

Monday May 24, 2010

Closing prices of May 21, 2010

Last week we said that bottoms of plunges like we saw on May 6th had a history of being tested, and that test may have been underway. That was accurate as during the week major indexes dropped to the levels of their May 6th bottoms, highlighted by an intense selling day on Thursday which saw the S&P 1500 plunge 3.97%, the worst one-day performance since 4/20/09.

In our report of April 5th we said the tone of the market was changing and the initial blastoff phase of the market was complete. On May 3rd we said that the two 90% down days recorded during the prior week was a warning, and we advised caution in the near-term. Since that first 90% down day on April 27th, the S&P 1500 has recorded seven more 90% down days for an astonishing eight in the last nineteen sessions. This cluster of 90% down days far surpasses anything we saw in 2008, when it took 37 sessions from 8/25/08 until 10/15/08 to record eight 90% down days on the way to a total of nineteen by 3/2/09.

Is this intense period of selling a short-term correction, or is it the initiation of a longer-term downtrend? Earnings trends and economic news has been very positive recently, and the selloff in equities has been largely attributed to the financial crisis in Europe. That changed with Thursday's Initial Jobless Claims report, which was worse than expected at 471,000 versus the consensus estimate of 440,000. This was a little shocking because based on prior recessions we are in the time frame when the recovery should be producing jobs.

As we said last week we are back in a low visibility environment like we had in 2008. The sovereign debt issue in Europe remains front and center. A slowdown in Europe as austerity measures are implemented can't help the global economy. The oil well leak in the Gulf of Mexico is becoming a disaster of biblical proportions. A possible slowdown in China as the government reigns in the economy is a source of concern. How earnings will be affected by the suddenly overwhelmingly popular U.S. Dollar is an important question.

Fortunately this period of low visibility will end shortly. There are two more jobless claims reports before we get the May payrolls report on June 4th. Thereafter we will get some mid-quarter company updates along with multiple reports regarding the domestic and global economies. Towards the end of June we will get second quarter earnings pre-announcements.

We have been saying investors need to be defensive as this plays out and we are back to our strategy of the last months of the prior bear market, which means a short-term trading focus. Many foreign indexes have already entered or are flirting with bear market territory, such as China, Australia, Spain, Italy, France, and Brazil. **Since May 3rd we have been advising caution and we repeat that at this time. Until proven otherwise, this is once again a short-term traders market, with aggressive traders able to play long or short based on overbought or oversold conditions. Currently stocks remain oversold in the short-term. Still, as we cautioned many times during 2008 – 2009, a market that does not respond to oversold conditions is dangerous.**

Based on the S&P 500 the short-term, intermediate-term, and long-term trends are down. Investors need to be careful since a freezing up of the financial system can be very damaging, as we all saw in 2008 – 2009.

Longer-term we are looking for entry points to buy stocks which we believe are being liquidated for reasons which have nothing to do with their valuations or prospects for the future. Equity valuations are very attractive at current levels.

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The Kaufman Report

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

P/E: 16.36 FP/E: 13.83 Percent over 10-sma: 3.83%. Percent over 50-sma: 11.93%

13-Week Closing Highs: 1. 13-Week Closing Lows: 102 (489 on 5/20, most since 649 on 3/9/09). 52-week closing highs: 1. 52-week closing lows: 7.

Kaufman Options Indicator: 0.83 (0.76 on 5/18 lowest since 0.73 8/15/07). Put/Call Ratio: 1.322 (1.53 5/20 highest since 1.67 3/5/07).

New High Reversals: 2. New Low Reversals: 135 (most since 160 on 3/6/09).

Volume: -0.6% versus yesterday. 129% of the 10-day average. 129% of the 30-day average.

Up Stocks: 80.69%. Up Volume: 88.27%. Up Points: 90.99%. Up Dollars: 98.31%, 155% of 10-sma. Dn Dollars 2.3% of 10-sma.

Earnings: 486 of the S&P 500 have reported so far this earnings season. 77.5% have had positive surprises, 8.3% have been in line, and 14.3% have had negative surprises.

Federal Funds Futures project a 90.0% probability of no change to the current 0.25% target rate and a 10.0% probability of a decrease to 0.00% when the FOMC meets on 6/23. For the meeting of 8/10 the probabilities are 83.2% for no change, 7.6% for an increase to 0.50, and 9.2% for a decrease to 0.00%.

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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	116.18	2.41%	0.00%	-3.67%	-11.73%	-14.37%	-14.79%	142.19	1/11/2010	104.08	7/8/2009
NYSE Composite	6775.45	1.84%	0.00%	-4.27%	-9.35%	-9.03%	-5.70%	7743.74	4/15/2010	5552.82	7/8/2009
S&P Midcap 400	749.97	1.60%	0.00%	-4.98%	-8.88%	-5.06%	3.21%	852.90	4/26/2010	539.04	7/8/2009
S&P 500	1087.69	1.50%	0.00%	-4.23%	-8.34%	-6.99%	-2.46%	1219.80	4/26/2010	869.32	7/8/2009
S&P 1500	250.35	1.50%	0.00%	-4.36%	-8.38%	-6.69%	-1.74%	281.21	4/26/2010	197.66	7/8/2009
S&P Smallcap 600	349.52	1.29%	0.00%	-6.04%	-8.28%	-2.99%	5.08%	396.63	4/26/2010	252.11	7/8/2009
Nasdaq 100	1822.77	1.26%	0.00%	-4.42%	-8.89%	-6.92%	-2.02%	2059.42	4/26/2010	1350.95	5/26/2009
Dow Jones Industrials	10193.39	1.25%	0.00%	-4.02%	-7.41%	-6.11%	-2.25%	11258.01	4/26/2010	8087.19	7/8/2009
Nasdaq Composite	2229.04	1.14%	0.00%	-5.02%	-9.43%	-7.04%	-1.77%	2535.28	4/26/2010	1677.54	5/26/2009

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Financials	198.50	3.62%	0.00%	-3.86%	-8.75%	-7.57%	2.43%	230.45	4/15/2010	145.74	7/8/2009
Materials	183.40	2.48%	0.00%	-4.00%	-10.74%	-10.37%	-8.21%	213.87	4/26/2010	142.89	7/8/2009
Consumer Discretionary	249.92	1.86%	0.00%	-3.95%	-8.88%	-3.39%	6.32%	284.57	4/26/2010	170.94	7/8/2009
Energy	398.03	1.71%	0.00%	-5.37%	-11.42%	-7.50%	-7.42%	464.76	4/26/2010	342.19	7/13/2009
Industrials	255.78	1.54%	0.00%	-5.87%	-10.07%	-6.39%	5.26%	292.21	4/30/2010	176.94	7/8/2009
Information Technology	348.91	1.00%	0.00%	-4.59%	-9.03%	-7.42%	-5.88%	397.46	4/26/2010	261.03	5/22/2009
Utilities	144.55	0.56%	0.00%	-4.47%	-6.36%	-4.08%	-8.51%	161.50	12/14/2009	129.26	5/26/2009
Consumer Staples	273.23	0.39%	0.00%	-2.62%	-3.67%	-5.17%	-0.39%	290.45	3/23/2010	232.03	5/28/2009
Telecom Services	102.92	0.28%	0.00%	-2.04%	-3.49%	-4.83%	-10.22%	117.00	1/5/2010	96.72	7/10/2009
Health Care	333.11	0.28%	0.00%	-3.87%	-6.98%	-10.62%	-8.04%	384.95	1/20/2010	287.62	6/15/2009

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Banks	145.03	4.25%	0.00%	-6.15%	-9.01%	-2.47%	15.70%	165.92	4/21/2010	97.99	7/8/2009
Diversified Financials	314.81	4.08%	0.00%	-2.41%	-9.19%	-9.65%	-2.10%	382.07	4/15/2010	248.57	7/8/2009
Real Estate	101.72	3.81%	0.00%	-4.12%	-7.27%	-1.29%	8.00%	114.48	5/3/2010	57.87	7/10/2009
Automobiles & Components	84.70	3.20%	0.00%	-7.29%	-13.86%	-9.84%	8.96%	107.25	4/26/2010	46.62	7/8/2009
Materials	183.40	2.48%	0.00%	-4.00%	-10.74%	-10.37%	-8.21%	213.87	4/26/2010	142.89	7/8/2009
Insurance	166.34	2.07%	0.00%	-4.63%	-8.12%	-9.59%	0.93%	189.97	4/26/2010	117.98	7/8/2009
Retailing	436.40	2.01%	0.00%	-4.06%	-8.15%	-2.98%	6.15%	499.94	4/26/2010	303.74	7/7/2009
Media	169.01	1.97%	0.00%	-3.21%	-9.90%	-4.59%	3.31%	192.83	5/3/2010	113.55	7/13/2009
Energy	398.03	1.71%	0.00%	-5.37%	-11.42%	-7.50%	-7.42%	464.76	4/26/2010	342.19	7/13/2009
Capital Goods	276.32	1.69%	0.00%	-6.20%	-10.68%	-7.00%	5.80%	318.38	4/30/2010	188.39	7/8/2009
Consumer Durables & Apparel	143.22	1.68%	0.00%	-4.87%	-8.56%	-2.23%	9.25%	164.51	4/26/2010	90.81	7/8/2009
Technology Hardware & Equipment	378.47	1.28%	0.00%	-4.42%	-9.25%	-6.37%	-2.84%	431.10	4/26/2010	274.38	5/22/2009
Semiconductors & Equipment	300.97	1.24%	0.00%	-2.56%	-7.84%	-5.84%	-3.64%	348.04	4/15/2010	219.90	5/22/2009
Commercial & Professional Services	128.69	1.22%	0.00%	-3.21%	-7.54%	-6.77%	-3.83%	144.95	4/26/2010	107.96	7/8/2009
Transportation	272.07	1.07%	0.00%	-5.33%	-8.32%	-3.71%	6.74%	304.63	5/3/2010	184.06	5/28/2009
Consumer Services	404.62	0.99%	0.00%	-3.13%	-6.78%	-0.22%	9.21%	446.11	4/26/2010	300.60	5/22/2009
Software & Services	446.38	0.70%	0.00%	-5.29%	-9.18%	-9.24%	-10.11%	512.69	4/15/2010	348.59	5/26/2009
Food & Staples Retailing	181.78	0.67%	0.00%	-2.80%	-4.92%	-6.48%	-0.71%	196.37	3/30/2010	159.75	7/13/2009
Utilities	144.55	0.56%	0.00%	-4.47%	-6.36%	-4.08%	-8.51%	161.50	12/14/2009	129.26	5/26/2009
Pharmaceuticals, Biotech & Life Scier	309.00	0.39%	0.00%	-3.85%	-7.52%	-10.51%	-9.05%	359.71	1/20/2010	277.03	6/15/2009
Food, Beverage & Tobacco	304.36	0.32%	0.00%	-3.02%	-3.71%	-5.10%	-0.69%	324.19	3/23/2010	255.83	5/28/2009
Telecom Services	102.92	0.28%	0.00%	-2.04%	-3.49%	-4.83%	-10.22%	117.00	1/5/2010	96.72	7/10/2009
Household & Personal Products	362.48	0.27%	0.00%	-1.57%	-2.34%	-4.04%	0.48%	383.05	3/23/2010	296.00	6/16/2009
Health Care Equip & Services	326.37	0.06%	0.00%	-3.91%	-5.92%	-10.82%	-6.00%	371.77	1/20/2010	260.11	6/16/2009

INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Spain EWP	34.90	5.57%	3.04%	-11.91%	-17.38%	-27.35%	52.67	11/25/2009	32.06	5/6/2010
Italy EWI	14.69	4.93%	0.82%	-12.35%	-19.46%	-24.71%	21.77	10/19/2009	13.72	5/6/2010
Sweden EWD	22.71	4.82%	-4.14%	-14.40%	-10.56%	-3.36%	27.42	4/26/2010	16.88	6/23/2009
Australia EWA	19.29	4.44%	-9.95%	-17.70%	-19.66%	-15.54%	25.14	1/11/2010	15.32	7/8/2009
Brazil EWZ	61.14	4.32%	-7.59%	-15.39%	-16.97%	-18.05%	80.93	12/3/2009	48.03	7/8/2009
Belgium EWK	11.41	3.73%	-0.18%	-7.91%	-12.37%	-10.58%	13.95	10/19/2009	8.93	5/6/2010
Austria EWO	17.00	3.66%	-2.71%	-13.97%	-13.92%	-13.09%	23.59	10/15/2009	15.07	6/23/2009
BRIC EEB	37.07	3.58%	-6.26%	-12.45%	-13.19%	-12.69%	44.90	12/4/2009	23.23	5/6/2010
Latin America ILF	41.69	3.53%	-6.86%	-12.91%	-13.63%	-12.76%	50.25	12/4/2009	31.74	7/10/2009
Russia RSX	28.61	3.32%	-7.69%	-15.63%	-16.71%	-8.27%	36.91	4/14/2010	17.65	7/13/2009
Emerging Markets EEM	37.34	3.25%	-5.76%	-11.20%	-11.35%	-10.02%	46.66	4/9/2010	30.11	6/23/2009
China 25 FXI	38.21	3.21%	-1.75%	-6.44%	-9.24%	-9.58%	46.66	11/16/2009	34.09	5/26/2009
Mexico EWW	47.31	2.79%	-6.66%	-10.72%	-11.35%	-3.19%	61.60	5/6/2010	34.04	7/10/2009
Netherlands EWN	17.95	2.75%	-2.32%	-10.83%	-12.01%	-12.27%	21.51	10/15/2009	14.50	7/8/2009
United Kingdom EWU	13.93	2.65%	-3.30%	-12.50%	-14.38%	-14.01%	17.20	11/16/2009	12.34	7/8/2009
Thailand THD	43.49	2.38%	-5.29%	-5.15%	-9.24%	2.35%	49.98	4/6/2010	30.00	5/26/2009
South Africa EZA	52.71	2.37%	-7.55%	-11.78%	-12.78%	-5.82%	62.76	4/5/2010	23.00	5/6/2010
India IFN	28.45	2.34%	-6.85%	-11.15%	-9.80%	-7.33%	33.08	4/14/2010	24.58	5/26/2009
Indonesia IDX	64.09	2.22%	-9.08%	-13.17%	-8.22%	3.09%	75.55	5/3/2010	39.10	6/23/2009
France EWQ	20.81	2.21%	-1.63%	-11.67%	-16.96%	-19.50%	27.32	1/11/2010	19.21	7/8/2009
Hong Kong EWH	14.60	1.96%	-2.33%	-6.77%	-10.37%	-6.77%	16.89	4/14/2010	12.79	5/22/2009
Turkey TUR	53.94	1.91%	-2.84%	-12.12%	-5.88%	0.07%	63.27	4/14/2010	33.41	6/23/2009
Canada EWC	25.68	1.90%	-6.54%	-9.03%	-7.99%	-2.47%	29.00	4/15/2010	19.55	7/8/2009
Chile ECH	53.12	1.86%	-2.35%	-5.90%	-3.31%	-3.05%	60.94	1/19/2010	27.27	5/6/2010
South Korea EWY	44.10	1.85%	-10.41%	-14.95%	-11.80%	-7.43%	53.15	4/26/2010	31.67	6/23/2009
Taiwan EWT	11.37	1.25%	-6.24%	-10.54%	-9.40%	-12.34%	13.46	1/6/2010	9.51	6/18/2009
Singapore EWS	10.95	1.20%	-4.29%	-8.83%	-4.78%	-4.70%	12.36	4/14/2010	8.54	6/23/2009
Switzerland EWL	19.54	1.09%	-5.42%	-10.86%	-15.41%	-12.22%	23.63	4/15/2010	17.00	7/8/2009
Japan EWJ	9.75	0.98%	-1.82%	-6.14%	-6.59%	0.13%	10.71	4/15/2010	9.10	7/13/2009
Germany EWG	19.24	0.79%	-2.96%	-10.05%	-12.03%	-14.26%	23.40	10/21/2009	16.75	7/8/2009
Malaysia EWM	11.20	0.36%	-5.89%	-6.74%	-4.11%	5.46%	12.17	4/30/2010	8.44	7/10/2009
Israel EIS	49.73	-0.02%	-4.50%	-9.60%	-15.51%	-8.58%	60.68	3/26/2010	39.40	7/8/2009
Vietnam VNM	23.04	-0.56%	-8.90%	-13.42%	-8.43%	-9.61%	32.15	10/22/2009	22.55	5/21/2010



The 30-minute chart of the S&P 500 shows that after the plunge day of 5/6 the index rebounded to resistance levels and proceeded to break support levels thereafter. On 5/21 it gapped lower at the open, breaking the 5/6 lows, and then rallied. From 1095 on up there is plenty of resistance.

30-minute momentum indicators are not yet at resistance or overbought.

S&P 500 Cash (1,067.26, 1,090.16, 1,055.90, 1,087.69, +16.10)



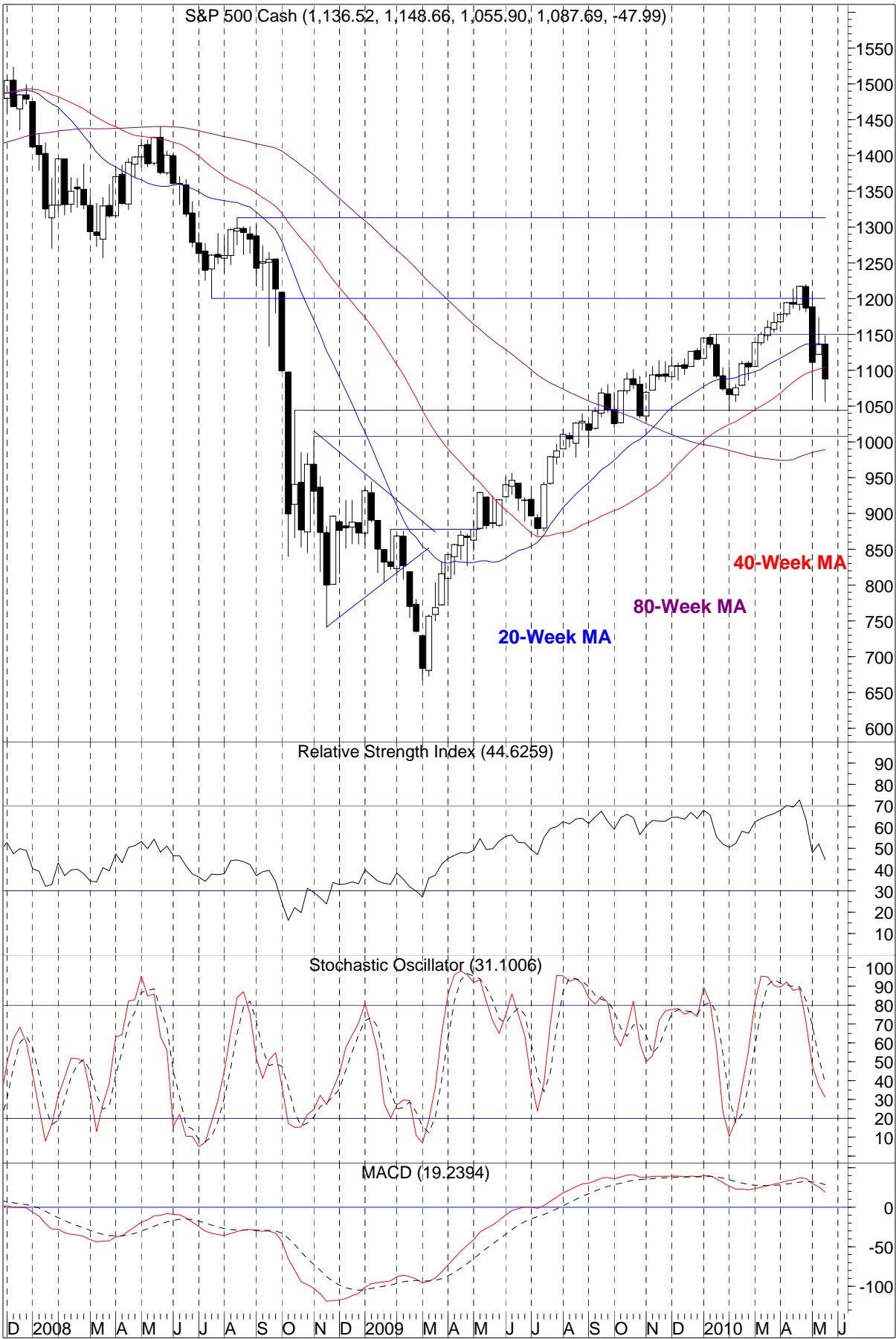
The daily chart of the S&P 500 shows it closed the week below the 200-sma. The index hasn't closed below the 200-sma since 7/10/09.

The RSI is showing a positive divergence as it didn't go below the prior low although the index did.

The stochastic is in the oversold zone. It was there in January before showing a positive divergence in February which was the real bottom.

The MACD is at a low level but not yet turning up.

S&P 500 Cash (1,136.52, 1,148.66, 1,055.90, 1,087.69, -47.99)



The weekly chart of the S&P 500 looks pretty ugly. A break of the February lows would be very bearish.

Weekly momentum indicators are not conducive to optimism. We would like to see the RSI bottom at the 40 level (if not sooner) and the stochastic turn up.

NASDAQ 100 (1,772.34, 1,834.69, 1,767.94, 1,822.77, +22.65)



The daily chart of the Nasdaq 100 shows that unlike the S&P 500 it did not exceed the lows of 5/6 and it managed to close above its 200-sma.

Here too the RSI shows a positive divergence.

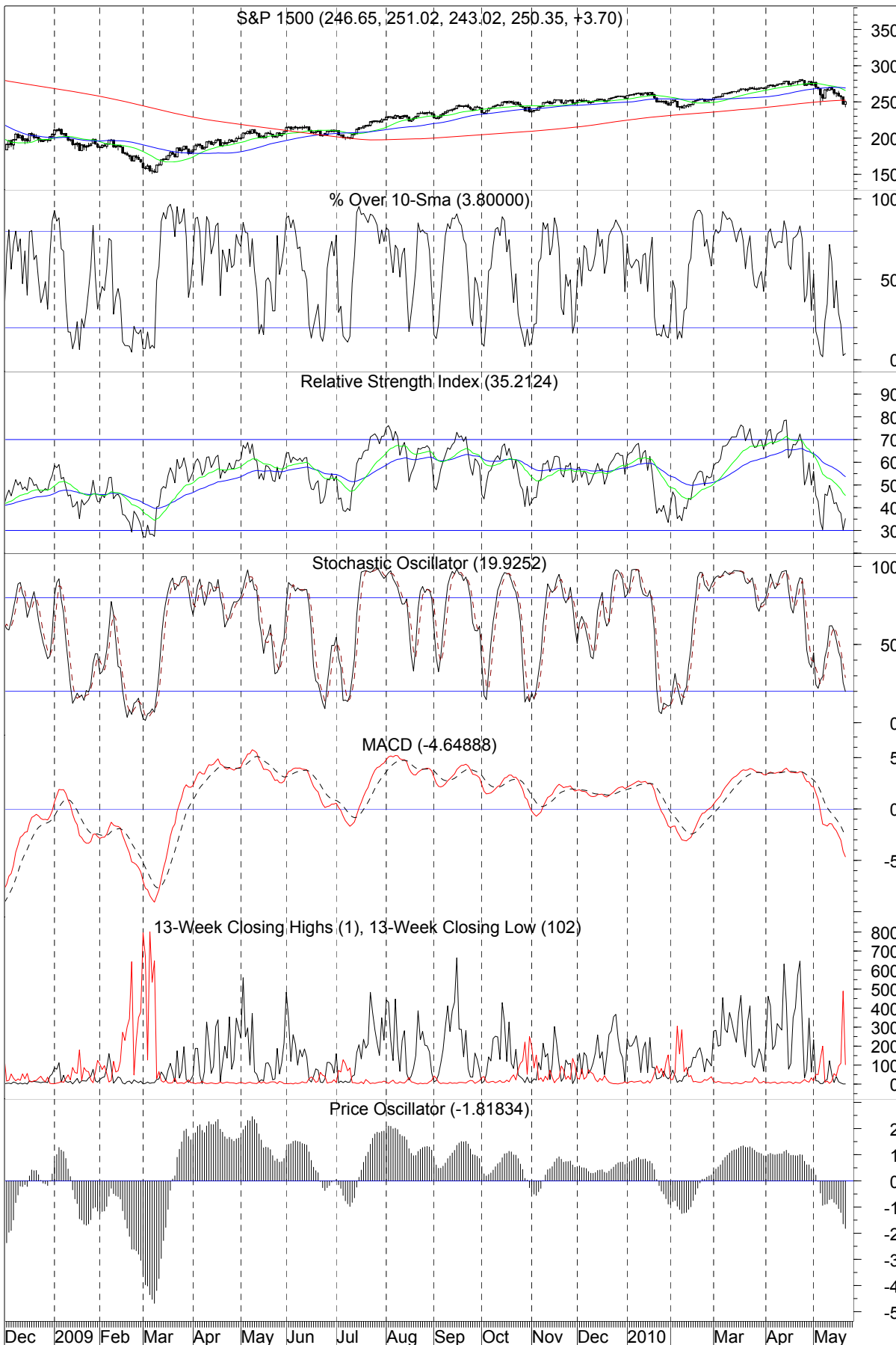
A positive divergence here too.

NASDAQ 100 (1,911.38, 1,933.25, 1,767.94, 1,822.77, -84.33)



Ouch! You have to go back a ways to see four weeks as ugly as this. Again, a break of the February lows would be very bearish.

Weekly momentum indicators don't give us much cause for optimism.

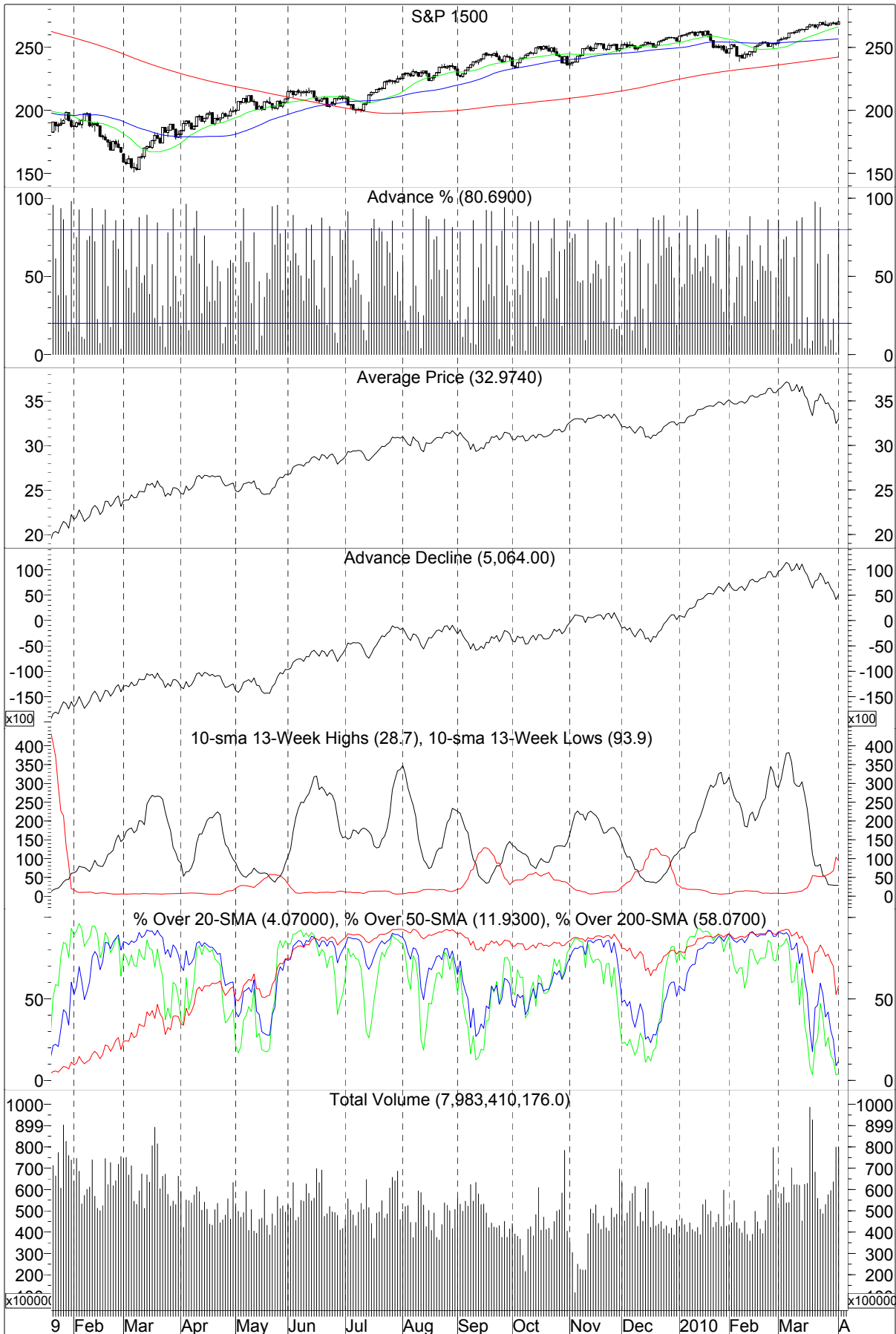


Only 3.8% of the S&P 1500 are above their own 10-sma. On 5/7 we saw 1.8%, the lowest since 1.27% on 11/20/08.

The RSI is at its lowest level since March 2009.

13-week closing lows are swamping closing highs.

Our price oscillator, a good indicator of trends, is in negative territory. This is the most negative it has been since March 2009.

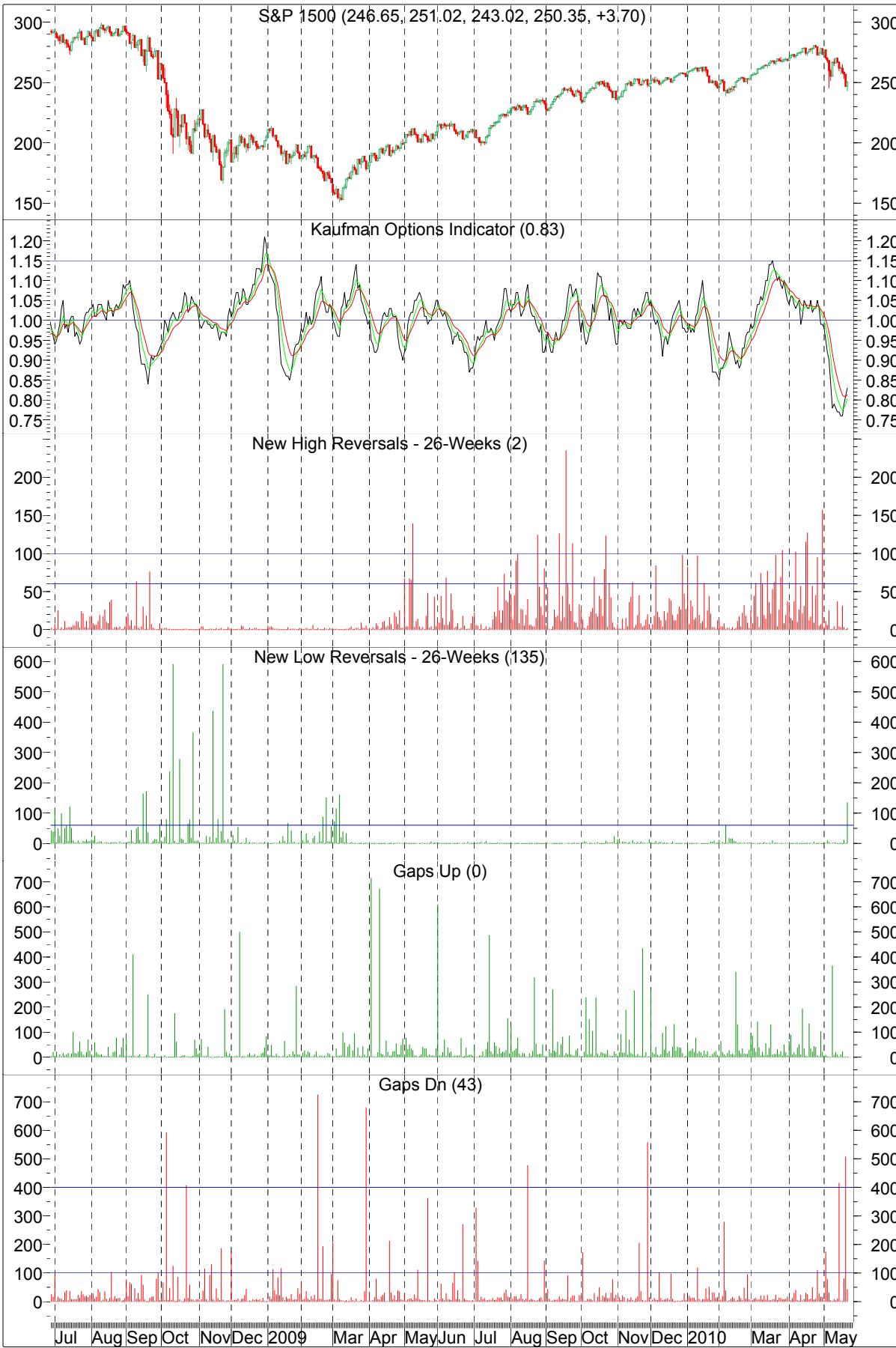


80.69% of stocks traded higher Friday, the first time over 80% since 5/12.

The 10-sma of 13-week closing lows is still below the level seen in December.

The percentages of stocks over important moving averages is flirting with bear market levels. If the percent over 200-sma goes to around 25% that about does it.

The Kaufman Report - Wayne S. Kaufman, CMT

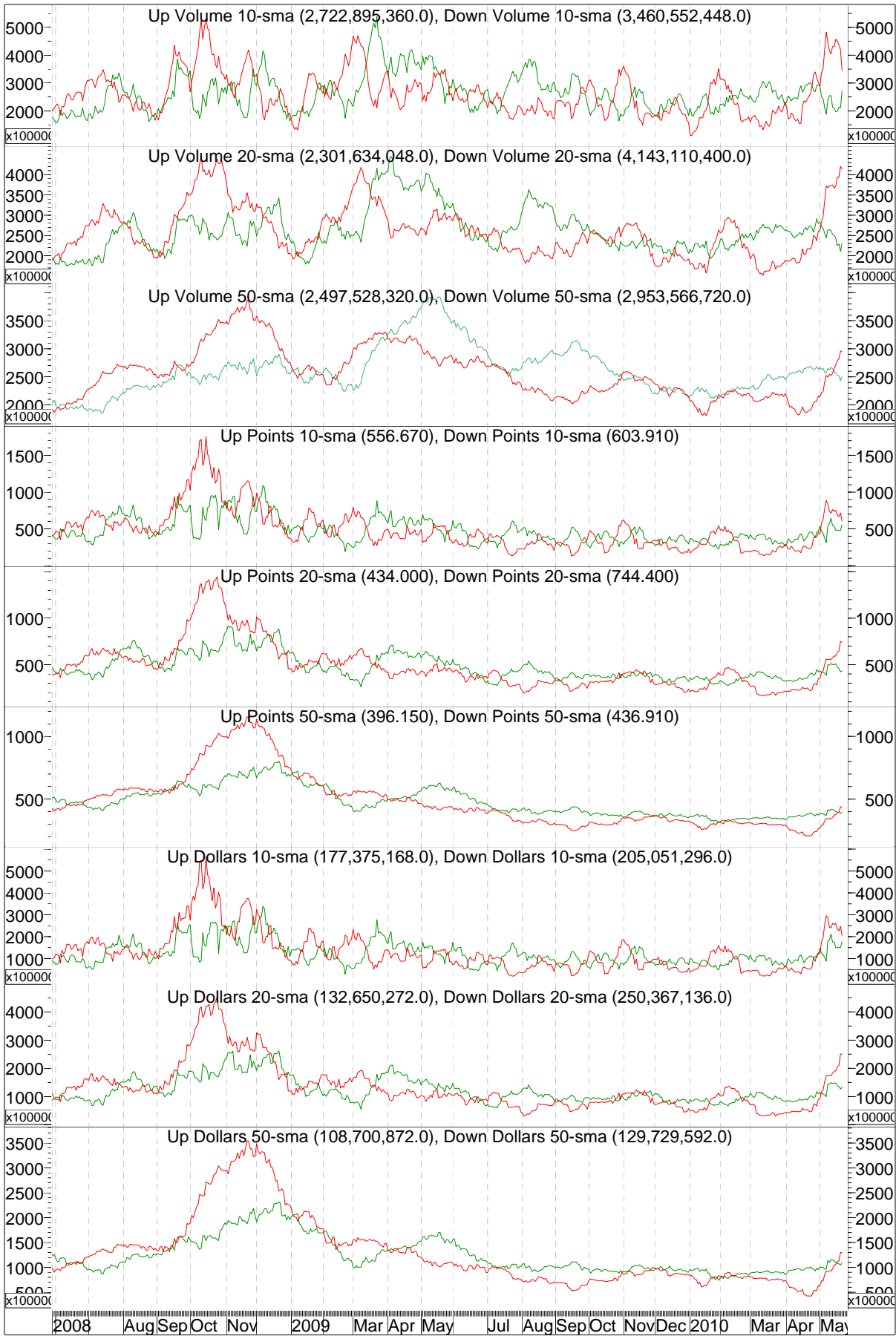


Our proprietary options indicator is bouncing from low levels after hitting 0.76 on 5/18. It hasn't seen this level since 8/16/07.

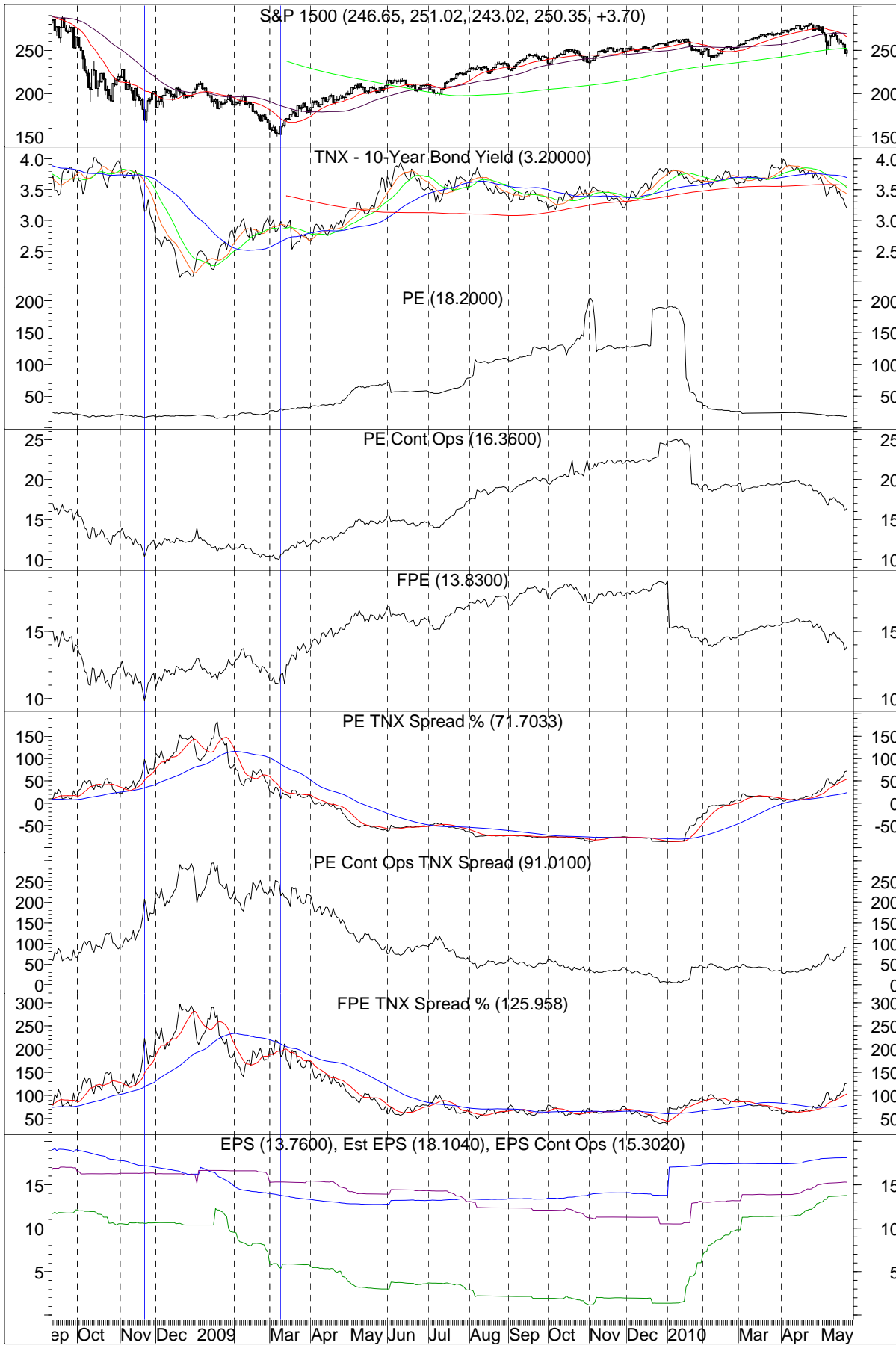
135 new low reversals Friday is the most since March 2009. Unfortunately this didn't help in Sept. - Nov. 2008.

507 unfilled gaps down Thursday is a huge number and frequently marks a short-term bottom.

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Our statistics of supply (red) versus demand shows sellers continuing to overpower buyers. Interestingly, buying stats have stayed at a decent level, implying that if the sellers become tired equities could have a decent bounce.

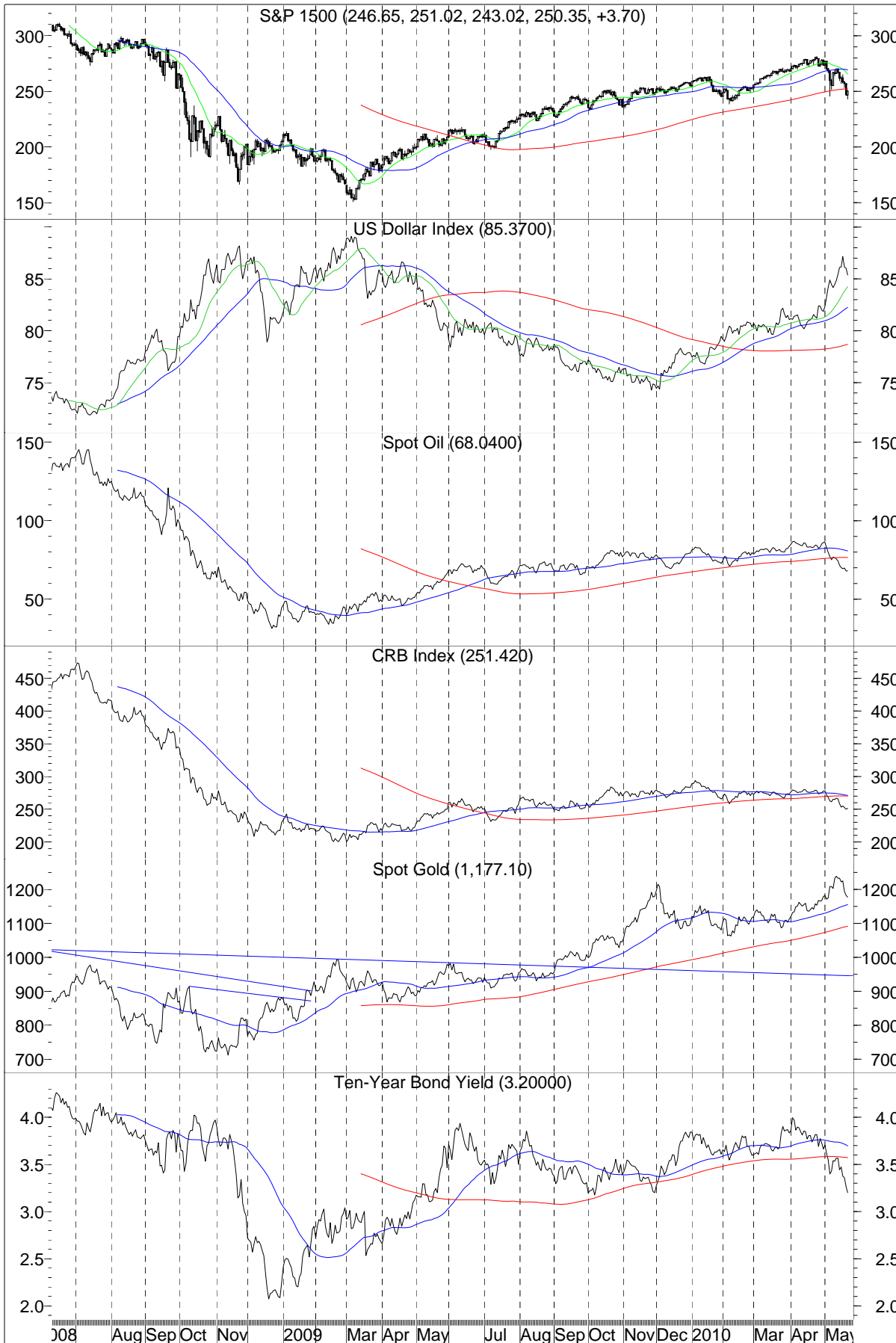


10-year bond yields hit the lowest levels since May 2009. They are oversold on a daily but not yet on a weekly basis.

P/E ratios have been dropping with the forward P/E at its lowest level since 3/31/2009.

Spreads between equity and bond yields continue to widen and are at levels where equities should be extremely attractive.

With earnings season essentially over earnings metrics are flat lining. They won't change too much until mid-June at the earliest and more likely July earnings season.



Last week we said that in spite of being overbought on a daily and weekly basis the U.S. Dollar continued to power higher but the trade was too one-sided. It moved higher before peaking Wednesday in a reversal day. It hit the highest level since March 2009. It is coming down from the overbought zone on a daily basis but is still overbought on a weekly basis, where a bearish shooting star candle has been printed.

Oil hit its lowest level since September 2009. It is oversold on a daily basis but not fully on the weekly chart. The dollar/crude and dollar/gold ratios remain at levels where crude has rallied in the past. It is below all important moving averages, with support at 65.5.

Last week we said gold was overbought and sentiment was too bullish, and at some point the short-term spike would end with a sharp drop. After hitting 1249.40 on 5/14 gold dropped to 1166.30 on 5/21. It is no longer overbought and sentiment is far less bullish, and maybe short-term bearish. If so a rally would be possible. The 50-sma is at 1155.72 and should be support.