

Monday November 15, 2010

Closing prices of November 12, 2010

It was a tough sledding for markets last week as overbought and overbullish conditions, renewed fears of sovereign debt problems, and a potential Chinese interest rate increase all conspired to drive prices lower across the board. There was no safe haven as all assets dropped in lockstep with the exception of the universally hated U.S. Dollar. Major U.S. indexes were all down at least 2%, and of the 33 international ETFs we follow all but four were also down at least 2%. The best performer was Japan, down a mere 0.87% on the week.

With the widely anticipated pullback having begun, the question is how far down can we go? We have identified the standard Fibonacci retracements, price supports, and moving average support levels. We have been in the camp of those expecting a shallow pullback, but we are a little concerned with the large amount of investors echoing the same "3 – 5%" mantra. It may take more than that to scare some of the complacency out of investors.

With third quarter earnings season 92% over, upside surprises are no longer a potential catalyst for higher prices. It has been a good reporting season with 460 of the S&P 500 having reported so far. Of those, 71.2% beat analyst estimates, 8.3% came in as expected, and 20.5% missed their numbers according to Bloomberg. This last number is higher than we have seen in recent quarters and about 5% higher than at the same stage of Q2 earnings season, and may be a sign of increasing cost inputs starting to deteriorate some margins.

**In the short-term a further pullback seems likely.** We expect bounces, but momentum indicators are not yet at oversold levels. We are entering options expiration week for November, so continued volatility is to be expected. This would be a logical time for at least a short-term bottom to be made, or at the worst by the start of the following week. The strength of any bounce will tell us if we should become very defensive or look for some end of the year strength.

**We have continually stressed that valuations for equities were very attractive.** They still are, but the recent move higher of interest rates has the potential to change this picture should it continue much longer. Spreads between bond and equity yields remain at levels where stocks are attractive versus bonds. Interestingly, in spite of aggregate current earnings moving higher as companies report, aggregate estimates have barely budged. With Q3 earnings season coming to an end we need to see projections for 2011 to move higher at some point.

We are now 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 will soon be leaving year two and entering 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 very bearish in the face of such strong historical patterns.**

**In the short-term investors need to be cautious as more downside seems likely. Based on the S&P 500 the short, intermediate, and long-term trends are up. Pullbacks that are without intensity should be viewed as entry points for investors. So far this pullback is due more to a lack of continued buying than a big pickup in selling. We will continue to monitor this for a possible change in the tone of the market.**

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The 30-minute chart of the S&P 500 shows a descending triangle which projects down to about 1181. This would be near the Fibonacci 23.6% retracement level of the recent rally off the August low, which would be 1182.86.

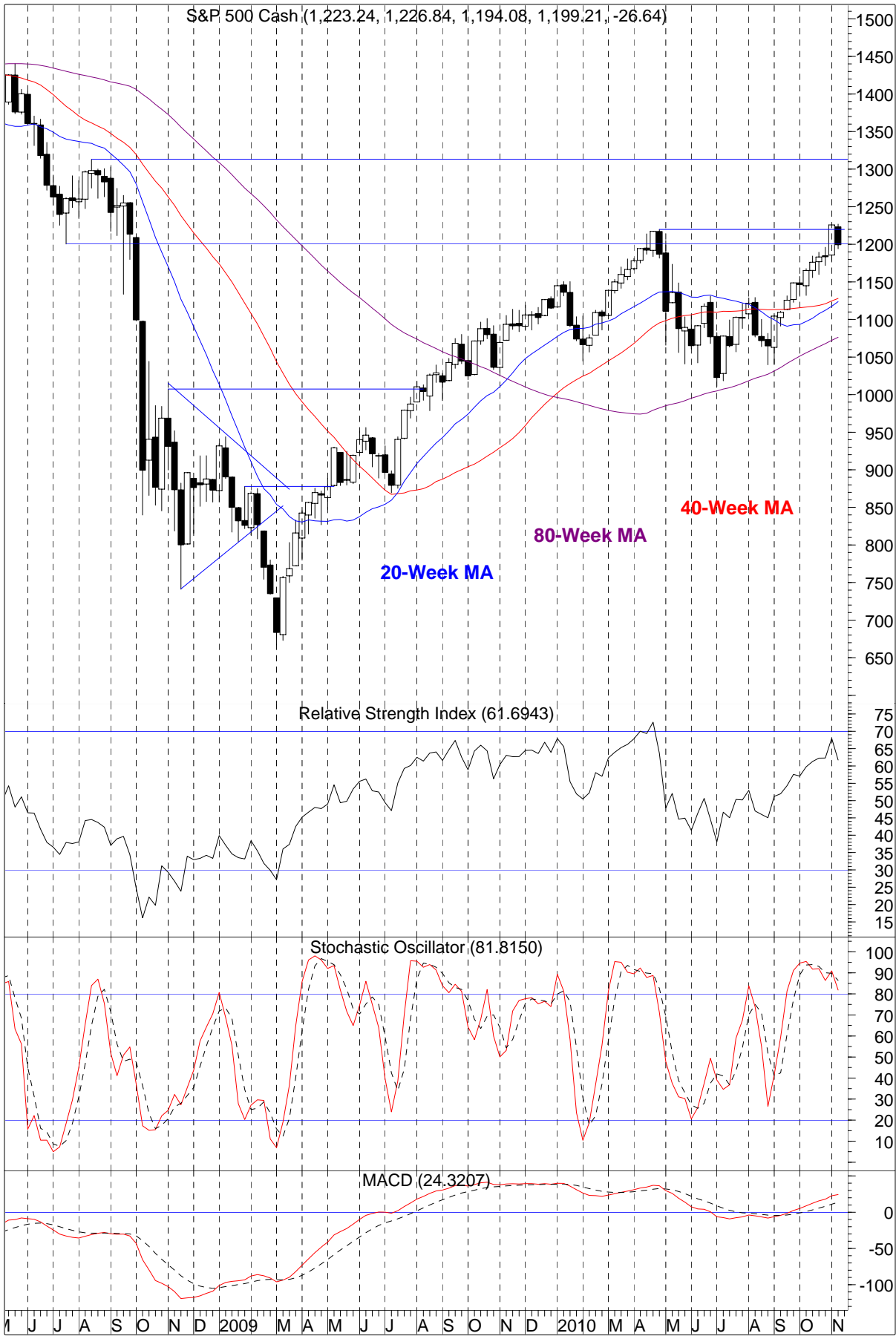
30-minute momentum indicators are at low levels and look ready for a bounce.

S&P 500 Cash (1,209.07, 1,210.50, 1,194.08, 1,199.21, -14.33)



The S&P 500 bounced off its 20-sma on Friday.

Daily momentum indicators are pointing down, although the RSI and stochastic are at levels where they have bounced recently.



The weekly chart of the S&P 500 shows it has run into resistance at the area of the April top.

Weekly momentum indicators remain at high levels. The stochastic is showing a negative crossover.

The Kaufman Report - Wayne S. Kaufman, CMT



November is only half finished, but the monthly candle so far is printing a shooting star, which would be bearish if it ends that way.

Monthly momentum indicators are not yet overbought.

NASDAQ 100 (2,161.66, 2,171.23, 2,122.42, 2,137.95, -35.16)

The Nasdaq 100 has dropped sharply after Tuesday's bearish engulfing candle.



Daily momentum indicators seem headed lower with plenty of room to drop.

NASDAQ 100 (2,179.70, 2,200.16, 2,122.42, 2,137.95, -48.76)



The Nasdaq 100 had a key reversal on the weekly chart, where a new high is made but the index closed lower for the week.

Weekly momentum indicators remain at high levels but look vulnerable.

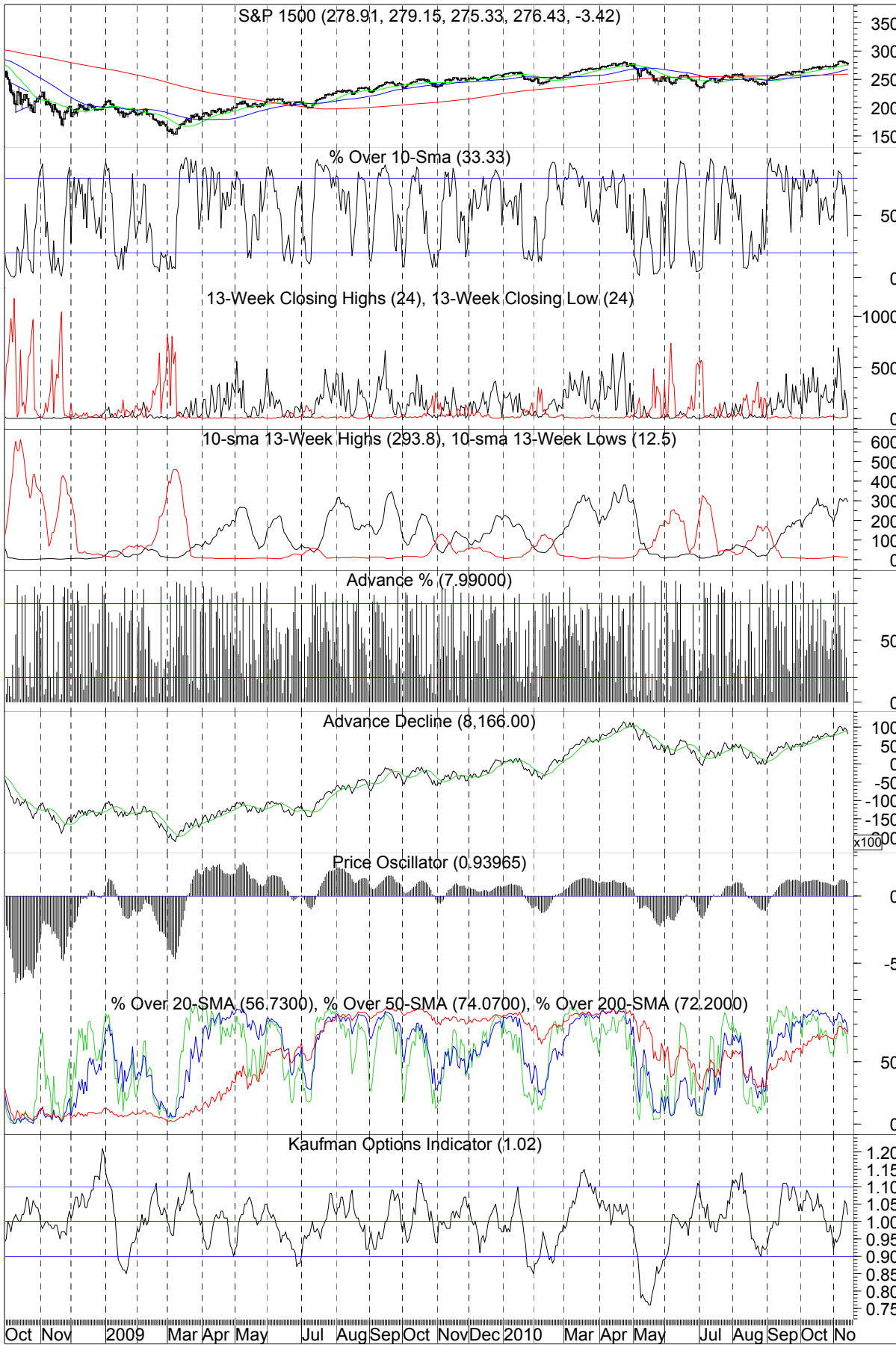
NASDAQ 100 (2,135.57, 2,200.16, 2,117.59, 2,137.95, +13.50)



The monthly chart of the S&P 500 shows it is running into resistance as it nears the 2007 highs.

Monthly momentum indicators are still at high levels with negative divergences developing.





At 33.33% the percent over 10-sma is the lowest since 28.87% on 8/31/10.

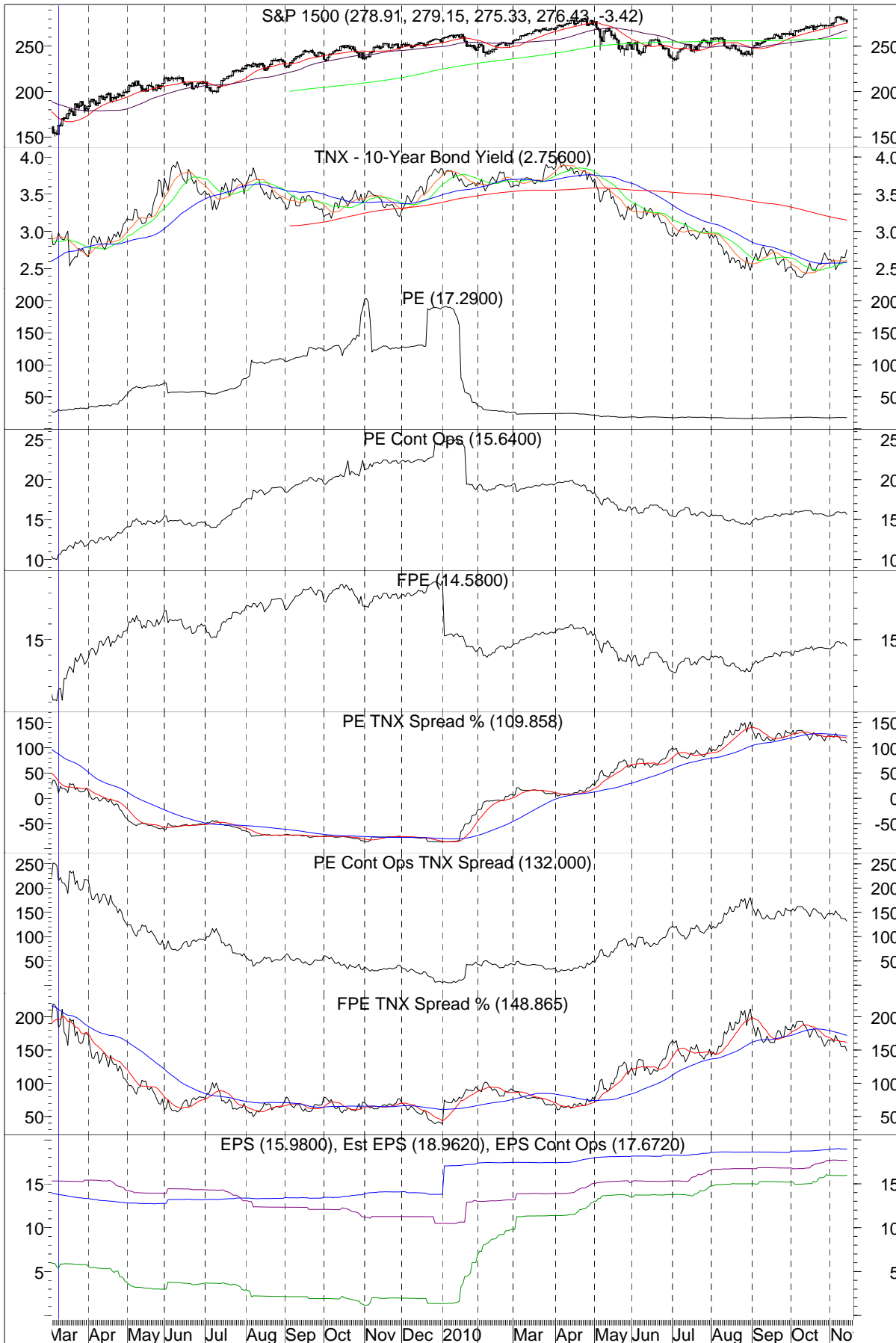
After printing 692 13-week closing highs on 11/4 new highs are drying up. New lows are not yet expanding greatly.

Only 7.99% of the S&P 1500 advanced Friday, the first 90% down day since 10/19.

The AD line is below its 10-day moving average.

Our price oscillator is still in positive territory.

Options buyers became bullish last week driving our proprietary options indicator up to 1.06 on Wednesday. A move back towards pessimism would help stocks make a bottom.



10-year bond yields are breaking out of their recent range. There is some resistance just above but they are not yet overbought on a daily or weekly basis. A continued move higher will be a headwind for equity prices.

P/E ratios remain in their recent ranges, but seem headed lower.

Spreads between equity and bond yields are narrowing as bond yields vault higher.

Reported and forecast earnings are flat lining. With earnings season 92% over this may not change for a while. In January these numbers took a big jump up, and that would certainly help stocks if it is replayed in 2011. Unfortunately more stocks are now missing estimates than in prior quarters.

## Indexes, Sectors, and Industry Groups

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
S&P Midcap 400	843.87	-1.48%	-2.00%	-2.00%	1.78%	5.21%	16.13%	863.66	11/9/2010	676.73	11/30/2009
S&P Smallcap 600	383.19	-2.02%	-2.04%	-2.04%	2.58%	6.87%	15.20%	396.63	4/26/2010	300.43	11/30/2009
S&P 1500	276.42	-1.23%	-2.16%	-2.16%	1.42%	5.15%	8.49%	282.73	11/5/2010	232.54	7/1/2010
S&P 500	1199.21	-1.18%	-2.17%	-2.17%	1.35%	5.08%	7.54%	1227.08	11/5/2010	1010.91	7/1/2010
Dow Jones Industrials	11192.58	-0.80%	-2.20%	-2.20%	0.67%	3.75%	7.33%	11451.53	11/5/2010	9614.32	7/2/2010
Nasdaq 100	2137.95	-1.62%	-2.23%	-2.23%	0.64%	7.00%	14.92%	2200.16	11/9/2010	1700.04	7/1/2010
NYSE Composite	7623.29	-1.29%	-2.27%	-2.27%	1.46%	4.70%	6.10%	7817.25	11/5/2010	6355.83	7/1/2010
Nasdaq Composite	2518.21	-1.46%	-2.36%	-2.36%	0.43%	6.32%	10.98%	2592.94	11/9/2010	2061.14	7/1/2010
Bank of New York Mellon ADR	137.75	-1.30%	-3.12%	-3.12%	0.41%	3.86%	1.03%	142.74	11/4/2010	109.79	5/25/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Energy	469.56	-1.36%	0.95%	0.95%	6.09%	11.99%	9.21%	476.28	11/11/2010	365.74	7/1/2010
Consumer Staples	296.66	-0.32%	-1.28%	-1.28%	0.09%	2.91%	8.15%	301.80	11/4/2010	260.65	7/1/2010
Consumer Discretionary	283.83	-0.96%	-1.29%	-1.29%	2.28%	7.70%	20.74%	288.30	11/11/2010	222.51	2/5/2010
Health Care	358.00	-1.14%	-1.73%	-1.73%	-0.83%	1.20%	-1.17%	384.95	1/20/2010	318.89	7/1/2010
Telecom Services	121.91	-0.88%	-2.08%	-2.08%	0.42%	0.31%	6.34%	125.37	11/4/2010	98.67	5/6/2010
Materials	219.85	-2.19%	-2.21%	-2.21%	2.02%	8.73%	10.03%	227.45	11/9/2010	168.44	7/1/2010
Utilities	158.36	-0.76%	-2.57%	-2.57%	-1.55%	-0.63%	0.23%	164.42	10/20/2010	138.57	5/25/2010
Industrials	279.40	-1.10%	-3.06%	-3.06%	0.57%	3.17%	14.98%	292.21	4/30/2010	232.54	7/6/2010
Information Technology	391.91	-1.39%	-3.17%	-3.17%	0.09%	6.54%	5.72%	407.81	11/9/2010	323.47	7/1/2010
Financials	200.97	-1.53%	-4.03%	-4.03%	2.63%	4.03%	3.71%	230.45	4/15/2010	178.83	8/25/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Energy	469.56	-1.36%	0.95%	0.95%	6.09%	11.99%	9.21%	476.28	11/11/2010	365.74	7/1/2010
Automobiles & Components	113.18	-1.85%	-0.52%	-0.52%	10.46%	25.83%	45.59%	115.60	11/9/2010	69.69	11/13/2009
Health Care Equip & Services	346.30	-1.41%	-0.79%	-0.79%	2.78%	4.43%	-0.26%	371.77	1/20/2010	296.30	8/31/2010
Semiconductors & Equipment	328.63	0.66%	-0.82%	-0.82%	4.45%	10.36%	5.22%	348.04	4/15/2010	262.69	8/31/2010
Media	193.69	0.25%	-0.95%	-0.95%	0.22%	8.64%	18.40%	197.48	11/4/2010	149.13	11/30/2009
Household & Personal Products	373.97	-0.08%	-1.03%	-1.03%	0.20%	3.92%	3.66%	383.05	3/23/2010	339.42	5/6/2010
Food, Beverage & Tobacco	346.23	-0.33%	-1.21%	-1.21%	-0.40%	3.04%	12.97%	351.97	11/4/2010	293.85	2/5/2010
Consumer Durables & Apparel	157.99	-1.13%	-1.49%	-1.49%	2.00%	4.64%	20.51%	164.51	4/26/2010	123.91	12/9/2009
Retailing	478.26	-1.49%	-1.51%	-1.51%	2.54%	4.45%	16.33%	499.94	4/26/2010	379.61	7/1/2010
Consumer Services	462.21	-1.43%	-1.63%	-1.63%	2.15%	7.66%	24.76%	471.70	11/5/2010	352.84	12/8/2009
Food & Staples Retailing	186.41	-0.54%	-1.69%	-1.69%	1.26%	1.56%	1.82%	196.37	3/30/2010	162.45	7/1/2010
Transportation	313.88	-0.64%	-2.05%	-2.05%	0.85%	5.00%	23.14%	322.82	11/5/2010	239.94	2/5/2010
Telecom Services	121.91	-0.88%	-2.08%	-2.08%	0.42%	0.31%	6.34%	125.37	11/4/2010	98.67	5/6/2010
Commercial & Professional Service	135.81	-0.57%	-2.10%	-2.10%	-0.61%	0.34%	1.49%	144.95	4/26/2010	122.63	6/8/2010
Pharmaceuticals, Biotech & Life Sci	334.23	-1.00%	-2.21%	-2.21%	-2.56%	-0.36%	-1.62%	359.71	1/20/2010	299.26	7/1/2010
Materials	219.85	-2.19%	-2.21%	-2.21%	2.02%	8.73%	10.03%	227.45	11/9/2010	168.44	7/1/2010
Software & Services	510.91	-1.59%	-2.33%	-2.33%	-0.81%	8.04%	2.88%	526.00	11/9/2010	410.27	7/1/2010
Utilities	158.36	-0.76%	-2.57%	-2.57%	-1.55%	-0.63%	0.23%	164.42	10/20/2010	138.57	5/25/2010
Capital Goods	298.45	-1.25%	-3.38%	-3.38%	0.60%	2.93%	14.27%	318.38	4/30/2010	250.06	7/6/2010
Diversified Financials	313.63	-1.50%	-3.53%	-3.53%	3.86%	4.86%	-2.47%	382.07	4/15/2010	278.07	8/31/2010
Insurance	179.83	-1.21%	-4.08%	-4.08%	0.37%	0.75%	9.12%	189.97	4/26/2010	156.79	5/25/2010
Banks	133.46	-2.25%	-4.70%	-4.70%	3.92%	6.38%	6.47%	165.92	4/21/2010	115.69	8/31/2010
Real Estate	116.69	-1.12%	-4.96%	-4.96%	0.47%	4.61%	23.90%	123.44	11/5/2010	84.72	2/10/2010
Technology Hardware & Equipmen	419.55	-1.85%	-4.97%	-4.97%	-0.26%	3.50%	7.70%	446.70	11/9/2010	350.49	8/27/2010

**INTERNATIONAL ETFs**

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Japan EWJ	10.25	-0.77%	-0.87%	2.30%	3.69%	5.24%	10.71	2010-04-15	9.15	2010-06-07
Chile ECH	77.43	-1.36%	-1.02%	2.10%	4.61%	41.32%	79.82	2010-11-09	27.27	2010-05-06
Indonesia IDX	88.89	-2.71%	-1.70%	-0.03%	2.63%	42.98%	93.14	2010-11-09	56.80	2009-11-27
Mexico EWW	58.35	-1.33%	-1.93%	1.45%	10.12%	19.41%	61.60	2010-05-06	44.71	2010-02-05
South Africa EZA	70.51	-1.71%	-2.06%	4.10%	4.89%	25.98%	72.99	2010-11-09	23.00	2010-05-06
Canada EWC	29.39	-1.90%	-2.07%	1.62%	4.85%	11.62%	30.50	2010-11-09	22.75	2010-05-06
United Kingdom EWU	17.47	-0.63%	-2.18%	2.46%	6.78%	7.84%	17.95	2010-11-04	13.25	2010-05-25
Hong Kong EWH	19.71	-1.30%	-2.33%	5.23%	8.65%	25.86%	20.24	2010-11-08	14.08	2010-05-21
Singapore EWS	13.96	-2.65%	-2.45%	2.35%	5.60%	21.50%	14.56	2010-11-09	10.37	2010-02-05
Taiwan EWT	13.99	-2.37%	-2.91%	0.65%	3.25%	7.86%	14.46	2010-11-05	10.81	2010-06-08
Malaysia EWM	13.92	-1.49%	-2.93%	-1.07%	1.31%	31.07%	14.41	2010-11-05	10.18	2010-02-05
Germany EWG	23.77	-0.22%	-3.26%	-0.26%	8.04%	5.92%	24.92	2010-11-04	17.97	2010-05-25
Switzerland EWL	23.79	-0.71%	-3.41%	1.15%	4.25%	6.87%	24.75	2010-11-05	18.70	2010-05-25
South Korea EWY	55.46	-3.21%	-3.45%	1.97%	3.68%	16.41%	57.88	2010-11-04	40.65	2010-05-25
China 25 FXI	46.02	-3.01%	-3.78%	2.33%	7.48%	8.90%	47.99	2010-11-08	36.24	2010-05-06
Russia RSX	34.80	-2.14%	-3.95%	1.49%	6.98%	11.57%	36.91	2010-04-14	26.06	2010-05-25
Netherlands EWN	20.66	-0.63%	-3.95%	-0.91%	1.67%	0.98%	21.75	2010-11-04	16.64	2010-05-25
Italy EWI	17.18	-0.46%	-3.97%	-4.08%	2.26%	-11.94%	21.03	2009-11-16	13.21	2010-06-07
Spain EWP	39.99	0.33%	-4.05%	-6.87%	-1.62%	-16.76%	52.67	2009-11-25	29.85	2010-06-08
Vietnam VNM	24.21	-2.61%	-4.19%	-2.22%	-0.98%	-5.02%	28.77	2009-11-16	21.81	2010-08-25
Israel EIS	55.39	-1.05%	-4.22%	-2.77%	0.87%	1.82%	60.68	2010-03-26	45.00	2010-05-06
Latin America ILF	52.21	-1.77%	-4.25%	0.17%	3.30%	9.25%	54.87	2010-11-05	39.21	2010-05-25
Emerging Markets EEM	46.41	-2.42%	-4.29%	0.63%	3.66%	11.83%	48.62	2010-11-09	35.21	2010-05-25
Sweden EWD	28.57	-1.69%	-4.35%	-2.16%	-1.38%	21.57%	30.78	2010-11-04	19.00	2010-05-06
BRIC EEB	45.88	-2.59%	-4.40%	0.48%	2.59%	8.05%	48.27	2010-11-09	23.23	2010-05-06
Austria EWO	20.64	0.07%	-4.42%	-2.04%	4.74%	5.52%	22.55	2009-11-18	14.91	2010-06-08
Belgium EWK	13.52	-0.44%	-4.52%	-3.50%	1.81%	5.96%	14.52	2010-11-04	8.93	2010-05-06
France EWQ	24.93	-1.03%	-4.70%	-1.54%	3.92%	-3.56%	27.32	2010-01-11	19.24	2010-05-25
Thailand THD	64.37	-2.53%	-5.23%	1.66%	3.72%	51.49%	68.70	2010-11-09	37.65	2010-02-05
Turkey TUR	74.37	-2.14%	-5.31%	0.51%	6.20%	37.98%	79.00	2010-11-09	44.15	2009-11-27
Brazil EWZ	76.75	-1.55%	-5.43%	-0.38%	-0.26%	2.87%	81.77	2010-11-04	57.18	2010-05-25
India IFN	38.61	-2.87%	-5.44%	1.10%	6.16%	25.77%	40.94	2010-11-08	26.61	2010-05-25
Australia EWA	24.79	-1.94%	-5.63%	1.31%	4.42%	8.54%	26.36	2010-01-11	18.26	2010-05-25