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# The Kaufman Report

Trade what you see, not what you think.

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Monday March 22, 2010

Closing prices of March 19, 2010

Stocks continued their terrific rally last week with major indexes printing fresh 52-week highs. Breadth numbers continue to show broad participation, which points to higher prices in the future.

In the March 15<sup>th</sup> report we said stocks had become overbought while sentiment had become overbullish. **Our proprietary options indicator is showing too much optimism on the part of options buyers, and it is now at its highest level since 12/31/2008. Therefore, investors need to be cautious in the short-term.**

Longer-term we remain bullish as sellers remain reticent. We have just come through a period where investors shrugged off bad news and stocks moved higher. Unless catalysts arise which causes sellers to step off the sidelines, pullbacks should not be too deep, and the path of least resistance for stocks will remain higher.

We have entered an important period. Obamacare is dominating the news. The sovereign debt issue is still on the front pages. 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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**S&P 1500 Data:** (Data available daily at John Thomas Financial)

P/E: 19.19 FP/E: 15.29 Percent over 10-sma: 56.47%. Percent over 50-sma: 85.27%

13-Week Closing Highs: 143. 13-Week Closing Lows: 14. 52-week closing highs: 84.

Kaufman Options Indicator: 1.15, highest since 12/31/2008. Put/Call Ratio: 0.974

New High Reversals: 98 (most since 12/28/09. New Low Reversals: 6.

Volume: +40% versus yesterday. 124% of the 10-day average. 132% of the 30-day average.

Up Stocks: 27.25%. Up Volume: 19.87%. Up Points: 18.02%. Up Dollars: 6.06%, 15% of 10-sma. Dn Dollars 380% of 10-sma.

Earnings: 497 of the S&P 500 have reported so far this earnings season. 72.5% have had positive surprises, 10.3% have been in line, and 17.2% have had negative surprises.

Federal Funds Futures project an 84.0% probability of no change to the current 0.25 % target rate and a 16.0% probability of a cut to 0.00% when the FOMC meets on 4/28. For the meeting of 6/23 the probabilities are 71.8% for no change, 15.1% for 0.50, and 13.1% for 0.00%.

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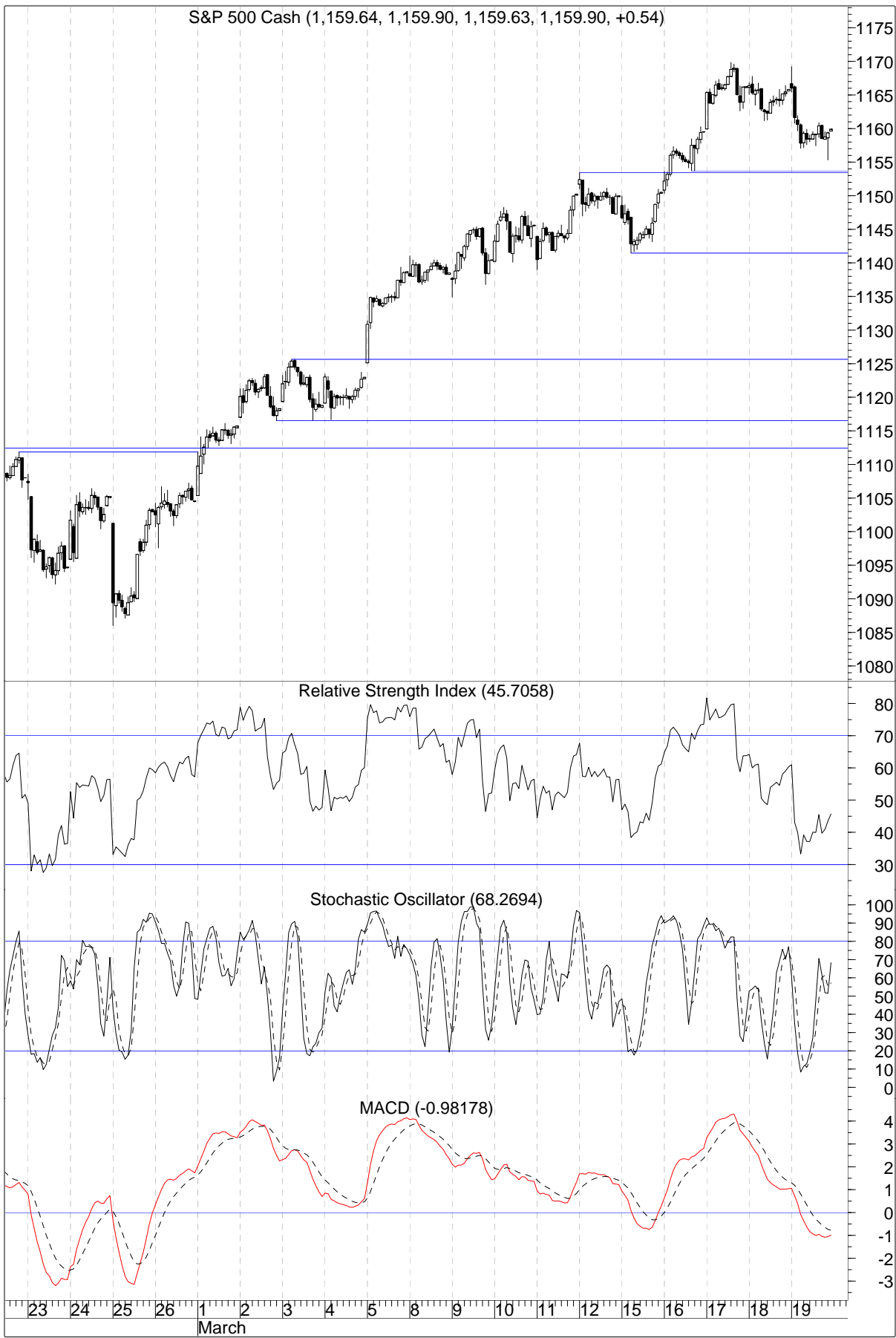
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## Indexes, Sectors, and Industry Groups

	Daily	WTD	MTD	QTD	YTD
Dow Jones Industrials	-0.35%	1.10%	4.04%	3.01%	3.01%
S&P 500	-0.51%	0.86%	5.02%	4.02%	4.02%
S&P 1500	-0.56%	0.78%	5.20%	4.48%	4.48%
Nasdaq 100	-0.59%	0.42%	6.25%	3.88%	3.88%
Nasdaq Composite	-0.71%	0.29%	6.08%	4.64%	4.64%
NYSE Composite	-0.76%	0.33%	5.00%	2.81%	2.81%
S&P Smallcap 600	-0.92%	0.14%	7.39%	8.06%	8.06%
S&P Midcap 400	-0.96%	0.16%	6.33%	8.04%	8.04%
Bank of New York Mellon ADR	-1.12%	-0.62%	4.77%	-1.55%	-1.55%

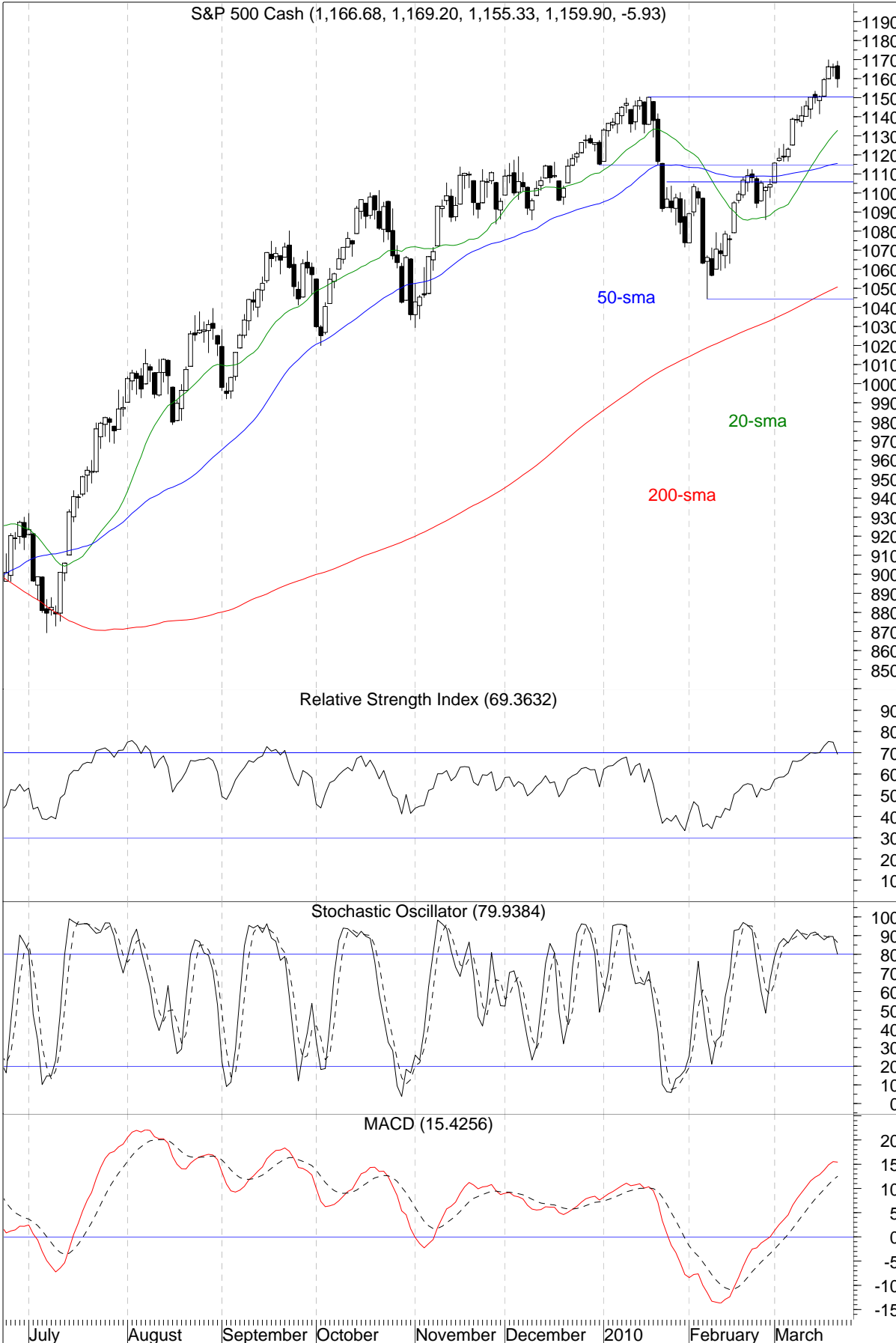
	Daily	WTD	MTD	QTD	YTD
Telecom Services	0.43%	2.38%	5.67%	-5.42%	-5.42%
Health Care	0.02%	1.49%	2.94%	3.39%	3.39%
Consumer Staples	-0.08%	1.62%	3.10%	4.56%	4.56%
Utilities	-0.21%	1.23%	3.48%	-3.63%	-3.63%
Industrials	-0.36%	2.17%	7.41%	10.97%	10.97%
Consumer Discretionary	-0.61%	0.60%	6.02%	8.34%	8.34%
Financials	-0.74%	1.08%	6.97%	8.98%	8.98%
Information Technology	-0.79%	0.24%	5.50%	0.47%	0.47%
Energy	-0.94%	-1.12%	2.70%	-0.09%	-0.09%
Materials	-0.99%	0.21%	5.88%	0.79%	0.79%

	Daily	WTD	MTD	QTD	YTD
Health Care Equip & Services	0.52%	2.39%	3.92%	5.63%	5.63%
Telecom Services	0.43%	2.38%	5.67%	-5.42%	-5.42%
Food, Beverage & Tobacco	0.38%	2.19%	4.82%	4.79%	4.79%
Banks	0.06%	2.32%	9.76%	17.12%	17.12%
Household & Personal Products	0.03%	0.93%	1.56%	4.67%	4.67%
Commercial & Professional Services	-0.12%	2.40%	5.03%	2.03%	2.03%
Consumer Services	-0.12%	1.31%	5.99%	7.81%	7.81%
Utilities	-0.21%	1.23%	3.48%	-3.63%	-3.63%
Pharmaceuticals, Biotech & Life Sciences	-0.23%	1.04%	2.45%	2.27%	2.27%
Retailing	-0.27%	0.68%	5.67%	8.36%	8.36%
Capital Goods	-0.33%	2.07%	7.45%	11.97%	11.97%
Insurance	-0.49%	1.04%	5.95%	10.04%	10.04%
Transportation	-0.56%	2.52%	8.06%	10.49%	10.49%
Software & Services	-0.66%	-0.24%	5.30%	-1.12%	-1.12%
Media	-0.70%	-0.11%	5.73%	4.52%	4.52%
Technology Hardware & Equipment	-0.81%	0.05%	5.66%	1.68%	1.68%
Energy	-0.94%	-1.12%	2.70%	-0.09%	-0.09%
Materials	-0.99%	0.21%	5.88%	0.79%	0.79%
Real Estate	-1.06%	2.37%	10.18%	8.81%	8.81%
Diversified Financials	-1.13%	0.40%	5.87%	6.08%	6.08%
Semiconductors & Equipment	-1.16%	2.37%	5.56%	1.14%	1.14%
Food & Staples Retailing	-1.21%	1.08%	0.97%	3.84%	3.84%
Consumer Durables & Apparel	-1.24%	1.47%	5.79%	10.88%	10.88%
Automobiles & Components	-2.15%	0.15%	9.45%	23.77%	23.77%



After making a fresh 52-week high Wednesday the S&P 500 pulled back from overbought levels.

S&P 500 Cash (1,166.68, 1,169.20, 1,155.33, 1,159.90, -5.93)



The daily chart of the S&P 500 printed a doji candle on Thursday. Doji are signs of indecision frequently seen at turning points.

Daily momentum indicators are turning down from overbought levels.



The weekly chart of the S&P 500 shows it printed its highest weekly close since September 2008. Price and key moving averages remain lined up bullishly. One of these days the slope of the 40-week moving average may actually change from down to up.

There is a slight negative divergence on the weekly RSI.



The daily chart of the Nasdaq 100 shows it printed a bearish engulfing candle on Friday.

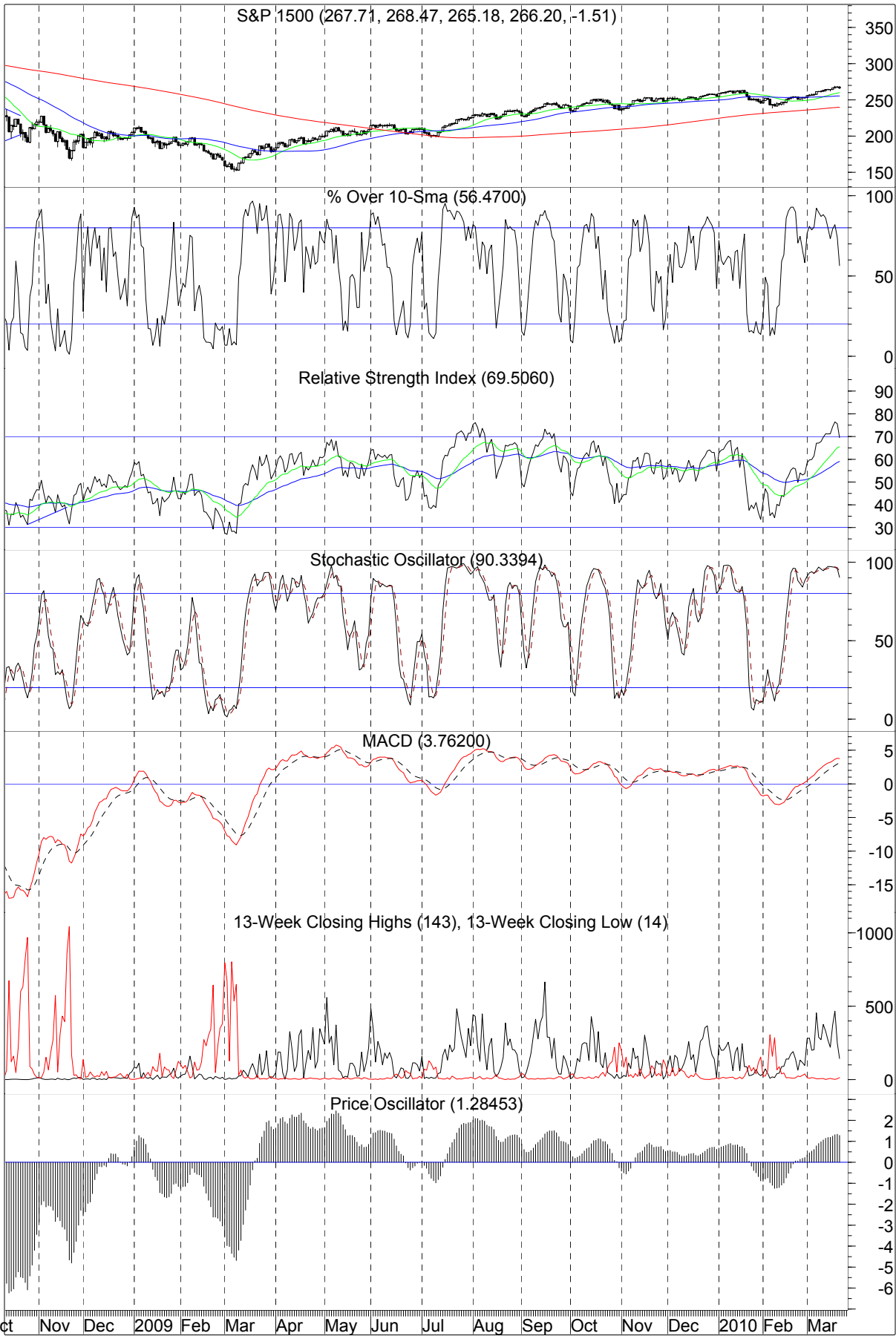
Daily momentum indicators are turning down from overbought or high levels.

NASDAQ 100 (1,918.14, 1,949.14, 1,906.01, 1,932.43, +8.00)



Weekly momentum indicators are mixed, with a negative divergence on the RSI.

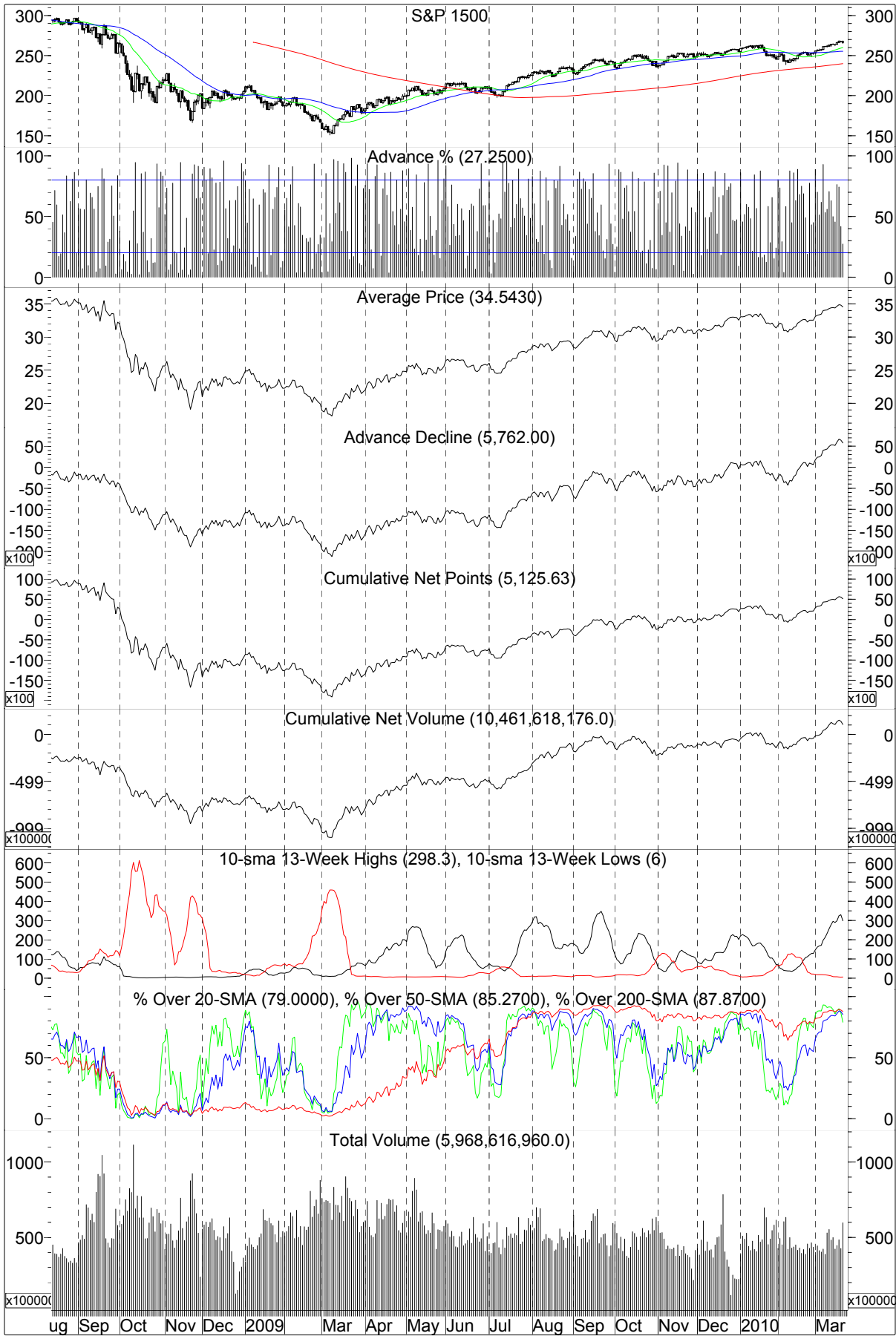




56.47% of stocks are over their own 10-sma.

The RSI is turning down from the overbought zone.

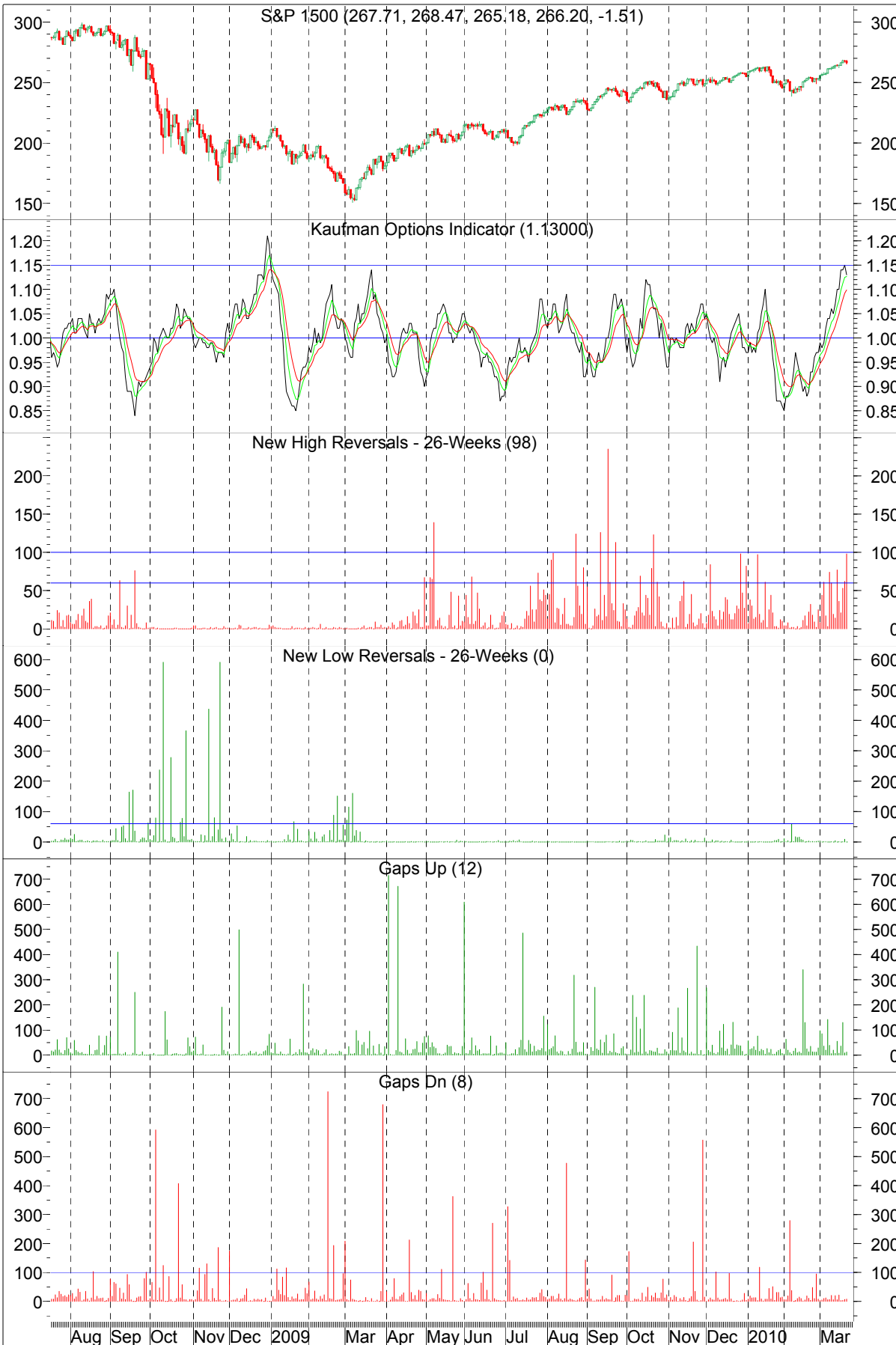
The stochastic is also overbought.



Only 27.25% of stocks traded higher Friday.

All of our statistics of market breadth recently made new highs confirming the new highs in the S&P 1500.

The percentages of stocks over key moving averages remains at bull market levels.



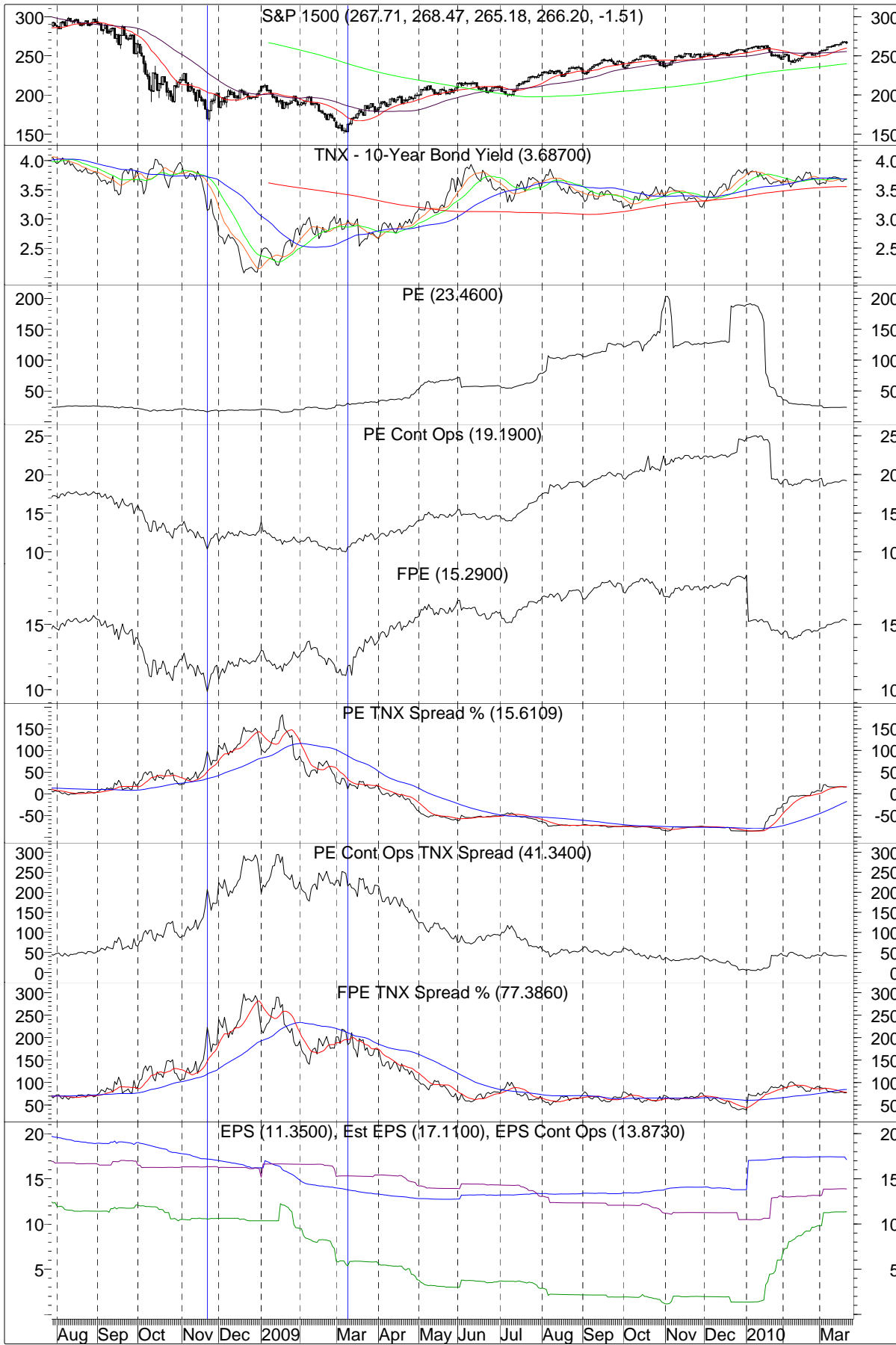
Our proprietary options indicator hit 1.15 Thursday, showing too much bullishness among options traders.

98 new high reversals Friday shows an increased desire to take profits at these levels.

The Kaufman Report - Wayne S. Kaufman, CMT



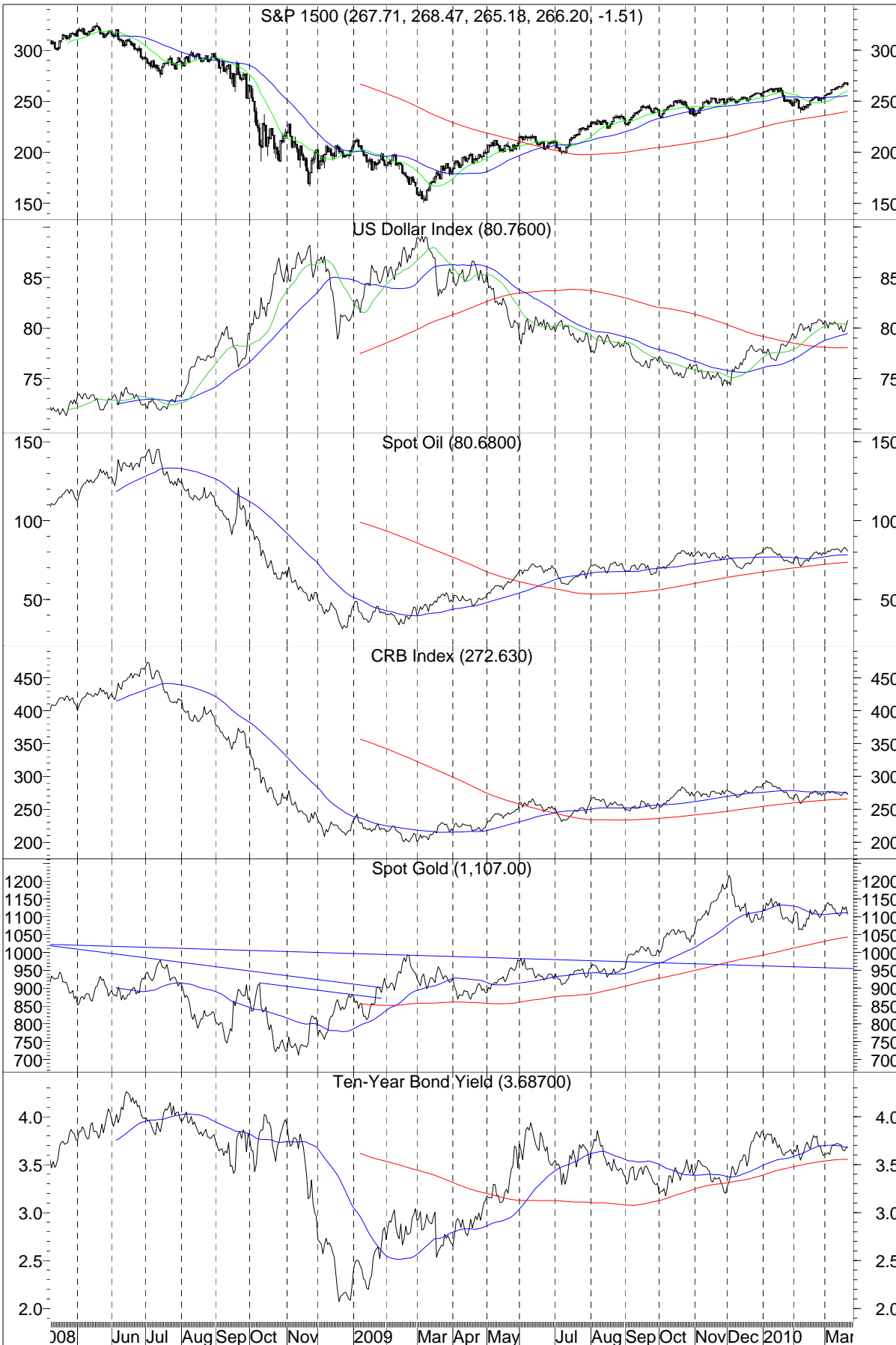
Our statistics of supply (red) versus demand (green) show demand exceeding supply for all statistics and all time frames. Last week's action showed buyers starting to ease up on their purchases. Still, unless sellers, who have been nowhere to be found, become motivated, any pullbacks should not be too deep.



P/E ratios seem to have found a comfortable range.

Spreads between bond and equity yields remain at levels which should be supportive for stock prices.

Our earnings metrics should flat line until first quarter earnings season begins in April.



The U.S. Dollar Index bounced off its 50-sma (blue) Wednesday. There is resistance up to 81.34.

Crude oil remains in an up trend but weakened as the U.S. Dollar moved up. A break above the resistance zone at 83.5 - 86.5 will target high \$90s or \$100 oil.

Gold also weakened as the Dollar moved higher. Sentiment continues to become bearish, which should be a setup for a rally soon.