

Monday January 3, 2011

Closing prices of December 31, 2010

**We want to wish all of our readers and their families a happy, healthy, and prosperous 2011!**

Stocks finished the year last week like a marathon runner struggling to make it to the finish line. Volume was light and gains were hard to come by with the S&P 500 only up 0.07% for the week, the Dow Jones Industrials up 0.03%, and the Nasdaq 100 down 0.56%.

**Still, there were a lot of encouraging signs. The S&P 500 printed its best weekly close since 8/29/2008, its best monthly close since August 2008, and its best quarterly close since June 2008. The Nasdaq 100 printed its best monthly close since October 2007, and its best quarterly close since December 2000!**

**In spite of the lackluster finish, December was very strong with the S&P 500 up 6.53%, while the S&P Smallcap 600 followed the January effect script and led major U. S. indexes with a gain of 7.55%.** We like to see strength in small and mid-caps because it shows a willingness on the part of investors to assume risk along with an abundance of liquidity. A weakening U.S. Dollar Index helped the Bank of New York Mellon ADR index come on strong at the end to post an 8.00% increase for the month.

**We have been discussing the increasing selectivity on the part of investors, momentum indicators that were overbought, and overbullishness on the part of options buyers.** Surely these factors contributed to the weak finish to the year. The good news is options buyers have turned pessimistic, sending our proprietary options indicator into negative territory at 0.92, the lowest level since 11/1 and a level where stocks have bottomed recently.

**In spite of the increased selectivity, sellers remain on the sidelines.** Even though 13-week closing highs show a negative divergence by decreasing as indexes make new highs, the number of 13-week closing lows is very low, showing a lack of sellers. Combined with the new pessimism by options buyers the lack of a desire to sell should keep any near-term pullbacks shallow, absent any major negative news.

**We have continually stressed that valuations for equities were very attractive.** They still are, but the recent move higher of interest rates has the potential to change this picture should it continue much longer unless earnings also move higher. Spreads between bond and equity yields have narrowed but remain at levels where stocks are attractive versus bonds, and are still at levels where stocks are at better valuations than at the April high. Projected earnings have been nudging up recently, and we are hoping to see a replay of January 2010 when reported and projected earnings leaped higher. Currently S&P 500 projected earnings for 2011 are in the \$97 range. **A conservative 14 P/E using \$97 puts the S&P 500 at 1358.** Should first quarter earnings season follow the recent trend and beat estimates handily, those numbers will move higher.

We remain in a period of positive seasonality for equities. **November through January is historically the best three-month period of the year. As far as the presidential cycle, we will soon be leaving year two and entering 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 we head into the new year.**

## 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.

**THE INFORMATION PROVIDED IN THIS PUBLICATION IS FOR INFORMATIONAL PURPOSES ONLY. INVESTORS SHOULD CONSIDER THIS REPORT AS ONLY A SINGLE FACTOR IN MAKING THEIR INVESTMENT DECISION. THIS INFORMATIONAL REPORT IS NOT AN OFFER TO SELL OR A SOLICITATION TO BUY ANY SECURITY IN ANY JURISDICTION WHERE SUCH AN OFFER OR SOLICITATION WOULD BE ILLEGAL. THIS REPORT HAS BEEN PREPARED AS A MATTER OF GENERAL INFORMATION. IT IS NOT INTENDED TO BE A COMPLETE DESCRIPTION OF ANY SECURITY OR COMPANY MENTIONED, AND IS NOT AN OFFER TO BUY OR SELL ANY SECURITY. ALL FACTS AND STATISTICS ARE FROM SOURCES BELIEVED TO BE RELIABLE, BUT ARE NOT GUARANTEED AS TO ACCURACY. ADDITIONAL INFORMATION ON THESE SECURITIES AND COMPANIES IS AVAILABLE UPON REQUEST. SECURITIES, FINANCIAL INSTRUMENTS OR STRATEGIES MENTIONED HEREIN MAY NOT BE SUITABLE FOR ALL INVESTORS. THIS MATERIAL DOES NOT TAKE INTO ACCOUNT YOUR PARTICULAR INVESTMENT OBJECTIVES, FINANCIAL SITUATIONS OR STRATEGIES. BEFORE ACTING ON THE MATERIALS HEREIN, YOU SHOULD CONSIDER WHETHER IT IS SUITABLE FOR YOUR PARTICULAR CIRCUMSTANCES AND, IF NECESSARY SEEK PROFESSIONAL ADVICE. INVESTMENTS INVOLVE RISK AND AN INVESTOR MAY INCUR EITHER PROFITS OR LOSSES. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE. TRADING AND INVESTMENT DECISIONS ARE THE SOLE RESPONSIBILITY OF THE READER.**

S&P 500 Cash (1,257.91, 1,257.91, 1,257.64, 1,257.64, -0.38)



The S&P 500 made its 52-week high Wednesday.

Wednesday's high was accompanied by a negative divergence on the 30-minute RSI. 30-minute momentum indicators are neutral.



The daily chart of the S&P 500 shows it has traded in a tight range with lots of "spinning top" candles. These are signs of indecision.

Daily momentum indicators are turning down from overbought levels.



The S&P 500 had its highest weekly close since 8/29/2008.

Weekly momentum indicators are at high or overbought levels but have not yet turned down.

S&P 500 Cash (1,186.60, 1,262.60, 1,186.60, 1,257.64, +77.09)



The S&P 500 had its highest monthly close since August 2008. The index 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.

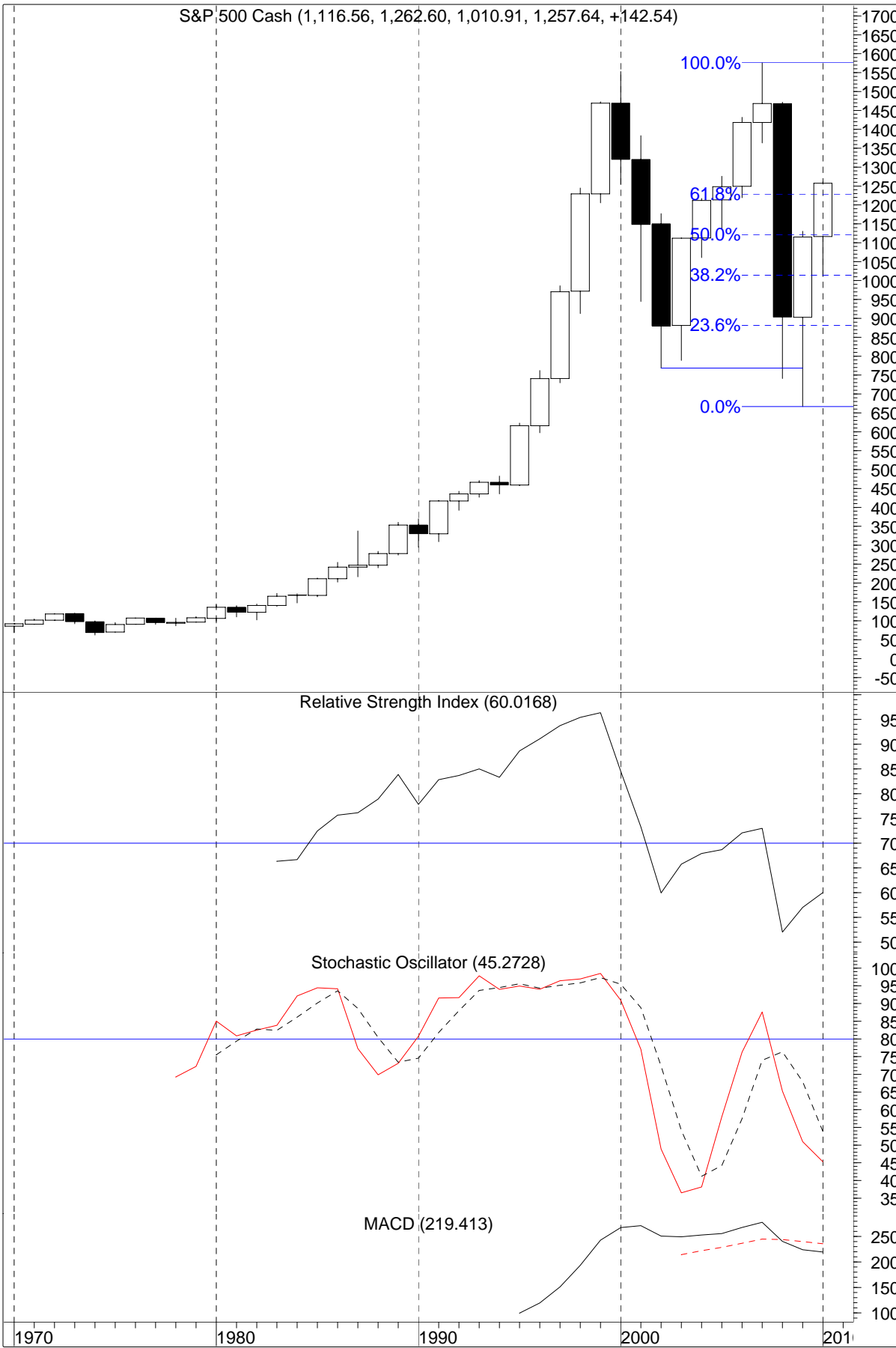
Monthly momentum indicators are not yet overbought and still seem to be pointing higher.



The quarterly chart of the S&P 500 shows it has had two strong quarters in a row and the highest quarterly close since June 2008.

Quarterly momentum indicators are not overbought. The MACD is near a positive crossover from a very low level, which would be very positive.

S&P 500 Cash (1,116.56, 1,262.60, 1,010.91, 1,257.64, +142.54)



The S&P 500 had its best yearly close since 2007.

NASDAQ 100 (2,223.28, 2,225.00, 2,209.38, 2,217.86, -7.86)

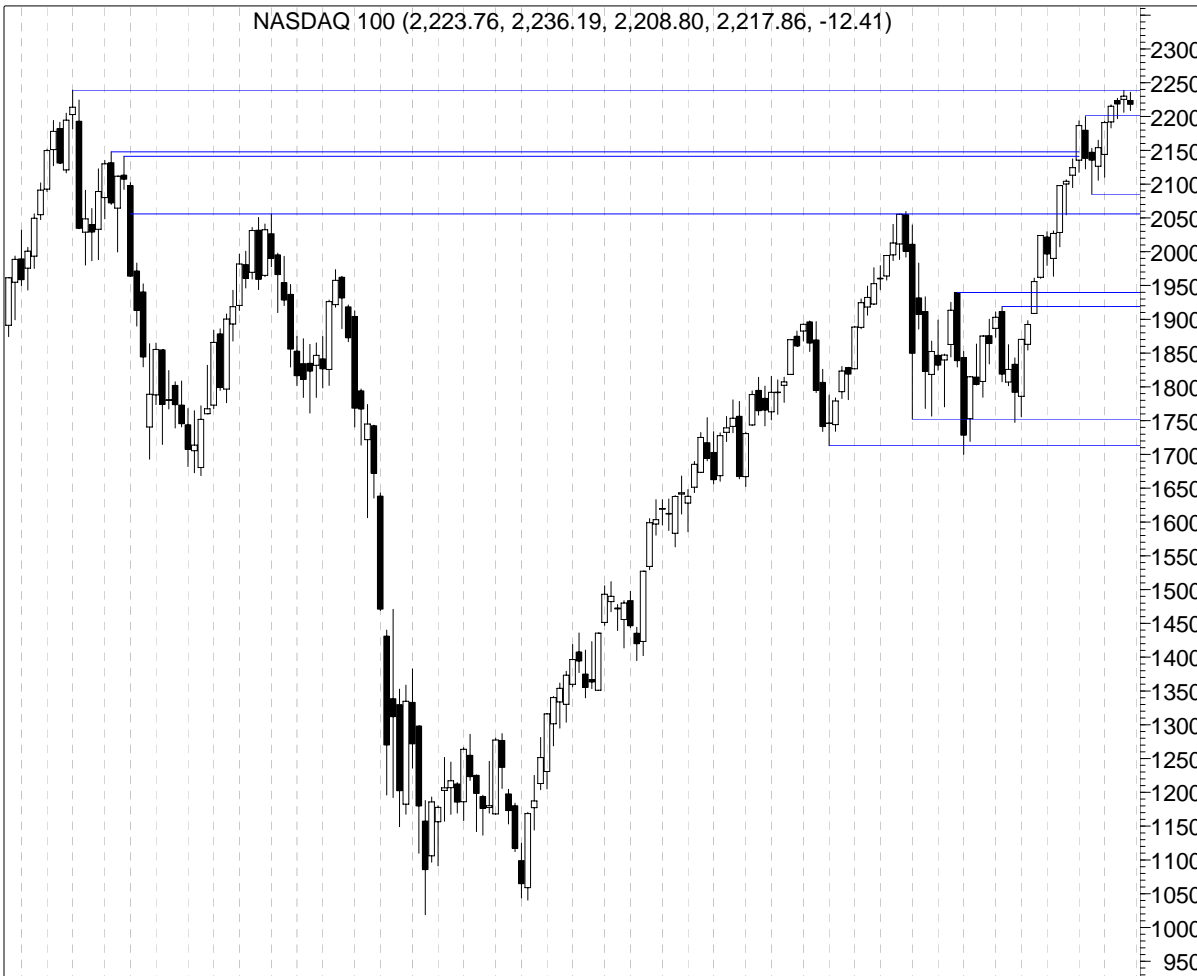


The daily chart of the Nasdaq 100 shows it ran into lots of resistance recently and is now just above its 20-sma.

Daily momentum indicators are rolling over.

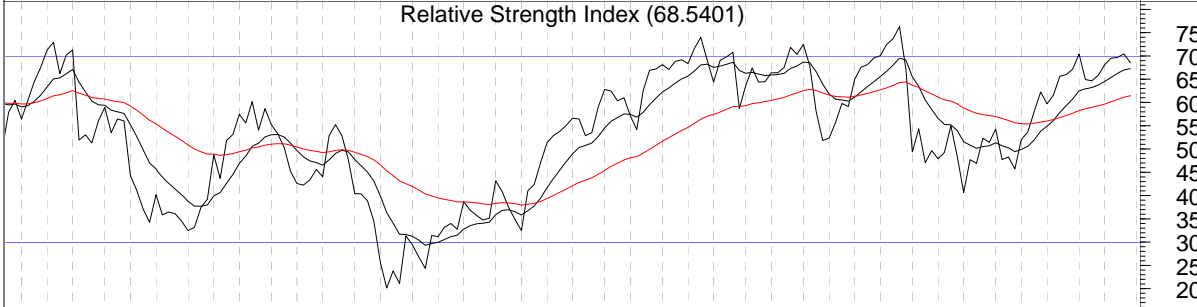


NASDAQ 100 (2,223.76, 2,236.19, 2,208.80, 2,217.86, -12.41)



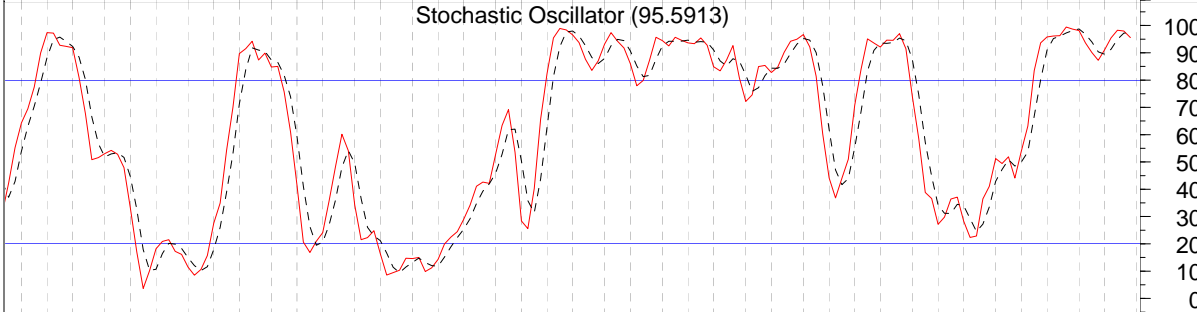
Unlike the S&P 500 the Nasdaq 100 made its weekly high two weeks ago.

Relative Strength Index (68.5401)

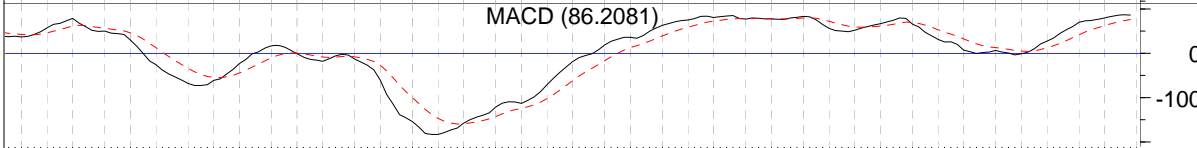


Weekly momentum indicators are at high or overbought levels.

Stochastic Oscillator (95.5913)



MACD (86.2081)

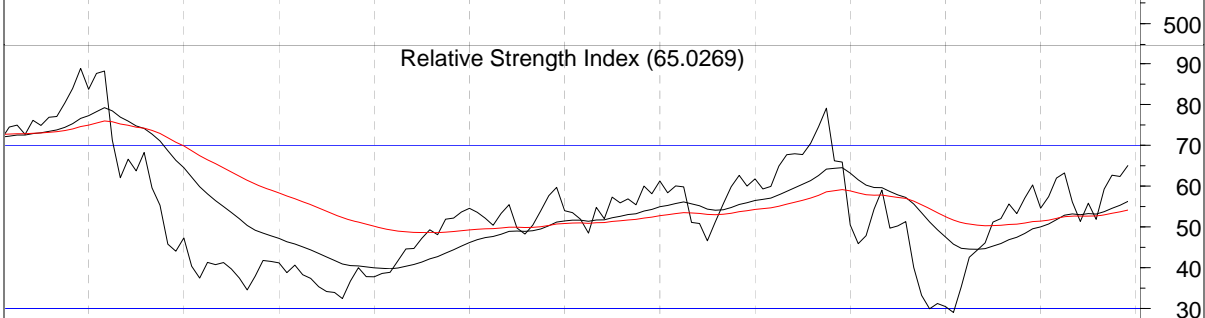


S O N D 2008 A M J J A S O N D 2009 A M J J A S O N D 2010 A M J J A S O N D

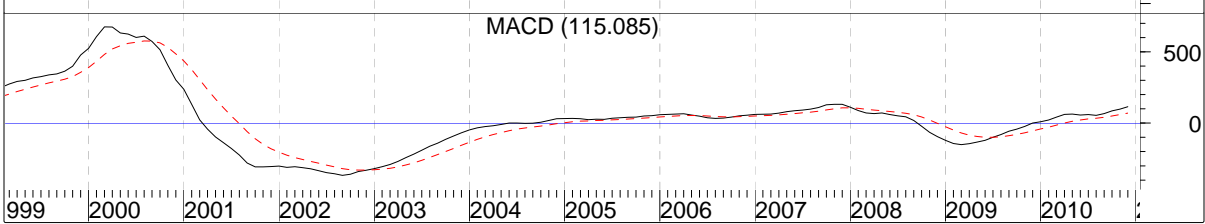
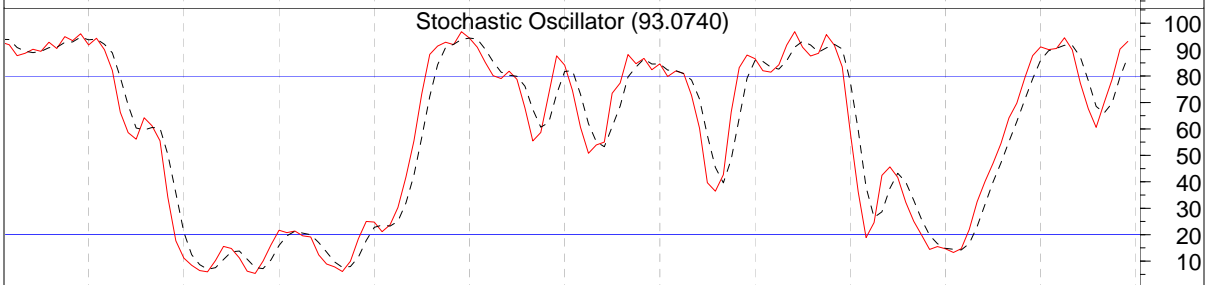
NASDAQ 100 (2,150.64, 2,238.92, 2,150.64, 2,217.86, +100.53)



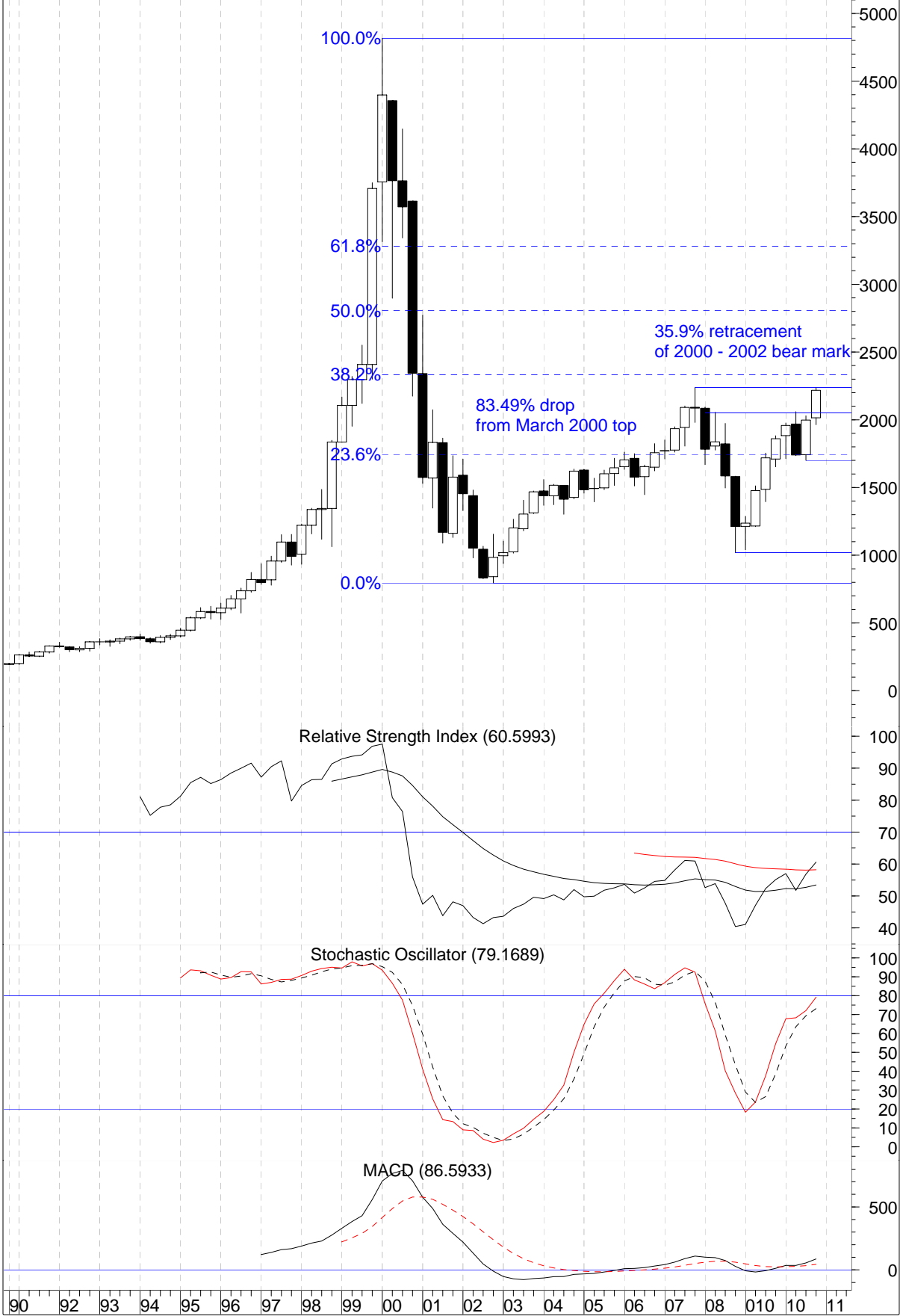
The Nasdaq 100 had its best monthly close since October 2007.



Monthly momentum indicators have not turned down yet.

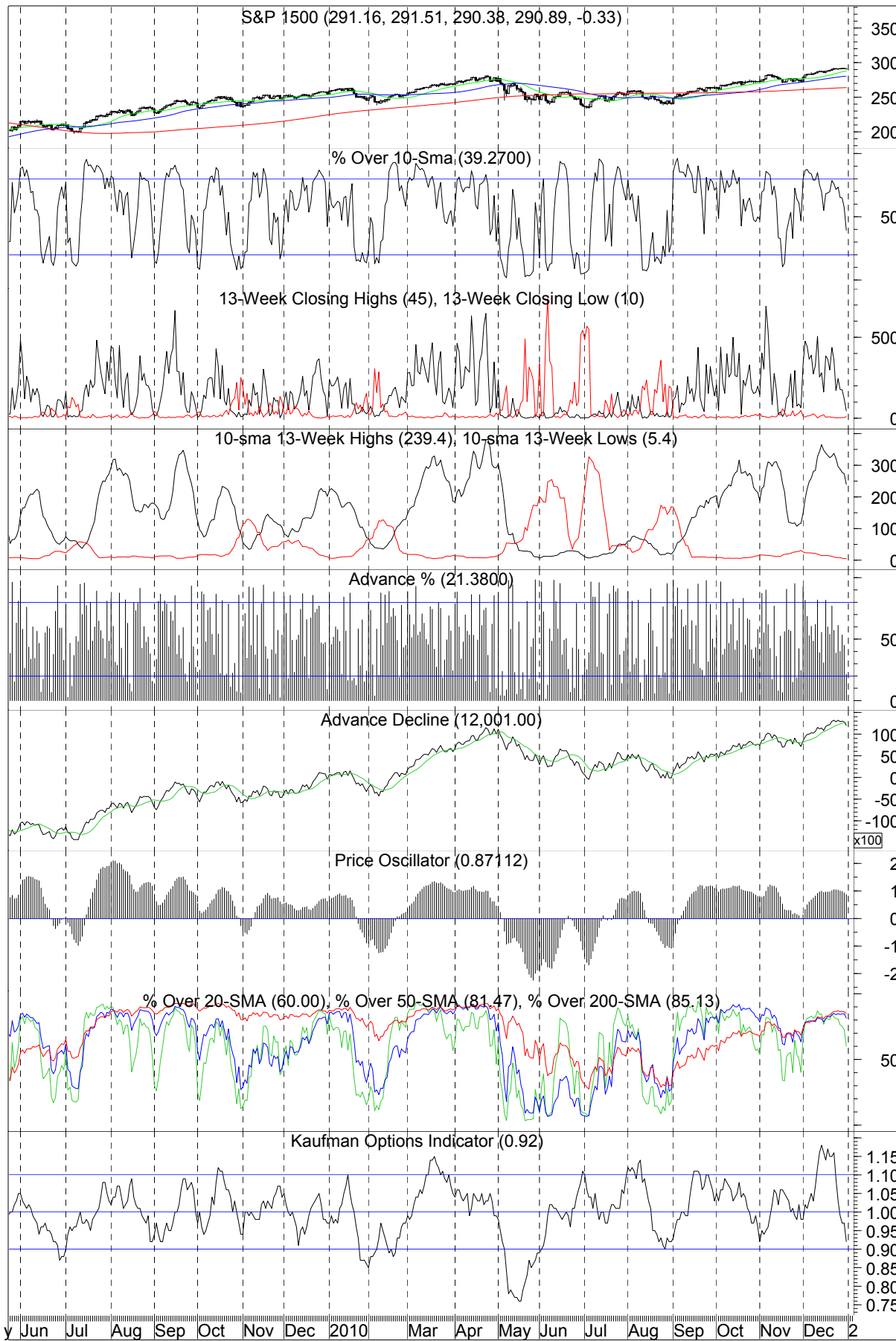


NASDAQ 100 (2,014.47, 2,238.92, 1,963.68, 2,217.86, +219.82)



The Nasdaq 100 posted its best quarterly close since December 2000.

Quarterly momentum indicators are pointing higher.



At 39.27% the percent over 10-sma is the lowest since November

13-week closing highs have been shrinking, but closing lows have not expanded.

The 10-sma of 13-week closing lows is at a very low level, showing a lack of sellers.

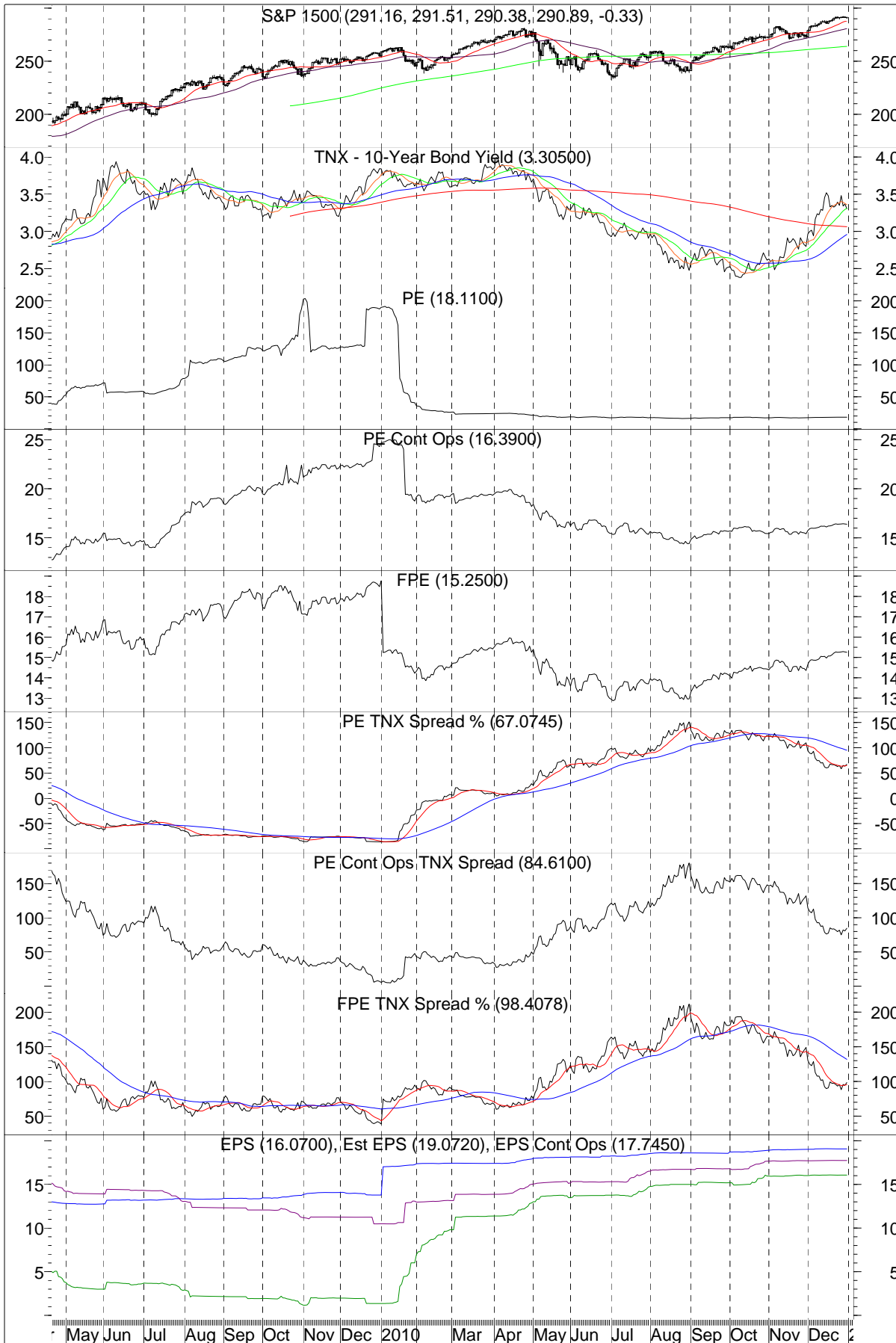
In spite of new highs on indexes breadth has been weak since mid-December.

The AD line peaked last Monday, and has fallen below its 10-sma, a short-term negative.

Our price oscillator remains in positive territory.

Short-term numbers have weakened here.

After reaching very overbullish levels, our proprietary options indicator is showing the most pessimism since 11/1 and is at levels where stocks have bottomed recently.



We have been pointing out the overbought condition of 10-year bond yields and they have now dropped just below the 20-sma for the first time since early November. They still look topy on a weekly basis.

After a sustained rise P/E ratios have leveled off. This will change as we get into earnings season.

After narrowing dramatically spreads between bond and equity yields are widening again. Even with the narrowing they have been at levels where stocks are attractive versus bonds.

Projected earnings have been edging higher. We are hoping for a replay of January 2010 when they made a sharp move higher. If they do valuations will be very attractive.

## 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	140.13	0.48%	0.98%	0.98%	8.00%	5.65%	2.77%	142.74	11/4/2010	109.79	5/25/2010
NYSE Composite	7964.02	0.15%	0.49%	0.49%	7.17%	9.38%	10.84%	7982.59	12/31/2010	6355.83	7/1/2010
S&P 500	1257.64	-0.02%	0.07%	0.07%	6.53%	10.20%	12.78%	1262.60	12/29/2010	1010.91	7/1/2010
Dow Jones Industrials	11577.51	0.07%	0.03%	0.03%	5.19%	7.32%	11.02%	11625.00	12/29/2010	9614.32	7/2/2010
S&P 1500	290.89	-0.11%	-0.01%	-0.01%	6.56%	10.66%	14.17%	292.20	12/29/2010	232.54	7/1/2010
S&P Midcap 400	907.25	-0.65%	-0.39%	-0.39%	6.41%	13.11%	24.85%	916.18	12/30/2010	681.91	2/5/2010
Nasdaq Composite	2652.87	-0.38%	-0.48%	-0.48%	6.19%	12.00%	16.91%	2675.26	12/22/2010	2061.14	7/1/2010
Nasdaq 100	2217.86	-0.35%	-0.56%	-0.56%	4.75%	11.00%	19.22%	2238.92	12/22/2010	1700.04	7/1/2010
S&P Smallcap 600	415.73	-1.09%	-0.99%	-0.99%	7.55%	15.95%	24.98%	421.99	12/28/2010	309.16	2/5/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Energy	506.75	-0.04%	0.95%	0.95%	8.93%	20.86%	17.86%	509.27	12/31/2010	365.74	7/1/2010
Telecom Services	128.74	0.32%	0.73%	0.73%	7.59%	5.93%	12.30%	129.27	12/31/2010	98.67	5/6/2010
Materials	239.61	0.08%	0.68%	0.68%	10.16%	18.50%	19.92%	240.44	12/30/2010	168.44	7/1/2010
Financials	214.77	0.21%	0.54%	0.54%	10.63%	11.18%	10.83%	230.45	4/15/2010	178.83	8/25/2010
Industrials	301.12	0.11%	0.15%	0.15%	7.56%	11.19%	23.92%	302.52	12/29/2010	232.54	7/6/2010
Information Technology	404.55	-0.21%	-0.14%	-0.14%	5.23%	9.97%	9.13%	407.81	11/9/2010	323.47	7/1/2010
Utilities	159.34	-0.01%	-0.25%	-0.25%	2.75%	-0.02%	0.85%	164.42	10/20/2010	138.57	5/25/2010
Consumer Staples	303.58	0.04%	-0.32%	-0.32%	3.83%	5.31%	10.67%	305.42	12/21/2010	260.65	7/1/2010
Health Care	364.78	-0.12%	-0.58%	-0.58%	4.34%	3.12%	0.71%	384.95	1/20/2010	318.89	7/1/2010
Consumer Discretionary	295.54	-0.24%	-0.59%	-0.59%	4.00%	12.15%	25.72%	299.03	12/22/2010	222.51	2/5/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Real Estate	120.58	-0.26%	1.46%	1.46%	5.01%	8.10%	28.03%	123.44	11/5/2010	84.72	2/10/2010
Energy	506.75	-0.04%	0.95%	0.95%	8.93%	20.86%	17.86%	509.27	12/31/2010	365.74	7/1/2010
Telecom Services	128.74	0.32%	0.73%	0.73%	7.59%	5.93%	12.30%	129.27	12/31/2010	98.67	5/6/2010
Diversified Financials	335.39	0.19%	0.69%	0.69%	11.66%	12.14%	4.30%	382.07	4/15/2010	278.07	8/31/2010
Materials	239.61	0.08%	0.68%	0.68%	10.16%	18.50%	19.92%	240.44	12/30/2010	168.44	7/1/2010
Banks	148.80	0.27%	0.54%	0.54%	15.36%	18.61%	18.71%	165.92	4/21/2010	115.69	8/31/2010
Food & Staples Retailing	195.70	-0.36%	0.47%	0.47%	4.05%	6.62%	6.90%	196.84	12/31/2010	162.45	7/1/2010
Semiconductors & Equipment	337.68	-0.10%	0.43%	0.43%	2.72%	13.40%	8.12%	349.14	12/9/2010	262.69	8/31/2010
Transportation	330.64	0.14%	0.39%	0.39%	3.75%	10.61%	29.71%	332.37	12/7/2010	239.94	2/5/2010
Technology Hardware & Equipment	434.72	-0.24%	0.18%	0.18%	4.77%	7.25%	11.60%	446.70	11/9/2010	350.49	8/27/2010
Commercial & Professional Services	145.53	-0.18%	0.16%	0.16%	8.42%	7.52%	8.76%	146.42	12/29/2010	122.63	6/8/2010
Capital Goods	323.60	0.13%	0.09%	0.09%	8.48%	11.60%	23.90%	325.53	12/29/2010	250.06	7/6/2010
Automobiles & Components	118.15	0.35%	-0.04%	-0.04%	6.12%	31.35%	51.98%	120.31	12/21/2010	74.25	6/29/2010
Insurance	188.22	0.38%	-0.10%	-0.10%	7.48%	5.45%	14.21%	189.97	4/26/2010	156.79	5/25/2010
Utilities	159.34	-0.01%	-0.25%	-0.25%	2.75%	-0.02%	0.85%	164.42	10/20/2010	138.57	5/25/2010
Food, Beverage & Tobacco	352.44	0.18%	-0.37%	-0.37%	3.36%	4.88%	15.00%	356.38	12/20/2010	293.85	2/5/2010
Health Care Equip & Services	359.10	-0.26%	-0.43%	-0.43%	5.47%	8.29%	3.42%	371.77	1/20/2010	296.30	8/31/2010
Media	198.28	-0.04%	-0.52%	-0.52%	5.10%	11.21%	21.21%	200.08	12/22/2010	150.49	2/5/2010
Software & Services	526.39	-0.22%	-0.55%	-0.55%	6.32%	11.31%	6.00%	531.56	12/22/2010	410.27	7/1/2010
Pharmaceuticals, Biotech & Life Sciences	337.61	-0.06%	-0.66%	-0.66%	3.79%	0.65%	-0.62%	359.71	1/20/2010	299.26	7/1/2010
Retailing	508.38	-0.51%	-0.67%	-0.67%	3.65%	11.03%	23.66%	514.85	12/7/2010	379.61	7/1/2010
Consumer Services	467.72	-0.03%	-0.68%	-0.68%	1.98%	8.95%	26.24%	479.39	12/7/2010	363.27	2/5/2010
Consumer Durables & Apparel	168.55	-0.69%	-0.78%	-0.78%	3.83%	11.63%	28.57%	174.61	12/22/2010	124.75	2/5/2010
Household & Personal Products	378.20	0.09%	-0.97%	-0.97%	4.78%	5.09%	4.83%	383.05	3/23/2010	339.42	5/6/2010

## INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Singapore EWS	13.85	0.51%	4.61%	3.67%	4.77%	20.54%	14.56	11/9/2010	10.37	2/5/2010
South Korea EWY	61.19	0.59%	4.22%	13.38%	14.40%	28.44%	61.23	12/31/2010	40.65	5/25/2010
Austria EWO	22.33	1.51%	4.20%	16.48%	13.32%	14.16%	22.34	12/31/2010	14.91	6/8/2010
Indonesia IDX	87.31	0.60%	4.16%	3.72%	0.81%	40.44%	93.14	11/9/2010	59.19	5/25/2010
Brazil EWZ	77.40	0.55%	3.90%	3.68%	0.86%	4.02%	81.55	11/4/2010	57.03	5/25/2010
Taiwan EWT	15.62	1.03%	3.86%	10.86%	15.28%	20.43%	15.63	12/31/2010	10.81	6/8/2010
Netherlands EWN	21.09	1.35%	3.13%	11.71%	3.79%	3.08%	21.75	11/4/2010	16.64	5/25/2010
Malaysia EWM	14.38	0.84%	2.86%	5.58%	4.66%	35.40%	14.41	11/5/2010	10.18	2/5/2010
Israel EIS	60.52	0.65%	2.84%	8.87%	10.22%	11.25%	60.68	3/26/2010	45.00	5/6/2010
South Africa EZA	74.68	0.62%	2.82%	11.93%	11.10%	33.43%	75.07	12/31/2010	23.00	5/6/2010
Emerging Markets EEM	47.64	0.70%	2.22%	6.45%	6.47%	14.86%	48.59	11/9/2010	35.19	5/25/2010
Latin America ILF	53.86	0.67%	2.18%	5.46%	6.64%	12.78%	54.83	11/5/2010	39.18	5/25/2010
Sweden EWD	31.23	0.74%	1.99%	10.08%	7.80%	32.89%	31.41	12/31/2010	19.00	5/6/2010
Canada EWC	31.00	0.23%	1.65%	5.69%	10.60%	17.74%	31.15	12/31/2010	22.75	5/6/2010
Thailand THD	64.61	0.42%	1.64%	2.77%	4.11%	52.06%	68.70	11/9/2010	37.65	2/5/2010
Chile ECH	79.60	0.57%	1.57%	3.92%	7.58%	45.34%	80.35	12/20/2010	27.26	5/6/2010
Japan EWJ	10.91	0.37%	1.49%	6.23%	10.37%	12.01%	11.00	12/29/2010	9.15	6/7/2010
Belgium EWK	13.13	1.08%	1.23%	6.11%	-1.13%	2.90%	14.52	11/4/2010	8.93	5/6/2010
Russia RSX	37.91	-0.34%	1.17%	10.40%	16.54%	21.55%	38.13	12/30/2010	26.06	5/25/2010
China 25 FXI	43.09	0.98%	1.15%	-0.58%	0.63%	1.96%	47.99	11/8/2010	36.24	5/6/2010
Switzerland EWL	25.08	0.64%	1.05%	10.44%	9.90%	12.67%	25.15	12/31/2010	18.70	5/25/2010
Australia EWA	25.44	0.08%	0.95%	8.16%	7.16%	11.38%	26.36	1/11/2010	18.26	5/25/2010
Mexico EWW	61.92	0.95%	0.86%	4.80%	16.89%	26.74%	62.04	12/31/2010	44.70	2/5/2010
United Kingdom EWU	17.37	0.99%	0.70%	7.49%	6.17%	7.22%	17.95	11/4/2010	13.25	5/25/2010
Turkey TUR	66.21	-0.21%	0.53%	-1.09%	-5.45%	22.84%	79.00	11/9/2010	44.40	5/6/2010
BRIC EEB	46.14	0.52%	0.52%	4.32%	3.18%	8.67%	48.27	11/9/2010	23.23	5/6/2010
Hong Kong EWH	18.92	-0.73%	0.48%	0.16%	4.30%	20.82%	20.24	11/8/2010	14.08	5/21/2010
France EWQ	24.45	0.62%	0.33%	8.71%	1.92%	-5.42%	27.32	1/11/2010	19.24	5/25/2010
Italy EWI	16.38	1.17%	0.18%	8.41%	-2.50%	-16.04%	20.54	1/11/2010	13.21	6/7/2010
Spain EWP	36.74	1.10%	0.14%	6.28%	-9.62%	-23.52%	50.16	1/6/2010	29.85	6/8/2010
Vietnam VNM	26.18	0.93%	0.00%	4.39%	7.08%	2.71%	30.34	12/13/2010	21.81	8/25/2010
Germany EWG	23.94	0.72%	-0.42%	6.26%	8.82%	6.68%	24.92	11/4/2010	17.97	5/25/2010
India IFN	35.11	1.18%	-11.78%	9.51%	7.13%	26.91%	36.89	11/8/2010	23.98	5/25/2010