EWP	41.54	2.32%	7.94%	13.06%	13.06%	13.06%	47.15	1/21/2010	29.85	6/8/2010
Italy EWI	18.12	1.91%	6.07%	10.62%	10.62%	10.62%	19.42	1/21/2010	13.21	6/7/2010
France EWQ	25.87	1.77%	3.15%	5.81%	5.81%	5.81%	26.59	11/4/2010	19.24	5/25/2010
Netherlands EWN	21.66	1.83%	2.42%	2.70%	2.70%	2.70%	21.80	1/21/2011	16.64	5/25/2010
Germany EWG	24.91	1.18%	2.07%	4.05%	4.05%	4.05%	24.98	1/19/2011	17.97	5/25/2010
Austria EWO	22.17	1.14%	1.51%	-0.72%	-0.72%	-0.72%	22.63	1/4/2011	14.91	6/8/2010
Belgium EWK	13.39	1.44%	1.51%	1.98%	1.98%	1.98%	14.52	11/4/2010	8.93	5/6/2010
Switzerland EWL	24.59	1.32%	0.77%	-1.95%	-1.95%	-1.95%	25.25	1/3/2011	18.70	5/25/2010
Sweden EWD	31.53	1.69%	0.28%	0.96%	0.96%	0.96%	32.02	1/14/2011	19.00	5/6/2010
Vietnam VNM	27.44	2.54%	-0.07%	4.81%	4.81%	4.81%	30.34	12/13/2010	21.81	8/25/2010
United Kingdom EWU	17.55	0.69%	-0.56%	1.04%	1.04%	1.04%	18.02	1/18/2011	13.25	5/25/2010
Australia EWA	24.64	-0.08%	-0.96%	-3.14%	-3.14%	-3.14%	26.36	11/4/2010	18.26	5/25/2010
Mexico EWW	61.81	-0.48%	-1.02%	-0.18%	-0.18%	-0.18%	63.46	1/18/2011	44.70	2/5/2010
Canada EWC	30.92	0.23%	-1.02%	-0.26%	-0.26%	-0.26%	31.66	1/3/2011	22.75	5/6/2010
Russia RSX	39.25	-0.51%	-1.05%	3.53%	3.53%	3.53%	40.85	1/18/2011	26.06	5/25/2010
Taiwan EWT	15.52	-0.77%	-1.15%	-0.64%	-0.64%	-0.64%	15.85	1/19/2011	10.81	6/8/2010
Hong Kong EWH	19.62	-0.61%	-1.15%	3.70%	3.70%	3.70%	20.24	11/8/2010	14.08	5/21/2010
Chile ECH	73.58	0.34%	-1.24%	-7.56%	-7.56%	-7.56%	80.35	12/20/2010	27.26	5/6/2010
Singapore EWS	13.74	0.22%	-1.65%	-0.79%	-0.79%	-0.79%	14.56	11/9/2010	10.37	2/5/2010
Malaysia EWM	14.65	-0.61%	-1.75%	1.88%	1.88%	1.88%	14.98	1/13/2011	10.18	2/5/2010
Japan EWJ	10.95	-0.99%	-1.79%	0.37%	0.37%	0.37%	11.25	1/19/2011	9.15	6/7/2010
South Korea EWY	61.11	-1.91%	-1.95%	-0.13%	-0.13%	-0.13%	63.36	1/19/2011	40.65	5/25/2010
Israel EIS	59.85	-0.07%	-1.96%	-1.11%	-1.11%	-1.11%	61.79	1/19/2011	45.00	5/6/2010
BRIC EEB	45.53	-0.65%	-2.20%	-1.32%	-1.32%	-1.32%	48.27	11/9/2010	23.23	5/6/2010
Latin America ILF	52.26	-0.48%	-2.60%	-2.97%	-2.97%	-2.97%	54.83	11/5/2010	39.18	5/25/2010
Emerging Markets EEM	46.48	-1.04%	-2.73%	-2.44%	-2.44%	-2.44%	48.59	11/9/2010	35.19	5/25/2010
China 25 FXI	43.23	-0.87%	-2.99%	0.32%	0.32%	0.32%	47.99	11/8/2010	36.24	5/6/2010
Brazil EWZ	74.99	-1.13%	-3.11%	-3.11%	-3.11%	-3.11%	81.55	11/4/2010	57.03	5/25/2010
India IFN	31.21	-1.66%	-3.36%	-11.11%	-11.11%	-11.11%	36.88	11/8/2010	23.97	5/25/2010
South Africa EZA	68.16	-0.01%	-4.89%	-8.73%	-8.73%	-8.73%	75.27	1/3/2011	23.00	5/6/2010
Thailand THD	61.18	-2.35%	-5.11%	-5.31%	-5.31%	-5.31%	68.70	11/9/2010	37.65	2/5/2010
Turkey TUR	63.99	0.55%	-5.72%	-3.35%	-3.35%	-3.35%	79.00	11/9/2010	44.40	5/6/2010
Indonesia IDX	75.54	-1.74%	-7.91%	-13.48%	-13.48%	-13.48%	93.14	11/9/2010	59.19	5/25/2010