

Monday January 17, 2011

Closing prices of January 14, 2011

Stocks continued their strong start to the year as they shrugged off potentially negative news from Europe regarding sovereign debt and vaulted to new highs. Investors gained confidence as European bond auctions proceeded successfully, with the Spanish ETF, EWP, rocketing 13.16% on the week. The S&P 500 was up 1.71% for the week, with the S&P Midcap Index up 2.26% and the S&P Smallcaps up 2.4%. We like to see smaller caps leading as it shows plenty of liquidity and the willingness of investors to assume risk. **For those who still argue that this bull market is a cyclical bull in a secular bear market, we would like to point out that the S&P Midcap Index just made a new all-time high! In addition, the Nasdaq 100 recorded its best weekly close since February 2001.**

Equities have moved inexorably higher in spite of the near-unanimous opinion since the latter part of December that a pullback was imminent. This clock watching has continued along with reports of all kinds of statistics that highlight how long in the tooth this rally is, such as the Dow Jones Industrials not having a one-percent daily loss since before Thanksgiving. Obviously at some point a meaningful drop will occur, but at this point and time fourth quarter earnings season is front and center and continued good earnings reports could keep the rally going.

**The reason for the lack of volatility is that sellers still remain on the sidelines.** This is evidenced by the tiny amount of 13-week closing lows we continue to record. How much longer the current rally can go will be based on the earnings season we are now in. We have been saying for quite a while that we were hoping for a replay of January 2010, when aggregate reported and projected earnings jumped up dramatically. So far projections are following that script, and over the next few weeks we will see if they move even higher and reported numbers follow suit. If so, equity valuations will be compelling. Based on the spread between 10-year bond yields and earnings yields valuations were back at the level of early December at the close Friday. A strong earnings season could make these numbers even better and push equities higher.

The recent move higher of interest rates has the potential to change this picture, as could the possible rise in other cost inputs. This earnings season will give us an idea if company profit margins are starting to be pressured and forecasts in jeopardy. If not, it will be difficult to argue that equities are overvalued. Currently S&P 500 projected earnings for 2011 are in the \$95 range. **A conservative 14 P/E using \$95 puts the S&P 500 at 1330. The current S&P 500 P/E is 16.06. A 15 P/E on \$95 would put the index at 1425.** Should first quarter earnings season follow the recent trend and beat estimates handily, those numbers will move higher. Based on current trends this possibility seems reasonable. Estimates for 2012 are now in the \$107 range, projecting earnings growth of 12.6%.

We are not perma-bulls. We are aware that last quarter 19% of the S&P 500 had worse than expected earnings, the highest percentage since 19.1% in Q2 2009. The 70.7% that beat estimates, a respectable number, was still the lowest since Q1 2009. Therefore, in spite of our opinion that this bull market still has a ways to go, we are watchful for anything that will change the current positive outlook.

We remain in a period of positive seasonality for equities. **November through January is historically the best three-month period of the year. As far as the presidential cycle, we have left year two and entered year three. Since 1939 the Dow Jones Industrial Average has not had a single down year three, with the average gain being 16.6%. In addition, based on the S&P 500 since 1914, from the low of year two to the high of year three the average move has been 49.2%. Through the last seven presidential cycles since 1982, the average low-to-high move has been 50.06%. From this year's S&P 500 low of 1010 that would equate to a move to 1500 sometime in 2011. We are not forecasting that, just highlighting that it is difficult to be bearish in the face of such strong historical patterns.**

**Based on the S&P 500 the short-term, intermediate-term, and long-term trends are up. Pullbacks that are without intensity should be viewed as entry points for investors. Investors need to be alert for sector rotation as earnings reports come in.**

## IMPORTANT DISCLOSURES

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S&P 500 Cash (1,293.09, 1,293.24, 1,293.09, 1,293.24, +0.25)



Another closing and intra-day high for the S&P 500 Friday.

30-minute momentum indicators are overbought.

S&P 500 Cash (1,282.90, 1,293.24, 1,281.24, 1,293.24, +9.48)



The beautiful, steady up trend of the S&P 500 is evident on the daily chart. The length of time this low volatility move has been in effect with only the slightest pullbacks is unusual.

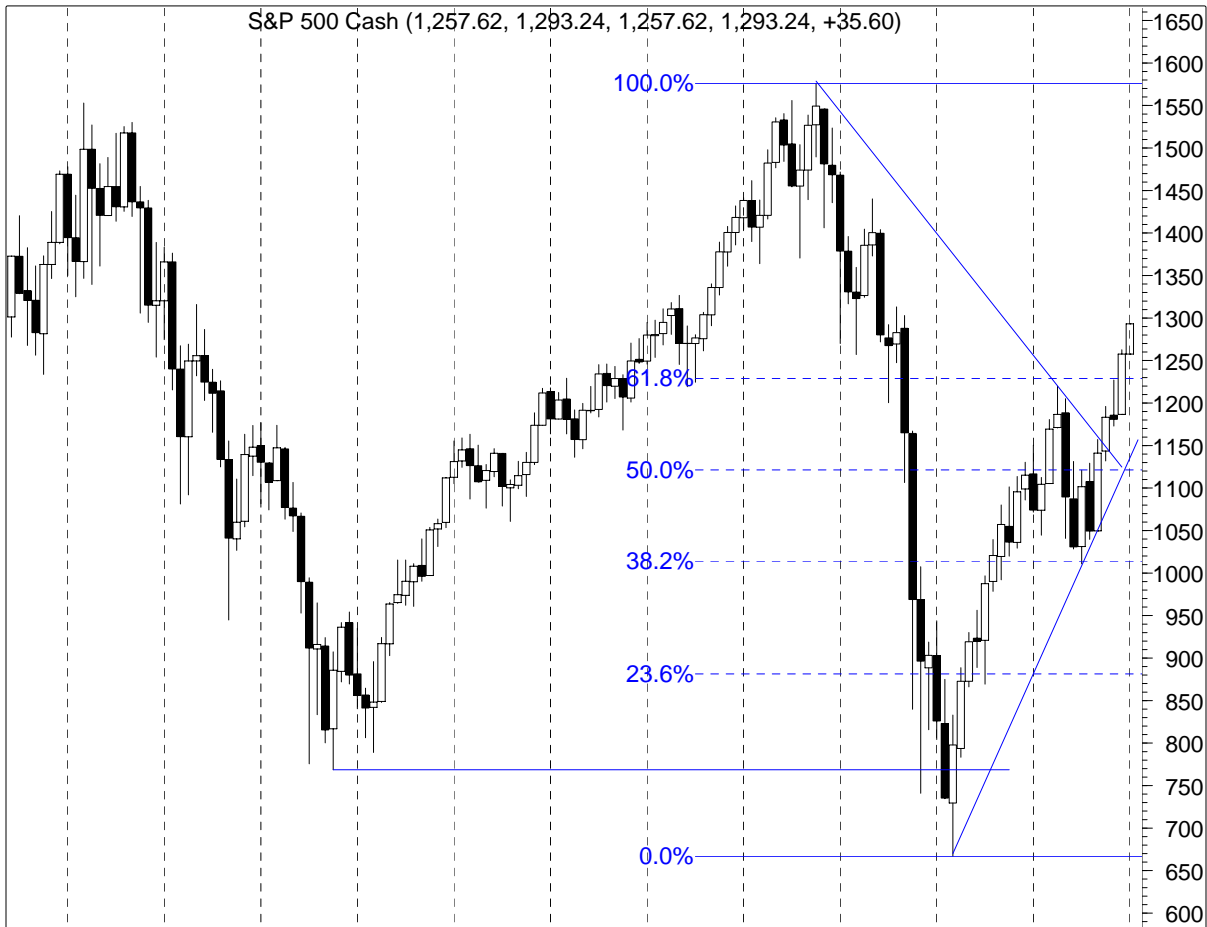
Daily momentum indicators are overbought.



The weekly chart of the S&P 500 printed its best weekly close since 8/15/2008. It is nearing round number resistance at 1300 and old price resistance at 1313 from 2008. We don't give too much weight to very old resistance levels, but some might.

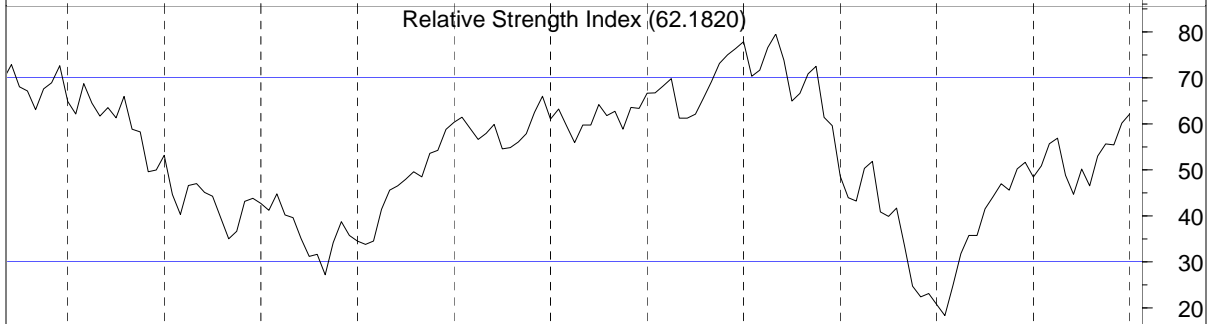
Weekly momentum indicators are at overbought levels with the RSI having surpassed the level seen at the April top.

S&P 500 Cash (1,257.62, 1,293.24, 1,257.62, 1,293.24, +35.60)



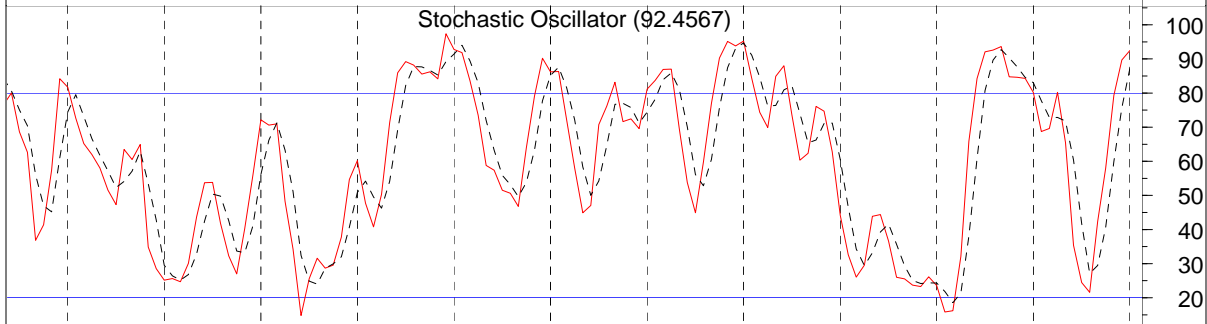
The monthly chart of the S&P 500 shows it surpassed the Fibonacci 61.8% retracement of the recent bear market. The next important level is 1361.50, which is the 76.4% retracement.

Relative Strength Index (62.1820)

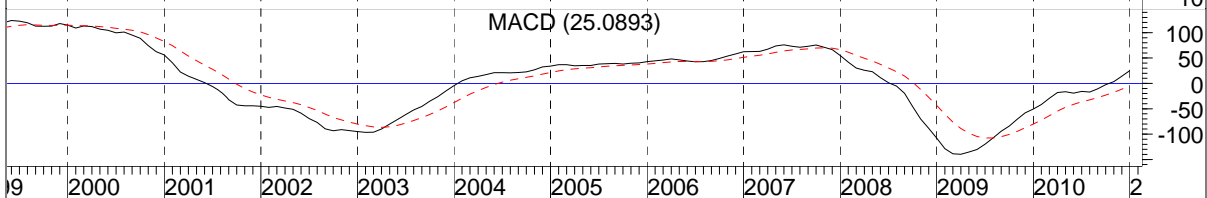


Monthly momentum indicators show only the stochastic at overbought levels. The RSI and MACD still have plenty of room to move higher. Ahead of the April correction the RSI had an obvious negative divergence after a negative crossover, neither of which is present at this time.

Stochastic Oscillator (92.4567)



MACD (25.0893)



NASDAQ 100 (2,304.37, 2,323.43, 2,300.25, 2,323.43, +17.90)



Another closing and intra-day high for the Nasdaq 100 on Friday. Since December 1st it has tested the 20-sma only once.

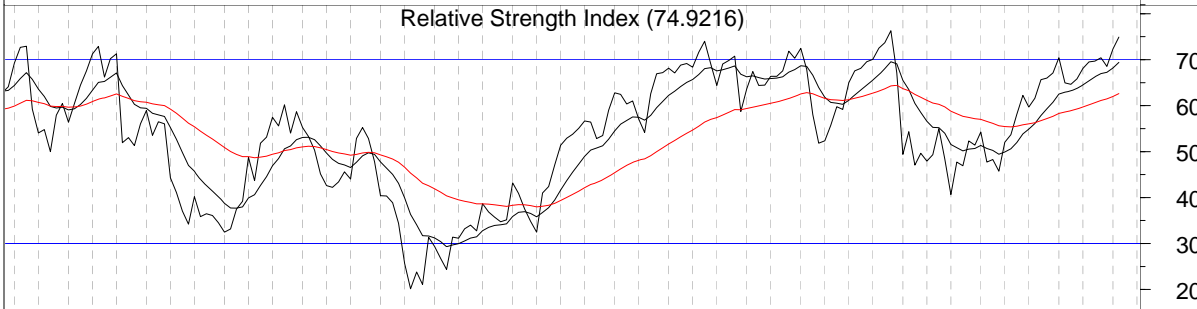
Daily momentum indicators are overbought.

NASDAQ 100 (2,270.65, 2,323.43, 2,265.00, 2,323.43, +46.73)



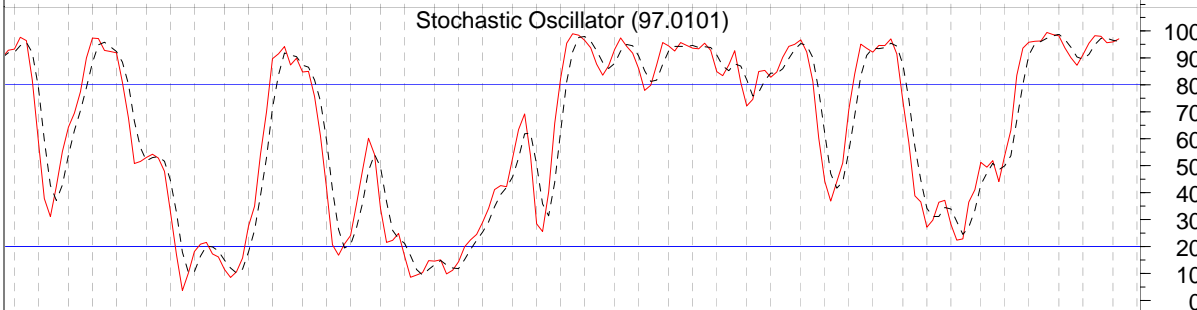
The weekly chart of the Nasdaq 100 shows it followed through to the upside after taking out the 2008 highs. This was the best weekly close since 2/2/2001.

Relative Strength Index (74.9216)

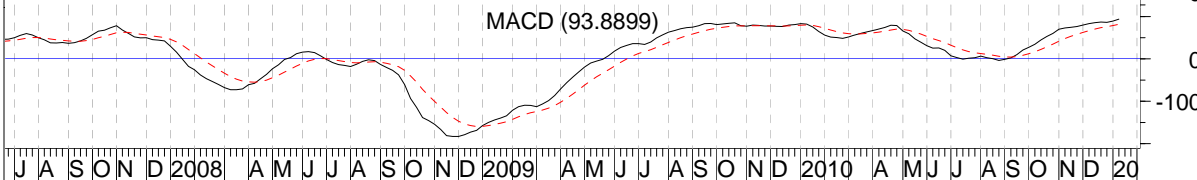


Weekly momentum levels are at high or overbought levels.

Stochastic Oscillator (97.0101)



MACD (93.8899)



J A S O N D 2008 A M J J A S O N D 2009 A M J J A S O N D 2010 A M J J A S O N D 2011

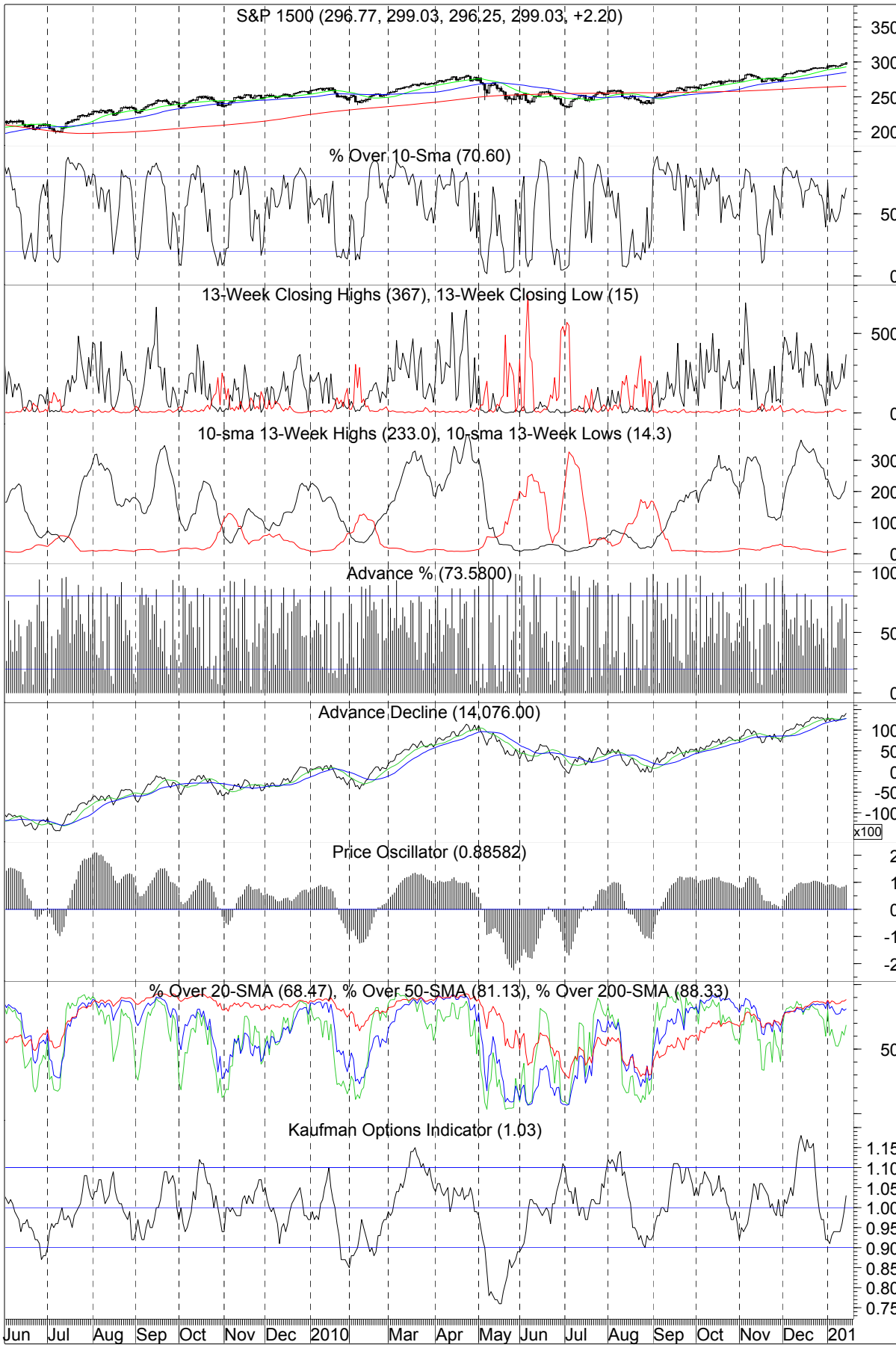


The monthly chart of the Nasdaq 100 shows it is just under the 38.2% Fibonacci retracement level of the 2000 - 2002 bear market. That level is at 2331.31.

Of the monthly momentum indicators only the stochastic is overbought.



The Kaufman Report - Wayne S. Kaufman, CMT



The percent over 10-sma is not overbought and the indexes have ignored a persistent negative divergence in this indicator.

13-week closing highs have also shown a negative divergence, but more important has been the lack of sellers evidenced by the sparse number of new closing lows.

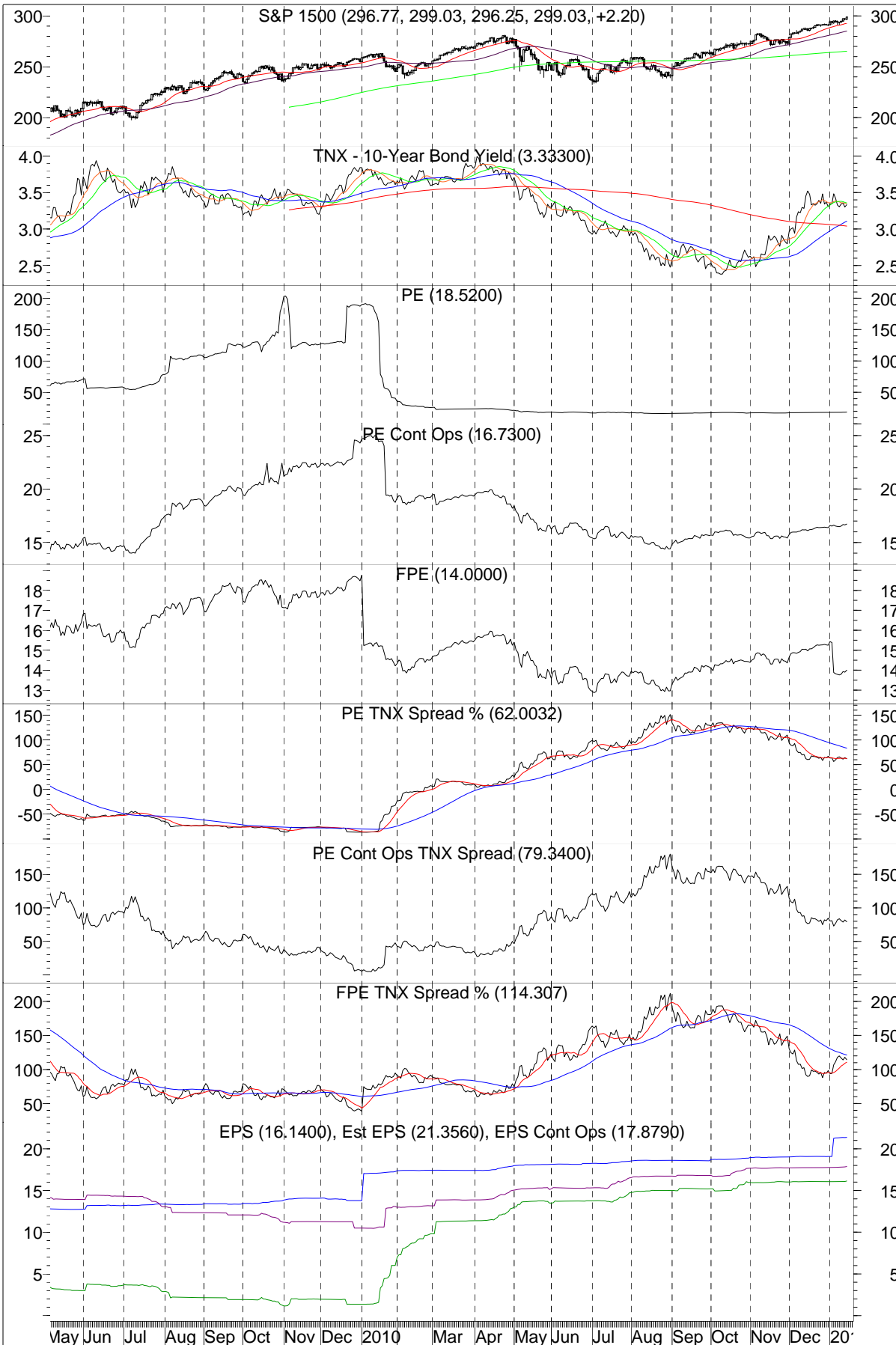
Daily market breadth has been good but not extremely strong.

The AD line, a leading indicator, made a new high Friday confirming the index high.

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

88.33% of the S&P 1500 are over their own 200-sma, the most since 5/3/10. The April peak was 92.8% on 4/23.

After hitting a pessimistic 0.91 on 1/4 options buyers have been buying calls pushing our proprietary options indicator to 1.03. While not showing extreme optimism we still prefer when it is under 1.00 and showing pessimism.



10-year bond yields have been consolidating in a tight range. It dipped below its 20-sma, but there is a "golden cross" on the chart, with the 50-sma crossing over the 200. An upside breakout of the range projects much higher yields.

P/E ratios have been steady but the forward P/E, based on earnings projections, dropped dramatically as earnings forecasts have been ratcheted higher.

Spreads between equity and bond yields are in a tight range while the spread based on the forward P/E is widening again. It is at about the same level as on 12/7/10. Overall spreads are at levels where stocks should be attractive versus bonds.

We have been saying for quite a while that we were hoping for a replay of January 2010 when earnings and projections made a sharp move higher. Projections have begun that move, and hopefully reported numbers will also as earnings season unfolds over the next few weeks.

## 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	144.16	0.55%	3.74%	3.74%	2.88%	2.88%	2.88%	144.22	2011-01-13	109.79	2010-05-25
NYSE Composite	8174.12	0.67%	2.43%	2.43%	2.64%	2.64%	2.64%	8174.12	2011-01-14	6355.83	2010-07-01
S&P Smallcap 600	426.04	0.95%	2.40%	2.40%	2.48%	2.48%	2.48%	426.29	2011-01-14	309.16	2010-02-05
S&P Midcap 400	931.07	0.71%	2.26%	2.26%	2.63%	2.63%	2.63%	931.07	2011-01-14	681.91	2010-02-05
Nasdaq 100	2323.43	0.78%	2.05%	2.05%	4.76%	4.76%	4.76%	2323.43	2011-01-14	1700.04	2010-07-01
Nasdaq Composite	2755.30	0.73%	1.93%	1.93%	3.86%	3.86%	3.86%	2755.30	2011-01-14	2061.14	2010-07-01
S&P 500	1293.24	0.74%	1.71%	1.71%	2.83%	2.83%	2.83%	1293.24	2011-01-14	1010.91	2010-07-01
S&P 1500	298.54	0.58%	1.61%	1.61%	2.63%	2.63%	2.63%	299.03	2011-01-14	232.54	2010-07-01
Dow Jones Industrials	11787.38	0.47%	0.96%	0.96%	1.81%	1.81%	1.81%	11794.15	2011-01-14	9614.32	2010-07-02

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Energy	526.08	1.15%	3.33%	3.33%	3.81%	3.81%	3.81%	526.21	2011-01-14	365.74	2010-07-01
Financials	225.42	1.73%	3.23%	3.23%	4.96%	4.96%	4.96%	230.45	2010-04-15	178.83	2010-08-25
Information Technology	423.76	0.93%	2.03%	2.03%	4.75%	4.75%	4.75%	423.76	2011-01-14	323.47	2010-07-01
Industrials	310.19	0.47%	1.84%	1.84%	3.01%	3.01%	3.01%	310.36	2011-01-14	232.54	2010-07-06
Materials	241.34	0.12%	1.08%	1.08%	0.72%	0.72%	0.72%	243.56	2011-01-03	168.44	2010-07-01
Consumer Staples	303.57	-0.04%	0.98%	0.98%	0.00%	0.00%	0.00%	305.42	2010-12-21	260.65	2010-07-01
Consumer Discretionary	299.55	0.63%	0.65%	0.65%	1.36%	1.36%	1.36%	300.46	2011-01-03	222.51	2010-02-05
Utilities	161.33	0.43%	0.48%	0.48%	1.25%	1.25%	1.25%	164.42	2010-10-20	138.57	2010-05-25
Health Care	372.23	0.09%	0.23%	0.23%	2.04%	2.04%	2.04%	384.95	2010-01-20	318.89	2010-07-01
Telecom Services	125.71	0.08%	-1.55%	-1.55%	-2.35%	-2.35%	-2.35%	132.76	2011-01-05	98.67	2010-05-06

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Semiconductors & Equipment	357.64	1.48%	4.71%	4.71%	5.91%	5.91%	5.91%	357.76	2011-01-14	262.69	2010-08-31
Diversified Financials	361.16	1.91%	4.26%	4.26%	7.68%	7.68%	7.68%	382.07	2010-04-15	278.07	2010-08-31
Banks	154.84	2.66%	3.57%	3.57%	4.06%	4.06%	4.06%	165.92	2010-04-21	115.69	2010-08-31
Health Care Equip & Services	377.07	0.79%	3.40%	3.40%	5.00%	5.00%	5.00%	377.43	2011-01-14	296.30	2010-08-31
Energy	526.08	1.15%	3.33%	3.33%	3.81%	3.81%	3.81%	526.21	2011-01-14	365.74	2010-07-01
Technology Hardware & Equipmen	463.89	0.92%	2.61%	2.61%	6.71%	6.71%	6.71%	463.90	2011-01-14	350.49	2010-08-27
Real Estate	122.88	1.02%	2.06%	2.06%	1.91%	1.91%	1.91%	123.44	2010-11-05	84.72	2010-02-10
Capital Goods	334.09	0.53%	1.93%	1.93%	3.24%	3.24%	3.24%	334.30	2011-01-14	250.06	2010-07-06
Commercial & Professional Service	146.62	0.94%	1.70%	1.70%	0.75%	0.75%	0.75%	146.62	2011-01-14	122.63	2010-06-08
Retailing	507.31	0.70%	1.50%	1.50%	-0.21%	-0.21%	-0.21%	516.57	2011-01-03	379.61	2010-07-01
Transportation	339.63	0.04%	1.47%	1.47%	2.72%	2.72%	2.72%	341.27	2011-01-14	239.94	2010-02-05
Food & Staples Retailing	198.56	0.19%	1.42%	1.42%	1.46%	1.46%	1.46%	199.30	2011-01-12	162.45	2010-07-01
Insurance	191.23	0.88%	1.36%	1.36%	1.60%	1.60%	1.60%	191.30	2011-01-06	156.79	2010-05-25
Consumer Durables & Apparel	167.81	1.01%	1.33%	1.33%	-0.44%	-0.44%	-0.44%	174.61	2010-12-22	124.75	2010-02-05
Automobiles & Components	128.93	-0.02%	1.31%	1.31%	9.12%	9.12%	9.12%	130.31	2011-01-13	74.25	2010-06-29
Household & Personal Products	382.35	0.05%	1.26%	1.26%	1.10%	1.10%	1.10%	383.05	2010-03-23	339.42	2010-05-06
Materials	241.34	0.12%	1.08%	1.08%	0.72%	0.72%	0.72%	243.56	2011-01-03	168.44	2010-07-01
Software & Services	541.25	0.78%	0.80%	0.80%	2.82%	2.82%	2.82%	541.25	2011-01-14	410.27	2010-07-01
Food, Beverage & Tobacco	348.76	-0.17%	0.69%	0.69%	-1.04%	-1.04%	-1.04%	356.38	2010-12-20	293.85	2010-02-05
Utilities	161.33	0.43%	0.48%	0.48%	1.25%	1.25%	1.25%	164.42	2010-10-20	138.57	2010-05-25
Consumer Services	468.35	1.19%	0.19%	0.19%	0.13%	0.13%	0.13%	479.39	2010-12-07	363.27	2010-02-05
Media	203.05	0.30%	-0.48%	-0.48%	2.40%	2.40%	2.40%	204.87	2011-01-05	150.49	2010-02-05
Pharmaceuticals, Biotech & Life Sci	339.59	-0.26%	-1.32%	-1.32%	0.59%	0.59%	0.59%	359.71	2010-01-20	299.26	2010-07-01
Telecom Services	125.71	0.08%	-1.55%	-1.55%	-2.35%	-2.35%	-2.35%	132.76	2011-01-05	98.67	2010-05-06

**INTERNATIONAL ETFs**

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Spain EWP	39.03	1.53%	13.16%	6.23%	6.23%	6.23%	49.81	2010-01-14	29.85	2010-06-08
Italy EWI	17.46	2.34%	8.25%	6.59%	6.59%	6.59%	20.45	2010-01-14	13.21	2010-06-07
Vietnam VNM	27.98	1.89%	6.92%	6.88%	6.88%	6.88%	30.34	2010-12-13	21.81	2010-08-25
France EWQ	25.40	1.32%	6.72%	3.89%	3.89%	3.89%	27.08	2010-01-14	19.24	2010-05-25
Netherlands EWN	21.46	1.51%	6.43%	1.75%	1.75%	1.75%	21.75	2010-11-04	16.64	2010-05-25
Sweden EWD	32.01	1.81%	6.17%	2.50%	2.50%	2.50%	32.02	2011-01-14	19.00	2010-05-06
Germany EWG	24.63	0.94%	5.53%	2.88%	2.88%	2.88%	24.92	2010-11-04	17.97	2010-05-25
Russia RSX	39.90	0.58%	4.83%	5.25%	5.25%	5.25%	40.12	2011-01-12	26.06	2010-05-25
Taiwan EWT	15.71	0.06%	4.18%	0.58%	0.58%	0.58%	15.80	2011-01-03	10.81	2010-06-08
Belgium EWK	13.27	0.61%	4.16%	1.07%	1.07%	1.07%	14.52	2010-11-04	8.93	2010-05-06
Austria EWO	21.98	0.65%	3.14%	-1.57%	-1.57%	-1.57%	22.63	2011-01-04	14.91	2010-06-08
United Kingdom EWU	17.78	0.74%	3.13%	2.36%	2.36%	2.36%	17.95	2010-11-04	13.25	2010-05-25
China 25 FXI	44.55	-0.02%	2.06%	3.39%	3.39%	3.39%	47.99	2010-11-08	36.24	2010-05-06
Australia EWA	24.89	0.04%	1.92%	-2.16%	-2.16%	-2.16%	26.36	2010-01-14	18.26	2010-05-25
South Korea EWY	62.98	1.03%	1.84%	2.93%	2.93%	2.93%	63.06	2011-01-14	40.65	2010-05-25
Brazil EWZ	77.40	0.00%	1.74%	0.00%	0.00%	0.00%	81.55	2010-11-04	57.03	2010-05-25
BRIC EEB	46.41	-0.30%	1.69%	0.59%	0.59%	0.59%	48.27	2010-11-09	23.23	2010-05-06
Chile ECH	74.40	-0.13%	1.53%	-6.53%	-6.53%	-6.53%	80.35	2010-12-20	27.26	2010-05-06
Canada EWC	31.32	0.26%	1.52%	1.03%	1.03%	1.03%	31.66	2011-01-03	22.75	2010-05-06
Japan EWJ	11.15	-0.04%	1.48%	2.15%	2.15%	2.15%	11.25	2011-01-13	9.15	2010-06-07
Emerging Markets EEM	47.93	0.29%	1.44%	0.60%	0.60%	0.60%	48.59	2010-11-09	35.19	2010-05-25
Switzerland EWL	24.55	0.61%	1.36%	-2.11%	-2.11%	-2.11%	25.25	2011-01-03	18.70	2010-05-25
Latin America ILF	53.75	0.17%	1.36%	-0.20%	-0.20%	-0.20%	54.83	2010-11-05	39.18	2010-05-25
Malaysia EWM	14.89	-0.13%	0.80%	3.55%	3.55%	3.55%	14.98	2011-01-13	10.18	2010-02-05
Hong Kong EWH	19.93	0.40%	0.66%	5.34%	5.34%	5.34%	20.24	2010-11-08	14.08	2010-05-21
Israel EIS	61.19	0.23%	0.56%	1.11%	1.11%	1.11%	61.62	2011-01-12	45.00	2010-05-06
Turkey TUR	67.15	-1.00%	0.54%	1.42%	1.42%	1.42%	79.00	2010-11-09	44.40	2010-05-06
South Africa EZA	71.72	0.07%	0.39%	-3.96%	-3.96%	-3.96%	75.27	2011-01-03	23.00	2010-05-06
Mexico EWW	62.76	0.50%	0.21%	1.36%	1.36%	1.36%	63.10	2011-01-06	44.70	2010-02-05
Singapore EWS	13.92	-0.36%	0.14%	0.51%	0.51%	0.51%	14.56	2010-11-09	10.37	2010-02-05
Thailand THD	64.34	-0.20%	-0.11%	-0.42%	-0.42%	-0.42%	68.70	2010-11-09	37.65	2010-02-05
Indonesia IDX	82.04	0.01%	-3.05%	-6.04%	-6.04%	-6.04%	93.14	2010-11-09	59.19	2010-05-25
India IFN	31.84	-1.36%	-4.47%	-9.31%	-9.31%	-9.31%	36.88	2010-11-08	23.97	2010-05-25