

Monday November 8, 2010

Closing prices of November 5, 2010

The most important week of news in recent memory came and went leaving the rally for stocks intact and bulls solidly in charge. The election went as anticipated, Bernanke and the Fed followed suit, and the only surprise was a better than expected Payrolls Report on Friday. Third quarter earnings season has been successful with 437 of the S&P 500 having reported so far. Of those, 72.5% beat analyst estimates, 7% came in as expected, and 19.5% missed their numbers according to Bloomberg. This last number is higher than we have seen in recent quarters, and may be a sign of increasing cost inputs starting to deteriorate some margins.

For the week the S&P 500 was up 3.6% and along with the Dow Jones Industrials traded at its highest level since September 2008. The Nasdaq 100 is at the highest since November 2007, and is not far from its October 2007 high. Surpassing it would put the Nasdaq 100 at its highest level since February 2001. **On Thursday the S&P 1500 had 692 13-week closing highs, the most since we started keeping this data six years ago.** This rally has been global, as twenty-three of the thirty-three international ETFs we follow have recorded 52-week highs so far in October.

In the short-term a pullback is possible at any time. Negative divergences exist on some indicators, although so far during this rally equities have ignored them when they have appeared. We don't expect any pullbacks to be deep, and our proprietary options indicator is showing some pessimism on the part of options buyers. This is good, as it is too much bullishness that makes markets the most vulnerable.

We have continually stressed that valuations for equities were very attractive. 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. **Should projections follow the trend of current earnings and begin to get ratcheted higher that could certainly be a catalyst for another leg higher for stocks.**

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 careful with entry points. Some indicators have negative divergences, and many momentum indicators are at high or overbought levels. 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.

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S&P 500 Cash (1,225.72, 1,225.85, 1,225.72, 1,225.85, +0.42)



The S&P 500 made another rally high Friday. It exploded higher Thursday after breaking out of a two week consolidation on Wednesday.

30-minute momentum indicators are showing negative divergences, with the MACD showing a negative crossover from a high level.

S&P 500 Cash (1,221.20, 1,227.08, 1,220.29, 1,225.85, +4.79)



The daily chart of the S&P 500 shows it made a 52-week high last week and traded at the highest level since September 2008.

Daily momentum indicators are at very high levels. While this is a sign of strength it also increases the possibility of short-term weakness.



The weekly chart of the S&P 500 shows the weekly closing high. The 20, 40, and 80-week moving averages are all sloping higher.

Weekly momentum indicators are at high levels but have not yet turned down.



It's still early in November but it would take a pullback to below 1186.69 for the S&P 500 not to print a new monthly closing high off the March 2009 bottom.

Monthly momentum indicators still show plenty of room for upside.

NASDAQ 100 (2,188.32, 2,191.24, 2,179.86, 2,186.71, -1.09)



The daily chart of the Nasdaq 100 shows it gapped up Thursday and printed a doji candle, a sign of indecision, Friday. This leaves the index vulnerable to a pullback, and a gap down would create an island reversal, which would be a sign of a short-term top.

Daily momentum indicators remain at high levels.

NASDAQ 100 (2,135.57, 2,193.66, 2,117.59, 2,186.71, +62.26)



The weekly chart of the Nasdaq 100 shows it is not far from its 2007 high.

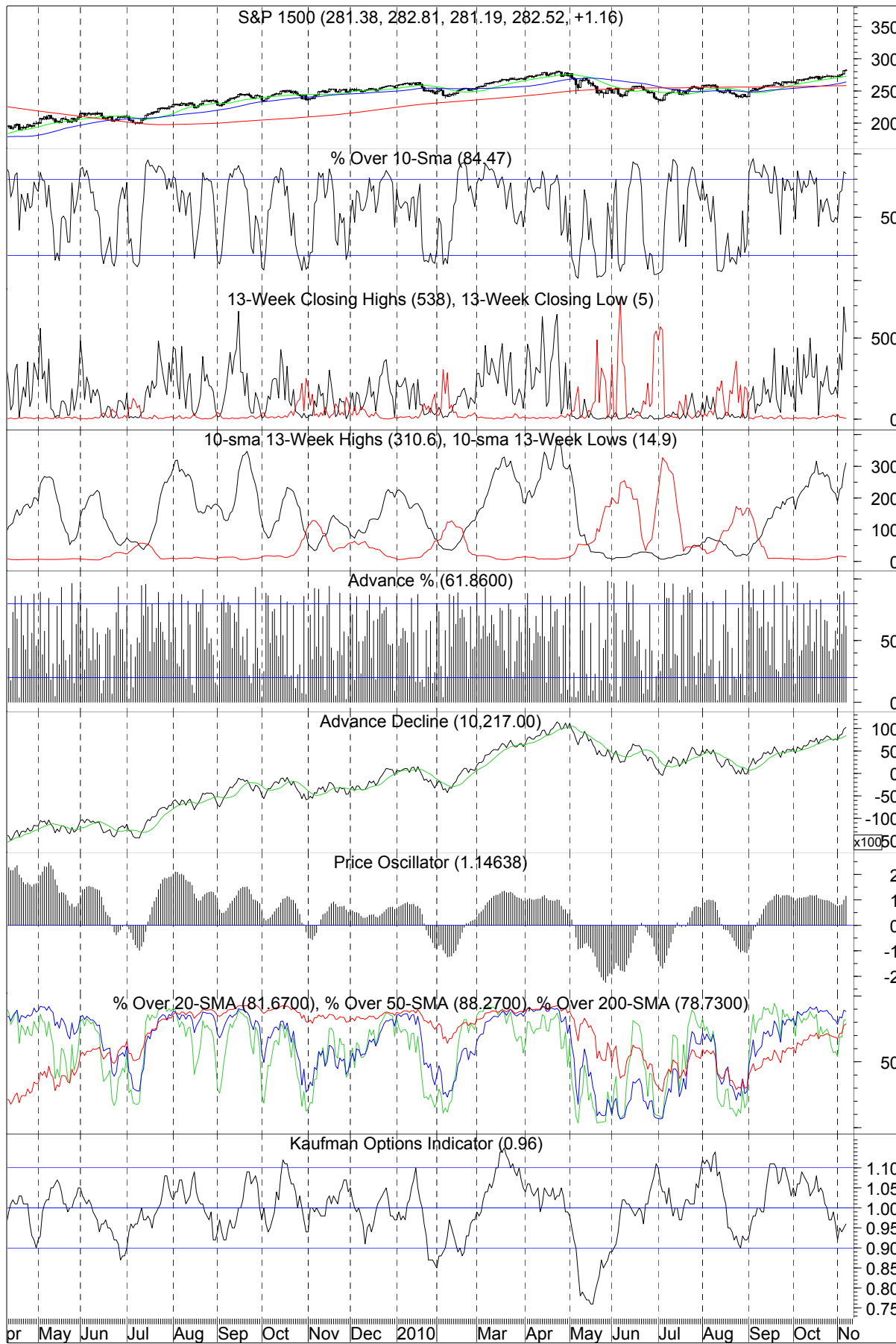
Weekly momentum indicators are at high levels but have not yet turned down.

NASDAQ 100 (2,135.57, 2,193.66, 2,117.59, 2,186.71, +62.26)



The monthly chart of the Nasdaq 100 shows that exceeding the 2007 high would put it at the highest level since 2001.

Monthly momentum indicators still seem to be pointing higher.



84.47% of stocks are over their own 10-sma. This hasn't seen oversold levels since August.

Thursday's 692 13-week closing highs for the S&P 1500 was the most we have recorded in six-years of data.

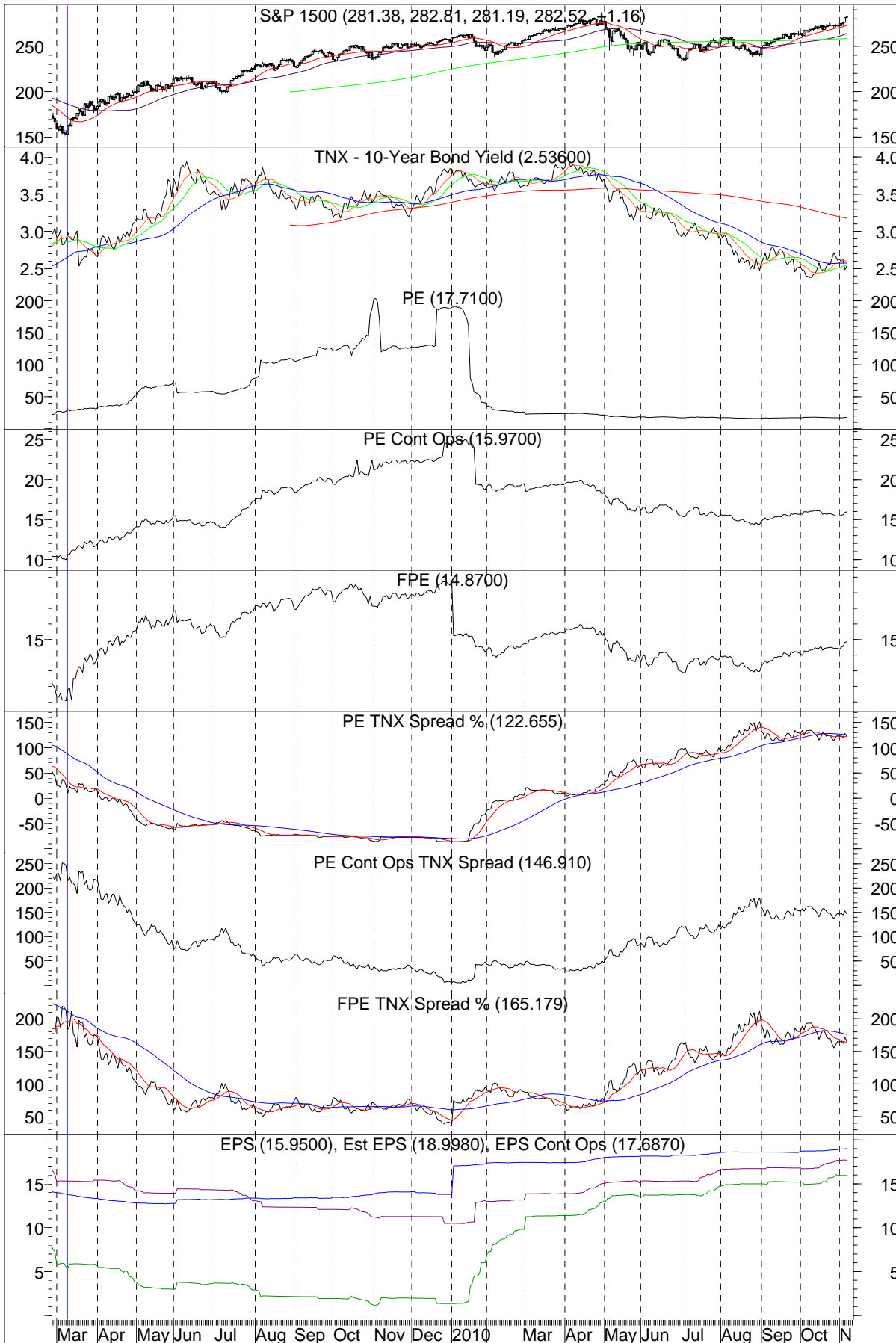
The 10-sma of 13-week closing highs versus lows shows a lopsided picture.

The advance decline line, a good leading indicator, made new rally highs last week confirming the index highs.

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

Percentages over important moving averages remain solidly in bull market territory.

Our proprietary options indicator is showing a small degree of pessimism among options buyers. We prefer this to bullishness, and it should prevent pullbacks from being too deep.



In our report dated October 8th we said the 10-year bond yield "seems ready to bounce as there is a positive RSI divergence, the weekly chart is oversold, and there is a "13" on the TD Sequential." That did turn into a short-term bottom, and it is now just under its 50-sma. It is now neutral relative to momentum indicators.

P/E ratios have been moving higher but are still within their recent ranges.

Spreads between equity and bond yields are range-bound, and are still at levels where stocks should be attractive versus bonds.

Earnings have been moving up but that will end soon as 437 of the S&P 500 have reported Q3 numbers. 72.5% beat estimates, 8% were in line, and 19.5% missed. That last number is higher than we have seen in recent quarters. Hopefully estimates will jump in January the way they did last year.

Indexes, Sectors, and Industry Groups

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
S&P Smallcap 600	391.16	0.42%	4.71%	4.71%	4.71%	9.09%	17.60%	396.63	4/26/2010	299.09	11/5/2009
S&P Midcap 400	861.09	0.61%	3.85%	3.85%	3.85%	7.35%	18.50%	862.51	11/5/2010	666.67	11/5/2009
NYSE Composite	7800.66	0.23%	3.82%	3.82%	3.82%	7.14%	8.57%	7817.25	11/5/2010	6355.83	7/1/2010
S&P 1500	282.52	0.41%	3.66%	3.66%	3.66%	7.48%	10.88%	282.73	11/5/2010	232.54	7/1/2010
Bank of New York Mellon ADR	142.19	-0.39%	3.64%	3.64%	3.64%	7.21%	4.28%	142.74	11/5/2010	109.79	5/25/2010
S&P 500	1225.85	0.39%	3.60%	3.60%	3.60%	7.42%	9.93%	1227.08	11/5/2010	1010.91	7/1/2010
Nasdaq 100	2186.71	-0.05%	2.93%	2.93%	2.93%	9.44%	17.55%	2193.66	11/4/2010	1697.94	11/5/2009
Dow Jones Industrials	11444.08	0.08%	2.93%	2.93%	2.93%	6.08%	9.74%	11451.53	11/5/2010	9614.32	7/2/2010
Nasdaq Composite	2578.98	0.06%	2.85%	2.85%	2.85%	8.88%	13.65%	2582.18	11/5/2010	2061.14	7/1/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Financials	209.41	2.12%	6.94%	6.94%	6.94%	8.41%	8.07%	230.45	4/15/2010	178.83	8/25/2010
Energy	465.12	0.47%	5.09%	5.09%	5.09%	10.94%	8.18%	465.27	11/5/2010	365.74	7/1/2010
Materials	224.81	0.33%	4.32%	4.32%	4.32%	11.18%	12.51%	226.24	11/5/2010	168.44	7/1/2010
Industrials	288.21	0.54%	3.74%	3.74%	3.74%	6.42%	18.61%	292.21	4/30/2010	226.11	11/5/2009
Consumer Discretionary	287.53	0.53%	3.62%	3.62%	3.62%	9.11%	22.32%	288.23	11/5/2010	213.30	11/5/2009
Information Technology	404.73	0.03%	3.36%	3.36%	3.36%	10.02%	9.18%	405.12	11/4/2010	323.47	7/1/2010
Telecom Services	124.49	-0.59%	2.55%	2.55%	2.55%	2.43%	8.60%	125.37	11/4/2010	98.67	5/6/2010
Consumer Staples	300.50	-0.40%	1.39%	1.39%	1.39%	4.24%	9.55%	301.80	11/4/2010	260.65	7/1/2010
Utilities	162.54	-0.01%	1.05%	1.05%	1.05%	1.99%	2.88%	164.42	10/20/2010	138.57	5/25/2010
Health Care	364.31	-0.53%	0.92%	0.92%	0.92%	2.99%	0.58%	384.95	1/20/2010	318.89	7/1/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Automobiles & Components	113.77	1.63%	11.03%	11.03%	11.03%	26.48%	46.34%	113.96	11/5/2010	63.52	11/5/2009
Banks	140.04	4.12%	9.04%	9.04%	9.04%	11.63%	11.72%	165.92	4/21/2010	115.69	8/31/2010
Diversified Financials	325.11	2.61%	7.66%	7.66%	7.66%	8.70%	1.11%	382.07	4/15/2010	278.07	8/31/2010
Real Estate	122.78	1.12%	5.70%	5.70%	5.70%	10.07%	30.36%	123.44	11/5/2010	81.60	11/6/2009
Semiconductors & Equipment	331.34	1.03%	5.31%	5.31%	5.31%	11.27%	6.09%	348.04	4/15/2010	262.69	8/31/2010
Energy	465.12	0.47%	5.09%	5.09%	5.09%	10.94%	8.18%	465.27	11/5/2010	365.74	7/1/2010
Technology Hardware & Equipmen	441.48	-0.07%	4.96%	4.96%	4.96%	8.91%	13.33%	443.74	11/4/2010	350.49	8/27/2010
Insurance	187.48	0.23%	4.64%	4.64%	4.64%	5.04%	13.76%	189.97	4/26/2010	156.79	5/25/2010
Materials	224.81	0.33%	4.32%	4.32%	4.32%	11.18%	12.51%	226.24	11/5/2010	168.44	7/1/2010
Retailing	485.60	0.90%	4.11%	4.11%	4.11%	6.06%	18.12%	499.94	4/26/2010	379.46	11/5/2009
Capital Goods	308.88	0.76%	4.11%	4.11%	4.11%	6.52%	18.27%	318.38	4/30/2010	243.05	11/5/2009
Consumer Services	469.89	0.84%	3.84%	3.84%	3.84%	9.45%	26.83%	471.70	11/5/2010	343.82	11/5/2009
Health Care Equip & Services	349.05	0.30%	3.59%	3.59%	3.59%	5.26%	0.53%	371.77	1/20/2010	296.30	8/31/2010
Consumer Durables & Apparel	160.39	0.42%	3.54%	3.54%	3.54%	6.23%	22.34%	164.51	4/26/2010	123.33	11/5/2009
Food & Staples Retailing	189.62	-0.91%	3.00%	3.00%	3.00%	3.30%	3.58%	196.37	3/30/2010	162.45	7/1/2010
Transportation	320.46	0.01%	2.96%	2.96%	2.96%	7.20%	25.72%	322.82	11/5/2010	235.47	11/5/2009
Telecom Services	124.49	-0.59%	2.55%	2.55%	2.55%	2.43%	8.60%	125.37	11/4/2010	98.67	5/6/2010
Software & Services	523.08	-0.17%	1.56%	1.56%	1.56%	10.61%	5.33%	524.95	11/4/2010	410.27	7/1/2010
Commercial & Professional Service	138.72	-0.67%	1.52%	1.52%	1.52%	2.49%	3.67%	144.95	4/26/2010	122.63	6/8/2010
Household & Personal Products	377.88	0.00%	1.25%	1.25%	1.25%	5.00%	4.75%	383.05	3/23/2010	339.42	5/6/2010
Media	195.55	-0.33%	1.19%	1.19%	1.19%	9.68%	19.54%	197.48	11/4/2010	143.60	11/5/2009
Utilities	162.54	-0.01%	1.05%	1.05%	1.05%	1.99%	2.88%	164.42	10/20/2010	138.57	5/25/2010
Food, Beverage & Tobacco	350.49	-0.36%	0.82%	0.82%	0.82%	4.30%	14.36%	351.97	11/4/2010	293.85	2/5/2010
Pharmaceuticals, Biotech & Life Sci	341.77	-0.94%	-0.37%	-0.37%	-0.37%	1.89%	0.60%	359.71	1/20/2010	299.26	7/1/2010

INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Hong Kong EWH	20.18	0.30%	7.74%	7.74%	11.25%	28.86%	20.19	11/5/2010	14.08	5/21/2010
Australia EWA	26.27	0.11%	7.36%	7.36%	10.66%	15.02%	26.36	1/11/2010	18.26	5/25/2010
Thailand THD	67.92	0.73%	7.26%	7.26%	9.44%	59.85%	68.09	11/5/2010	37.65	2/5/2010
India IFN	40.83	1.19%	6.91%	6.91%	12.26%	33.00%	40.91	11/5/2010	26.61	5/25/2010
China 25 FXI	47.83	-0.11%	6.35%	6.35%	11.70%	13.18%	47.94	11/4/2010	36.24	5/6/2010
South Africa EZA	71.99	-0.01%	6.29%	6.29%	7.10%	28.62%	72.19	11/5/2010	23.00	5/6/2010
Turkey TUR	78.54	-0.28%	6.15%	6.15%	12.15%	45.71%	78.77	11/4/2010	44.15	11/27/2009
Russia RSX	36.23	-0.36%	5.66%	5.66%	11.37%	16.16%	36.91	4/14/2010	26.06	5/25/2010
South Korea EWY	57.44	-0.61%	5.61%	5.61%	7.38%	20.57%	57.88	11/4/2010	40.65	5/25/2010
Brazil EWZ	81.16	-0.51%	5.35%	5.35%	5.47%	8.78%	81.77	11/4/2010	57.18	5/25/2010
Emerging Markets EEM	48.49	-0.19%	5.14%	5.14%	8.31%	16.84%	48.60	11/5/2010	35.21	5/25/2010
BRIC EEB	47.99	-0.12%	5.10%	5.10%	7.31%	13.02%	48.13	11/5/2010	23.23	5/6/2010
Singapore EWS	14.31	0.14%	4.91%	4.91%	8.25%	24.54%	14.33	11/5/2010	10.37	2/5/2010
United Kingdom EWU	17.86	-0.50%	4.75%	4.75%	9.17%	10.25%	17.95	11/4/2010	13.25	5/25/2010
Switzerland EWL	24.63	-0.44%	4.72%	4.72%	7.93%	10.65%	24.75	11/5/2010	18.70	5/25/2010
Latin America ILF	54.53	-0.18%	4.62%	4.62%	7.89%	14.10%	54.87	11/5/2010	39.21	5/25/2010
Canada EWC	30.01	0.27%	3.76%	3.76%	7.06%	13.98%	30.21	11/5/2010	22.75	5/6/2010
Taiwan EWT	14.41	-0.07%	3.67%	3.67%	6.35%	11.10%	14.46	11/5/2010	10.81	6/8/2010
Mexico EWW	59.50	0.52%	3.44%	3.44%	12.29%	21.75%	61.60	5/6/2010	44.63	11/6/2009
France EWQ	26.16	-1.28%	3.32%	3.32%	9.05%	1.20%	27.32	1/11/2010	19.24	5/25/2010
Japan EWJ	10.34	0.88%	3.19%	3.19%	4.60%	6.16%	10.71	4/15/2010	9.15	6/7/2010
Netherlands EWN	21.51	-0.97%	3.17%	3.17%	5.86%	5.13%	21.75	11/4/2010	16.64	5/25/2010
Chile ECH	78.23	0.41%	3.15%	3.15%	5.69%	42.78%	78.48	11/5/2010	27.27	5/6/2010
Germany EWG	24.57	-0.85%	3.11%	3.11%	11.68%	9.49%	24.92	11/4/2010	17.97	5/25/2010
Austria EWO	21.60	-1.39%	2.49%	2.49%	9.59%	10.40%	22.55	11/18/2009	14.91	6/8/2010
Sweden EWD	29.87	-2.31%	2.29%	2.29%	3.11%	27.11%	30.78	11/4/2010	19.00	5/6/2010
Vietnam VNM	25.27	1.40%	2.06%	2.06%	3.35%	-0.86%	28.90	11/5/2009	21.81	8/25/2010
Malaysia EWM	14.34	-0.42%	1.92%	1.92%	4.37%	35.03%	14.41	11/5/2010	10.18	2/5/2010
Indonesia IDX	90.43	0.77%	1.70%	1.70%	4.41%	45.46%	90.45	11/5/2010	56.80	11/27/2009
Israel EIS	57.83	-0.09%	1.51%	1.51%	5.32%	6.31%	60.68	3/26/2010	45.00	5/6/2010
Belgium EWK	14.16	-2.01%	1.07%	1.07%	6.63%	10.97%	14.52	11/4/2010	8.93	5/6/2010
Italy EWI	17.89	-2.61%	-0.11%	-0.11%	6.49%	-8.30%	21.03	11/16/2009	13.21	6/7/2010
Spain EWP	41.68	-3.25%	-2.93%	-2.93%	2.53%	-13.24%	52.67	11/25/2009	29.85	6/8/2010