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The Kaufman Report

Trade what you see, not what you think.

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Monday March 8, 2010

Closing prices of March 5, 2010

Last Sunday we discussed recent bullish developments and the way stocks had held up in spite of negative news. We also discussed how small and mid-cap indexes were outperforming large-caps, which is usually a positive, and also pointed out that the Consumer Discretionary index had made a fresh 52-week high on 2/26.

We said we were bullish due to a lack of sellers, negative sentiment, and technical signals. During the week the S&P 500 was able to break through more resistance levels, and major indexes now are not far from January highs while **the small and mid-cap indexes each made 52-week highs.**

We remain bullish at this time although in the short-term equities are beginning to reach overbought levels and sentiment, which had been very negative, has turned positive again. Therefore, investors need to be careful with entry points.

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 trend are up. This is a short-term trader's market, with adept traders able to trade long or short depending on conditions. Investors need to be aware of sector rotation and should not hesitate to move out of lagging stocks and sectors and into leaders.

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

P/E: 18.85 Percent over 10-sma: 92.20%. Percent over 50-sma: 79.93%

13-Week Closing Highs: 455, most since 665 on 9/16/09. 13-Week Closing Lows: 6. 52-week closing highs: 320, most in at least 5 years.

Kaufman Options Indicator: 0.104 Put/Call Ratio: 0.832 New High Reversals: 3. New Low Reversals: 0.

Volume: +5% versus yesterday. 99% of the 10-day average. 90% of the 30-day average.

Up Stocks: 92.89%. Up Volume: 91.43%. Up Points: 95.99%. Up Dollars: 99.68%. 280% of 10-sma. Dn Dollars 2% of 10-sma.

Earnings: 491 of the S&P 500 have reported so far this earnings season. 72.6% have had positive surprises, 10.2% have been in line, and 17.20% 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 70.2% for no change, 26.9% for 0.00%, and 2.9% for 0.50%.

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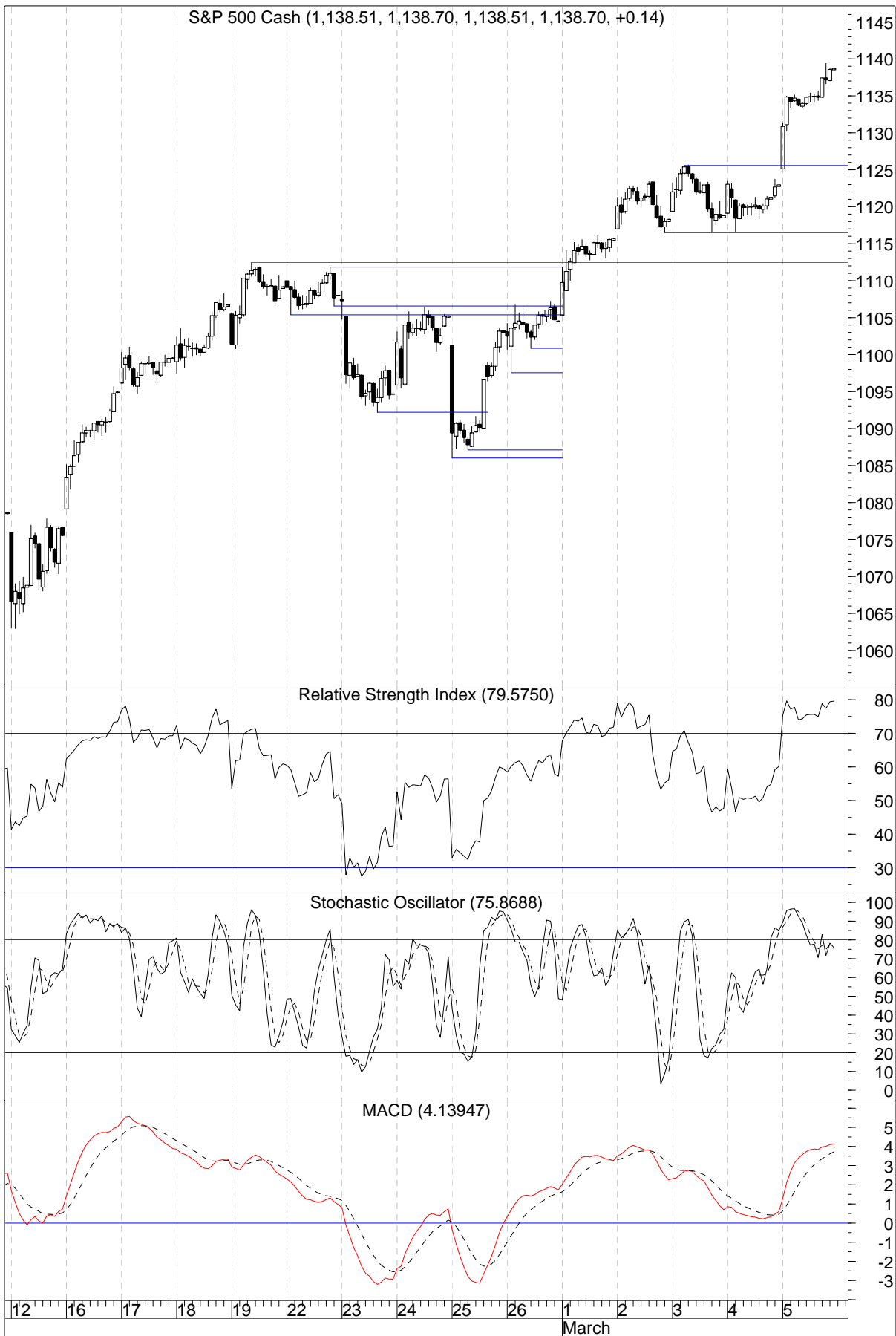
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	Daily	WTD	MTD	QTD	YTD
Bank of New York Mellon ADR	2.12%	4.28%	4.28%	-2.02%	-2.02%
S&P Smallcap 600	1.89%	5.43%	5.43%	6.09%	6.09%
NYSE Composite	1.65%	3.64%	3.64%	1.48%	1.48%
Nasdaq 100	1.55%	3.84%	3.84%	1.52%	1.52%
S&P Midcap 400	1.49%	4.35%	4.35%	6.03%	6.03%
Nasdaq Composite	1.48%	3.94%	3.94%	2.52%	2.52%
S&P 1500	1.42%	3.28%	3.28%	2.57%	2.57%
S&P 500	1.40%	3.10%	3.10%	2.12%	2.12%
Dow Jones Industrials	1.17%	2.33%	2.33%	1.32%	1.32%

	Daily	WTD	MTD	QTD	YTD
Financials	2.03%	3.70%	3.70%	5.65%	5.65%
Energy	1.81%	3.39%	3.39%	0.58%	0.58%
Consumer Discretionary	1.58%	3.94%	3.94%	6.21%	6.21%
Industrials	1.52%	3.36%	3.36%	6.79%	6.79%
Information Technology	1.40%	3.23%	3.23%	-1.69%	-1.69%
Materials	1.36%	5.29%	5.29%	0.23%	0.23%
Health Care	1.20%	1.87%	1.87%	2.31%	2.31%
Utilities	1.10%	2.91%	2.91%	-4.16%	-4.16%
Consumer Staples	0.51%	2.13%	2.13%	3.58%	3.58%
Telecom Services	0.06%	0.70%	0.70%	-9.87%	-9.87%

	Daily	WTD	MTD	QTD	YTD
Real Estate	2.76%	3.79%	3.79%	2.49%	2.49%
Banks	2.47%	4.27%	4.27%	11.26%	11.26%
Diversified Financials	2.12%	3.22%	3.22%	3.42%	3.42%
Media	2.01%	5.47%	5.47%	4.27%	4.27%
Energy	1.81%	3.39%	3.39%	0.58%	0.58%
Automobiles & Components	1.81%	8.33%	8.33%	22.50%	22.50%
Capital Goods	1.67%	3.78%	3.78%	8.15%	8.15%
Consumer Durables & Apparel	1.66%	2.95%	2.95%	7.90%	7.90%
Technology Hardware & Equipment	1.61%	3.73%	3.73%	-0.19%	-0.19%
Consumer Services	1.42%	1.54%	1.54%	3.29%	3.29%
Materials	1.36%	5.29%	5.29%	0.23%	0.23%
Semiconductors & Equipment	1.33%	2.00%	2.00%	-2.28%	-2.28%
Health Care Equip & Services	1.31%	2.66%	2.66%	4.36%	4.36%
Insurance	1.28%	4.21%	4.21%	8.23%	8.23%
Commercial & Professional Services	1.25%	2.38%	2.38%	-0.54%	-0.54%
Retailing	1.22%	3.23%	3.23%	5.86%	5.86%
Software & Services	1.18%	3.07%	3.07%	-3.21%	-3.21%
Pharmaceuticals, Biotech & Life Sciences	1.15%	1.47%	1.47%	1.29%	1.29%
Utilities	1.10%	2.91%	2.91%	-4.16%	-4.16%
Transportation	0.97%	1.95%	1.95%	4.24%	4.24%
Food, Beverage & Tobacco	0.82%	3.39%	3.39%	3.36%	3.36%
Food & Staples Retailing	0.21%	0.80%	0.80%	3.67%	3.67%
Household & Personal Products	0.13%	0.76%	0.76%	3.85%	3.85%
Telecom Services	0.06%	0.70%	0.70%	-9.87%	-9.87%



The 30-minute chart of the S&P 500 shows the index broke resistance on Monday, consolidated, then gapped up and moved higher on Friday.

Momentum indicators are at high levels with the stochastic showing a negative divergence.



The daily chart of the S&P 500 has broken through resistance levels and is nearing January highs. Prior resistance will now be support.

Momentum indicators are at high levels.



In the report of February 22nd we noted the bullish engulfing candle on the weekly price chart and the positive crossover from low levels on the stochastic. We noted that the two prior times this happened nice rallies occurred. Now it is three times, and the stochastic is not yet at overbought levels where the prior two rallies halted.

NASDAQ 100 (1,871.62, 1,889.68, 1,869.10, 1,888.56, +28.84)

The Nasdaq 100 gapped up Friday and closed near the January highs.



Daily momentum indicators are at overbought or high levels.

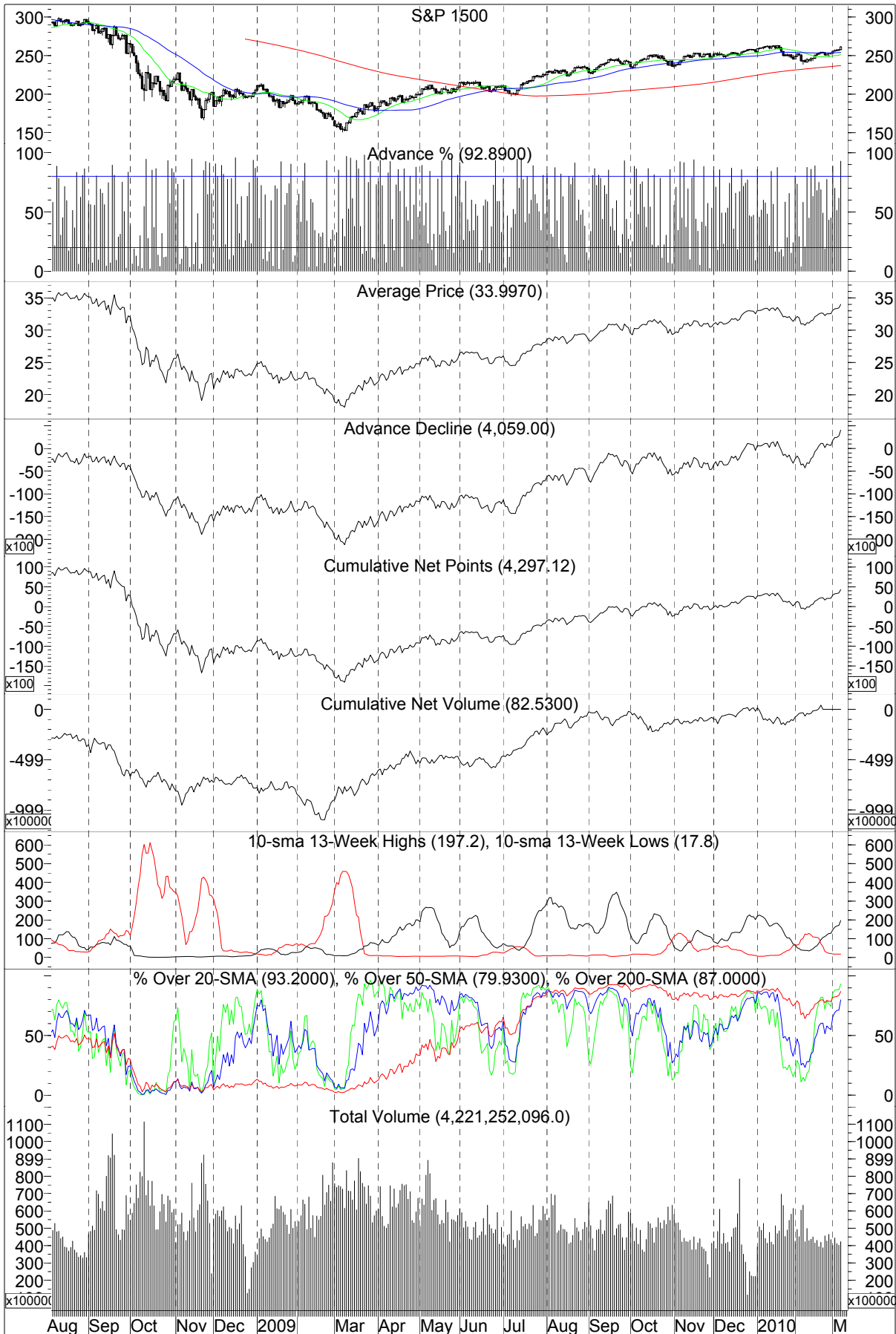
e July August September October November December 2010 February March

NASDAQ 100 (1,826.62, 1,889.68, 1,826.61, 1,888.56, +69.88)



The weekly chart of the Nasdaq 100 shows it closed near the January highs.

Weekly momentum indicators are not yet at overbought levels.

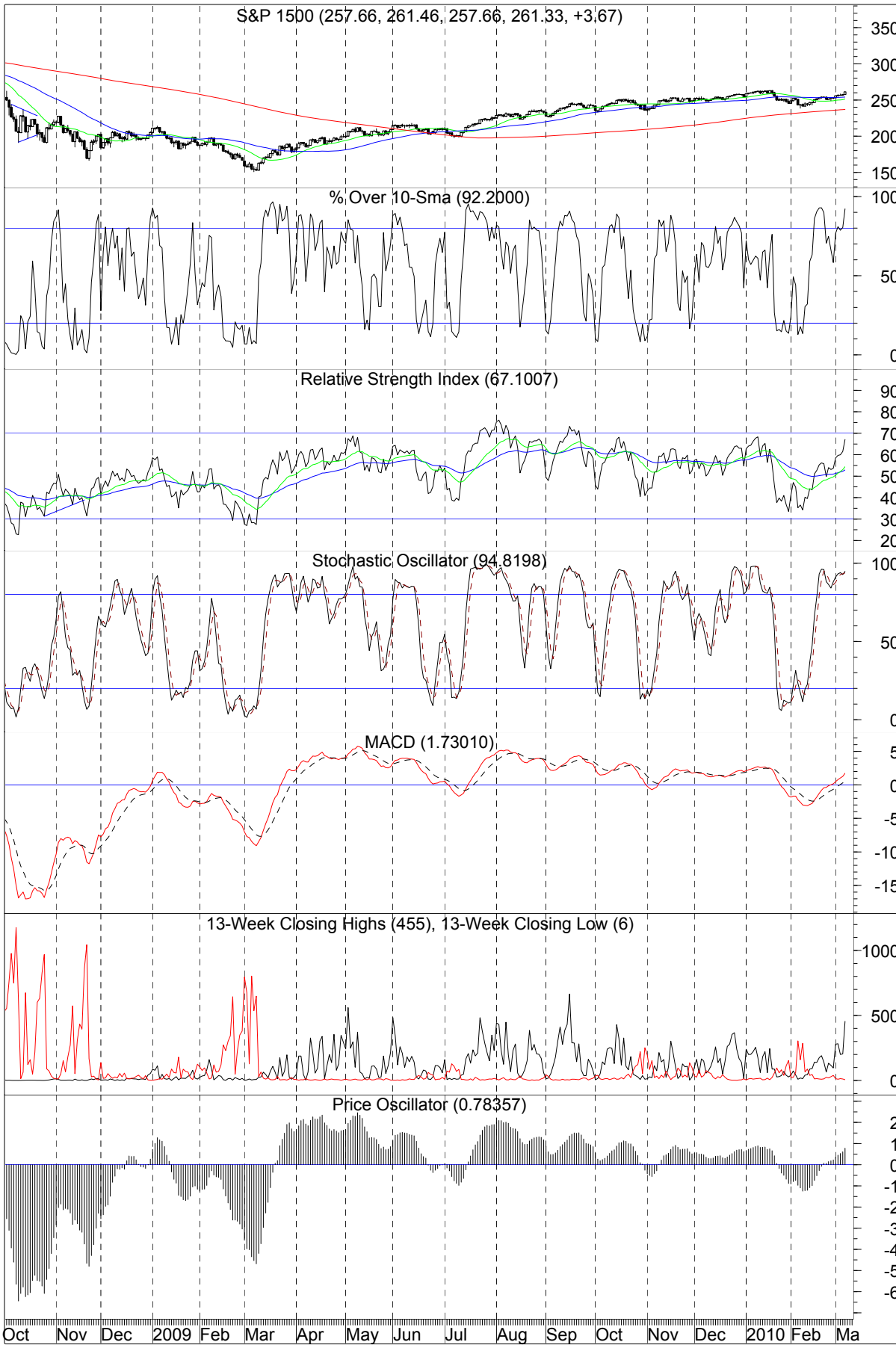


All of our statistics of market internals have made new highs. This points to higher prices for the S&P 1500 index in the future.

(This is a computer error. Cum Net Volume DID make a new high.)

13-week closing highs continue to swamp lows.

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

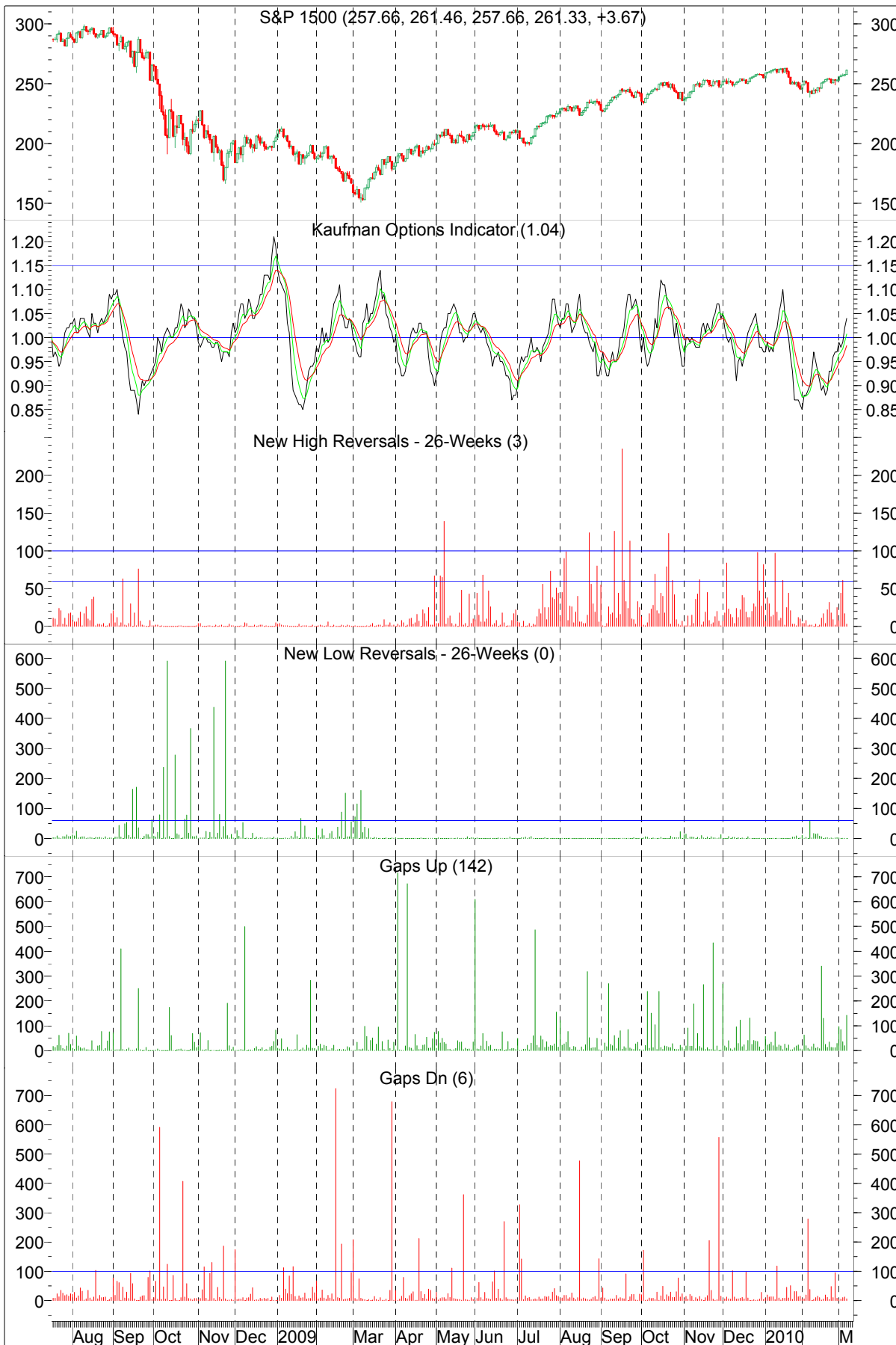


The percent over 10-sma is back over 90% at 92.2%. This shows broad participation in the rally.

On Friday 13-week closing highs were the most since September.

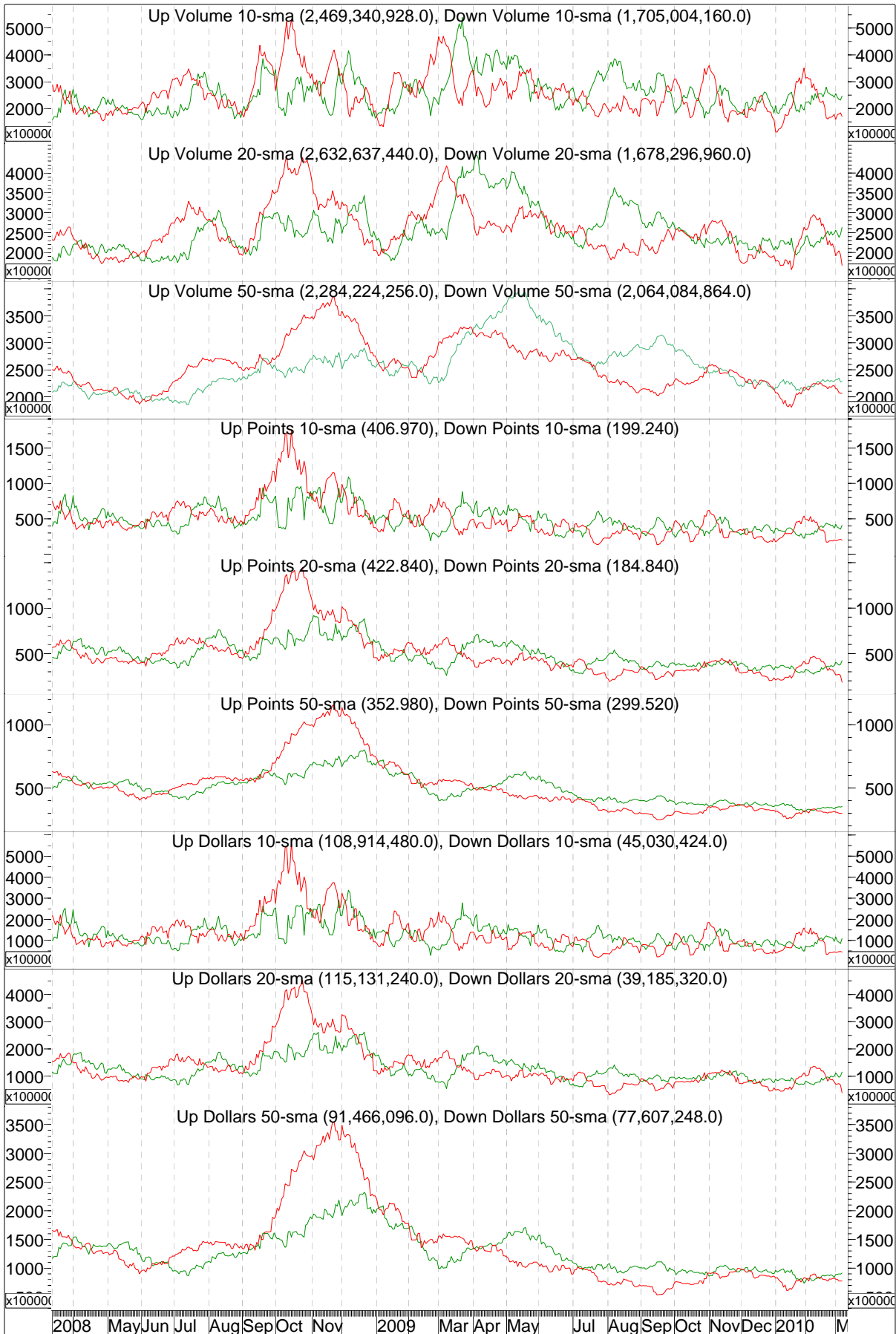
Our price oscillator, a good indicator of trends, has followed through since crossing into positive territory in February.

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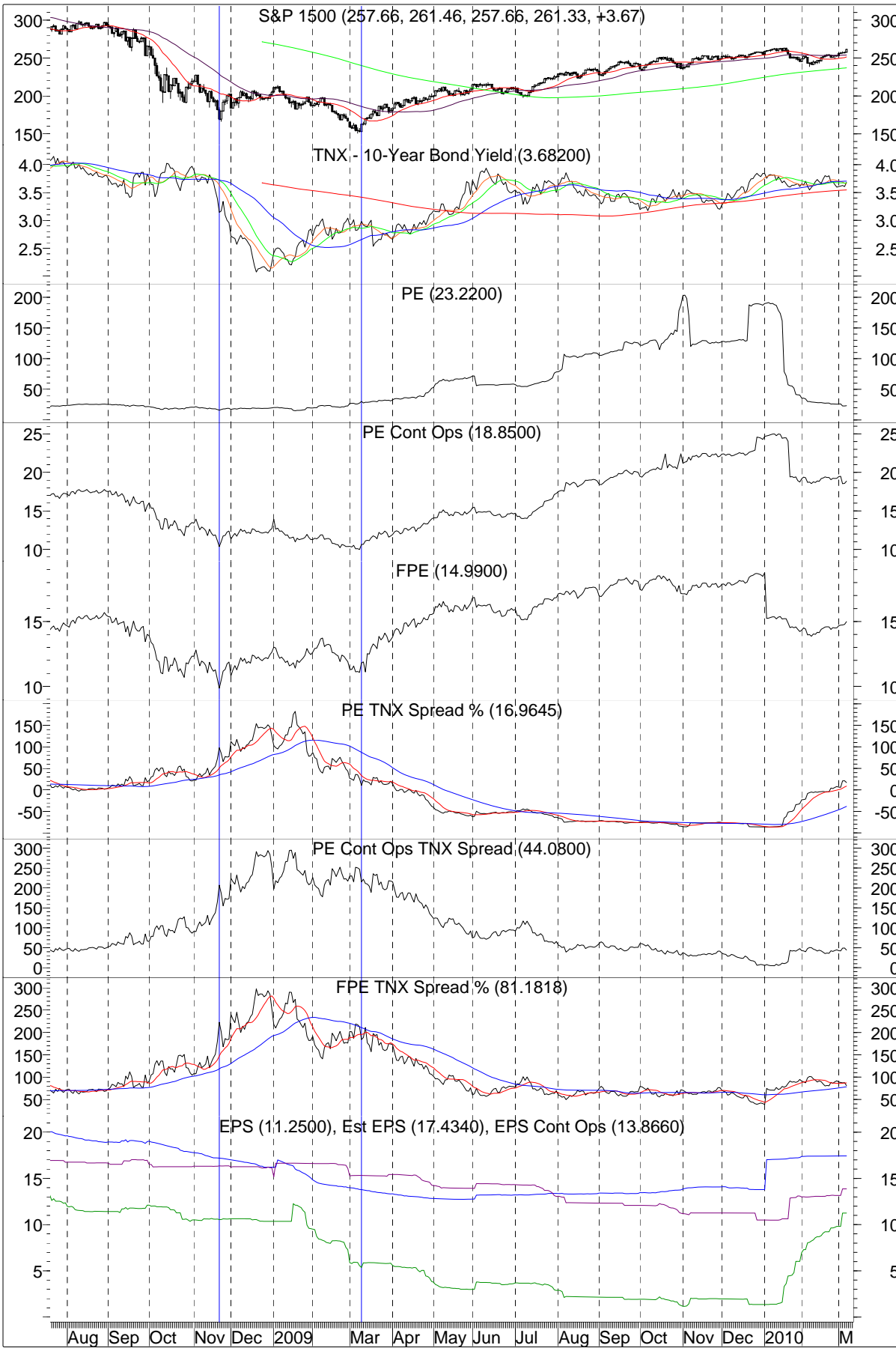


Our proprietary options indicator is showing optimism on the part of options buyers, although it is not yet at extreme levels. We prefer to see pessimism.

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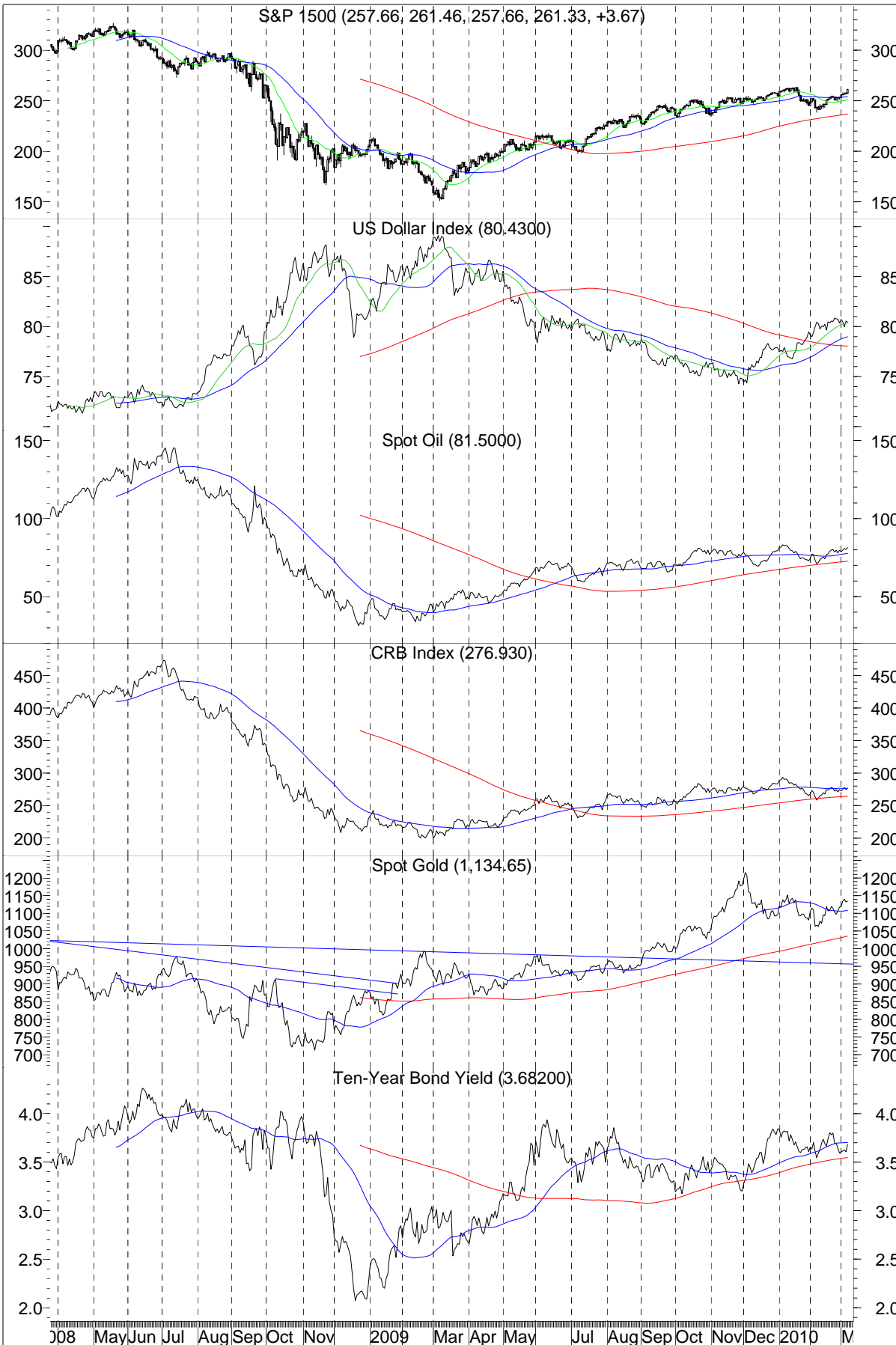
Our statistics of supply (red) versus demand (green) show positive crossovers for all time frames. While buying is not as robust as we would like to see, sellers are nowhere to be found. Even though total volume has been lacking, as long as buying is greater than selling the path of least resistance for equities remains higher.



After a big drop P/Es are moving sideways.

Spreads between bond and equity yields are at levels which should be supportive for stocks.

Our earnings metrics have been moving in the right direction, but may level off until we get near or into first quarter earnings season.



Last week we said there was a negative divergence on the U.S. Dollar Index, so it might need to consolidate. It did so last week as it continued to trade in the 79.6 - 81.3 zone. A breakout will target the 84.5 - 86.5 zone.

Crude oil remains in an up trend but has been moving sideways recently. A break above the resistance zone at 83.5 - 86.5 will target high \$90s or \$100 oil.

Gold took out the February resistance last week. It remains in an up trend with resistance up to 1161.80.