

Monday October 24, 2011

Closing prices of October 21, 2011

The rally off the October 4th lows continued last week as the S&P 500 advanced 1.12% for its third weekly gain in a row, the first such streak since February. The proliferation of lopsided 90% trading days (defined as over 90% of stocks either up or down during the session) continues as we had three more last week, making that thirty out of the last fifty-nine sessions based on the S&P 1500. There have been fifty-five so far in 2011. That compares to forty-seven for all of 2010, thirty-nine in 2008, and a mere fourteen back in 2006.

Two weeks ago we said we thought the early October low would hold and earnings would be a catalyst for a rally. Last week we said we were hoping earnings would be the catalyst for stocks to ignore their overbought condition and make a push above the August 31st high on the S&P 500 which was 1230.71. That is what happened, as Monday's big down day cured the overbought condition and stocks finished the week by breaking out of the trading range they have been mired in since August. Investors appear to be shrugging off concerns over European debt issues and concentrating on earnings season.

The improved technical picture of the market we discussed last week continued to strengthen. The S&P 500 is now well above the 50% retracement level of the entire move down from the May 2nd high. The S&P 500 remains over its 20 and 50 day moving averages, both of which are now sloping higher, and the 20-day has crossed back above the 50-day average. It hasn't been there since August. The index also remains above the much longer-term 400-day moving average, which it failed to move above multiple times recently. We recorded a breadth thrust buy signal two weeks ago, and the Advance Decline line is now at its best level since July 28th. On Friday the S&P 1500 recorded 124 13-week closing highs, the most since 164 on July 21st. The 10-day average of 13-week closing highs is decisively over the 10-day average of 13-week closing lows for the first time since June.

In the short-term stocks are not very overbought, but they are not far from important resistance. There is a resistance zone on the S&P 500 at the 1249 – 1257 area. In addition, some short-term negative divergences are beginning to develop so there may be a need for major indexes to consolidate soon. Also, our proprietary options indicator shows options buyers have become fairly optimistic, which can leave stocks vulnerable to drops. Still, there are many individual stocks where the charts look good and they can be bought.

Valuations based on spreads between equity and bond yields have plunged from levels we have never seen before as stocks and bond yields jumped up in tandem. They remain at a level where stocks should be attractive versus bonds. We are about one-quarter of the way through third quarter earnings season, and so far reports are coming in nicely.

One hundred thirty five of the S&P 500 have reported third quarter numbers. Of these 70.4% exceeded expectations, 9.6% were in line, and 20.0% disappointed. These are strong numbers. Current S&P 500 projected earnings for 2011 are just over \$99, and the 2012 number is about \$110. They currently project 2012 earnings growth of 10.77% over 2011. **A 13 P/E based on these numbers equates to an S&P 500 of 1291 and 1430 respectively.**

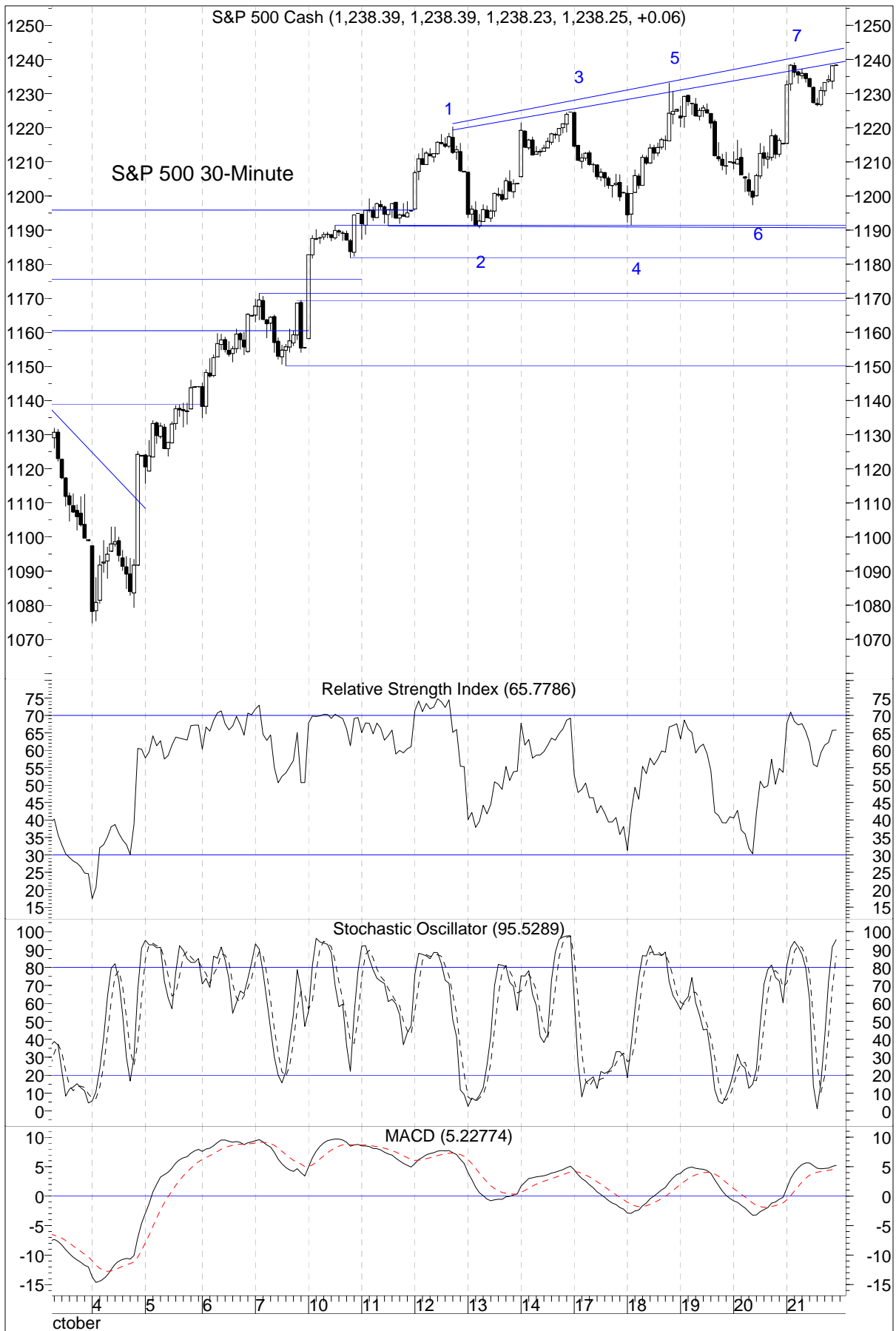
In summary, we are in a rally and think it should continue, although a pause can occur at any time. Investors still need to remain cautious, although we think the recent lows will hold and earnings season will continue to be a catalyst for a rally. European sovereign debt issues remain as a potential threat to equities, and we continue monitoring for any signs of a global economic slowdown. October can be extremely volatile, and is known for waterfall declines which have ended bear markets and downtrends. As we have said since early April, this is a short-term trader's market. Based on the S&P 500 the short-term and intermediate-term trends are up, while the long-term trend remains down.

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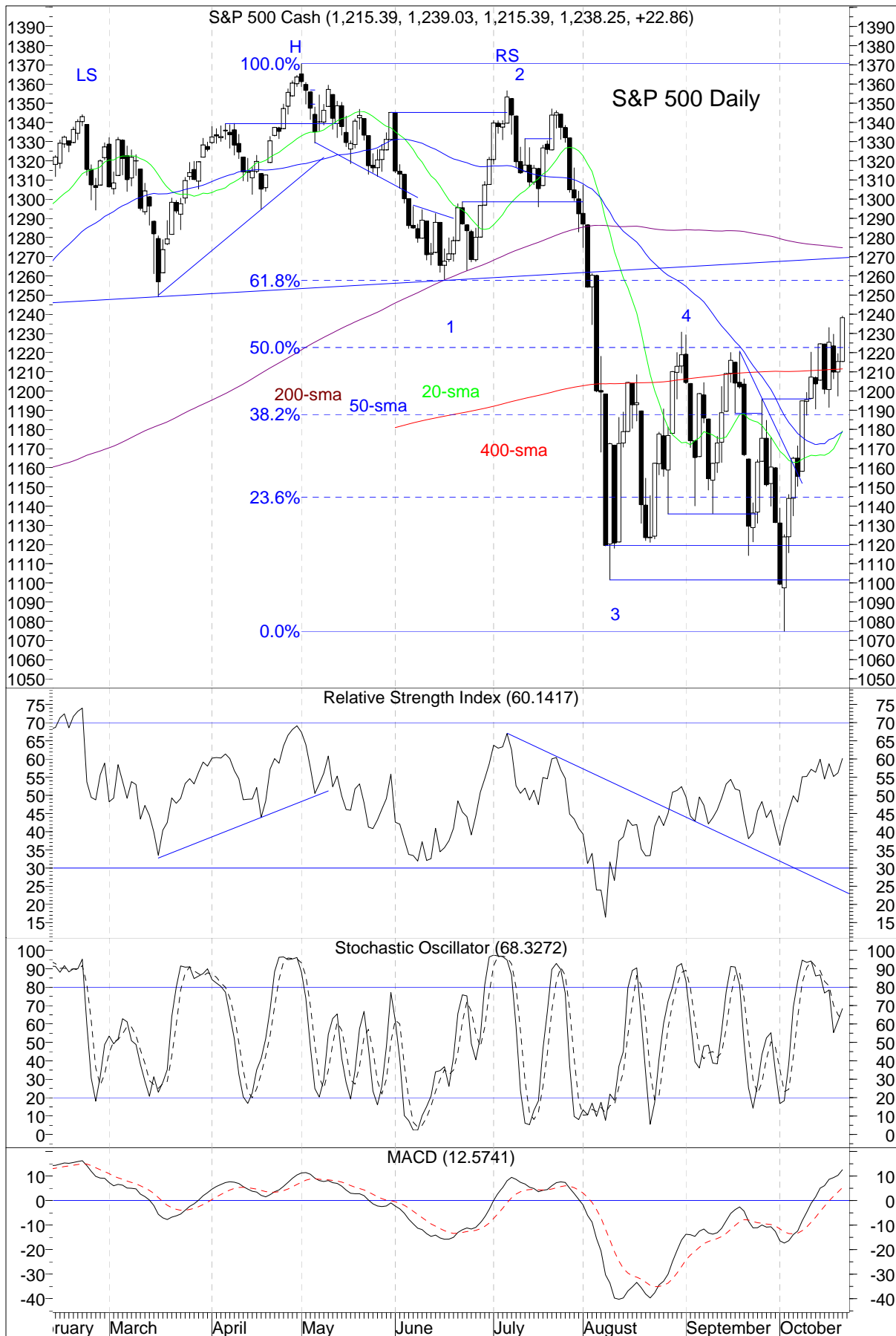
The Kaufman Report - Wayne S. Kaufman, CMT



A bearish broadening top on the 30-minute chart or a series of higher highs and higher lows?

A slight negative divergence on the RSI. 30-minute momentum indicators are at high or overbought levels.

The Kaufman Report - Wayne S. Kaufman, CMT



Friday was a nice breakout of the recent trading range on an intraday and closing basis. The 20-sma is crossing above the 50-sma. The index is well through the 50% retracement of the entire correction from the May top. The next Fibonacci level is 1257.58, the 61.8% retracement level. That is also the June bottom, and will be an important area of resistance. The March low was 1249.05.

Daily momentum is positive but there is a negative divergence on the stochastic.

The Kaufman Report - Wayne S. Kaufman, CMT

S&P 500 Cash (1,224.47, 1,239.03, 1,191.48, 1,238.25, +13.67)

S&P 500 Weekly



The third good week in a row for the S&P 500, the first such streak since February. There is a resistance zone at 1249 to 1257.

Weekly momentum is positive. The RSI is challenging a downtrend line.

The Kaufman Report - Wayne S. Kaufman, CMT

S&P 500 Cash (1,131.21, 1,239.03, 1,074.77, 1,238.25, +106.83)

S&P 500 Monthly

100.0%

61.8%

50.0%

38.2%

23.6%

0.0%

Relative Strength Index (52.7770)

Stochastic Oscillator (37.9012)

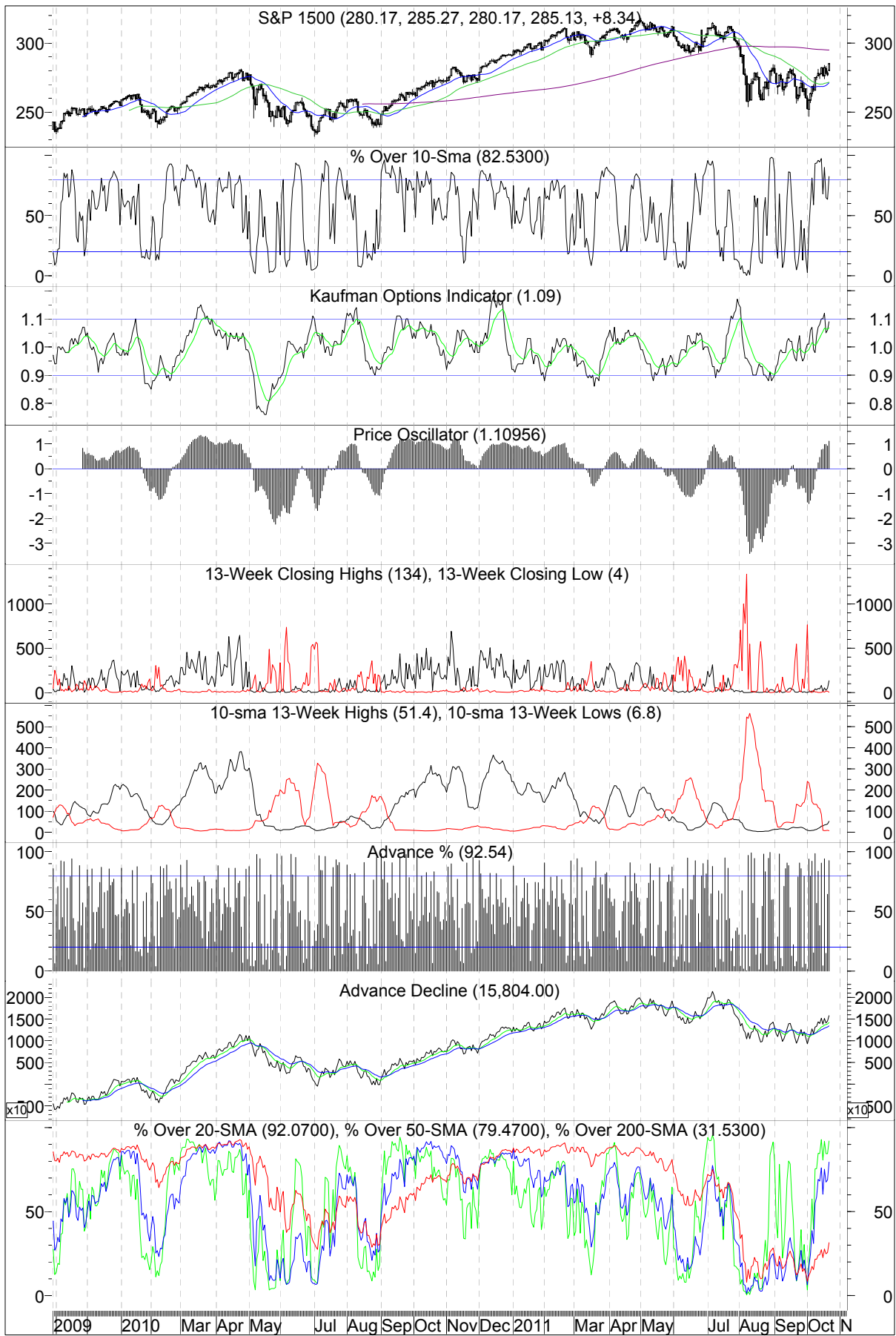
MACD (33.6587)

1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011

So far October is printing a bullish engulfing candle on the monthly chart.

Monthly momentum is mixed, but the negative indicators are barely so.

The Kaufman Report - Wayne S. Kaufman, CMT



A slight negative divergence as fewer stocks are over their 10-day moving average versus two weeks ago.

Options buyers have been buying lots of calls, which leaves stocks vulnerable to pullbacks.

Our price oscillator, a good indicator of trends, is well into positive territory.

13-week closing highs on Friday were 134, the most since 164 on July 21st.

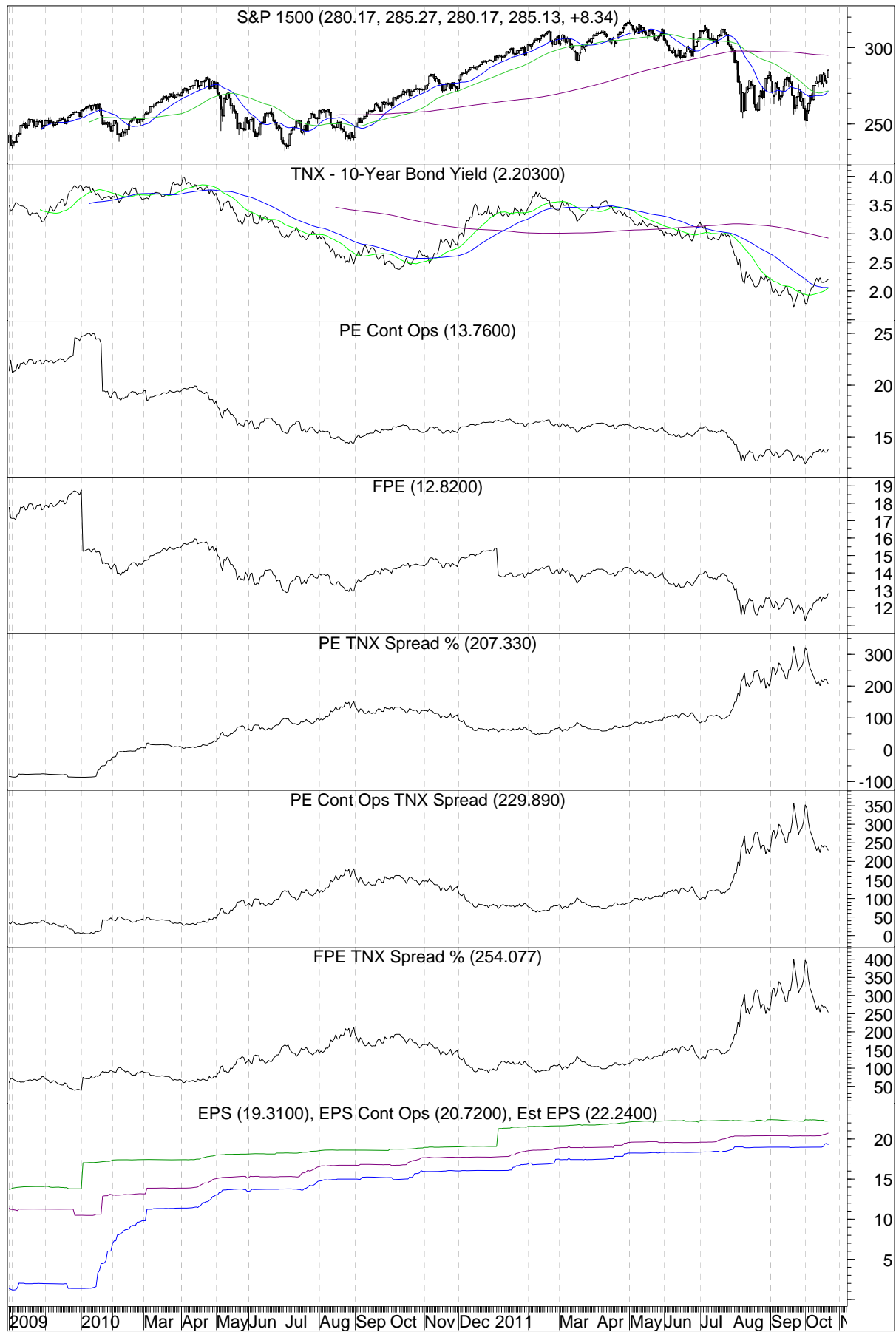
The 10-sma of closing highs is above its counterpart of closing lows for the first time since June.

Friday was the third 90%+ day of last week.

The AD line looks strong and is at its best level since July 28th.

These numbers look strong again, and even the longer-term percent over 200-sma is at its best level since 8/3/11.

The Kaufman Report - Wayne S. Kaufman, CMT



10-year bond yields are rising as the flight to safety subsides.

P/E ratios are trying to move out of their recent range. They are still relatively low.

Spreads between equity and bond yields are narrowing as yields and stocks move higher in tandem. They remain at levels where stocks are attractive versus bonds.

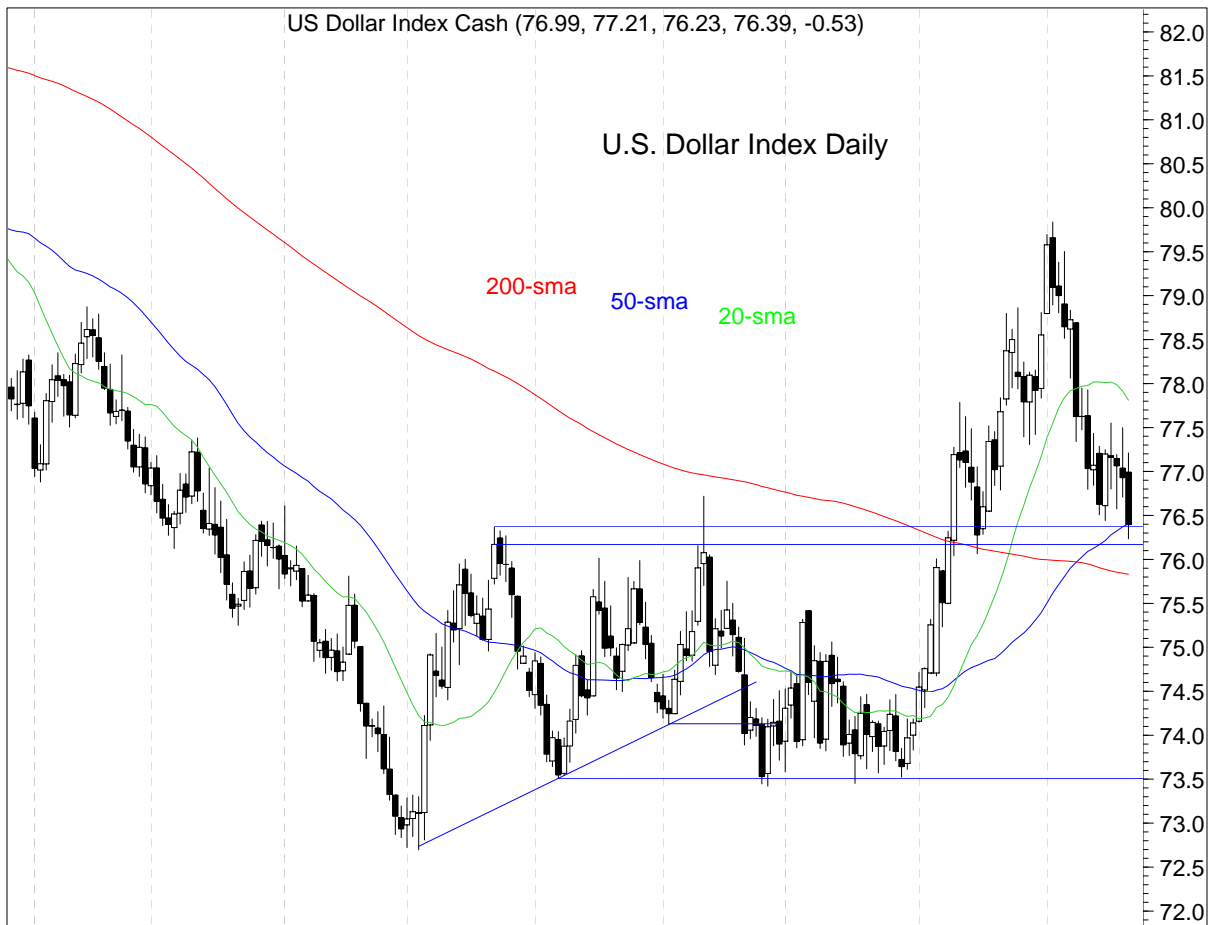
Not much movement here with 135 of the S&P 500 having reported earnings. 70.4% beat estimates, 9.6% have been in line, and 20.0% have disappointed.

The Kaufman Report - Wayne S. Kaufman, CMT

US Dollar Index Cash (76.99, 77.21, 76.23, 76.39, -0.53)

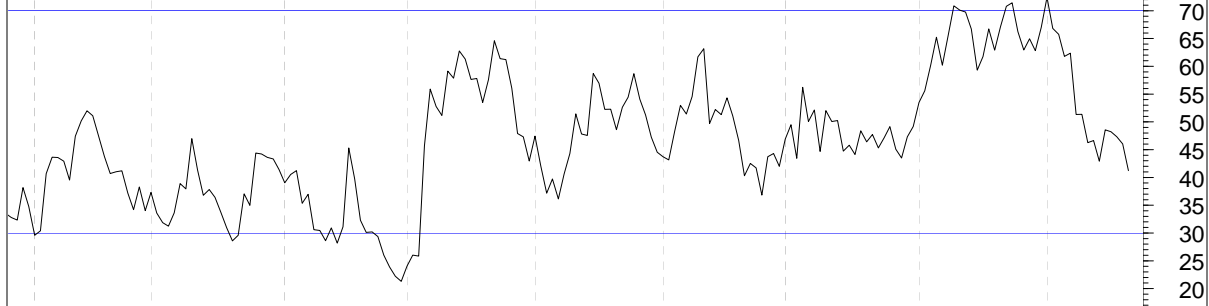
U.S. Dollar Index Daily

200-sma 50-sma 20-sma



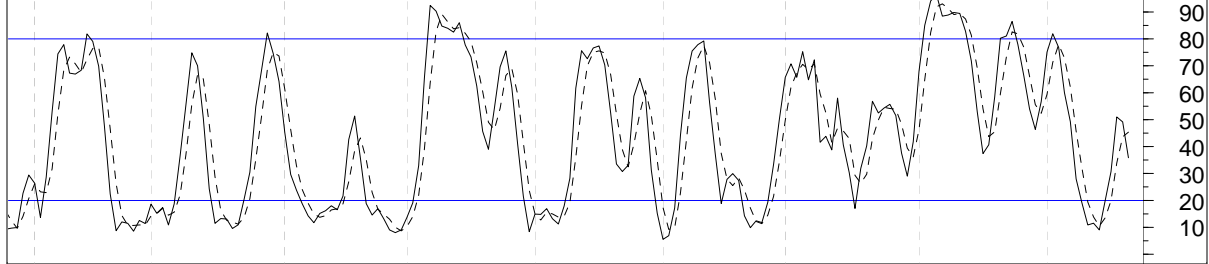
The U.S. Dollar Index has fallen to a support zone and is just above its 50-sma.

Relative Strength Index (41.2129)

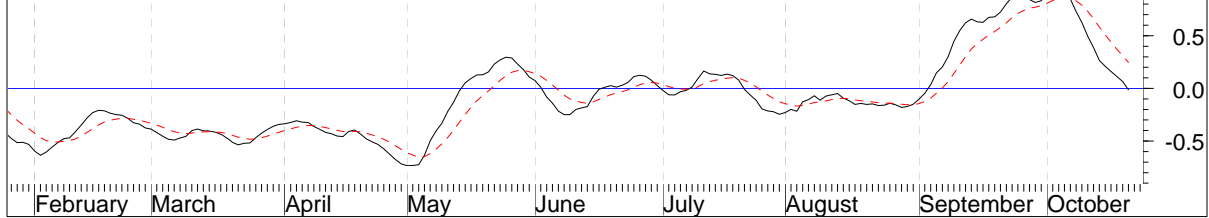


Daily momentum is negative.

Stochastic Oscillator (35.8474)



MACD (-0.01444)



US Dollar Index Cash (76.61, 77.55, 76.23, 76.39, -0.23)

U.S. Dollar Index Weekly



An inverted hammer on the weekly chart. Hammers are bottoming patterns.

Weekly momentum is mostly negative.

Indexes, Sectors, and Industry Groups

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Dow Jones Transportation	4813.24	2.20%	2.60%	2.60%	14.89%	14.89%	-5.75%	5627.85	7/7/2011	3950.66	10/4/2011
Dow Jones Industrials	11808.79	2.31%	1.41%	1.41%	8.20%	8.20%	2.00%	12876.00	5/2/2011	10404.49	10/4/2011
S&P 500	1238.24	1.88%	1.12%	1.12%	9.44%	9.44%	-1.54%	1370.58	5/2/2011	1074.77	10/4/2011
NYSE Composite	7431.16	2.16%	1.10%	1.10%	9.42%	9.42%	-6.69%	8718.25	5/2/2011	6414.89	10/4/2011
S&P 1500	285.16	1.93%	1.05%	1.05%	9.56%	9.56%	-1.97%	317.94	5/2/2011	247.50	10/4/2011
S&P Midcap 400	861.24	2.22%	0.63%	0.63%	10.24%	10.24%	-5.07%	1018.65	5/2/2011	731.62	10/4/2011
S&P Smallcap 600	392.97	2.28%	0.13%	0.13%	10.57%	10.57%	-5.47%	462.42	7/7/2011	334.10	10/4/2011
Bank of New York Mellon ADR	122.98	2.39%	-0.09%	-0.09%	9.22%	9.22%	-12.24%	151.73	5/2/2011	106.98	10/4/2011
Nasdaq Composite	2637.46	1.49%	-1.14%	-1.14%	9.19%	9.19%	-0.58%	2887.75	5/2/2011	2298.89	10/4/2011
Nasdaq 100	2335.93	1.29%	-1.52%	-1.52%	9.20%	9.20%	5.32%	2438.44	7/26/2011	2034.92	8/9/2011

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Financials	176.58	2.37%	3.93%	3.93%	11.02%	11.02%	-17.78%	231.18	2/16/2011	147.48	10/4/2011
Energy	512.35	1.83%	2.85%	2.85%	15.71%	15.71%	1.10%	599.69	5/2/2011	412.52	10/4/2011
Utilities	177.12	1.65%	2.79%	2.79%	3.72%	3.72%	11.16%	177.12	10/21/2011	149.11	8/9/2011
Consumer Discretionary	310.52	2.80%	1.64%	1.64%	12.70%	12.70%	5.07%	330.13	7/7/2011	261.24	10/4/2011
Consumer Staples	323.29	1.55%	1.52%	1.52%	5.40%	5.40%	6.49%	333.90	5/20/2011	290.40	8/9/2011
Industrials	281.62	1.92%	1.47%	1.47%	11.48%	11.48%	-6.48%	336.90	5/2/2011	238.89	10/4/2011
Health Care	383.09	1.87%	0.69%	0.69%	4.18%	4.18%	5.02%	421.69	5/19/2011	342.59	8/9/2011
Telecom Services	124.56	0.78%	0.20%	0.20%	2.09%	2.09%	-3.24%	136.43	5/31/2011	113.74	8/9/2011
Materials	210.01	2.55%	-0.31%	-0.31%	13.80%	13.80%	-12.35%	256.93	4/6/2011	174.61	10/4/2011
Information Technology	412.80	1.34%	-2.15%	-2.15%	9.15%	9.15%	2.04%	439.61	2/18/2011	357.37	8/19/2011

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Insurance	173.03	3.16%	5.49%	5.49%	13.18%	13.18%	-8.07%	202.29	2/18/2011	143.99	9/22/2011
Diversified Financials	243.94	1.79%	4.63%	4.63%	11.07%	11.07%	-27.27%	364.93	2/16/2011	198.18	10/4/2011
Automobiles & Components	94.77	4.72%	3.86%	3.86%	23.93%	23.93%	-19.79%	130.31	1/13/2011	71.16	10/4/2011
Real Estate	123.45	3.41%	3.59%	3.59%	9.01%	9.01%	2.38%	140.11	7/22/2011	105.72	10/4/2011
Transportation	319.77	2.16%	3.38%	3.38%	14.59%	14.59%	-3.29%	362.77	7/7/2011	266.62	10/4/2011
Energy	512.35	1.83%	2.85%	2.85%	15.71%	15.71%	1.10%	599.69	5/2/2011	412.52	10/4/2011
Utilities	177.12	1.65%	2.79%	2.79%	3.72%	3.72%	11.16%	177.12	10/21/2011	149.11	8/9/2011
Food & Staples Retailing	201.66	1.53%	2.70%	2.70%	7.01%	7.01%	3.05%	214.48	5/16/2011	178.65	8/9/2011
Household & Personal Products	400.67	1.97%	1.97%	1.97%	5.48%	5.48%	5.94%	403.63	5/17/2011	345.75	8/9/2011
Consumer Services	512.74	3.23%	1.53%	1.53%	9.31%	9.31%	9.63%	530.09	7/22/2011	441.69	10/21/2010
Retailing	547.54	2.10%	1.51%	1.51%	11.08%	11.08%	7.70%	559.79	7/7/2011	458.07	8/9/2011
Media	210.26	2.94%	1.45%	1.45%	14.42%	14.42%	6.04%	236.86	5/2/2011	173.60	10/4/2011
Consumer Durables & Apparel	177.79	2.89%	1.34%	1.34%	13.64%	13.64%	5.48%	187.42	7/7/2011	144.47	8/9/2011
Capital Goods	300.21	1.85%	1.07%	1.07%	11.15%	11.15%	-7.23%	365.91	5/2/2011	254.65	10/4/2011
Health Care Equip & Services	370.03	2.33%	1.03%	1.03%	3.75%	3.75%	3.04%	437.91	5/19/2011	332.83	10/4/2011
Food, Beverage & Tobacco	381.04	1.39%	0.92%	0.92%	4.79%	4.79%	8.12%	393.57	5/20/2011	339.54	11/29/2010
Banks	123.69	1.82%	0.59%	0.59%	9.31%	9.31%	-16.87%	160.90	2/15/2011	104.66	8/23/2011
Commercial & Professional Service	136.33	2.11%	0.57%	0.57%	5.82%	5.82%	-6.32%	158.79	5/19/2011	118.22	8/9/2011
Pharmaceuticals, Biotech & Life Sci	359.05	1.63%	0.52%	0.52%	4.40%	4.40%	6.35%	380.22	5/19/2011	315.10	8/9/2011
Semiconductors & Equipment	337.16	2.38%	0.26%	0.26%	12.30%	12.30%	-0.15%	380.50	2/18/2011	285.81	8/19/2011
Telecom Services	124.56	0.78%	0.20%	0.20%	2.09%	2.09%	-3.24%	136.43	5/31/2011	113.74	8/9/2011
Materials	210.01	2.55%	-0.31%	-0.31%	13.80%	13.80%	-12.35%	256.93	4/6/2011	174.61	10/4/2011
Software & Services	554.03	1.56%	-1.31%	-1.31%	9.66%	9.66%	5.25%	573.36	7/26/2011	469.23	8/19/2011
Technology Hardware & Equipmen	429.69	0.70%	-4.02%	-4.02%	7.49%	7.49%	-1.16%	483.22	2/9/2011	380.20	10/4/2011

INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Israel EIS	44.79	1.63%	4.50%	11.58%	11.58%	-25.99%	61.79	1/19/2011	38.57	10/4/2011
Vietnam VNM	17.94	3.34%	1.87%	4.00%	4.00%	-31.47%	30.34	12/13/2010	16.64	10/4/2011
United States SPY	123.97	1.90%	1.14%	9.56%	9.56%	-1.42%	137.18	8/1/2011	107.43	10/4/2011
Switzerland EWL	23.48	2.76%	0.99%	8.40%	8.40%	-6.38%	28.57	6/1/2011	20.67	9/23/2011
United Kingdom EWU	16.55	2.35%	0.85%	12.05%	12.05%	-4.72%	19.22	5/2/2011	14.04	10/4/2011
Netherlands EWN	18.54	2.77%	0.71%	13.12%	13.12%	-12.09%	24.04	5/2/2011	15.30	9/23/2011
Russia RSX	28.98	4.09%	0.52%	14.55%	14.55%	-23.56%	43.16	4/4/2011	23.23	10/4/2011
Sweden EWD	25.68	3.38%	0.51%	11.70%	11.70%	-17.77%	36.14	5/2/2011	21.41	10/4/2011
South Korea EWY	52.98	2.59%	0.30%	13.76%	13.76%	-13.42%	69.99	5/2/2011	44.67	10/4/2011
Germany EWG	20.87	4.19%	0.00%	14.23%	14.23%	-12.82%	29.05	5/2/2011	16.96	10/4/2011
Malaysia EWM	13.42	0.83%	-0.15%	10.14%	10.14%	-6.68%	15.48	7/1/2011	11.88	9/26/2011
Chile ECH	58.39	2.56%	-0.27%	9.76%	9.76%	-26.65%	80.35	12/20/2010	48.25	10/4/2011
Japan EWJ	9.59	1.05%	-0.31%	1.37%	1.37%	-12.10%	11.63	2/18/2011	9.17	9/12/2011
Indonesia IDX	28.72	2.50%	-1.00%	13.52%	13.52%	-1.32%	34.99	8/1/2011	23.16	10/4/2011
Canada EWC	27.23	1.83%	-1.02%	6.83%	6.83%	-12.16%	34.57	4/6/2011	23.48	10/4/2011
India IFN	24.23	1.34%	-1.02%	5.62%	5.62%	-28.46%	35.58	11/8/2010	22.08	10/4/2011
Italy EWI	13.73	2.92%	-1.22%	15.57%	15.57%	-16.18%	20.15	4/29/2011	10.88	9/23/2011
Australia EWA	23.02	2.13%	-1.29%	14.76%	14.76%	-9.51%	28.36	5/2/2011	18.91	10/4/2011
Belgium EWK	11.69	3.45%	-1.43%	6.27%	6.27%	-10.97%	15.65	5/2/2011	10.43	10/4/2011
Austria EWO	15.91	2.71%	-1.55%	6.00%	6.00%	-28.75%	24.50	4/27/2011	13.80	10/4/2011
Singapore EWS	11.72	1.38%	-1.60%	6.55%	6.55%	-15.38%	14.61	8/1/2011	10.28	10/4/2011
Spain EWP	35.15	2.78%	-1.65%	8.72%	8.72%	-4.33%	45.99	5/2/2011	29.40	9/12/2011
Latin America ILF	42.45	2.56%	-1.67%	9.18%	9.18%	-21.18%	55.38	4/6/2011	36.73	10/4/2011
France EWQ	21.24	2.96%	-1.72%	11.50%	11.50%	-13.13%	29.16	5/2/2011	17.88	10/4/2011
Emerging Markets EEM	38.86	2.85%	-1.86%	10.71%	10.71%	-18.44%	50.43	5/2/2011	33.42	10/4/2011
Taiwan EWT	12.57	1.82%	-1.99%	6.39%	6.39%	-19.56%	16.08	2/7/2011	11.51	10/4/2011
Brazil EWZ	57.55	2.24%	-2.11%	10.65%	10.65%	-25.65%	81.55	11/4/2010	49.25	10/4/2011
Hong Kong EWH	15.71	2.95%	-2.12%	9.63%	9.63%	-16.97%	20.24	11/8/2010	13.30	10/4/2011
South Africa EZA	60.83	3.43%	-2.22%	7.59%	7.59%	-18.55%	77.58	5/2/2011	54.64	10/4/2011
Mexico EWW	52.23	1.58%	-2.37%	6.64%	6.64%	-15.65%	64.65	5/2/2011	46.65	10/4/2011
BRIC EEB	36.88	2.25%	-2.74%	7.33%	7.33%	-20.07%	48.96	4/6/2011	32.27	10/4/2011
China 25 FXI	33.46	2.73%	-3.49%	8.53%	8.53%	-22.35%	47.99	11/8/2010	28.61	10/4/2011
Thailand THD	56.60	4.12%	-3.71%	6.31%	6.31%	-12.40%	72.53	8/1/2011	49.43	10/4/2011
Turkey TUR	46.83	3.01%	-5.14%	-1.58%	-1.58%	-29.27%	79.00	11/9/2010	42.30	8/10/2011

Commodities

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Coffee JO	62.58	5.95%	2.66%	8.78%	8.78%	-2.26%	81.13	5/2/2011	52.25	10/4/2011
Corn CORN	43.34	0.18%	0.81%	8.68%	8.68%	11.10%	50.69	1/19/2011	32.74	10/4/2011
OIL USO	33.85	1.56%	-0.06%	11.02%	11.02%	-13.21%	45.60	12/20/2010	29.10	10/4/2011
Timber CUT	17.01	2.10%	-0.35%	6.85%	6.85%	-17.55%	23.56	5/2/2011	15.02	10/4/2011
Grains GRU	6.37	-0.47%	-0.47%	6.34%	6.34%	-12.74%	8.15	11/8/2010	5.80	10/4/2011
Grains JJG	45.90	-0.15%	-0.76%	7.22%	7.22%	-13.54%	58.25	11/8/2010	41.95	10/4/2011
Heating Oil UHN	34.26	1.76%	-1.05%	8.75%	8.75%	14.74%	38.67	5/2/2011	26.11	10/4/2011
Palladium PALL	60.99	4.88%	-1.34%	1.65%	1.65%	-23.63%	85.33	5/2/2011	52.90	10/4/2011
Coal KOL	35.87	2.08%	-1.51%	18.15%	18.15%	-24.07%	51.87	5/2/2011	27.42	10/4/2011
Livestock COW	31.05	-0.61%	-1.62%	-0.42%	-0.42%	0.98%	33.09	5/2/2011	27.39	10/4/2011
Gold GLD	159.52	1.11%	-2.37%	0.92%	0.92%	14.99%	185.85	11/9/2010	127.80	8/10/2011
Natural Gas UNG	8.82	0.28%	-2.38%	-2.11%	-2.11%	-26.44%	12.96	5/2/2011	8.45	10/4/2011
Tin JJT	49.85	1.94%	-2.39%	7.27%	7.27%	-21.33%	79.90	2/18/2011	44.59	9/12/2011
Platinum PPLT	149.56	1.21%	-2.66%	-0.50%	-0.50%	-15.08%	189.20	8/1/2011	141.82	10/4/2011
Silver SLV	30.48	2.52%	-2.74%	5.43%	5.43%	0.99%	48.35	6/1/2011	22.52	9/23/2011
Sugar SGG	93.34	-1.66%	-5.00%	5.21%	5.21%	-0.22%	107.06	2/18/2011	65.34	9/12/2011
Cocoa NIB	35.62	-0.36%	-5.19%	-1.52%	-1.52%	-17.51%	53.59	8/1/2011	35.00	10/4/2011
Aluminum JJU	26.75	0.00%	-5.30%	-1.83%	-1.83%	-19.18%	36.94	4/27/2011	26.57	10/4/2011
Cotton BAL	60.00	-0.35%	-5.38%	-2.45%	-2.45%	-17.86%	117.33	8/1/2011	55.26	10/4/2011
Copper JJC	41.90	5.28%	-5.55%	4.20%	4.20%	-29.10%	61.69	5/2/2011	38.99	9/23/2011