

Monday October 11, 2010

Closing prices of October 8, 2010

The universally anticipated payrolls report on Friday had worse than expected numbers but couldn't prevent a continuation of the recent rally for stocks. **On September 14th when we discussed the "breadth thrust move" that had been recorded we added "the tone of the market may have changed."** This is certainly the case as sellers have been nowhere in sight. The amazing September portion of this rally took place in spite of negative seasonality, overall there has hardly been a pullback, and there has been a dearth of 90% down days. When short-term negative divergences have popped up they have been easily erased.

The rally has almost erased all the technical damage that took place after the plunge from the April highs, including the well publicized "death cross", which took place when the 50-day moving average crossed under the 200-day. Interestingly, that "death cross" occurred simultaneously with the July bottom for stocks. **Now the S&P 500 is close to a "golden cross" where it's 50-day moving average moves back over the 200-day moving average. That "golden cross" has already taken place on the Dow Jones Industrials, the Dow Transports, the Nasdaq 100, and the Bank of NY Mellon ADR Index.** In addition, of the thirty-three international ETFs we follow, fourteen of them have recorded 52-week highs in October.

Investor's renewed enthusiasm for equities has taken place ahead of the third quarter earnings season which has just begun, and while we have continually stressed that valuations for equities were very attractive (and still are), a lot of credit for the rally is probably due to the hope for major changes in Washington in November as well as to historical stock market patterns. 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 too bearish in the face of such strong historical patterns.**

A pullback is possible at any time as major indexes near resistance levels and options buyers have become very bullish. **Also, there is too much unanimity of opinion regarding the U.S. Dollar and bond yields, both of which are oversold. Investors need to be on guard for reversals in these which can spark profit taking and sector rotation, as well as the possibility of disappointing earnings.**

Valuations based on spreads between bond and equity yields remain at levels where stocks should be attractive. The story here is very simple. Forecast earnings have made little headway since the beginning of the year, and have recently come down slightly due to some pre-announcements. However, the big picture will become clearer during this earnings season. If aggregate forecasts are met or even exceeded as they have been in recent earnings seasons, stocks will continue to look cheap. If guidance is positive during earnings season, investors should feel more confident putting money into equities, especially since we will be just ahead of the seasonally strongest three month period of the year, November through January.

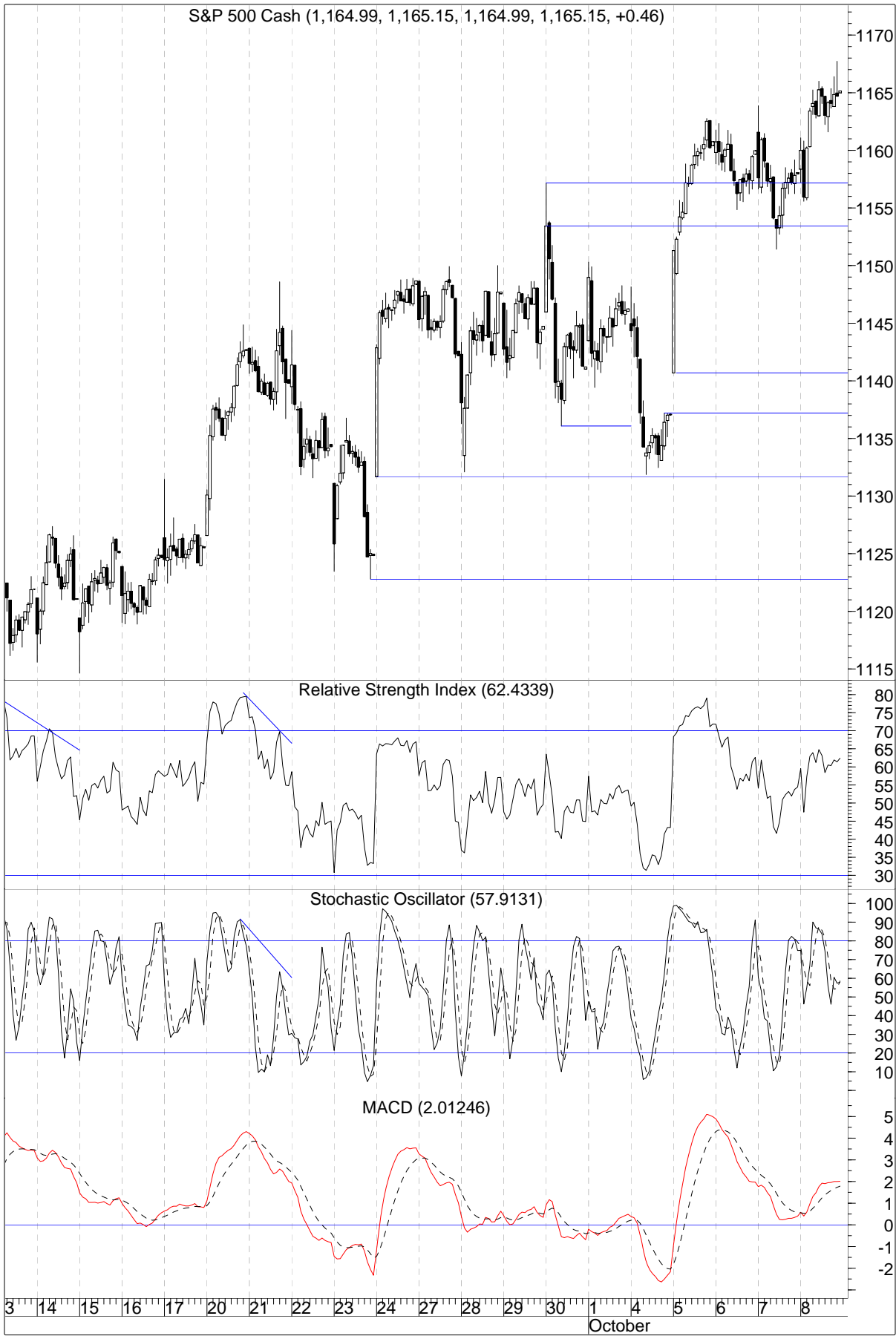
In the short-term, stocks are overbought so investors need to be careful with entry points. Based on the S&P 500 the short, intermediate, and long-term trends are up. Options buyers are showing a high level of bullishness, so stocks can pull back at any time. However, the tone of the market has changed, so pullbacks that are without intensity should probably be viewed as entry points for investors.

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S&P 500 Cash (1,164.99, 1,165.15, 1,164.99, 1,165.15, +0.46)



The S&P 500 made another rally high on Friday. Pullbacks during this rally have been very shallow.

30-minute momentum indicators look like they are pointed higher. Of course, such short-term indicators can change very rapidly.

S&P 500 Cash (1,158.36, 1,167.73, 1,155.58, 1,165.15, +7.09)



The S&P 500 is close to a "golden cross" which occurs when the 50-sma crosses above the 200-sma. This is the opposite of the "death cross" that took place in early July and which actually coincided with the July bottom. The index is also nearing an area of prior resistance.

Momentum indicators remain at a high level, indicative of a strong rally.



Another strong week for the S&P 500 since printing a bullish engulfing candle six weeks ago. The 20, 40, and 80-week moving averages are pinched tightly together, a condition that will not last long.

The stochastic is in overbought territory but overall weekly momentum indicators look good, especially the MACD which just made a positive crossover from the neutral zone.

S&P 500 Cash (1,143.49, 1,167.73, 1,131.87, 1,165.15, +23.95)



The monthly chart of the S&P 500 shows it pierced the down trend line so far in October.

Monthly momentum indicators seem to be pointing higher with plenty of room before hitting high or overbought levels.

NASDAQ 100 (2,014.99, 2,030.89, 1,999.89, 2,027.03, +15.40)



The Nasdaq 100 overcame resistance to print new rally intra-day and closing highs. The Nasdaq 100 had a "golden cross" Thursday as the 50-sma is back over the 200-sma for the first time since July.

Daily momentum indicators are showing negative divergences.

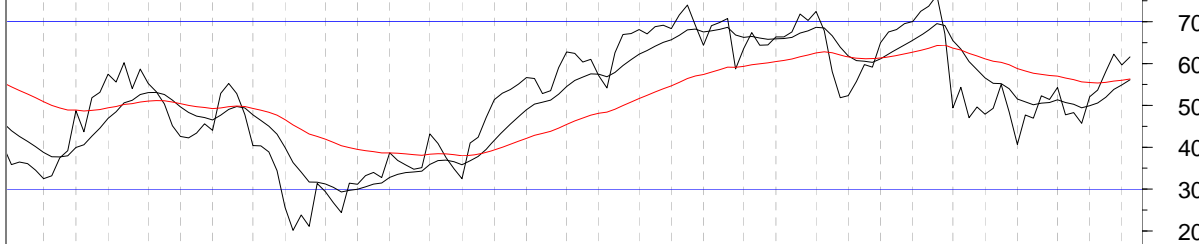
5 12 19 26 3 10 17 24 1 7 14 21 28 6 12 19 26 2 9 16 23 30 7 13 20 27 4
 April May June July August September October

NASDAQ 100 (1,990.13, 2,030.89, 1,963.68, 2,027.03, +30.43)

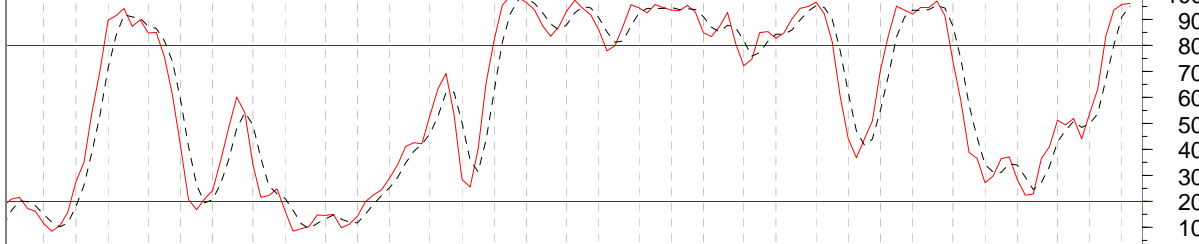


The weekly chart of the Nasdaq 100 shows it printed a weekly closing high and is not far from its April highs.

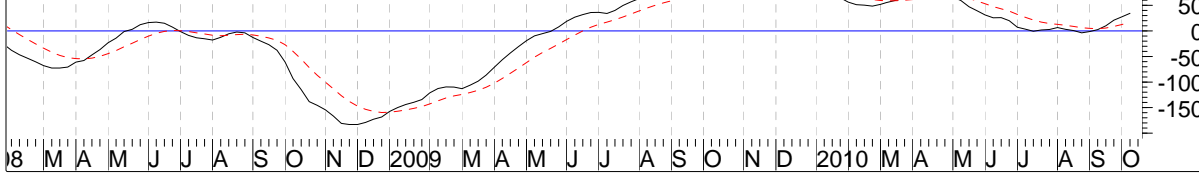
Relative Strength Index (61.5933)



Stochastic Oscillator (96.1745)

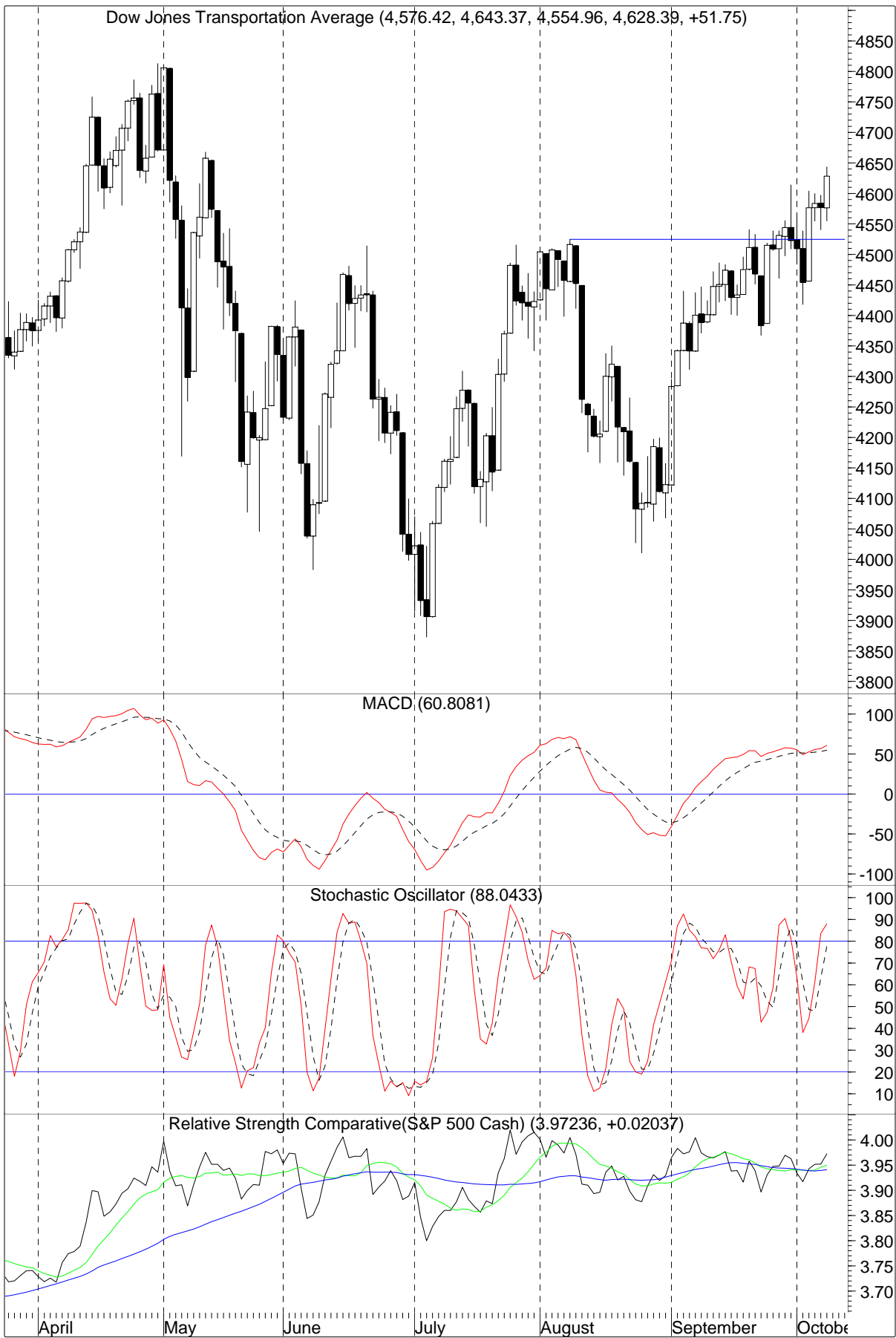


MACD (34.3840)



The stochastic is in the overbought zone but the other weekly momentum indicators have room to move higher. There is a slight negative divergence on the RSI.

8 M A M J J A S O N D 2009 M A M J J A S O N D 2010 M A M J J A S O

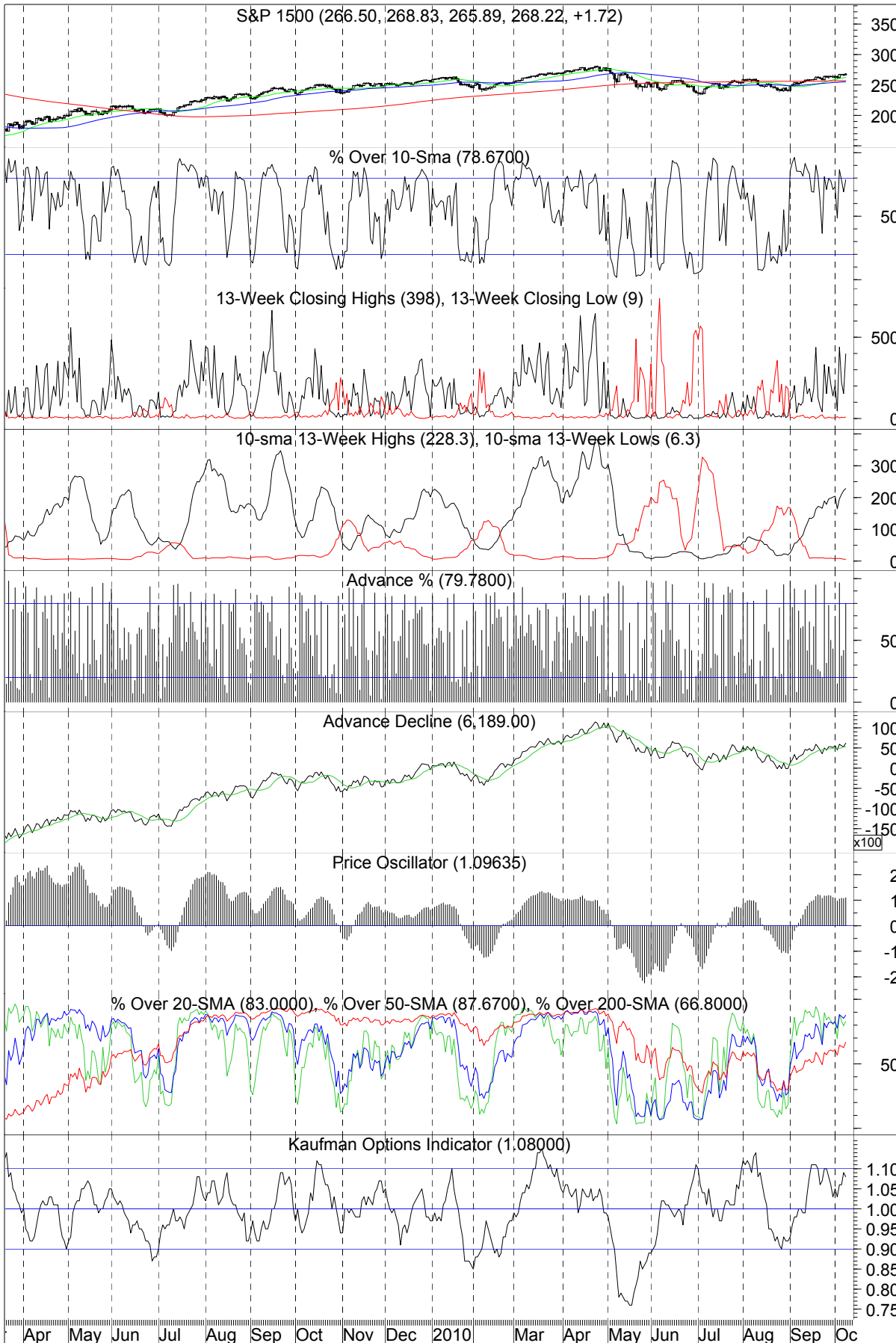


The Transportation Index was lagging the Industrials in breaking out of the recent trading range, but last week it did so decisively. Dow Theory says the Industrials and Transports need to confirm each other, so this is no longer an issue.



The ADR Index has been very strong and is also showing a "golden cross." It is not far off its April highs.

The ADR index has been outperforming the Nasdaq Composite and the S&P 500.



The percent over 10-sma remains at a high level at 78.67%. The lack of moving to low levels is a sign of strength.

New 13-week closing highs are showing a slight negative divergence, a sign of increased selectivity.

The 10-sma of 13-week closing highs is breaking out to the best level since early May.

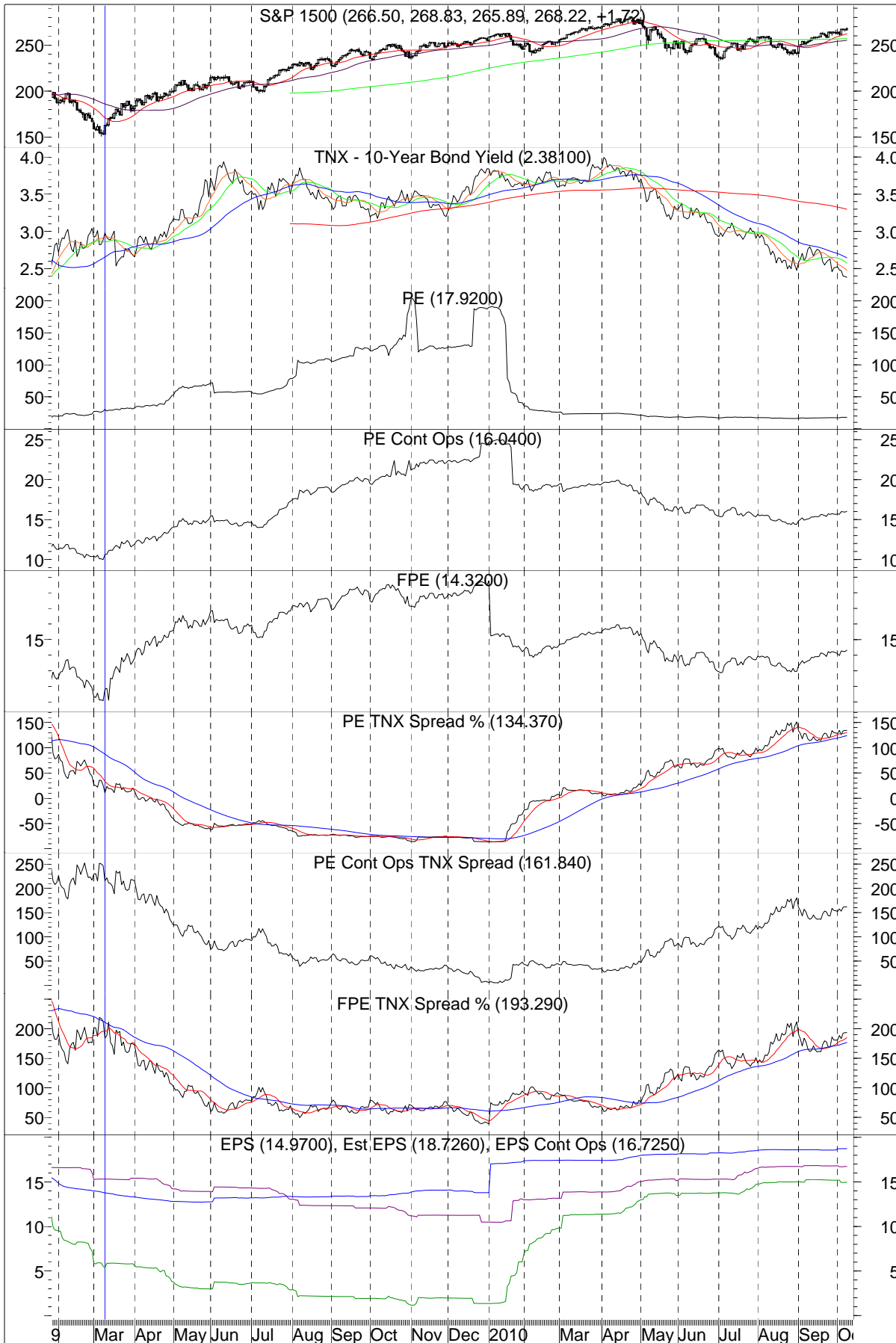
79.78% of stocks traded higher Friday.

The AD line made a new rally high and is at its highest since 6/15.

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

These percentages of stocks over important moving average look strong. The percent over their own 200-sma (66.8%) is the highest since May 19th.

Our proprietary options indicator continues to show bullishness on the part of options buyers, but not the extreme levels we have seen in the past. Still, too much optimism can lead to pull backs.



10-year bond yields continue to dive bomb courtesy of Bernanke & Co. It seems ready to bounce as there is a positive RSI divergence on the daily chart, the weekly chart is oversold, and there is a "13" on the TD Sequential.

P/E ratios have moved up as stocks have rallied.

In spite of rising P/Es, spreads between equity and bond yields are rising due to plunging bond yields. With spreads at these levels stocks are attractive versus bonds, and should remain so even if bond yields bounce a little.

Earnings numbers have been flat lining but that will change as we have now entered third quarter earnings season.

INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Turkey TUR	74.45	3.04%	6.54%	6.31%	6.31%	38.13%	74.60	10/8/2010	44.15	11/27/2009
India IFN	38.43	1.80%	4.17%	5.66%	5.66%	25.18%	38.52	10/8/2010	26.61	5/25/2010
Spain EWP	42.50	0.52%	3.99%	4.55%	4.55%	-11.53%	52.67	11/25/2009	29.85	6/8/2010
Austria EWO	20.90	0.67%	3.83%	6.06%	6.06%	6.85%	23.59	10/15/2009	14.91	6/8/2010
Australia EWA	24.86	1.59%	3.63%	4.72%	4.72%	8.84%	25.14	1/11/2010	18.26	5/25/2010
Japan EWJ	10.23	0.49%	3.28%	3.49%	3.49%	5.03%	10.71	4/15/2010	9.15	6/7/2010
France EWQ	24.94	0.28%	3.27%	3.96%	3.96%	-3.52%	27.32	1/11/2010	19.24	5/25/2010
China 25 FXI	44.40	1.23%	3.02%	3.69%	3.69%	5.06%	46.66	11/16/2009	36.24	5/6/2010
Switzerland EWL	23.57	0.64%	3.02%	3.29%	3.29%	5.88%	23.63	4/15/2010	18.70	5/25/2010
Italy EWI	17.42	0.87%	2.83%	3.69%	3.69%	-10.71%	21.77	10/19/2009	13.21	6/7/2010
Mexico EWW	55.41	1.76%	2.80%	4.57%	4.57%	13.38%	61.60	5/6/2010	42.90	11/3/2009
Hong Kong EWH	18.82	1.46%	2.73%	3.75%	3.75%	20.18%	18.88	10/8/2010	14.08	5/21/2010
Belgium EWK	13.74	1.40%	2.69%	3.46%	3.46%	7.68%	FALSE	10/19/2009	8.93	5/6/2010
Russia RSX	34.06	0.80%	2.44%	4.70%	4.70%	9.20%	36.91	4/14/2010	26.06	5/25/2010
South Korea EWY	55.68	0.38%	2.28%	4.09%	4.09%	16.88%	56.04	10/6/2010	40.65	5/25/2010
Germany EWG	22.69	0.58%	2.16%	3.14%	3.14%	1.11%	23.40	10/21/2009	17.97	5/25/2010
Canada EWC	28.91	1.26%	2.05%	3.14%	3.14%	9.80%	29.00	4/15/2010	22.75	5/6/2010
United Kingdom EWU	16.97	0.65%	2.04%	3.73%	3.73%	4.75%	17.20	11/16/2009	13.25	5/25/2010
Netherlands EWN	20.87	0.00%	1.90%	2.71%	2.71%	2.00%	21.51	10/15/2009	16.64	5/25/2010
Emerging Markets EEM	46.23	1.20%	1.76%	3.26%	3.26%	11.40%	46.66	4/9/2010	35.21	5/25/2010
Vietnam VNM	24.96	-0.72%	1.46%	2.09%	2.09%	-2.08%	32.15	10/22/2009	21.81	8/25/2010
South Africa EZA	68.88	1.25%	1.37%	2.47%	2.47%	23.07%	69.50	10/6/2010	23.00	5/6/2010
Latin America ILF	51.66	1.87%	1.19%	2.22%	2.22%	8.10%	51.86	10/5/2010	39.21	5/25/2010
Brazil EWZ	79.03	1.87%	1.16%	2.71%	2.71%	5.92%	80.93	12/3/2009	57.18	5/25/2010
BRIC EEB	45.80	1.28%	0.93%	2.42%	2.42%	7.87%	46.28	10/5/2010	23.23	5/6/2010
Sweden EWD	29.23	0.21%	0.90%	0.90%	0.90%	24.38%	29.48	10/7/2010	19.00	5/6/2010
Singapore EWS	13.54	0.07%	0.89%	2.42%	2.42%	17.84%	13.68	10/6/2010	10.37	2/5/2010
Taiwan EWT	13.71	0.26%	0.55%	1.14%	1.14%	5.67%	13.78	10/7/2010	10.81	6/8/2010
Malaysia EWM	13.90	0.51%	0.36%	1.16%	1.16%	30.89%	14.04	10/7/2010	10.18	2/5/2010
Indonesia IDX	88.06	-0.15%	0.07%	1.67%	1.67%	41.64%	89.67	10/5/2010	54.47	10/28/2009
Israel EIS	55.27	0.04%	0.00%	0.66%	0.66%	1.60%	60.68	3/26/2010	45.00	5/6/2010
Thailand THD	62.58	-0.33%	-0.33%	0.84%	0.84%	47.28%	63.64	10/6/2010	37.65	2/5/2010
Chile ECH	72.84	0.28%	-2.32%	-1.59%	-1.59%	32.94%	75.07	10/1/2010	27.27	5/6/2010

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	137.16	0.73%	2.21%	2.21%	3.42%	3.42%	0.59%	142.19	1/11/2010	109.79	5/25/2010
S&P Smallcap 600	367.62	1.28%	2.08%	2.08%	2.53%	2.53%	10.52%	396.63	4/26/2010	294.26	11/2/2009
NYSE Composite	7478.34	0.72%	1.94%	1.94%	2.71%	2.71%	4.08%	7743.74	4/15/2010	6355.83	7/1/2010
S&P 500	1165.14	0.61%	1.65%	1.65%	2.10%	2.10%	4.49%	1219.80	4/26/2010	1010.91	7/1/2010
Dow Jones Industrials	11006.48	0.53%	1.63%	1.63%	2.02%	2.02%	5.55%	11258.01	4/26/2010	9614.32	7/2/2010
S&P 1500	268.18	0.63%	1.59%	1.59%	2.02%	2.02%	5.26%	281.21	4/26/2010	232.54	7/1/2010
Nasdaq 100	2027.03	0.77%	1.52%	1.52%	1.45%	1.45%	8.96%	2059.42	4/26/2010	1652.44	11/2/2009
Nasdaq Composite	2401.91	0.77%	1.31%	1.31%	1.41%	1.41%	5.85%	2535.28	4/26/2010	2024.27	11/2/2009
S&P Midcap 400	811.35	0.74%	0.93%	0.93%	1.15%	1.15%	11.65%	852.90	4/26/2010	651.79	11/2/2009

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Materials	211.27	2.02%	3.24%	3.24%	4.48%	4.48%	5.74%	213.87	4/26/2010	168.44	7/1/2010
Industrials	278.97	0.81%	2.86%	2.86%	3.01%	3.01%	14.81%	292.21	4/30/2010	220.05	11/2/2009
Energy	436.62	1.14%	2.79%	2.79%	4.14%	4.14%	1.55%	464.76	4/26/2010	365.74	7/1/2010
Consumer Discretionary	270.67	1.08%	2.62%	2.62%	2.71%	2.71%	15.14%	284.57	4/26/2010	209.69	11/2/2009
Information Technology	373.01	0.72%	1.52%	1.52%	1.40%	1.40%	0.62%	397.46	4/26/2010	323.47	7/1/2010
Financials	197.62	0.10%	1.24%	1.24%	2.30%	2.30%	1.98%	230.45	4/15/2010	178.83	8/25/2010
Health Care	356.94	0.30%	0.85%	0.85%	0.90%	0.90%	-1.46%	384.95	1/20/2010	318.89	7/1/2010
Consumer Staples	291.31	0.24%	0.78%	0.78%	1.05%	1.05%	6.20%	292.39	10/7/2010	260.65	7/1/2010
Utilities	161.55	0.26%	0.71%	0.71%	1.37%	1.37%	2.25%	161.86	10/7/2010	138.57	5/25/2010
Telecom Services	120.85	-0.27%	-1.41%	-1.41%	-0.57%	-0.57%	5.42%	124.78	10/5/2010	98.67	5/6/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Automobiles & Components	98.36	2.24%	9.12%	9.12%	9.35%	9.35%	26.52%	107.25	4/26/2010	60.62	10/30/2009
Materials	211.27	2.02%	3.24%	3.24%	4.48%	4.48%	5.74%	213.87	4/26/2010	168.44	7/1/2010
Capital Goods	299.46	0.76%	2.99%	2.99%	3.27%	3.27%	14.66%	318.38	4/30/2010	238.52	11/2/2009
Transportation	306.19	1.11%	2.92%	2.92%	2.43%	2.43%	20.12%	307.13	10/8/2010	221.60	11/2/2009
Energy	436.62	1.14%	2.79%	2.79%	4.14%	4.14%	1.55%	464.76	4/26/2010	365.74	7/1/2010
Consumer Durables & Apparel	155.63	1.79%	2.76%	2.76%	3.08%	3.08%	18.71%	164.51	4/26/2010	119.47	10/28/2009
Media	183.24	1.24%	2.43%	2.43%	2.78%	2.78%	12.01%	192.83	5/3/2010	140.73	11/3/2009
Consumer Services	441.48	0.97%	2.25%	2.25%	2.84%	2.84%	19.16%	446.11	4/26/2010	335.30	11/2/2009
Real Estate	114.82	0.17%	2.24%	2.24%	2.94%	2.94%	21.92%	117.42	9/20/2010	80.03	10/28/2009
Technology Hardware & Equipment	411.54	1.06%	2.23%	2.23%	1.53%	1.53%	5.65%	431.10	4/26/2010	350.49	8/27/2010
Household & Personal Products	367.77	1.75%	2.03%	2.03%	2.19%	2.19%	1.94%	383.05	3/23/2010	339.25	10/8/2009
Retailing	463.46	0.56%	1.68%	1.68%	1.22%	1.22%	12.73%	499.94	4/26/2010	376.96	11/3/2009
Banks	128.65	-0.29%	1.44%	1.44%	2.55%	2.55%	2.63%	165.92	4/21/2010	115.69	8/31/2010
Insurance	181.04	0.41%	1.41%	1.41%	1.43%	1.43%	9.85%	189.97	4/26/2010	156.74	11/3/2009
Pharmaceuticals, Biotech & Life Scier	340.05	0.33%	1.29%	1.29%	1.37%	1.37%	0.09%	359.71	1/20/2010	299.26	7/1/2010
Semiconductors & Equipment	301.42	0.88%	1.26%	1.26%	1.22%	1.22%	-3.49%	348.04	4/15/2010	262.69	8/31/2010
Commercial & Professional Services	137.30	0.63%	1.04%	1.04%	1.44%	1.44%	2.61%	144.95	4/26/2010	122.63	6/8/2010
Software & Services	479.24	0.38%	1.00%	1.00%	1.34%	1.34%	-3.50%	512.69	4/15/2010	410.27	7/1/2010
Diversified Financials	306.76	0.07%	0.85%	0.85%	2.56%	2.56%	-4.60%	382.07	4/15/2010	278.07	8/31/2010
Utilities	161.55	0.26%	0.71%	0.71%	1.37%	1.37%	2.25%	161.86	10/7/2010	138.57	5/25/2010
Food, Beverage & Tobacco	338.75	-0.08%	0.47%	0.47%	0.81%	0.81%	10.53%	341.79	10/6/2010	293.65	11/3/2009
Food & Staples Retailing	184.45	-0.50%	0.27%	0.27%	0.49%	0.49%	0.75%	196.37	3/30/2010	162.45	7/1/2010
Health Care Equip & Services	331.37	0.23%	-0.06%	-0.06%	-0.07%	-0.07%	-4.56%	371.77	1/20/2010	296.30	8/31/2010
Telecom Services	120.85	-0.27%	-1.41%	-1.41%	-0.57%	-0.57%	5.42%	124.78	10/5/2010	98.67	5/6/2010

