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The Kaufman Report

Trade what you see, not what you think.

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Monday October 12, 2009

Closing prices of October 2, 2009

After two weeks of softness stocks rallied strongly last week from an oversold condition just above support levels. The Dow Jones Industrials, the S&P 500, and the Nasdaq 100 all logged post-March weekly closing highs. The Dow posted a post-March daily closing high. The S&P 1500 had 179 52-week closing highs, the most since 187 on 7/13/2007.

We have stressed three characteristics of this bull market. Those are huge global liquidity, the belief held by investors that companies have become lean and mean with operating leverage that will lead to upside earnings surprises, and the reticence of investors to sell their stocks. We have been in a good news cycle, although we are now in third quarter earnings season, the period where the upside surprise thesis and the good news cycle will be tested.

It's a simple story. Bad economic news or disappointing earnings could certainly change investor's desire to hang onto stocks. All market participants need to be on their toes as earnings reports start to stream in. The key issues on the minds of investors relative to earnings are top line growth versus cost cutting benefits, and whether there is improving demand versus inventory re-stocking.

We will remain on guard for any signs of a change in trend. We have been saying there is the potential for a deep correction at some point. However, we have also been saying since June 1st, we accept the possibility that huge global government intervention along with a possibly healing economy and companies that have become very lean and mean could create a scenario where profits will start to surprise to the upside and the deteriorating earnings trend will start to change. If so, we will be more than happy to delay or even cancel our expected bearishness.

Based on the S&P 500 the short-term, intermediate-term and long-term trends are up. Traders should not hesitate to rotate out of lagging sectors and stocks and into leaders.

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Monday October 12, 2009

Closing prices of October 9, 2009

The S&P 1500 (245.04) was up 0.60% Friday. Average price per share was up 0.82%. Volume was 79% of its 10-day average and 74% of its 30-day average. 75.54% of the S&P 1500 stocks were up, with up volume at 60.37% and up points at 84.04%. Up Dollars was 90.62% of total dollars, and was 90% of its 10-day moving average. Down Dollars was 14% of its 10-day moving average.

For the week the index was up 4.67% on decreasing and below average weekly volume.

The S&P 1500 is up 1.40% in October, up 1.40 quarter-to-date, up 19.57% year-to-date, and down 31.24% from the peak of 356.38 on 10/11/07. Average price per share is \$30.86, down 32.40% from the peak of \$43.23 on 6/4/07.

Percent over 10-sma: 81.13%. 13-Week Closing Highs: 252. 13-Week Closing Lows: 7. 52-week closing highs 179, highest since 187 on 7/13/2007

Kaufman Options Indicator: 0.99 Put/Call Ratio: 0.791

P/E Ratios: **129.73 (before charges)**, 20.34 (continuing operations), 18.21 (analyst estimates).

P/E Yield 10-year Bond Yield Spreads: **-77% (earnings bef. charges)**, 45% (earnings continuing ops), and 62% (projected earnings).

Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at \$19.18 and are now at \$1.89, a drop of 90.15%. Aggregate earnings from continuing operations peaked at \$19.95 in September 2007 and are now \$12.05, down 39.60%. Estimated aggregate earnings peaked at \$21.95 in February 2008 and are now \$13.45, a drop of 38.72%.

29 of the S&P 500 have reported 3rd quarter earnings. According to Bloomberg, 72.4% had positive surprises, 13.8% were in line, and 13.8% have been negative. The year-over-year change has been -7.1% on a share-weighted basis, -5.5% market cap-weighted and +2.1% non-weighted. Ex-financial stocks these numbers are -8.6%, -6.0%, and +1.1 %, respectively.

Federal Funds futures are pricing in a probability of 63.0% that the Fed will leave rates unchanged and a probability of 37.0% of cutting rates 25 basis points to 0.00% when they meet on November 4th. They are pricing in a probability of 61.2% of no change, 34.5% of cutting 25 basis points to 0.00%, and 4.3% of raising 25 basis points to 0.50% when they meet on December 16th.

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	Daily	WTD	MTD	QTD	YTD
S&P Smallcap 600	1.21%	5.99%	1.86%	1.86%	20.33%
Dow Jones Industrials	0.80%	3.98%	1.57%	1.57%	12.40%
S&P Midcap 400	0.73%	5.84%	1.62%	1.62%	30.45%
Nasdaq Composite	0.72%	4.45%	0.79%	0.79%	35.65%
S&P 1500	0.60%	4.67%	1.40%	1.40%	19.57%
Nasdaq 100	0.58%	3.93%	0.51%	0.51%	42.60%
S&P 500	0.56%	4.51%	1.36%	1.36%	18.63%
NYSE Composite	0.36%	5.11%	1.51%	1.51%	21.86%
Bank of New York Mellon ADR	-0.01%	5.07%	1.30%	1.30%	30.12%

	Daily	WTD	MTD	QTD	YTD
Information Technology	1.12%	4.79%	1.44%	1.44%	46.88%
Health Care	1.00%	2.50%	0.55%	0.55%	8.46%
Financials	0.81%	6.70%	1.95%	1.95%	21.51%
Utilities	0.64%	2.61%	-0.11%	-0.11%	0.57%
Industrials	0.52%	4.47%	0.31%	0.31%	12.27%
Materials	0.24%	6.59%	1.89%	1.89%	38.42%
Consumer Staples	0.22%	2.19%	1.80%	1.80%	8.62%
Energy	0.12%	7.54%	3.87%	3.87%	10.04%
Consumer Discretionary	0.01%	4.95%	1.21%	1.21%	29.34%
Telecom Services	-0.75%	-2.52%	-4.35%	-4.35%	-7.27%

	Daily	WTD	MTD	QTD	YTD
Semiconductors & Equipment	2.61%	6.14%	1.29%	1.29%	45.55%
Technology Hardware & Equipment	1.56%	4.86%	1.82%	1.82%	55.17%
Health Care Equip & Services	1.51%	2.24%	-0.38%	-0.38%	17.08%
Real Estate	1.09%	6.00%	-0.10%	-0.10%	9.82%
Banks	0.92%	7.72%	1.65%	1.65%	-4.55%
Diversified Financials	0.82%	6.78%	2.39%	2.39%	40.03%
Pharmaceuticals, Biotech & Life Sciences	0.77%	2.62%	0.96%	0.96%	4.92%
Capital Goods	0.64%	4.68%	-0.08%	-0.08%	13.41%
Utilities	0.64%	2.61%	-0.11%	-0.11%	0.57%
Food & Staples Retailing	0.59%	3.17%	3.02%	3.02%	6.09%
Insurance	0.54%	5.59%	1.79%	1.79%	16.76%
Commercial & Professional Services	0.52%	3.84%	0.05%	0.05%	5.74%
Retailing	0.25%	5.90%	2.73%	2.73%	38.87%
Automobiles & Components	0.24%	8.62%	1.53%	1.53%	81.59%
Materials	0.24%	6.59%	1.89%	1.89%	38.42%
Consumer Durables & Apparel	0.22%	5.43%	0.16%	0.16%	28.44%
Food, Beverage & Tobacco	0.18%	1.91%	1.95%	1.95%	14.55%
Energy	0.12%	7.54%	3.87%	3.87%	10.04%
Transportation	0.08%	3.94%	1.82%	1.82%	10.59%
Software & Services	0.02%	4.22%	1.00%	1.00%	37.58%
Household & Personal Products	-0.08%	1.80%	0.22%	0.22%	0.35%
Media	-0.20%	4.41%	0.58%	0.58%	23.70%
Consumer Services	-0.30%	2.64%	-0.17%	-0.17%	13.48%
Telecom Services	-0.75%	-2.52%	-4.35%	-4.35%	-7.27%

INTERNATIONAL ETFs

	Daily	WTD	MTD	QTD	YTD
Vietnam VNM	1.75%	6.85%	3.06%		
South Korea EWY	1.64%	3.24%	-1.60%	-1.60%	66.68%
Brazil EWZ	0.60%	6.68%	6.62%	6.62%	106.12%
Sweden EWD	0.52%	3.90%	-0.43%	-0.43%	48.26%
Latin America ILF	0.51%	6.24%	4.99%	4.99%	76.87%
Mexico EWW	0.46%	6.93%	5.04%	5.04%	42.18%
Hong Kong EWH	0.45%	4.83%	1.42%	1.42%	51.78%
China 25 FXI	0.37%	7.88%	4.81%	4.81%	47.44%
Austria EWO	0.36%	8.33%	2.92%	2.92%	73.43%
Canada EWC	0.23%	7.01%	2.47%	2.47%	49.80%
BRIC EEB	0.22%	6.14%	4.60%	4.60%	76.35%
Malaysia EWM	0.19%	5.08%	4.93%	4.93%	45.95%
Singapore EWS	0.19%	3.98%	0.56%	0.56%	53.33%
Italy EWI	0.10%	5.53%	1.81%	1.81%	26.79%
Taiwan EWT	0.08%	2.19%	0.16%	0.16%	62.58%
MSCI Emerging Markets EEM	0.08%	4.99%	2.42%	2.42%	59.59%
Belgium EWK	0.08%	6.09%	2.31%	2.31%	52.23%
Japan EWJ	0.00%	3.92%	0.10%	0.10%	3.86%
Netherlands EWN	-0.05%	6.57%	2.59%	2.59%	37.80%
Switzerland EWL	-0.09%	2.96%	-0.32%	-0.32%	16.77%
Germany EWG	-0.13%	5.25%	1.26%	1.26%	16.91%
France EWQ	-0.38%	5.14%	0.39%	0.39%	24.56%
Australia EWA	-0.47%	8.26%	3.41%	3.41%	66.81%
Spain EWP	-0.71%	4.08%	0.38%	0.38%	32.75%
United Kingdom EWU	-0.77%	2.91%	-0.39%	-0.39%	26.12%

S&P 500 Cash (1,065.28, 1,071.51, 1,063.00, 1,071.49, +6.01)



After bouncing off its 50-sma (blue) the S&P 500 has moved back above its 20-sma (green). It closed Friday a fraction from a new closing high, which is 1071.66. The intra-day high is 1080.15.

The stochastic is in the overbought zone, but other momentum indicators are not. The MACD is about to show a positive crossover.



The weekly chart of the S&P 500 shows it has moved back above its 80-week moving average. We have been stressing the importance of this average for a while. The index is also back above the 80-week's daily counterpart, the 400-sma, which is at 1050.02.

This was also a new post-March weekly closing high.

NASDAQ 100 (1,713.47, 1,729.22, 1,710.58, 1,727.76, +9.97)



The Nasdaq 100 has also reclaimed its 20-sma.

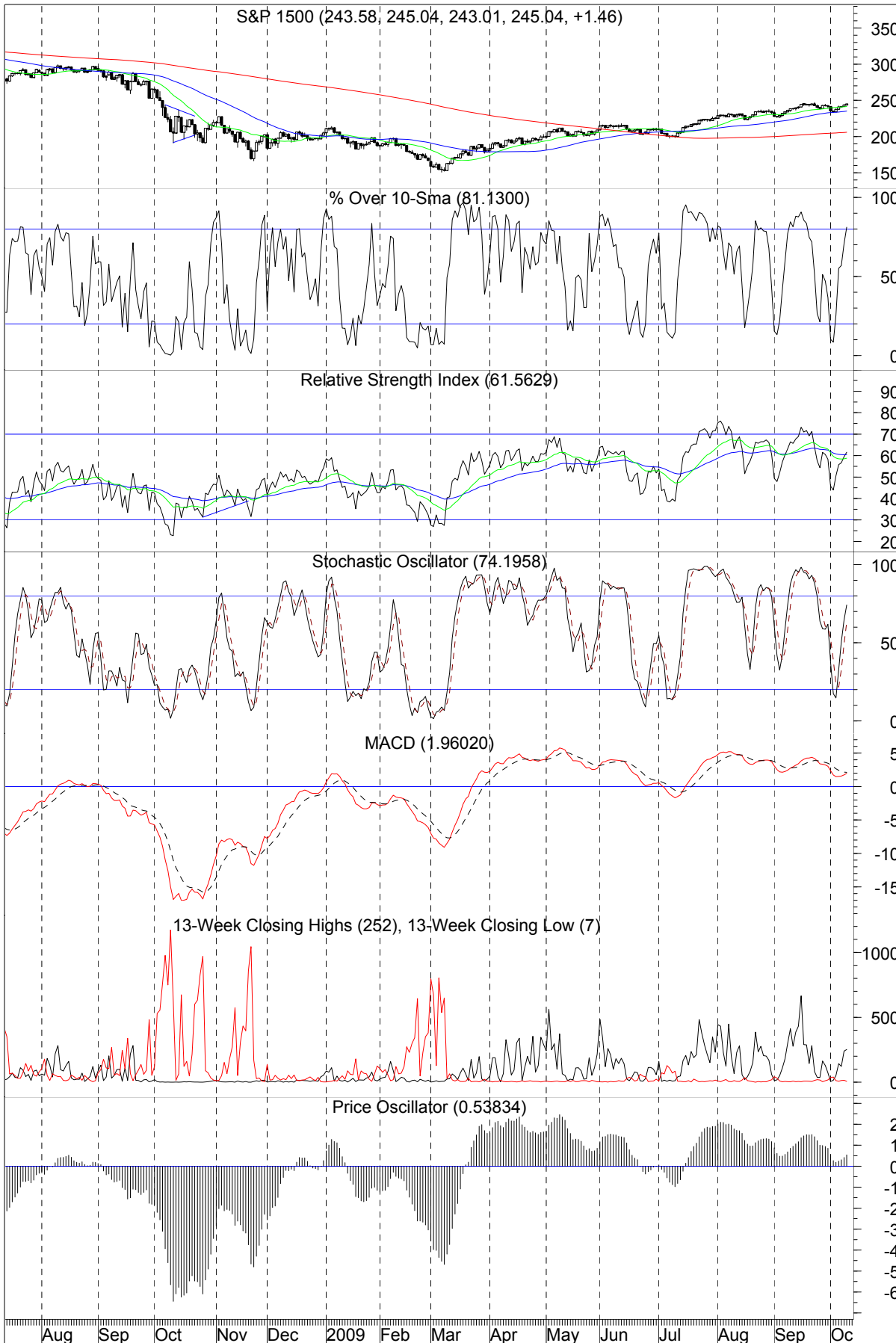
Momentum indicators are neutral.

NASDAQ 100 (1,668.70, 1,732.11, 1,660.37, 1,727.76, +65.27)



The Nasdaq 100 also made a weekly closing high.

Weekly momentum indicators are high, with a slight negative divergence in the RSI. This needs to be watched.

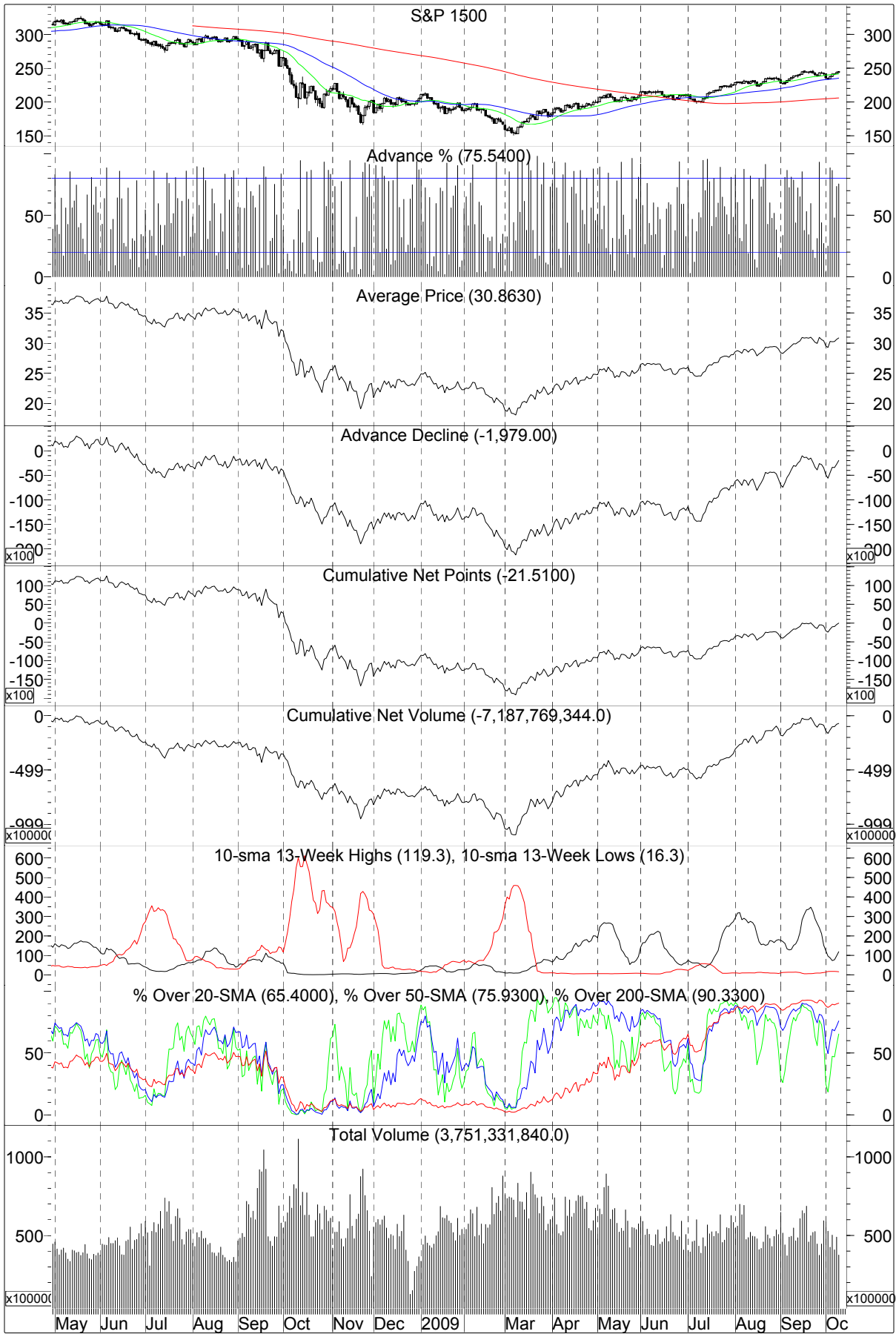


After hitting 8.4% on 10/2, which was the lowest since 7.2% on 3/9, the percent over 10-sma is 81.13% and entering the overbought zone.

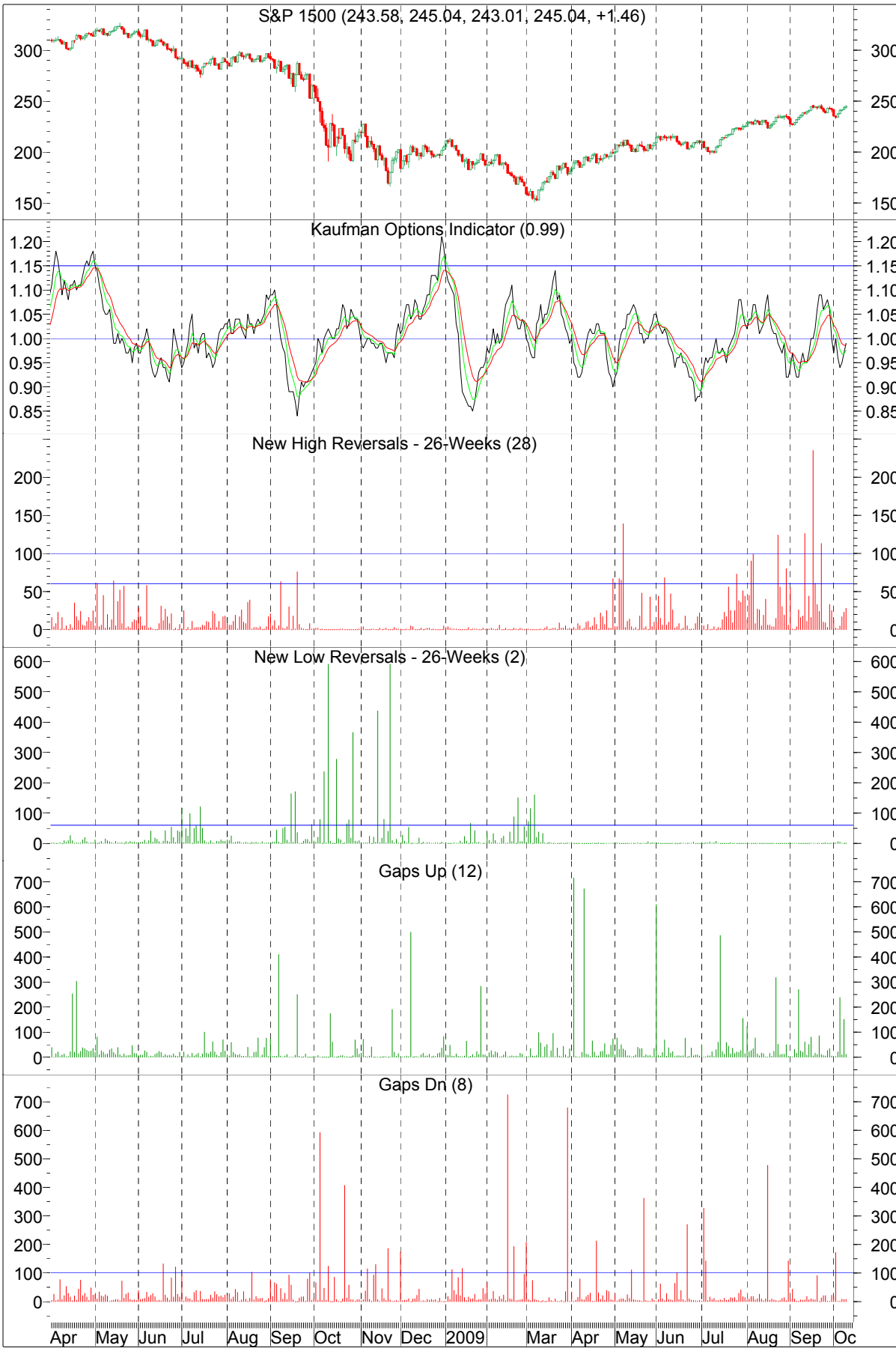
Other momentum indicators are not overbought, and the MACD is about to show a positive crossover.

13-week closing highs are below levels of September, but Friday's 179 52-week closing highs was the most since 187 on 7/13/2007.

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



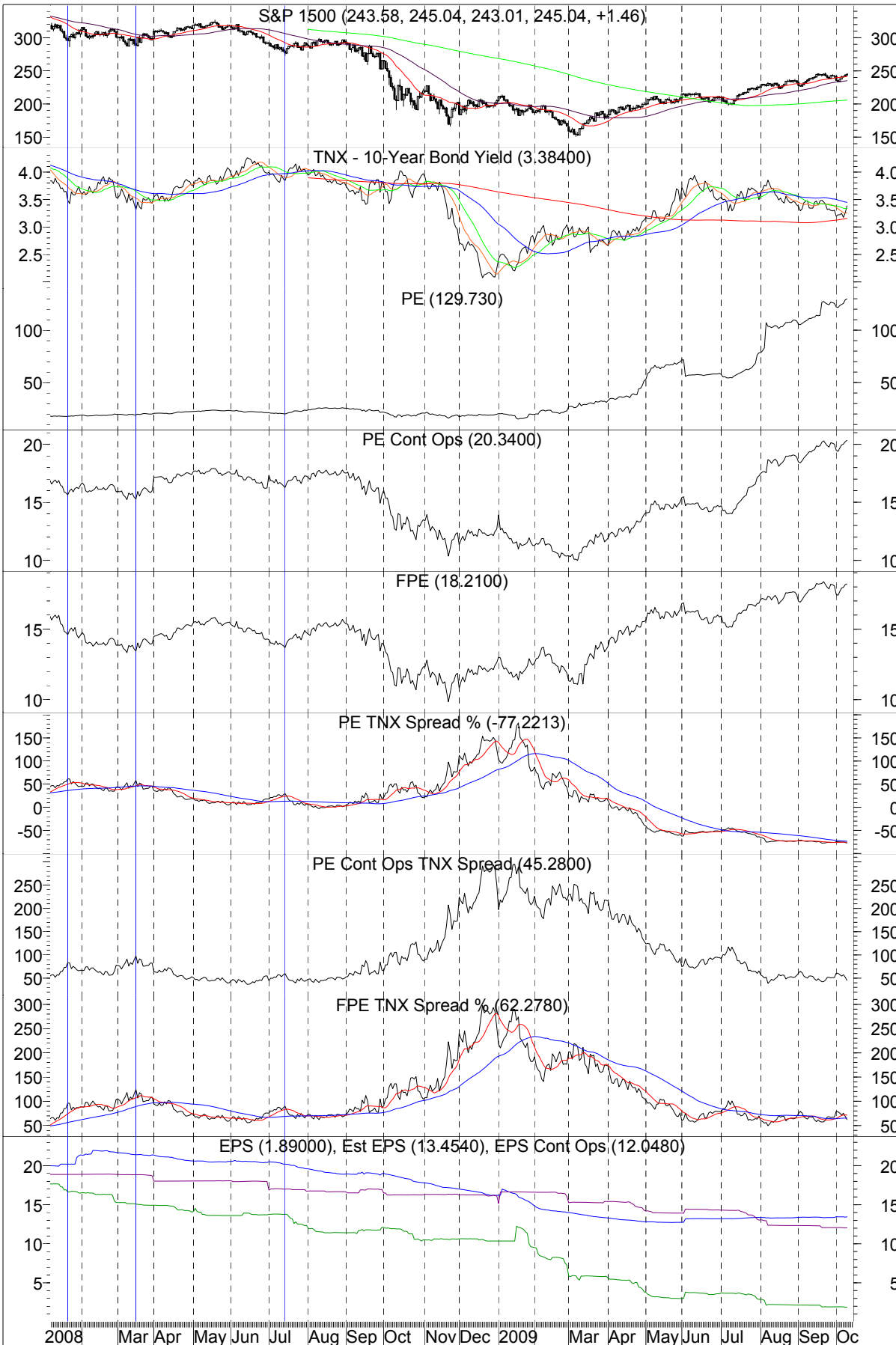
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Our proprietary options indicator is about neutral at 0.99.



Our statistics of supply (red) versus demand (green) show that sellers are stepping to the sidelines after a brief pickup in selling statistics. Unfortunately buying statistics are weak, leaving stocks vulnerable if investors change their post-March reluctance to sell.



Bond yields are bouncing off their 200-sma.

P/E ratios remains at high levels. We have discussed our concerns regarding valuations for a while, and as we get into earnings season many questions will be answered.

Earnings estimates (blue) bottomed in May and need to keep improving to justify valuations and the concept that operating leverage will help companies report upside surprises.



The U.S. Dollar Index remains in a down trend, but we wonder if the media attention is symptomatic of at least a short-term bottom. There is a positive divergence on the RSI daily chart.

Crude remains in a very tight range.

Gold has followed through from its breakout but is getting overbought.

Bond yield are bouncing off their 200-sma. The 50-sma (blue) is at 3.45%.