

Monday March 15, 2010

Closing prices of March 12, 2010

On our February 22nd report we noted that the bullish engulfing candle printed the week before on the weekly chart of the S&P 500 had been joined by a positive crossover on the weekly stochastic indicator, and that the prior two times that occurred strong rallies followed. Since then equities have rallied sharply with the S&P 500 up 4%, the S&P mid-cap index up 5.9%, and the Nasdaq 100 up 5.86% including a still intact streak of 13 consecutive up days.

We have been bullish during this time as resistance levels were broken, sellers stepped to the sidelines, and sentiment was negative. Last week major indexes made fresh 52-week highs with the exception of the Dow Jones Industrials. This is just one of the negative divergences which have developed as equities have become overbought while investors have become overbullish. **Our proprietary options indicator is showing too much optimism on the part of options buyers, and it is now at a level where equities have topped in the past. It is also at the same level it hit on January 15th, one session before stocks topped on January 19th.**

Therefore, investors need to be cautious in the short-term. We are entering the first quadruple-witching options expiration week of the year, and a period where stocks can be weak based on historical seasonality patterns. Longer-term we remain bullish as sellers remain nowhere to be found. We have just come through a period where investors shrugged off bad news and stocks moved higher. Unless catalysts arise which cause sellers to step off the sidelines, the path of least resistance for stocks will remain higher.

We have entered an important period. The sovereign debt issue is still on the front pages. The FOMC meets on March 16th. At the end of March the Fed ends its \$1.25 trillion program of purchasing mortgage backed securities backed by Fannie Mae, Freddie Mac, and Ginnie Mae. At the end of April the homebuyer's tax credit is due to expire. Less widely discussed is an IMF report due in April on an international financial transaction tax. In addition, we now have to worry about the Bipartisan National Commission on Fiscal Responsibility and Reform, which may simply be a smokescreen with the purpose of helping the government raise taxes. **The end of March is also the end of the first quarter, and the last two weeks of the month will contain earnings pre-announcements. Not to be forgotten is the history the month of March has for being a time of major turning points for equities.**

Based on the S&P 500 the short-term, intermediate-term, and the long-term trends are up. Investors need to be aware of sector rotation and should not hesitate to move out of lagging stocks and sectors and into leaders.

IMPORTANT DISCLOSURES

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The Kaufman Report

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S&P 1500 Data: (Data available daily at John Thomas Financial)

P/E: 19.04 Percent over 10-sma: 79.73%. Percent over 50-sma: 84.47%

13-Week Closing Highs: 267. 13-Week Closing Lows: 5. 52-week closing highs: 206.

Kaufman Options Indicator: 1.10, highest since 1/15/10. Put/Call Ratio: 0.832 New High Reversals: 77. New Low Reversals: 2.

Volume: +3% versus yesterday. 110% of the 10-day average. 108% of the 30-day average.

Up Stocks: 49.43%. Up Volume: 35.75%. Up Points: 55.19%. Up Dollars: 48.65%, 35% of 10-sma. Dn Dollars 209% of 10-sma.

Earnings: 495 of the S&P 500 have reported so far this earnings season. 72.6% have had positive surprises, 10.1% have been in line, and 17.2% have had negative surprises.

Federal Funds Futures project a 72.0% probability of no change to the current 0.25 % target rate and a 28.0% probability of a cut to 0.00% when the FOMC meets on 3/16. For the meeting of 4/28 the probabilities are 67.6% for no change, 25.2% for 0.00%, and 7.2% for 0.50%.

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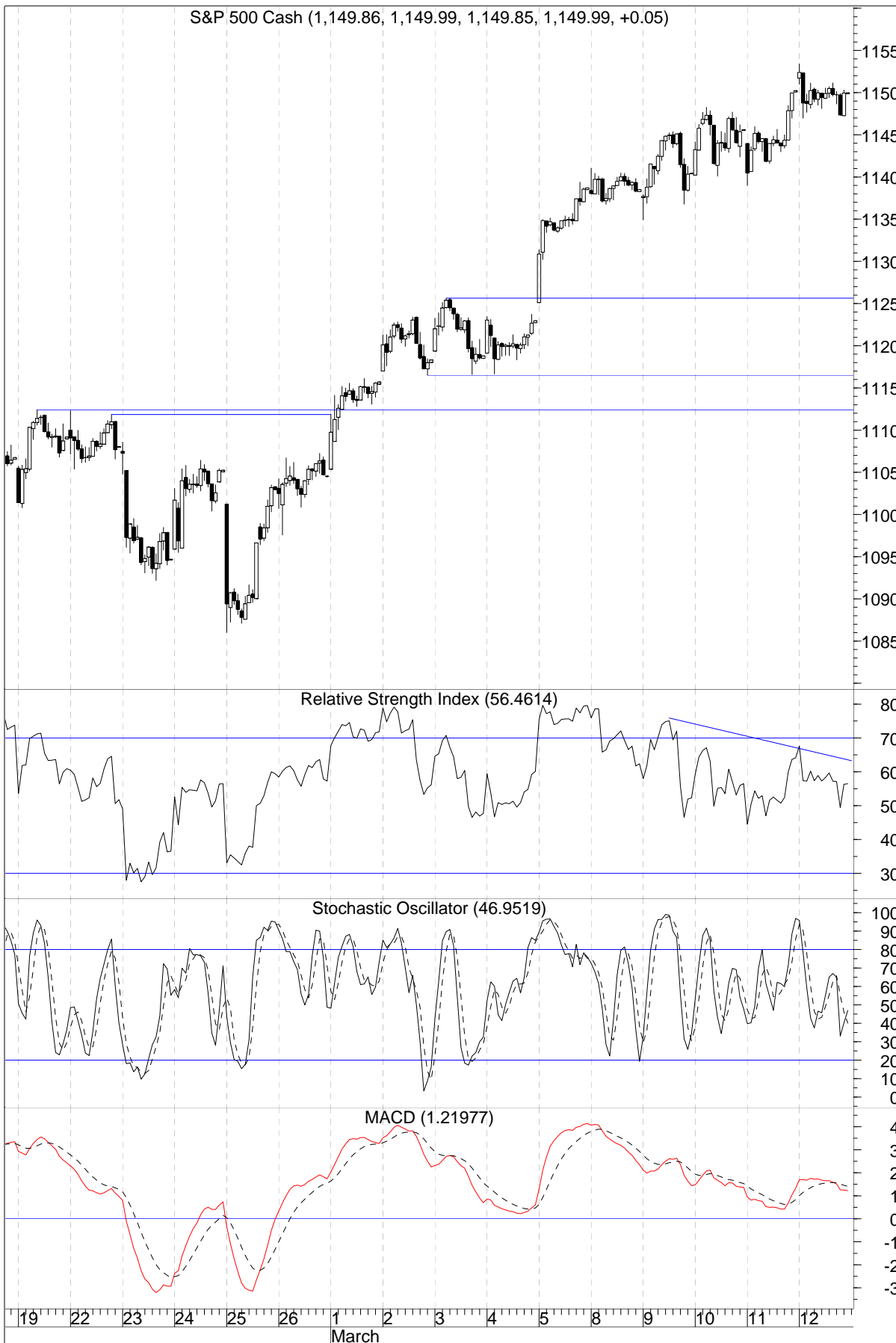
Indexes, Sectors, and Industry Groups

	Daily	WTD	MTD	QTD	YTD
Bank of New York Mellon ADR	0.26%	1.10%	5.42%	-0.94%	-0.94%
S&P Midcap 400	0.18%	1.74%	6.17%	7.87%	7.87%
NYSE Composite	0.13%	0.98%	4.66%	2.48%	2.48%
Dow Jones Industrials	0.12%	0.55%	2.90%	1.89%	1.89%
Nasdaq 100	0.03%	1.90%	5.81%	3.45%	3.45%
S&P Smallcap 600	0.02%	1.71%	7.24%	7.91%	7.91%
S&P 1500	0.00%	1.08%	4.39%	3.67%	3.67%
S&P 500	-0.02%	0.99%	4.12%	3.13%	3.13%
Nasdaq Composite	-0.03%	1.78%	5.78%	4.34%	4.34%

	Daily	WTD	MTD	QTD	YTD
Industrials	0.71%	1.71%	5.13%	8.62%	8.62%
Materials	0.60%	0.35%	5.66%	0.58%	0.58%
Consumer Discretionary	0.23%	1.40%	5.39%	7.70%	7.70%
Information Technology	0.05%	1.95%	5.25%	0.23%	0.23%
Consumer Staples	0.04%	-0.66%	1.46%	2.89%	2.89%
Energy	-0.07%	0.45%	3.86%	1.04%	1.04%
Telecom Services	-0.18%	2.50%	3.21%	-7.62%	-7.62%
Health Care	-0.40%	-0.44%	1.42%	1.86%	1.86%
Financials	-0.41%	2.05%	5.83%	7.82%	7.82%
Utilities	-0.69%	-0.67%	2.22%	-4.80%	-4.80%

	Daily	WTD	MTD	QTD	YTD
Automobiles & Components	2.08%	0.88%	9.28%	23.58%	23.58%
Real Estate	1.09%	3.70%	7.63%	6.28%	6.28%
Capital Goods	0.88%	1.44%	5.27%	9.71%	9.71%
Materials	0.60%	0.35%	5.66%	0.58%	0.58%
Retailing	0.57%	1.66%	4.95%	7.62%	7.62%
Consumer Services	0.37%	3.02%	4.61%	6.41%	6.41%
Household & Personal Products	0.32%	-0.14%	0.62%	3.71%	3.71%
Food & Staples Retailing	0.26%	-0.91%	-0.11%	2.72%	2.72%
Transportation	0.20%	3.39%	5.41%	7.78%	7.78%
Commercial & Professional Services	0.16%	0.18%	2.57%	-0.35%	-0.35%
Software & Services	0.11%	2.41%	5.54%	-0.88%	-0.88%
Technology Hardware & Equipment	0.00%	1.81%	5.60%	1.62%	1.62%
Semiconductors & Equipment	0.00%	1.10%	3.12%	-1.20%	-1.20%
Energy	-0.07%	0.45%	3.86%	1.04%	1.04%
Telecom Services	-0.18%	2.50%	3.21%	-7.62%	-7.62%
Food, Beverage & Tobacco	-0.19%	-0.79%	2.57%	2.55%	2.55%
Consumer Durables & Apparel	-0.23%	1.28%	4.26%	9.28%	9.28%
Pharmaceuticals, Biotech & Life Sciences	-0.31%	-0.08%	1.39%	1.21%	1.21%
Insurance	-0.33%	0.63%	4.87%	8.91%	8.91%
Banks	-0.33%	2.88%	7.27%	14.46%	14.46%
Media	-0.52%	0.35%	5.84%	4.63%	4.63%
Health Care Equip & Services	-0.56%	-1.14%	1.49%	3.17%	3.17%
Utilities	-0.69%	-0.67%	2.22%	-4.80%	-4.80%
Diversified Financials	-0.72%	2.17%	5.45%	5.66%	5.66%

S&P 500 Cash (1,149.86, 1,149.99, 1,149.85, 1,149.99, +0.05)



The 30-minute chart of the S&P 500 shows a steady progression higher since February 25th.

The RSI is showing a negative divergence leaving the index vulnerable to a pullback at any time.

S&P 500 Cash (1,151.71, 1,153.41, 1,146.97, 1,149.99, -0.25)



The daily chart of the S&P 500 shows it made a marginal new high Friday. It printed a spinning top candle which highlights a tug-of-war between bulls and bears at this level.

The RSI is entering the overbought zone.

The stochastic is in the overbought zone.



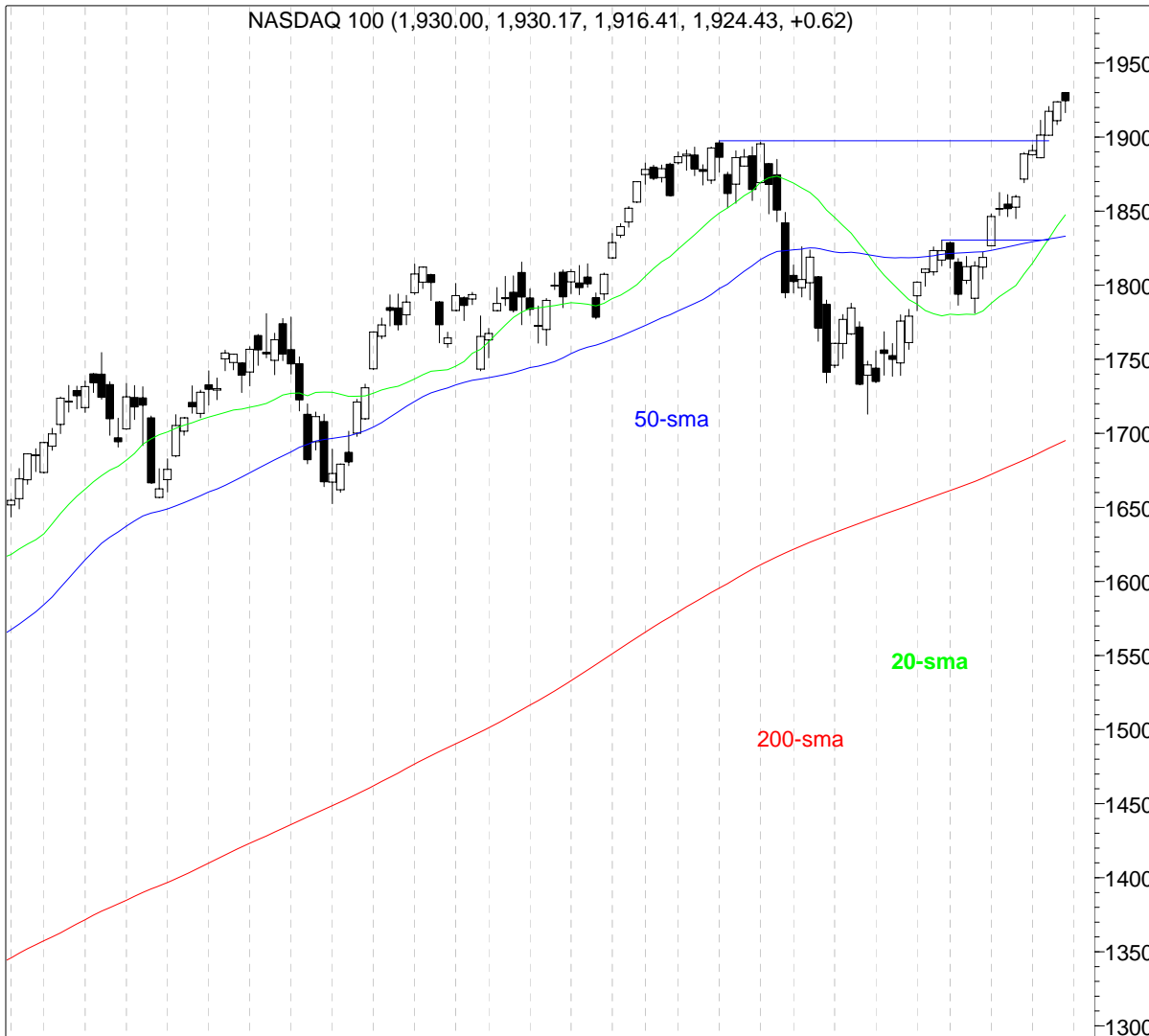
The weekly chart of the S&P 500 shows the highest weekly close since 9/26/08. In the report of February 22nd we noted the bullish engulfing candle and the positive stochastic crossover and said the two prior times this occurred (March and July) nice rallies ensued. Obviously the recent leg up makes this three in a row.

There is a TD Sequential 13 (not shown) on the weekly chart of the S&P 500 and a 9 on the daily.

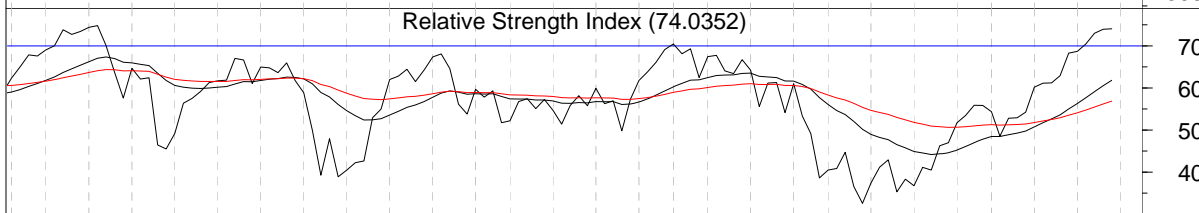
There is a slight negative divergence on the RSI.

The stochastic is entering the overbought zone.

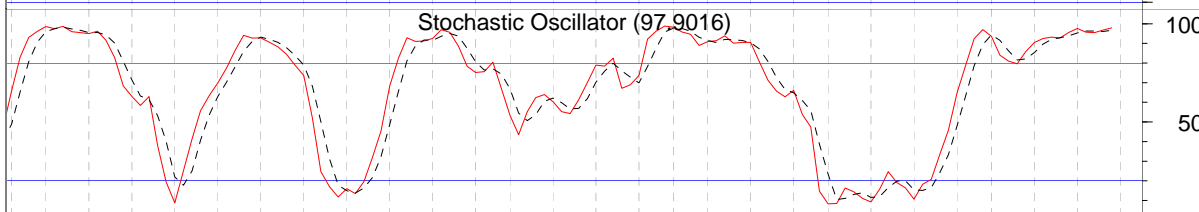
NASDAQ 100 (1,930.00, 1,930.17, 1,916.41, 1,924.43, +0.62)



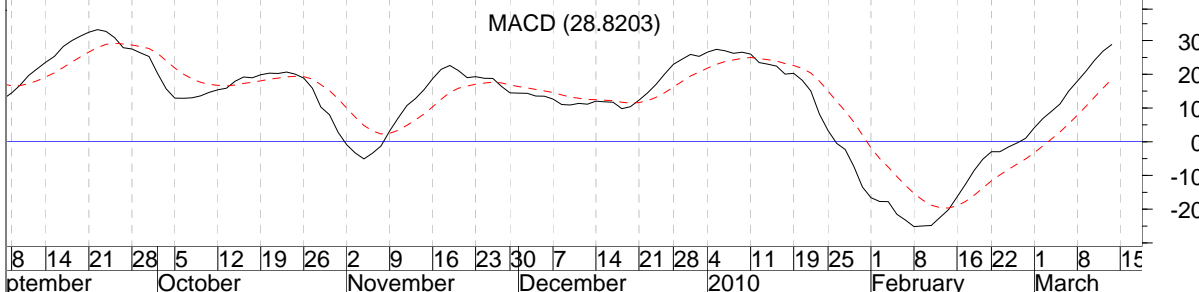
The Nasdaq 100 has traded higher thirteen sessions in a row. It gapped up at the open Friday but then sold off, still ending higher on the day.



The RSI is in the overbought zone.



The stochastic is in the overbought zone.



The MACD is at a high level.

8 14 21 28 5 12 19 26 2 9 16 23 30 7 14 21 28 4 11 19 25 1 8 16 22 1 8 15
 ptember October November December 2010 February March

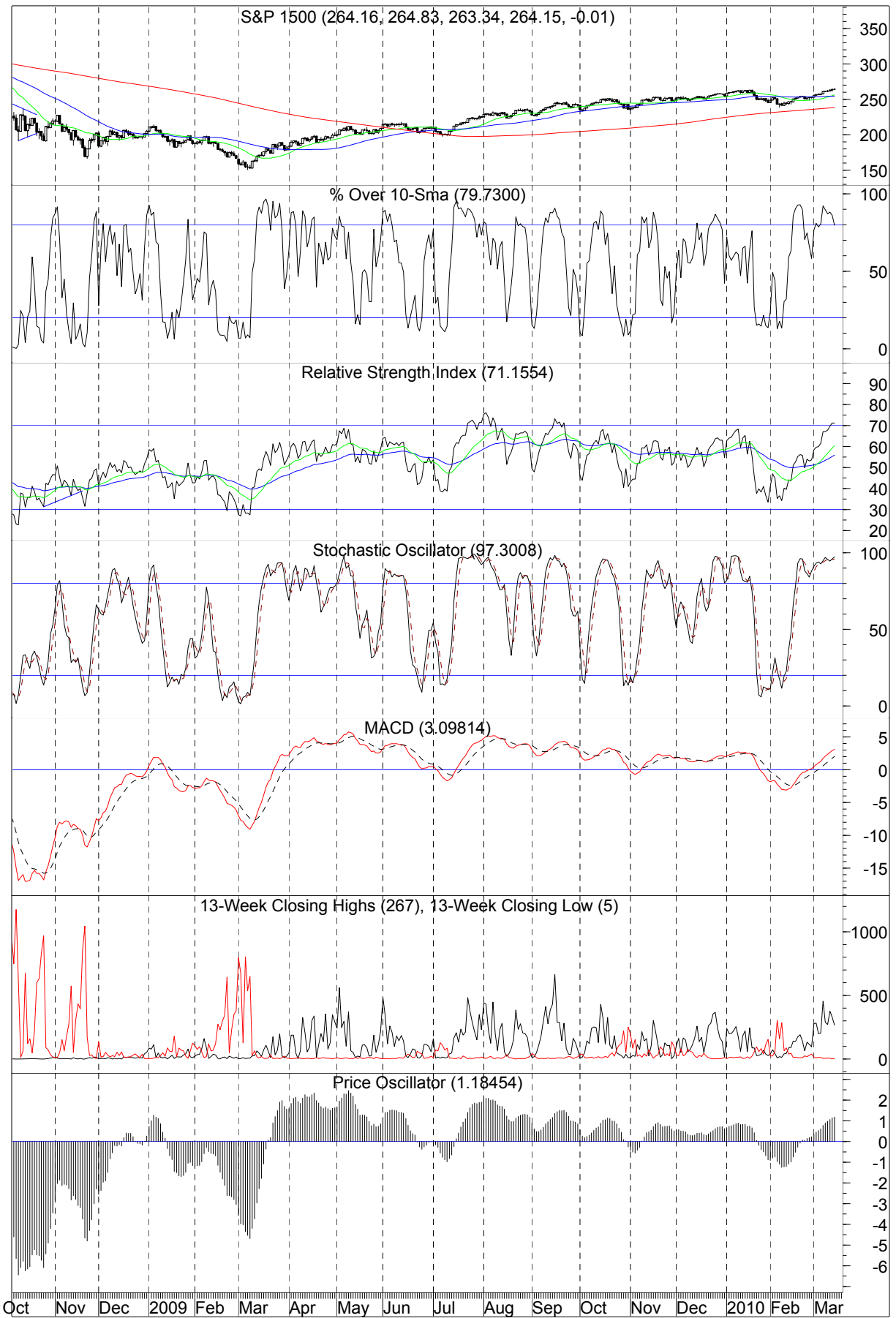
NASDAQ 100 (1,888.04, 1,930.17, 1,885.99, 1,924.43, +35.87)



The Nasdaq 100 printed its highest weekly close since 8/22/08.

There is a negative divergence on the RSI.

The stochastic also has a negative divergence.



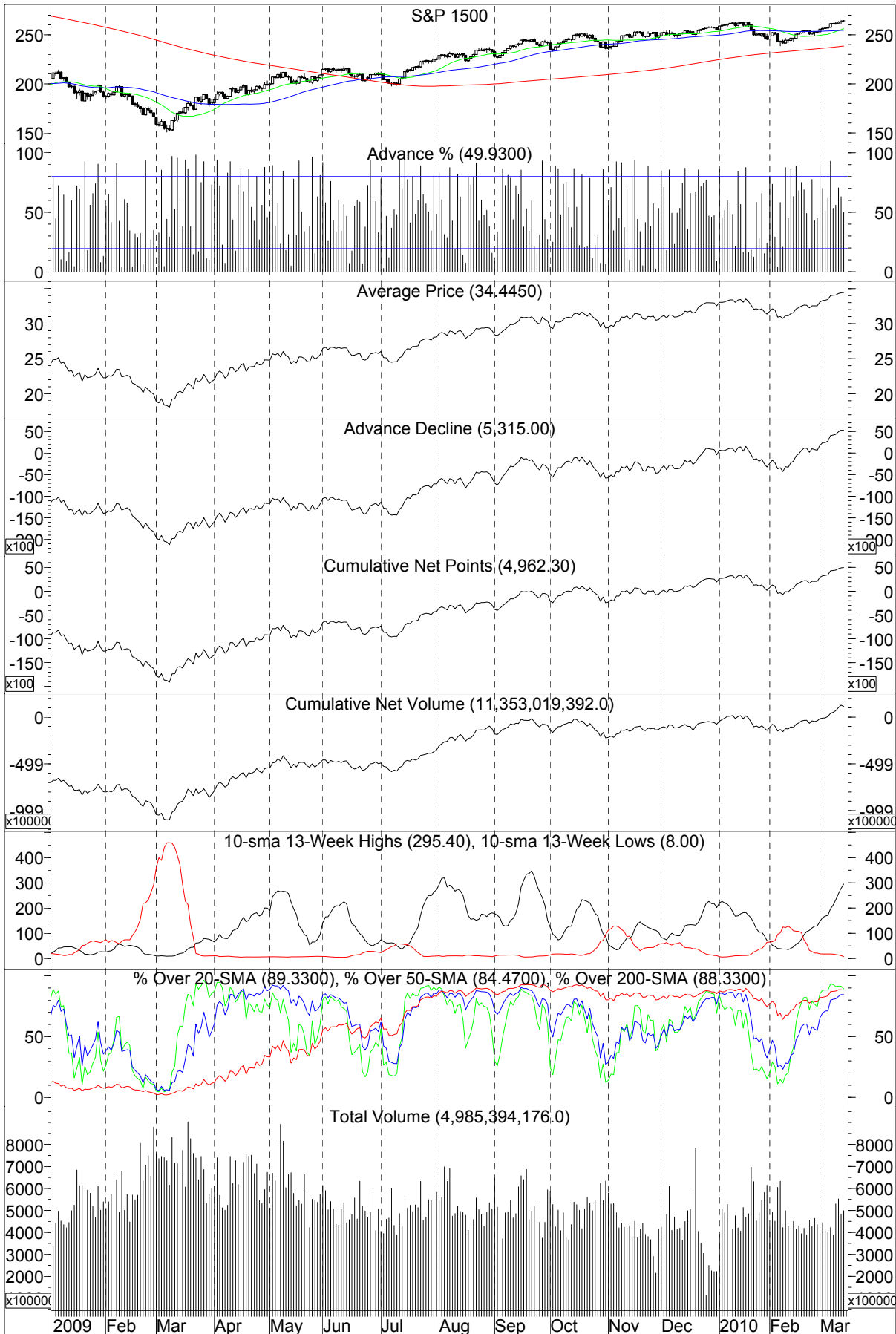
The S&P 1500 percent over 10-sma is 79.73. This is down from the over 90% levels seen recently, which was indicative of broad participation in the rally.

The RSI is entering the overbought zone.

The stochastic is overbought.

13-week closing highs have been expanding again, but Friday's number is a negative divergence to the new high on the index.

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



49.93% of the S&P 1500 traded higher Friday.

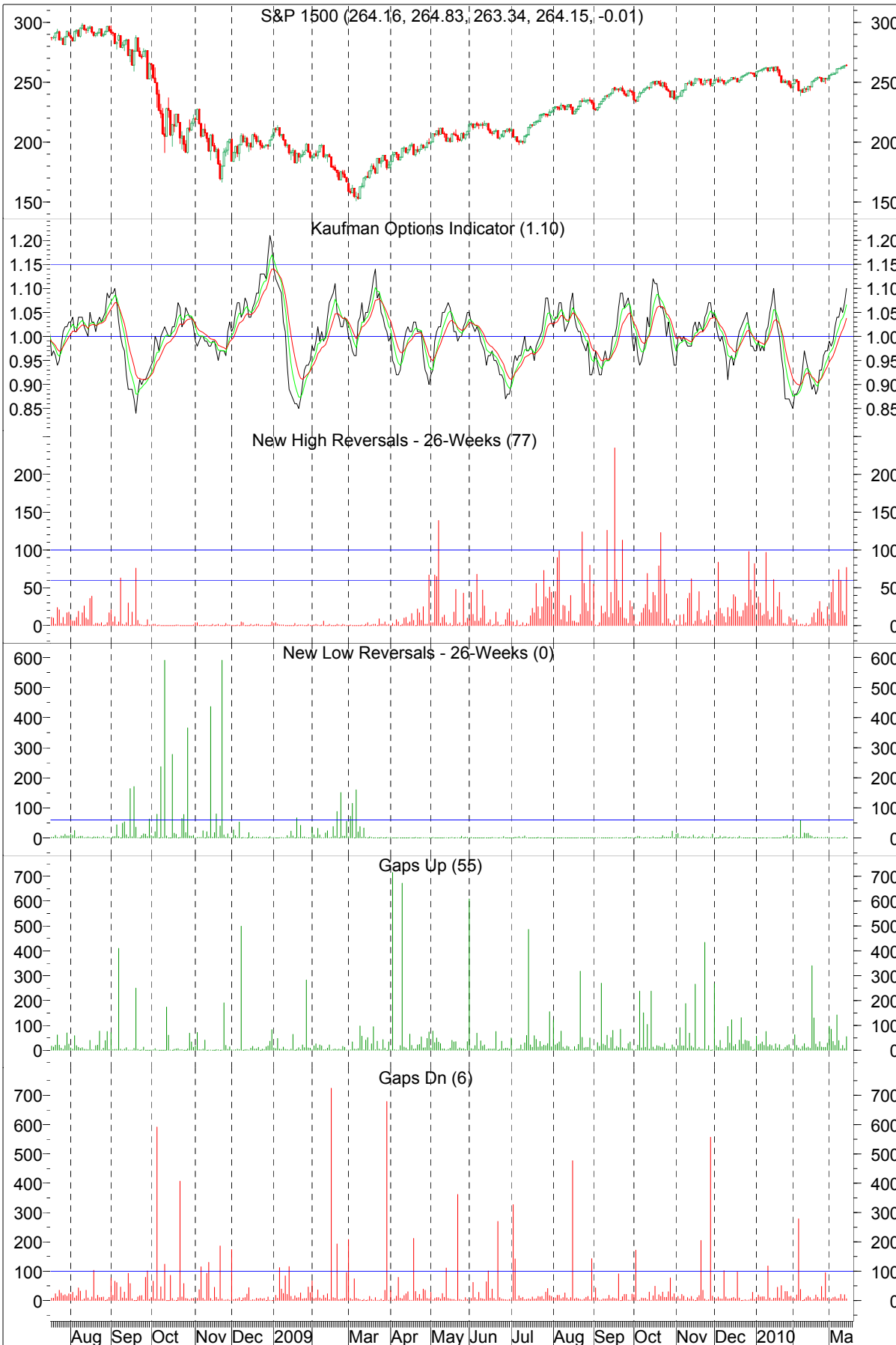
All of our statistics of market internals have made new highs, confirming the new high in the index and pointing to higher prices in the future.

The 10-sma of 13-week closing highs has been rising, showing broad participation in the rally.

The percentage of stocks over important moving averages remains at bull market levels.

Volume has picked up during the recent leg up.

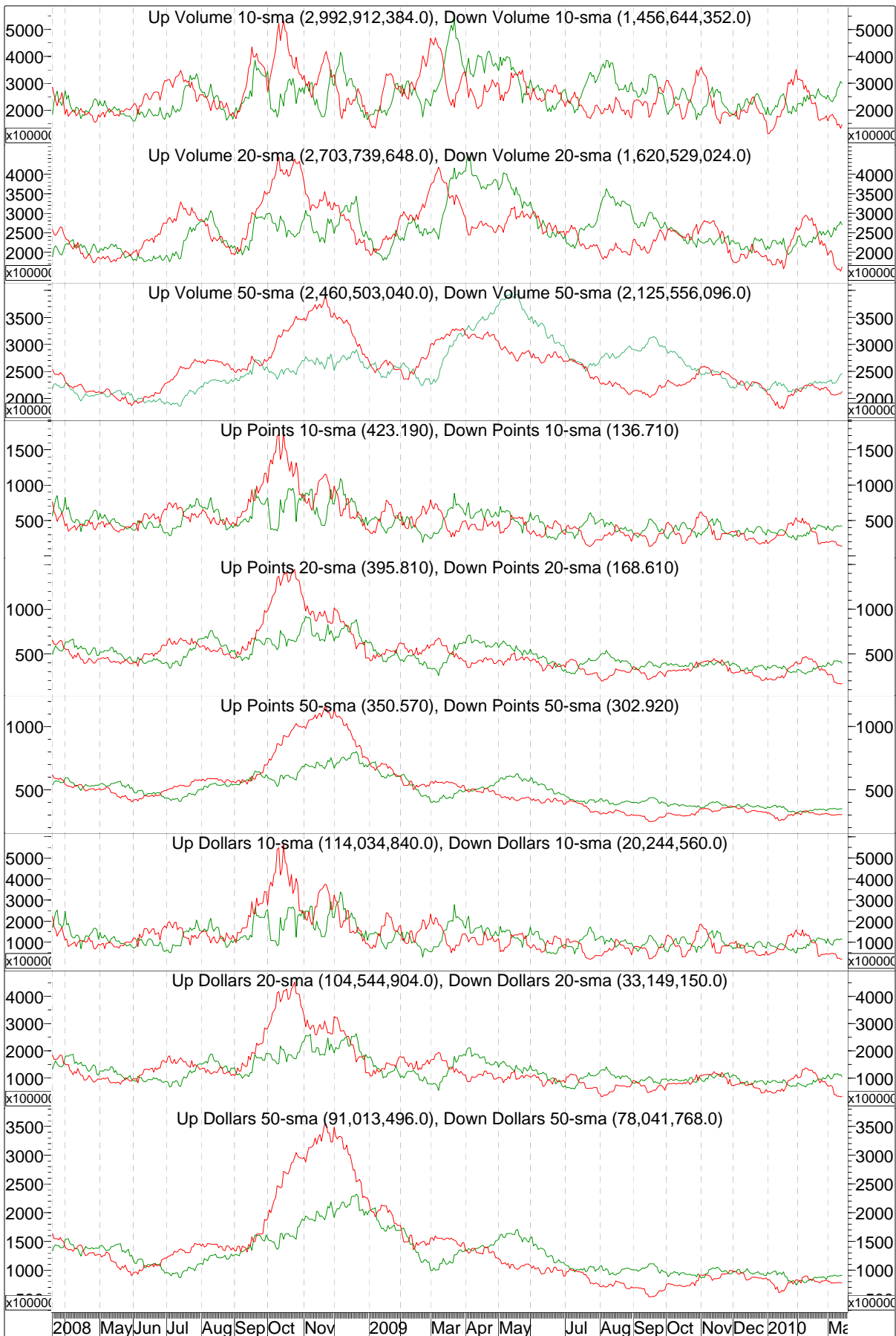
The Kaufman Report - Wayne S. Kaufman, CMT



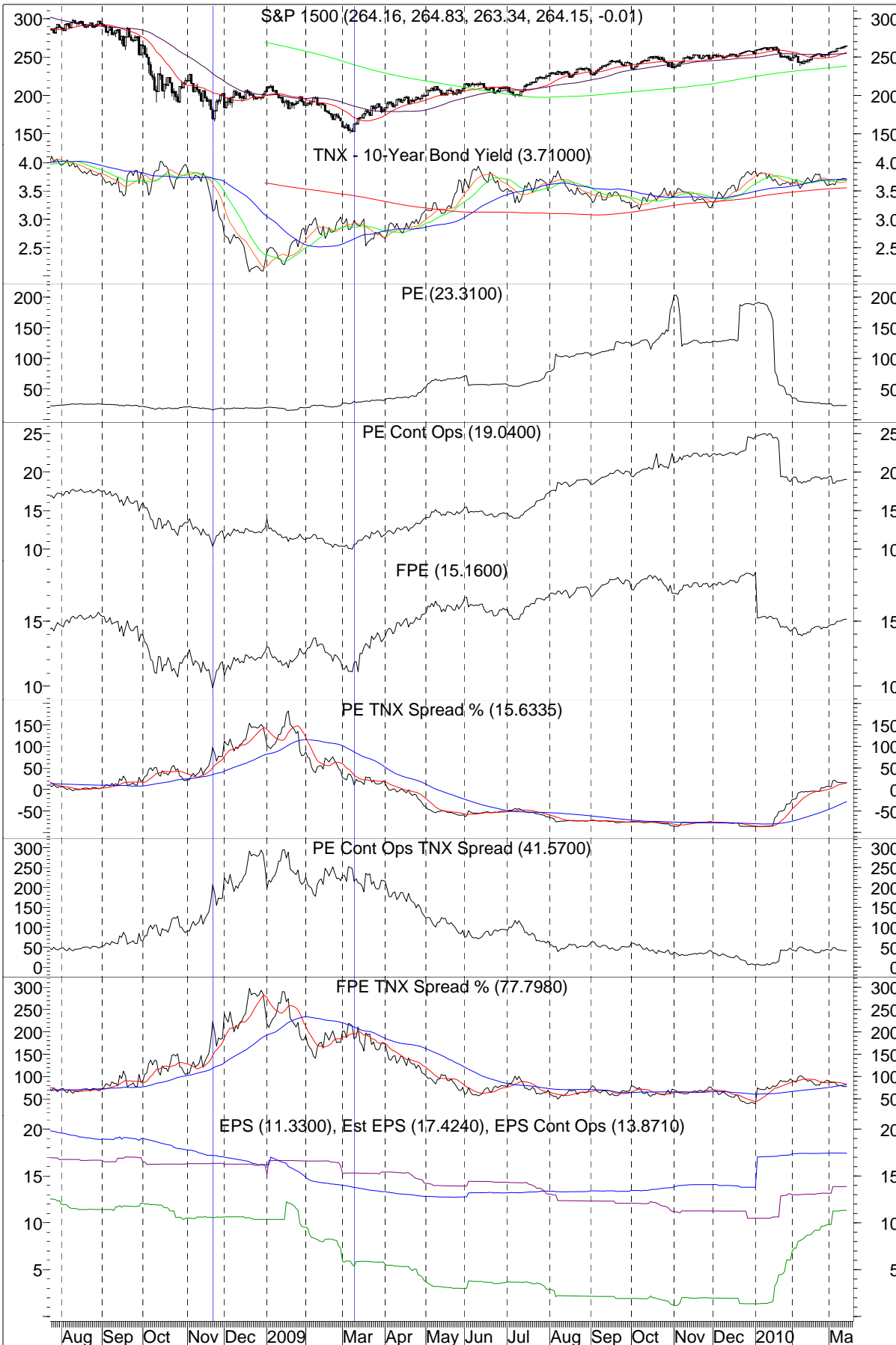
Our proprietary options indicator has reached 1.10, a high level showing optimism on the part of options buyers. This is a level where equities have had problems in the past. It is the highest since 1/15/2010.

77 new high reversals Friday shows an increased desire to take profits.

The Kaufman Report - Wayne S. Kaufman, CMT



Our statistics of supply (red) versus demand (green) show positive crossovers for all statistics and all time frames. Demand, which has been muted, is starting to pick up. Supply continues to recede as sellers are just nowhere to be found. We said last week that even though buying was not as robust as we would like to see, as long as buying was greater than selling the path of least resistance remained higher. If buyers are finally becoming more motivated and selling remains sparse, market setbacks should be short-term and shallow.

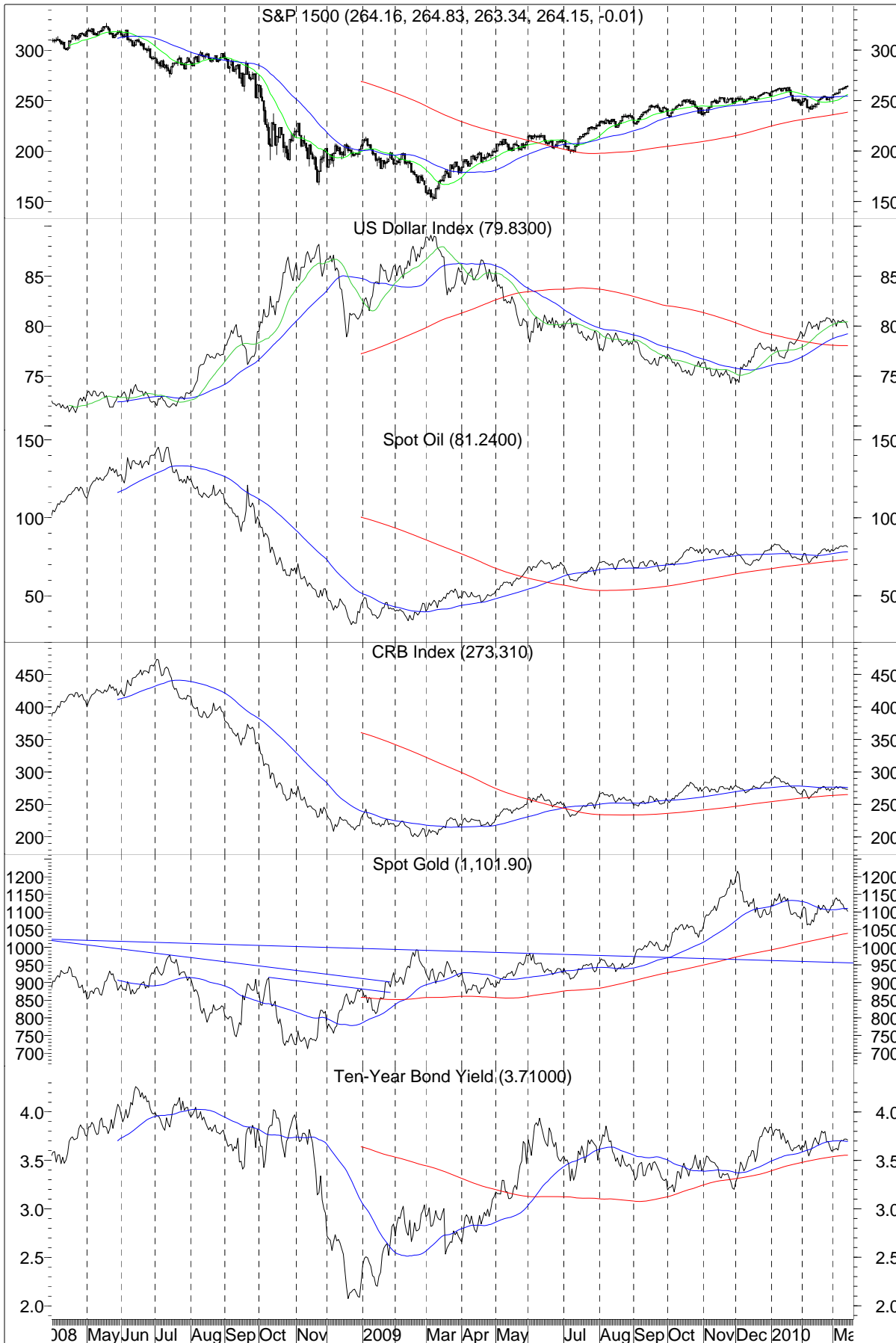


Bond yields seem to have found a comfortable range.

P/Es have been moving sideways after a big drop.

No change from last week's comment that spreads between bond and equity yields are at levels which should be supportive for stocks.

Earnings have been moving in the right direction but are leveling off. They will stay mostly flat until we get into first quarter earnings season.



Two weeks ago we pointed out a negative divergence on the U.S. Dollar Index and said it might need to consolidate. It has traded sideways for two weeks and is now near the lower end of the recent range, below its 20-sma (green) and slightly above its 50-sma.

Crude oil has been strong but printed a bearish engulfing candle on its daily chart. A break above the resistance zone at 83.5 - 86.5 will target high \$90s or \$100 oil.

Gold has weakened after surpassing the February highs. It is slightly under its 50-sma (blue). There is support at 1088.50, and sentiment is becoming negative in the short-term which should also be supportive for prices.