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The Kaufman Report

Trade what you see, not what you think.

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Monday October 5, 2009

Closing prices of October 2, 2009

We have been stressing caution for the last two weeks based on overbought and overbullish conditions. At this point daily momentum indicators have moved to oversold or low levels, our options indicator is neutral, and major indexes are testing support levels. It is not unusual for markets to move to neutral levels ahead of important news, and with third quarter earnings season about to begin we think that is what is going on.

We have stressed three characteristics of this bull market. Those are huge global liquidity, the belief that companies have become lean and mean creating 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 entering the period where the upside surprise thesis and the good news cycle is being tested.

It's a simple story. Bad economic news or disappointing earnings could certainly change investor's desire to hang onto stocks, as evidenced by the reaction to disappointing economic data last week. All market participants need to be on their toes as earnings reports start to stream in.

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 trend is now down, while the intermediate-term and long-term trends are up. Traders should not hesitate to rotate out of lagging sectors and stocks and into leaders. We have been saying for a few weeks that very aggressive traders could enter short keeping in mind shorting is counter-trend at this time and they may have to cover quickly. They can maintain short positions with that same caveat, but with stocks getting oversold at support levels they probably want to wait for a bounce to enter new positions.

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Closing prices of October 2, 2009

The S&P 1500 (234.10) was down 0.50% Friday. Average price per share was also down 0.78%. Volume was 106% of its 10-day average and 102% of its 30-day average. 24.95% of the S&P 1500 stocks were up, with up volume at 29.96% and up points at 18.91%. Up Dollars was 8.74% of total dollars, and was 20% of its 10-day moving average. Down Dollars was 86% of its 10-day moving average.

For the week the index was down 1.91% on Increasing and above average weekly volume.

The S&P 1500 is down 3.12% in October, down 3.12% quarter-to-date, up 14.23% year-to-date, and down 34.31% from the peak of 356.38 on 10/11/07. Average price per share is \$29.29, down 32.25% from the peak of \$43.23 on 6/4/07.

Percent over 10-sma: 8.40%. 13-Week Closing Highs: 15. 13-Week Closing Lows: 40.

Kaufman Options Indicator: 1.00 Put/Call Ratio: 1.114.

P/E Ratios: **121.58 (before charges)**, 19.38 (continuing operations), 17.40 (analyst estimates).

P/E Yield 10-year Bond Yield Spreads: -74% (earnings bef. charges), 60% (earnings continuing ops), and 78% (projected earnings).

Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at \$19.18 and are now at \$1.93, a drop of 89.94%. Aggregate earnings from continuing operations peaked at \$19.95 in September 2007 and are now \$12.08, down 39.45%. Estimated aggregate earnings peaked at \$21.95 in February 2008 and are now \$13.45, a drop of 38.72%.

499 of the S&P 500 have reported 2nd quarter earnings. According to Bloomberg, 72.3% had positive surprises, 8.6% were in line, and 19.1% have been negative. The year-over-year change has been -28.9% on a share-weighted basis, -21.3% market cap-weighted and -25.5% non-weighted. Ex-financial stocks these numbers are -27.9%, -23.0%, and -27.3 %, respectively.

Federal Funds futures are pricing in a probability of 64.9% that the Fed will leave rates unchanged and a probability of 35.1% of cutting rates 25 basis points to 0.00% when they meet on November 4th. They are pricing in a probability of 64.0% of no change, 34.1% of cutting 25 basis points to 0.00%, and 1.9% of raising 25 basis points to 0.50% when they meet on December 16th.

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	Daily	WTD	MTD	QTD	YTD
Dow Jones Industrials	-0.23%	-1.84%	-2.31%	-2.31%	8.10%
Nasdaq 100	-0.24%	-1.87%	-3.29%	-3.29%	37.21%
S&P 500	-0.45%	-1.84%	-3.01%	-3.01%	13.50%
Nasdaq Composite	-0.46%	-2.05%	-3.50%	-3.50%	29.87%
S&P 1500	-0.50%	-1.91%	-3.12%	-3.12%	14.23%
Bank of New York Mellon ADR	-0.65%	-2.39%	-3.59%	-3.59%	23.84%
NYSE Composite	-0.65%	-2.18%	-3.42%	-3.42%	15.94%
S&P Smallcap 600	-0.80%	-3.04%	-3.89%	-3.89%	13.53%
S&P Midcap 400	-0.96%	-2.19%	-3.99%	-3.99%	23.25%

	Daily	WTD	MTD	QTD	YTD
Consumer Staples	0.56%	0.67%	-0.39%	-0.39%	6.29%
Financials	-0.08%	-2.19%	-4.45%	-4.45%	13.89%
Health Care	-0.26%	-1.05%	-1.91%	-1.91%	5.81%
Telecom Services	-0.30%	-1.25%	-1.87%	-1.87%	-4.87%
Information Technology	-0.34%	-2.02%	-3.20%	-3.20%	40.17%
Materials	-0.59%	-2.91%	-4.41%	-4.41%	29.86%
Energy	-0.67%	-2.85%	-3.42%	-3.42%	2.32%
Utilities	-0.88%	-2.45%	-2.65%	-2.65%	-1.99%
Consumer Discretionary	-1.29%	-1.58%	-3.56%	-3.56%	23.23%
Industrials	-1.45%	-3.46%	-3.99%	-3.99%	7.46%

	Daily	WTD	MTD	QTD	YTD
Food, Beverage & Tobacco	0.94%	1.20%	0.03%	0.03%	12.40%
Household & Personal Products	0.47%	-1.24%	-1.55%	-1.55%	-1.43%
Diversified Financials	0.24%	-1.52%	-4.11%	-4.11%	31.14%
Pharmaceuticals, Biotech & Life Sciences	0.02%	-0.43%	-1.62%	-1.62%	2.24%
Insurance	-0.05%	-0.29%	-3.60%	-3.60%	10.57%
Food & Staples Retailing	-0.17%	1.43%	-0.15%	-0.15%	2.83%
Transportation	-0.28%	-2.65%	-2.04%	-2.04%	6.40%
Software & Services	-0.30%	-1.88%	-3.08%	-3.08%	32.01%
Telecom Services	-0.30%	-1.25%	-1.87%	-1.87%	-4.87%
Technology Hardware & Equipment	-0.34%	-1.74%	-2.89%	-2.89%	47.98%
Semiconductors & Equipment	-0.41%	-3.37%	-4.56%	-4.56%	37.13%
Materials	-0.59%	-2.91%	-4.41%	-4.41%	29.86%
Banks	-0.61%	-4.86%	-5.64%	-5.64%	-11.39%
Energy	-0.67%	-2.85%	-3.42%	-3.42%	2.32%
Consumer Services	-0.67%	-0.85%	-2.73%	-2.73%	10.57%
Commercial & Professional Services	-0.79%	-2.00%	-3.65%	-3.65%	1.83%
Utilities	-0.88%	-2.45%	-2.65%	-2.65%	-1.99%
Health Care Equip & Services	-0.88%	-2.47%	-2.56%	-2.56%	14.52%
Real Estate	-1.03%	-4.30%	-5.76%	-5.76%	3.60%
Retailing	-1.13%	-1.66%	-2.99%	-2.99%	31.14%
Consumer Durables & Apparel	-1.38%	-0.72%	-5.00%	-5.00%	21.83%
Media	-1.50%	-1.48%	-3.67%	-3.67%	18.48%
Capital Goods	-1.83%	-3.80%	-4.55%	-4.55%	8.34%
Automobiles & Components	-3.15%	-5.87%	-6.53%	-6.53%	67.19%

INTERNATIONAL ETFs

	Daily	WTD	5-Days	MTD	QTD	YTD
Brazil EWZ	1.92%	2.96%	3.05%	-0.50%	-0.50%	92.34%
Latin America ILF	1.08%	2.30%	2.35%	-1.56%	-1.56%	65.84%
Mexico EWW	1.07%	0.21%	0.21%	-2.24%	-2.24%	32.32%
BRIC EEB	0.79%	0.71%	0.71%	-1.82%	-1.82%	65.53%
MSCI Emerging Markets EEM	0.03%	-0.61%	-0.60%	-2.70%	-2.70%	51.62%
Malaysia EWM	-0.10%	-1.29%	-1.27%	-0.39%	-0.39%	38.55%
China 25 FXI	-0.36%	-4.35%	-4.17%	-3.45%	-3.45%	35.82%
Germany EWG	-0.56%	-2.21%	-2.16%	-4.06%	-4.06%	10.77%
Canada EWC	-0.57%	-1.65%	-1.62%	-4.71%	-4.71%	39.30%
Spain EWP	-0.60%	-2.70%	-2.63%	-3.72%	-3.72%	27.33%
South Korea EWY	-0.62%	-3.50%	-3.38%	-4.79%	-4.79%	61.28%
Sweden EWD	-0.63%	-5.10%	-4.85%	-4.32%	-4.32%	42.48%
Taiwan EWT	-0.74%	2.07%	2.12%	-2.03%	-2.03%	59.03%
Hong Kong EWH	-0.79%	-1.60%	-1.58%	-3.48%	-3.48%	44.46%
Switzerland EWL	-0.85%	-1.71%	-1.68%	-3.27%	-3.27%	13.32%
Italy EWI	-1.01%	-2.24%	-2.19%	-3.82%	-3.82%	19.77%
Belgium EWK	-1.03%	-2.24%	-2.19%	-3.93%	-3.93%	42.96%
Singapore EWS	-1.05%	-2.12%	-2.08%	-3.44%	-3.44%	47.23%
France EWQ	-1.12%	-3.36%	-3.25%	-4.77%	-4.77%	18.16%
United Kingdom EWU	-1.12%	-2.20%	-2.15%	-3.29%	-3.29%	22.45%
Netherlands EWN	-1.28%	-2.34%	-2.29%	-4.14%	-4.14%	28.75%
Japan EWJ	-1.34%	-4.81%	-4.59%	-3.82%	-3.82%	-0.21%
Australia EWA	-1.56%	-2.61%	-2.55%	-5.13%	-5.13%	53.03%
Vietnam VNM	-1.57%	-4.02%	-3.87%	-4.00%		
Austria EWO	-2.36%	-2.37%	-2.31%	-5.65%	-5.65%	58.99%

S&P 500 Cash (1,029.71, 1,030.60, 1,019.95, 1,025.21, -4.64)



The S&P 500 found support at its 50-sma on Friday. In doing so it printed a small hammer candle. Over the next couple of days it will test the lower trend line of the bearish rising wedge pattern.

Momentum indicators are moving lower. They are not yet oversold, although they are at levels where they can bottom.



The weekly chart of the S&P 500 shows it has fallen back below the 80-week moving average, which is at 1044. We have stressed the importance of this line many times. It has also fallen below its daily counterpart, the 400-sma, which is now at 1053.

Weekly momentum indicators are moving down from high levels.

NASDAQ 100 (1,656.77, 1,676.22, 1,656.57, 1,662.49, -3.92)



The Nasdaq 100 has moved lower since printing a bearish shooting star candle on September 23rd. It printed an inverted hammer on Friday. Hammers are bottoming candles. Like the S&P 500 it too is near its trend line connecting the March and July lows.

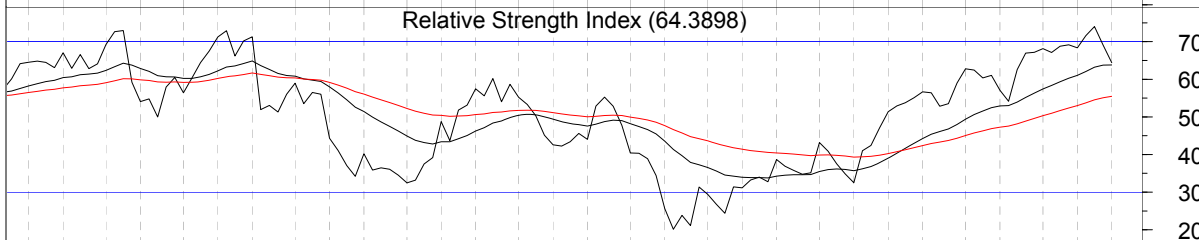
Momentum indicators are not fully oversold, but are at levels where they could bottom.

NASDAQ 100 (1,702.95, 1,733.79, 1,656.57, 1,662.49, -31.66)



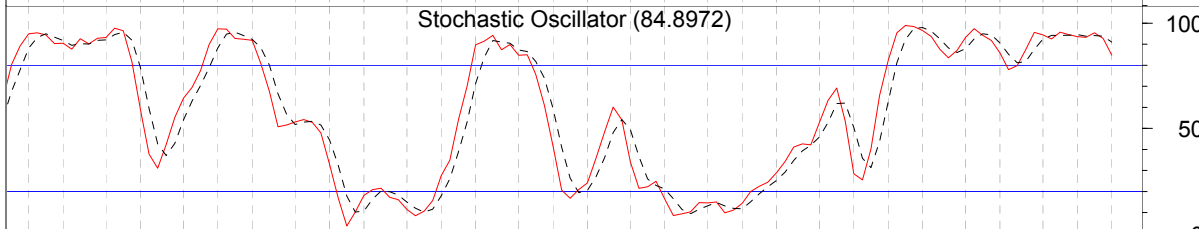
The Nasdaq 100 printed a bearish shooting star candle two weeks ago on its weekly chart.

Relative Strength Index (64.3898)

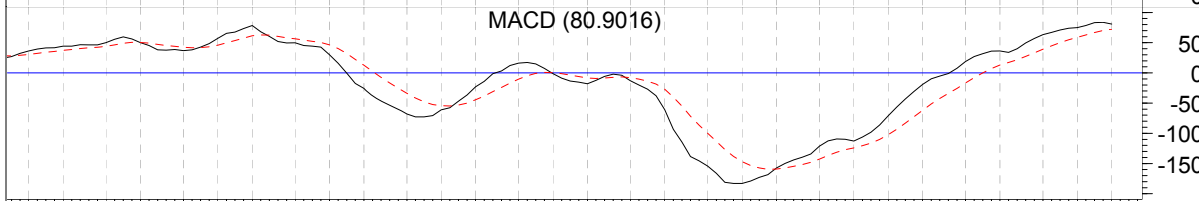


Momentum indicators are turning down from high levels.

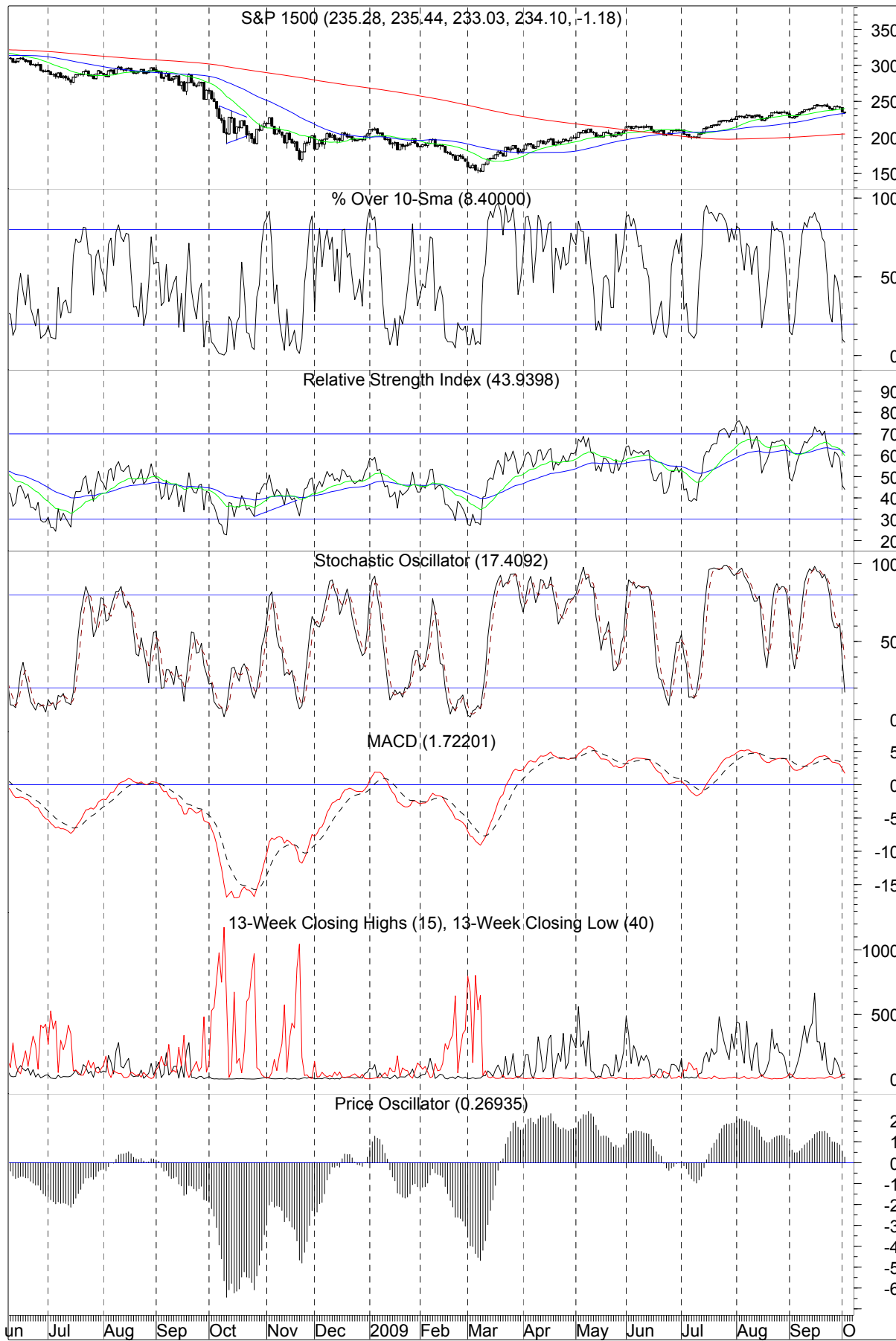
Stochastic Oscillator (84.8972)



MACD (80.9016)



M J J A S O N D 2008 M A M J J A S O N D 2009 M A M J J A S O

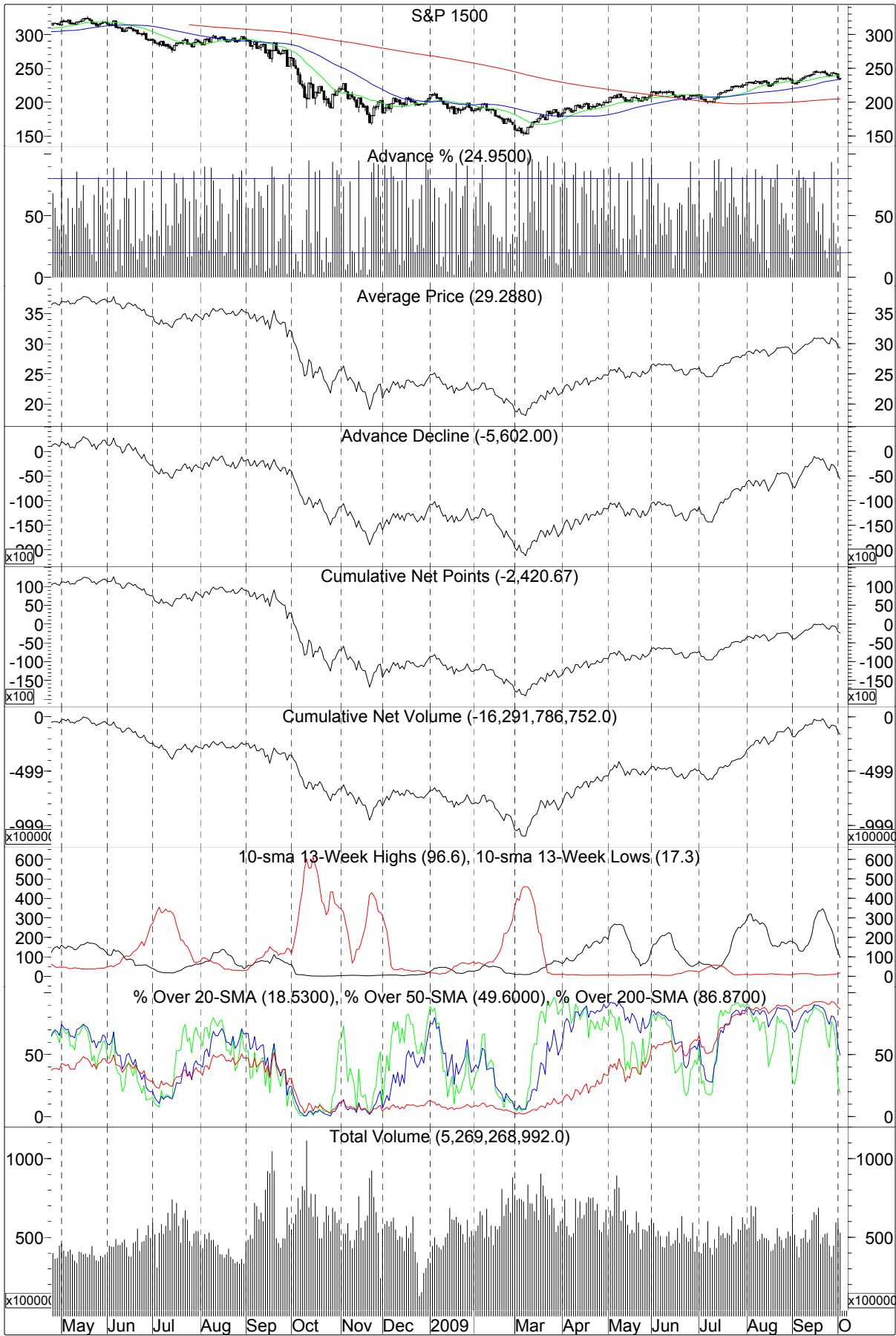


At 8.4% the percent over 10-sma is the lowest since 7.2% on 3/9.

Momentum indicators are not completely oversold but are at levels where they could bottom. The 40 area on the RSI is usually support in bull markets.

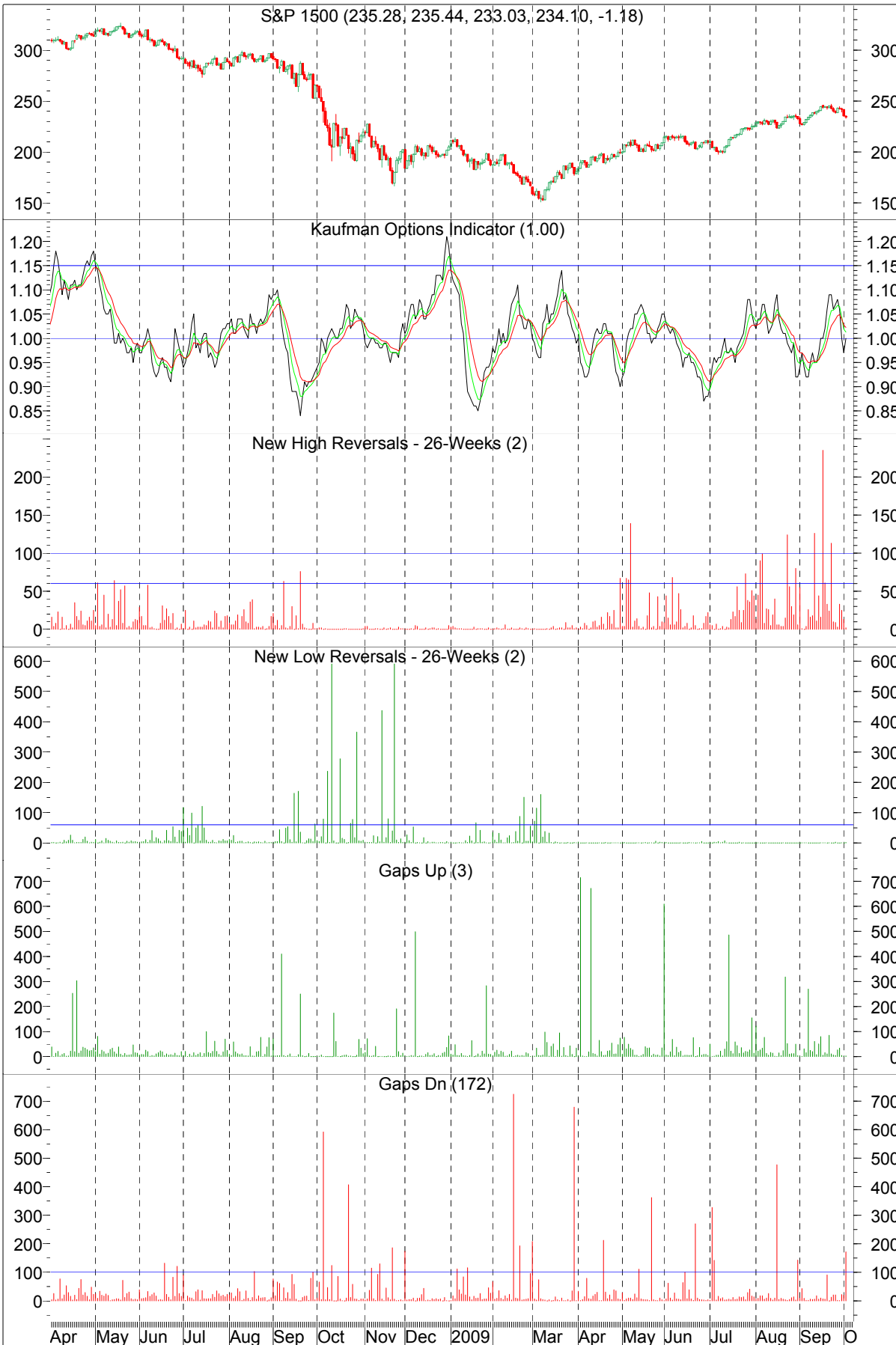
13-week closing lows are increasing but are still below levels seen in July.

Our price oscillator, a good indicator of trends, is still in positive territory, but just barely.



With one exception daily breadth has been poor for the last two weeks.

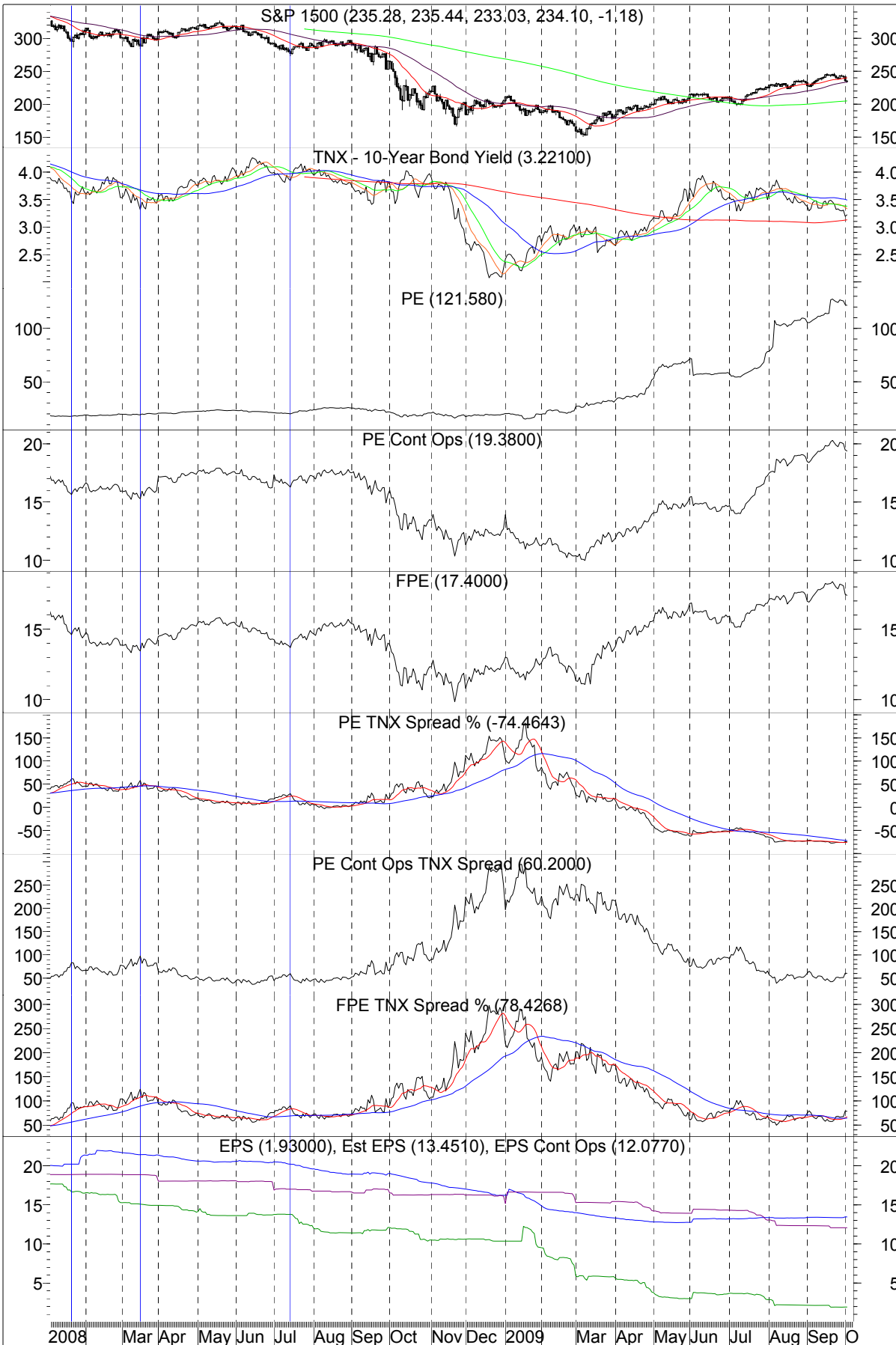
The percent over 20-sma is at a level where it has bottomed during this bull market.



Our proprietary options indicator warned of too much optimism recently. It is now neutral. We prefer to see pessimism for an indication of an important bottom.

The Kaufman Report - Wayne S. Kaufman, CMT





P/E ratios are moving lower as equities drop.

Spreads between equity and bond yields are widening as stock prices and bond yields move lower in tandem.

Earnings had better show some improvement as we get into Q3 earnings season.



The U.S. Dollar Index is above its 20-sma but below its 50-sma. The amazing inverse relationship between equities and the dollar remains intact.

Crude oil continues to trade in a sideways channel.

So far gold is hanging onto its recent breakout.