

John Thomas Financial
14 Wall Street, 23rd Floor
New York, New York 10005
wskaufman@johnthomasbd.com
www.kaufmanreport.com

The Kaufman Report

Trade what you see, not what you think.

Wayne S. Kaufman, CMT
Chief Market Analyst
(800) 257-1537 Toll Free
(212) 299-7838 Direct

Monday July 12, 2010

Closing prices of July 9, 2010

In last Sunday's report we discussed the technical damage that had taken place in the equities markets. We also said stocks were short-term oversold, and they responded to that condition by rallying strongly, sending the S&P 500 up 5.4% for the week.

Since mid-May we have said we were back in a low visibility environment. That is about to change as we enter second quarter earnings season this week. While the recent technical damage has not been erased by last week's strong performance, markets have moved to more neutral levels. This is not unusual ahead of important news or events.

Investors need to remain on their toes. Should the upcoming earnings season start to disappoint another leg down for equities could begin. On the other hand, should earnings and forecasts create confidence that companies will continue to do well, investors may acknowledge that stocks are cheap and could drive them higher.

Until proven otherwise, this remains a short-term trader's market with aggressive traders able to play long or short based on overbought or oversold conditions.

Based on the S&P 500 the short-term trend is up, while the intermediate-term and long-term trends are down.

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.



The 30-minute chart of the S&P 500 shows it breaking resistance at the 1071 area. This was also the 50% retracement of the recent leg down from the 6/21 high. 1085 is the 61.8% level.

30-minute momentum indicators are in the overbought zone.

S&P 500 Cash (1,070.50, 1,078.16, 1,068.10, 1,077.96, +7.71)



The daily chart of the S&P 500 closed above the 20-sma Friday. 1091 is the 38.2% retracement of the entire correction from the 4/26 high.

Daily momentum indicators look positive.

S&P 500 Cash (1,028.09, 1,078.16, 1,018.35, 1,077.96, +55.38)



The weekly chart of the S&P 500 shows it is starting to get pinched between multiple moving averages. This won't last much longer.

Weekly momentum indicators are still at low levels. We would like the MACD to turn up.



The Nasdaq 100 has entered a gap. The 20-sma and 200-sma are not far above the gap.

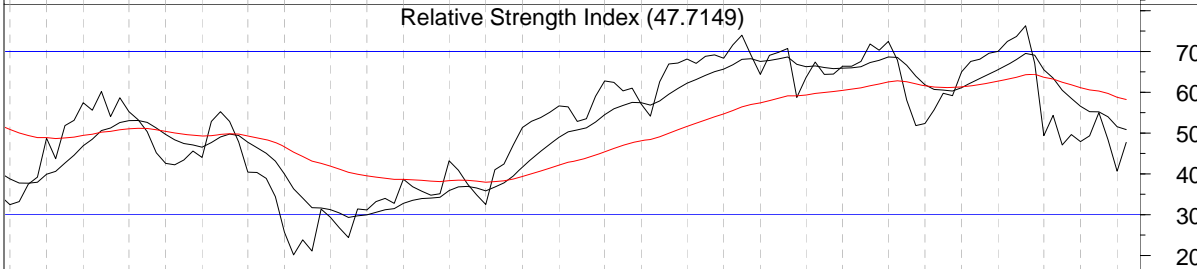
Daily momentum indicators look positive.

NASDAQ 100 (1,752.98, 1,815.24, 1,719.20, 1,814.79, +86.45)



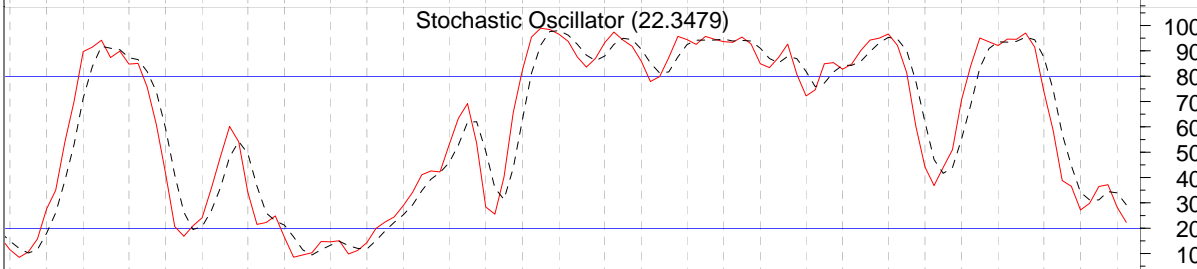
The Nasdaq 100 weekly chart shows a strong week closing just under the 50% retracement (1820) of the move down from 6/21.

Relative Strength Index (47.7149)

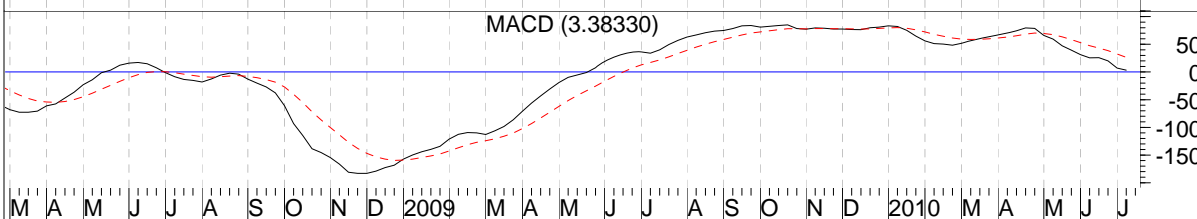


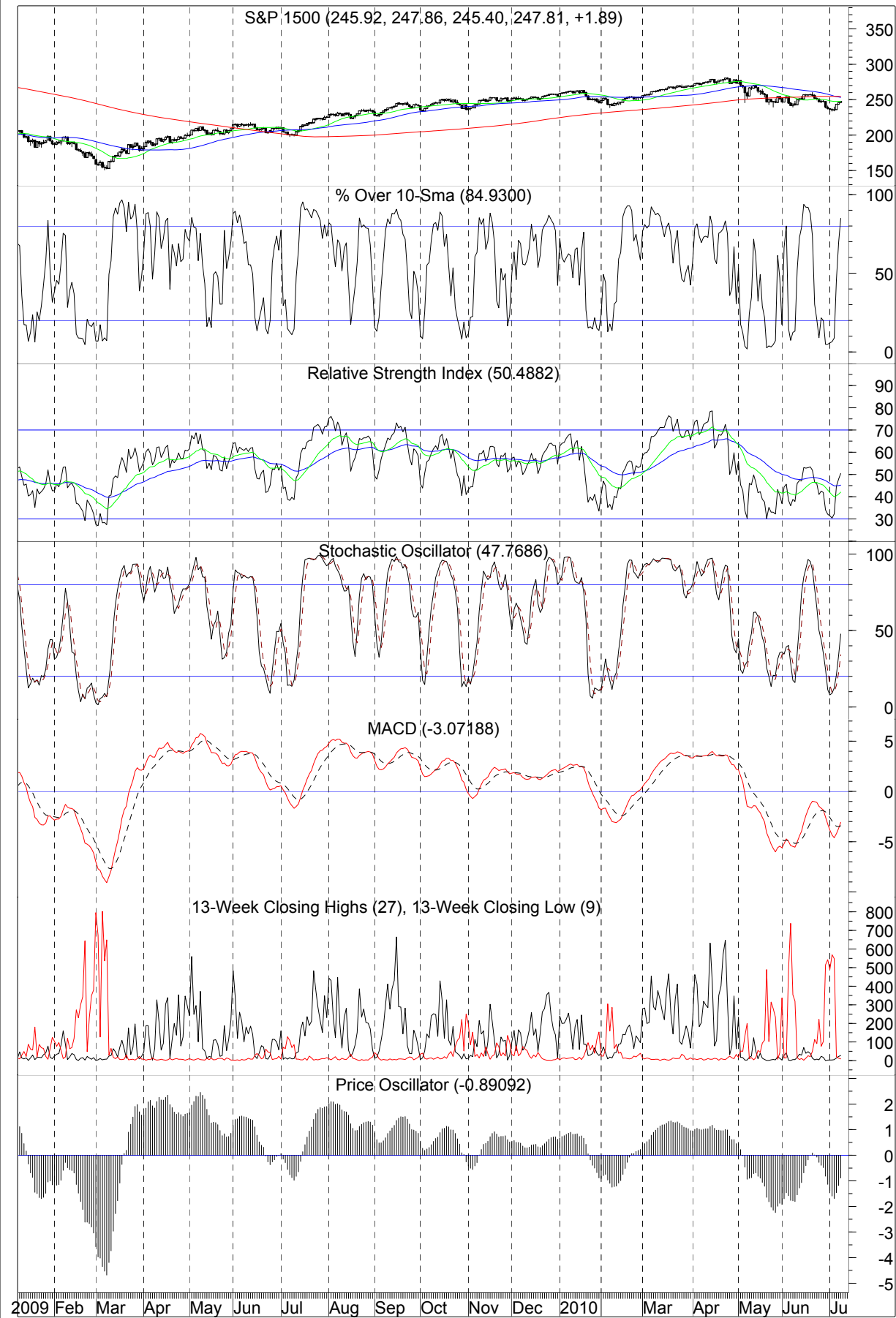
Weekly momentum indicators are still at low levels but have not turned up.

Stochastic Oscillator (22.3479)



MACD (3.38330)



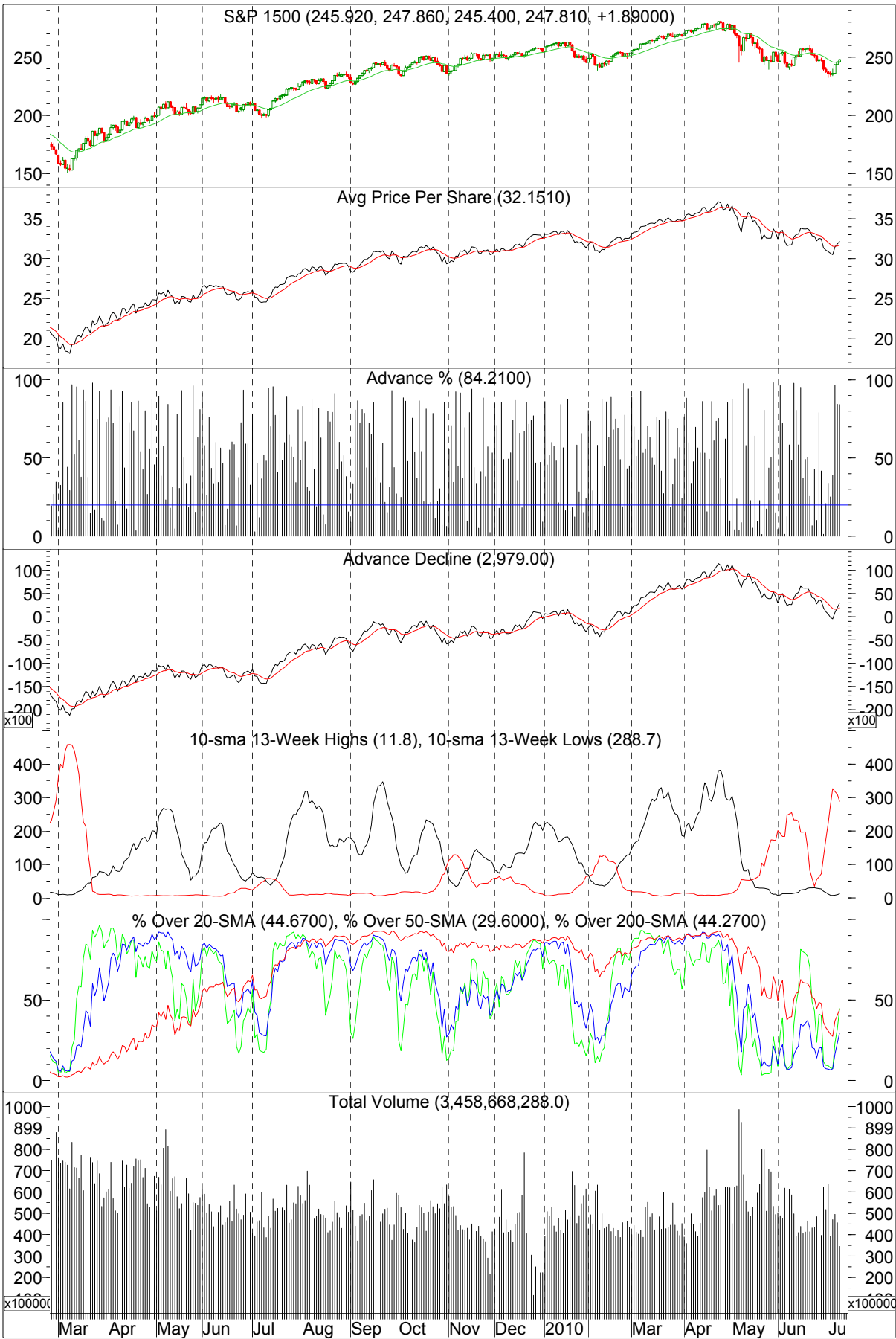


The percent over 10-sma has entered the overbought zone.

Momentum indicators are positive.

13-week lows have been dominating 13-week highs.

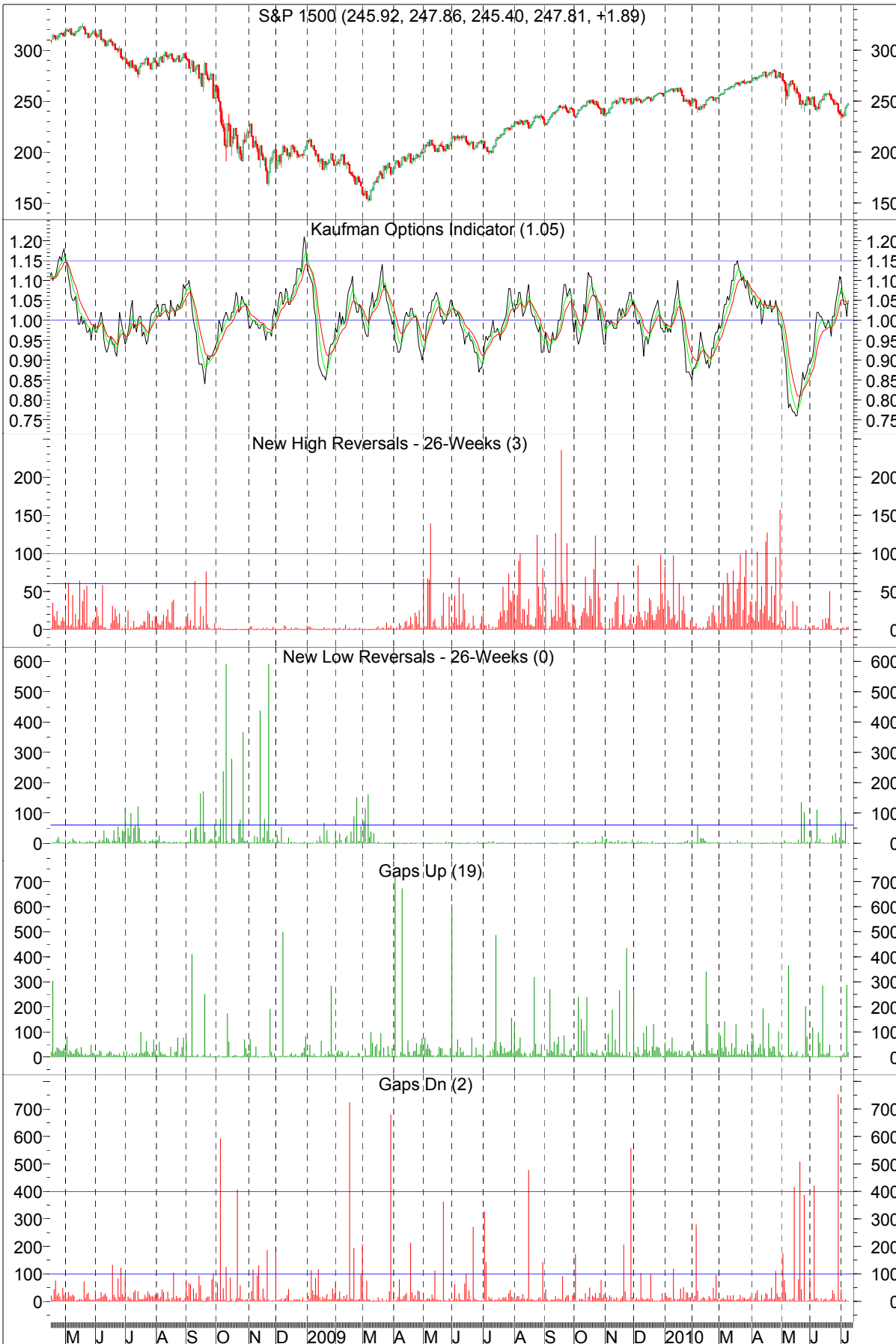
Our price oscillator, a good indicator of trends, has rebounded from a low level but is still in the negative zone.



Breadth has been strong with three days in a row over 84% advancers.

These numbers are improving but still not far above bear market levels.

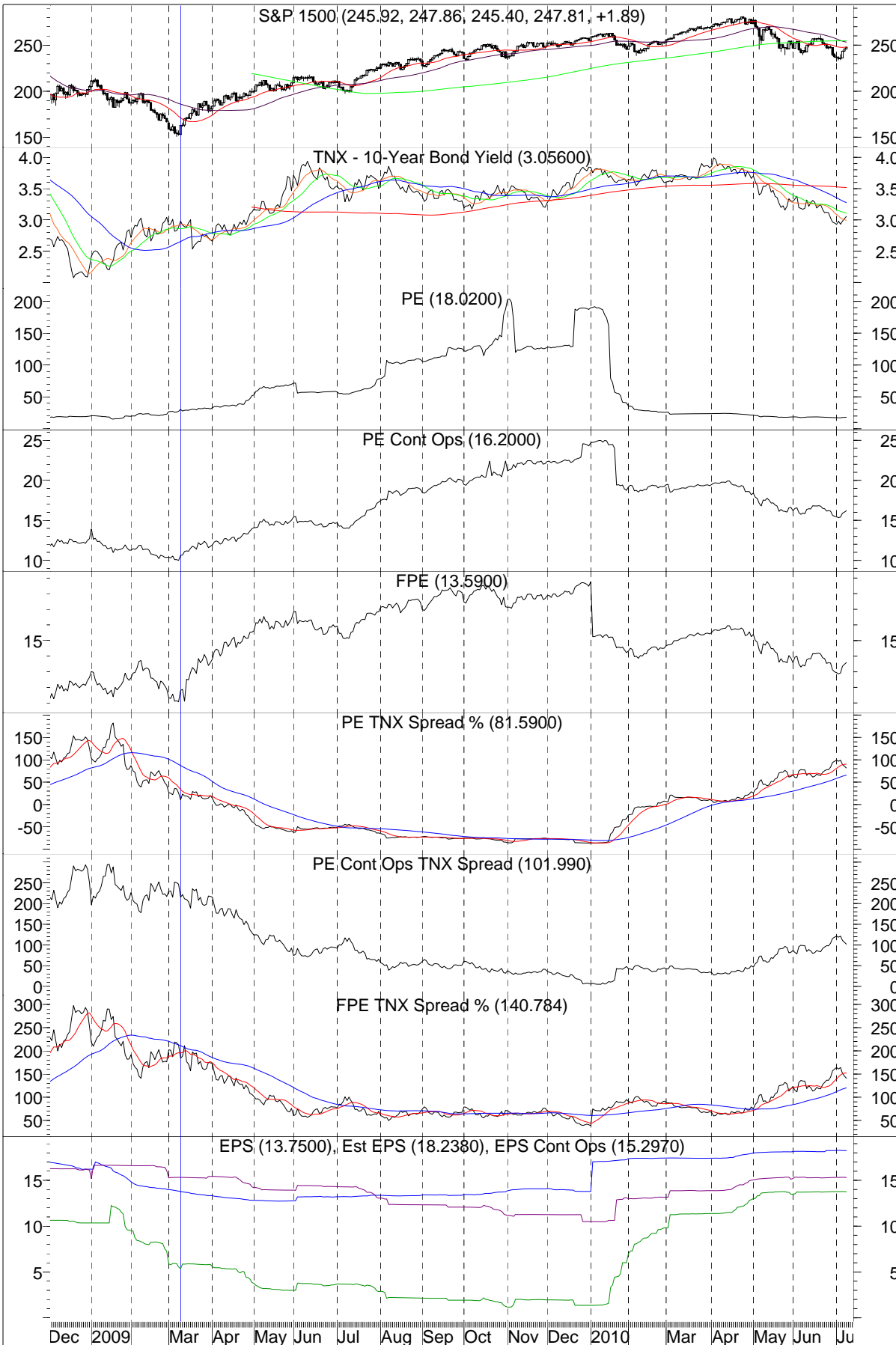
Volume was very low Friday.



Our proprietary options indicator is showing optimism among options buyers. It is not at extreme levels, but we prefer to see pessimism. Too much optimism will put a cap on any rally.



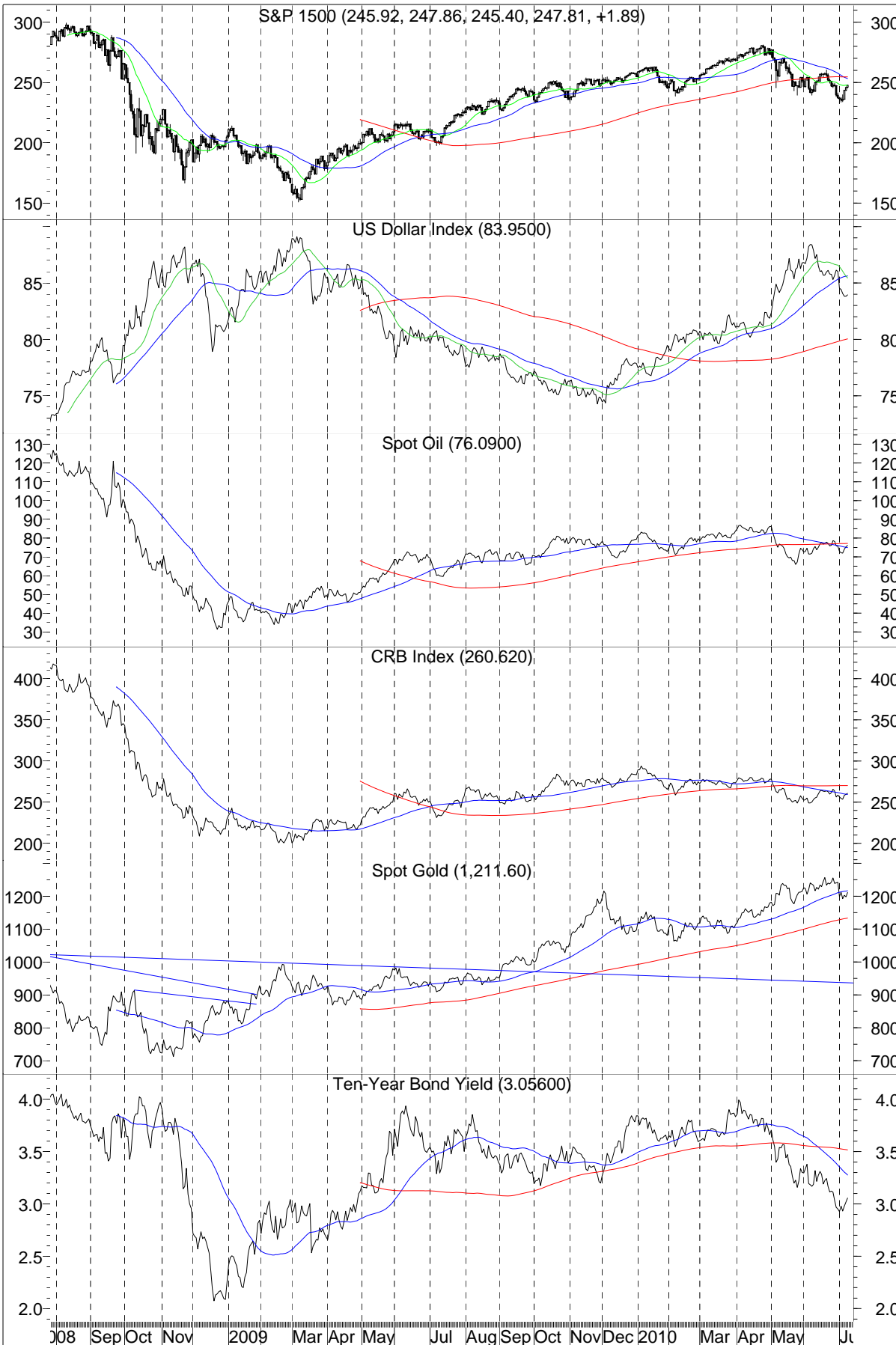
Our statistics of supply (red) versus demand (green) show that short-term data has become neutral ahead of earnings season.



P/E ratios remain at the low ends of their recent ranges.

Spreads between equity and bond yields remain at levels where stocks should be very attractive.

Earnings metrics have been flat lining, but that will change starting this week.



The U.S. Dollar Index is getting oversold on a daily basis but not on a weekly basis.

Crude oil is just above its 20-sma and 50-sma, with the 200-sma not far above. It is neutral relative to overbought or oversold on a daily and weekly basis.

Gold is just under its 20 and 50-sma. Sentiment is turning negative, although not yet as negative as at the beginning of recent sharp moves higher.