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The Kaufman Report

Trade what you see, not what you think.

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Monday September 14, 2009

Closing prices of September 11, 2009

Stocks continued their rebound off oversold levels last week as the major indexes recorded new post-March highs. The new highs were confirmed by new highs in internal statistics such as the advance decline line, net cumulative points and volume, and average price per share. For followers of Dow Theory the new high in the Dow Industrials was confirmed by a new high in the Dow Transports.

In the short-term stocks are overbought, and on Friday we saw 126 new high reversals, which is a sign of an increased desire on the part of investors to take profits. On August 24th there were 124 new high reversals which signaled a short-term top but not the end of the rally. Therefore, investors want to be cautious with entry points. Still, every time stocks reach a point where the rally seems ready to fade new information on the economy or company forecasts comes out which investors view positively and stocks move higher.

The next few weeks promise to be very interesting as we have a quadruple witching options expiration on September 18th, an FOMC meeting on September 23rd, and the end of the third quarter which brings with it earnings pre-announcement season. A lack of negative pre-announcements, or more positive announcements would certainly be welcome at this stage of the rally. More announcements of increased guidance would help allay our concerns about valuations. P/E ratios continue to move to levels which are troublesome while earnings and analyst forecasts show no real progress. This needs to change as we get into third quarter earnings season.

For months we have said the most important factors in this tremendous rally have been huge global liquidity and the reluctance of investors to sell equities. Those factors remain intact and in spite of demand statistics for stocks not being impressive, selling statistics have been even more muted. As long as sellers remain unmotivated the path of least resistance is up, and we hope the FOMC meeting and pre-announcement season does nothing to change investor's desire to hold equities.

September is known as the worst month of the year, and October is famous for market crashes. Many market watchers have been calling for a major plunge to occur during this period, although we have said we didn't see that happening. A sharp correction is certainly a possibility we will watch for, but as always, the more market participants there are expecting a certain outcome the less likely it is to occur. We are concerned by the capitulation of some bearish CNBC commentators last week. We were happier when they were warning viewers about this time period. Complacency is not a good thing.

We will remain on guard for any signs of a change in trend. We think there is the potential for a deep correction at some point. We are watching closely as the 400-day moving average on the S&P 500 comes into play. However, as we have been saying for some time, 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. Caution is advised regarding entry points and stop losses should be used to keep losses manageable. Very aggressive traders can enter short keeping in mind shorting is counter-trend at this time and they may have to cover quickly.

IMPORTANT DISCLOSURES

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The S&P 1500 (238.28) was down 0.117% Friday. Average price per share was down 0.06%. Volume was 93% of its 10-day average and 91% of its 30-day average. 43.83% of the S&P 1500 stocks were up, with up volume at 39.88% and up points at 47.70%. Up Dollars was 37.66% of total dollars, and was 43% of its 10-day moving average. Down Dollars was 84% of its 10-day moving average.

For the week the index was up 4.08%.

The S&P 1500 is up 2.34% in September, up 13.85% quarter-to-date, up 16.27% year-to-date, and down 33.14% from the peak of 356.38 on 10/11/07. Average price per share is \$29.87, down 30.90% from the peak of \$43.23 on 6/4/07.

Percent over 10-sma: 81.47%. 13-Week Closing Highs: 277. 13-Week Closing Lows: 9.

Put/Call Ratio: 0.884. Kaufman Options Indicator: 0.95.

P/E Ratios: **111.22 (before charges)**, 19.34 (continuing operations), 17.80 (analyst estimates).

P/E Yield 10-year Bond Yield Spreads: **-73% (earnings bef. charges)**, 55% (earnings continuing ops), and 68% (projected earnings).

Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at \$19.18 and **are now at \$2.14, a drop of 88.84%**. Aggregate earnings from continuing operations peaked at \$19.95 in September 2007 and **are now \$12.32, down 38.25%**. Estimated aggregate earnings peaked at \$21.95 in February 2008 and **are now \$13.39, a drop of 39.00%**.

496 of the S&P 500 have reported 2nd quarter earnings. According to Bloomberg, 72.2% had positive surprises, 8.8% were in line, and 19.0% 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 -27.4 %, respectively.

Federal Funds futures are pricing in a probability of 68.0% that the Fed will leave rates unchanged and a probability of 32.0% of cutting rates 25 basis points to 0.00% when they meet on September 23rd. They are pricing in a probability of 67.2% of no change, 31.3 of cutting 25 basis points to 0.00%, and 1.5% of raising 25 basis points to 0.50% when they meet on November 4th.

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	Daily	WTD	MTD	QTD	YTD
S&P Midcap 400	0.11%	5.28%	3.80%	17.52%	26.22%
Nasdaq 100	-0.04%	4.95%	3.71%	14.09%	39.10%
NYSE Composite	-0.10%	4.54%	3.02%	15.90%	18.88%
S&P 1500	-0.12%	4.08%	2.34%	13.85%	16.27%
S&P 500	-0.14%	3.94%	2.17%	13.42%	15.44%
Nasdaq Composite	-0.15%	4.93%	3.58%	13.40%	31.95%
S&P Smallcap 600	-0.18%	4.95%	3.22%	16.26%	16.09%
Dow Jones Industrials	-0.23%	2.79%	1.15%	13.71%	9.45%
Bank of New York Mellon ADR	-0.34%	5.50%	4.42%	18.58%	27.69%

	Daily	WTD	MTD	QTD	YTD
Industrials	0.44%	6.29%	5.28%	19.77%	10.56%
Telecom Services	0.28%	5.28%	2.29%	3.41%	-3.55%
Consumer Staples	0.23%	2.40%	1.90%	9.05%	5.30%
Energy	0.03%	5.85%	4.09%	8.96%	5.43%
Health Care	-0.06%	2.49%	0.99%	9.01%	7.97%
Information Technology	-0.14%	4.47%	2.93%	14.98%	42.67%
Materials	-0.17%	3.97%	3.41%	19.47%	34.14%
Utilities	-0.36%	0.02%	-1.23%	2.59%	-1.60%
Consumer Discretionary	-0.45%	4.62%	3.33%	16.78%	25.56%
Financials	-0.82%	3.01%	-1.15%	21.36%	15.59%

	Daily	WTD	MTD	QTD	YTD
Transportation	1.68%	7.52%	7.95%	22.70%	14.77%
Food, Beverage & Tobacco	0.72%	2.57%	2.49%	8.37%	10.61%
Commercial & Professional Services	0.71%	3.20%	2.04%	10.06%	4.21%
Telecom Services	0.28%	5.28%	2.29%	3.41%	-3.55%
Software & Services	0.11%	4.48%	2.92%	9.79%	33.76%
Technology Hardware & Equipment	0.07%	4.91%	3.76%	17.81%	49.76%
Capital Goods	0.05%	6.23%	4.81%	19.88%	10.01%
Energy	0.03%	5.85%	4.09%	8.96%	5.43%
Media	-0.03%	9.07%	6.97%	20.17%	22.43%
Pharmaceuticals, Biotech & Life Sciences	-0.04%	2.43%	0.24%	7.19%	2.69%
Health Care Equip & Services	-0.10%	2.62%	2.68%	13.20%	21.06%
Household & Personal Products	-0.12%	4.69%	1.88%	9.24%	-3.23%
Materials	-0.17%	3.97%	3.41%	19.47%	34.14%
Insurance	-0.18%	2.78%	-1.14%	27.53%	11.95%
Real Estate	-0.19%	8.54%	2.79%	26.21%	5.35%
Consumer Services	-0.25%	2.54%	1.17%	7.61%	8.71%
Utilities	-0.36%	0.02%	-1.23%	2.59%	-1.60%
Food & Staples Retailing	-0.40%	0.04%	0.77%	10.23%	4.13%
Consumer Durables & Apparel	-0.52%	4.38%	2.18%	23.75%	22.34%
Banks	-0.77%	2.63%	-2.23%	16.30%	-9.53%
Retailing	-0.83%	2.29%	2.15%	15.45%	33.34%
Automobiles & Components	-0.87%	4.43%	1.77%	27.42%	85.40%
Diversified Financials	-1.13%	2.50%	-1.29%	20.68%	32.88%
Semiconductors & Equipment	-1.52%	2.95%	0.24%	19.99%	44.24%

	Daily	WTD	5-Days	MTD	QTD	YTD
Mexico EWW	0.93%	4.51%	6.02%	4.95%	20.81%	37.99%
Canada EWC	0.85%	3.13%	4.91%	5.17%	16.76%	43.49%
South Korea EWY	0.38%	3.49%	4.33%	7.74%	28.80%	60.21%
Malaysia EWM	0.10%	2.54%	3.70%	4.24%	13.37%	38.41%
MSCI Emerging Markets EEM	0.05%	4.01%	6.02%	7.22%	17.47%	51.62%
Germany EWG	0.05%	5.56%	7.86%	4.40%	21.41%	13.58%
Latin America ILF	0.00%	4.54%	6.81%	6.25%	17.36%	60.07%
Switzerland EWL	-0.09%	4.25%	5.43%	2.69%	20.50%	15.10%
Japan EWJ	-0.10%	2.39%	2.18%	0.68%	9.12%	7.41%
France EWQ	-0.12%	5.21%	6.94%	3.69%	23.40%	20.69%
Hong Kong EWH	-0.13%	3.83%	6.99%	7.14%	12.45%	48.99%
Belgium EWK	-0.16%	5.71%	7.31%	5.98%	26.56%	46.28%
BRIC EEB	-0.16%	4.28%	7.19%	7.84%	16.04%	61.37%
Spain EWP	-0.19%	2.69%	5.21%	1.53%	20.53%	28.18%
Australia EWA	-0.19%	4.38%	6.15%	5.72%	27.56%	52.96%
Austria EWO	-0.19%	5.18%	6.83%	3.89%	30.77%	62.21%
Italy EWI	-0.19%	4.96%	6.76%	4.24%	22.60%	21.48%
Taiwan EWT	-0.25%	3.55%	4.36%	10.42%	18.63%	57.71%
Singapore EWS	-0.37%	2.35%	3.85%	5.38%	19.51%	52.91%
China 25 FXI	-0.44%	3.07%	6.83%	7.84%	10.48%	45.72%
Netherlands EWN	-0.56%	5.82%	7.82%	5.02%	27.19%	30.36%
United Kingdom EWU	-0.57%	3.89%	5.49%	5.35%	19.23%	28.57%
Brazil EWZ	-0.65%	4.45%	7.37%	7.37%	17.99%	78.62%
Sweden EWD	-0.84%	5.29%	8.13%	3.27%	27.85%	52.19%

S&P 500 Cash (1,043.92, 1,048.18, 1,038.40, 1,042.73, -1.41)



After a terrific five day rally with a new high on Thursday the S&P 500 printed a doji candle on Friday, a sign of indecision frequently seen at the end of moves.

The stochastic is in the overbought zone while the MACD is showing a positive crossover.



The weekly chart of the S&P 500 shows it is just under the 80-week moving average which is now at 1053.45. On the daily chart the 400-sma is at 1064.30. This moving average is of extreme importance relative to interpreting the long-term trend of stocks.

Our momentum indicators remain at high levels with the stochastic showing a negative crossover from the overbought zone.

NASDAQ 100 (1,684.84, 1,689.68, 1,674.14, 1,685.46, -0.70)



The Nasdaq 100 also printed a doji candle on Friday after making a new high on Thursday. Doji are signs of indecision.

The MACD is showing a positive crossover.

NASDAQ 100 (1,651.64, 1,689.68, 1,643.44, 1,685.46, +47.39)



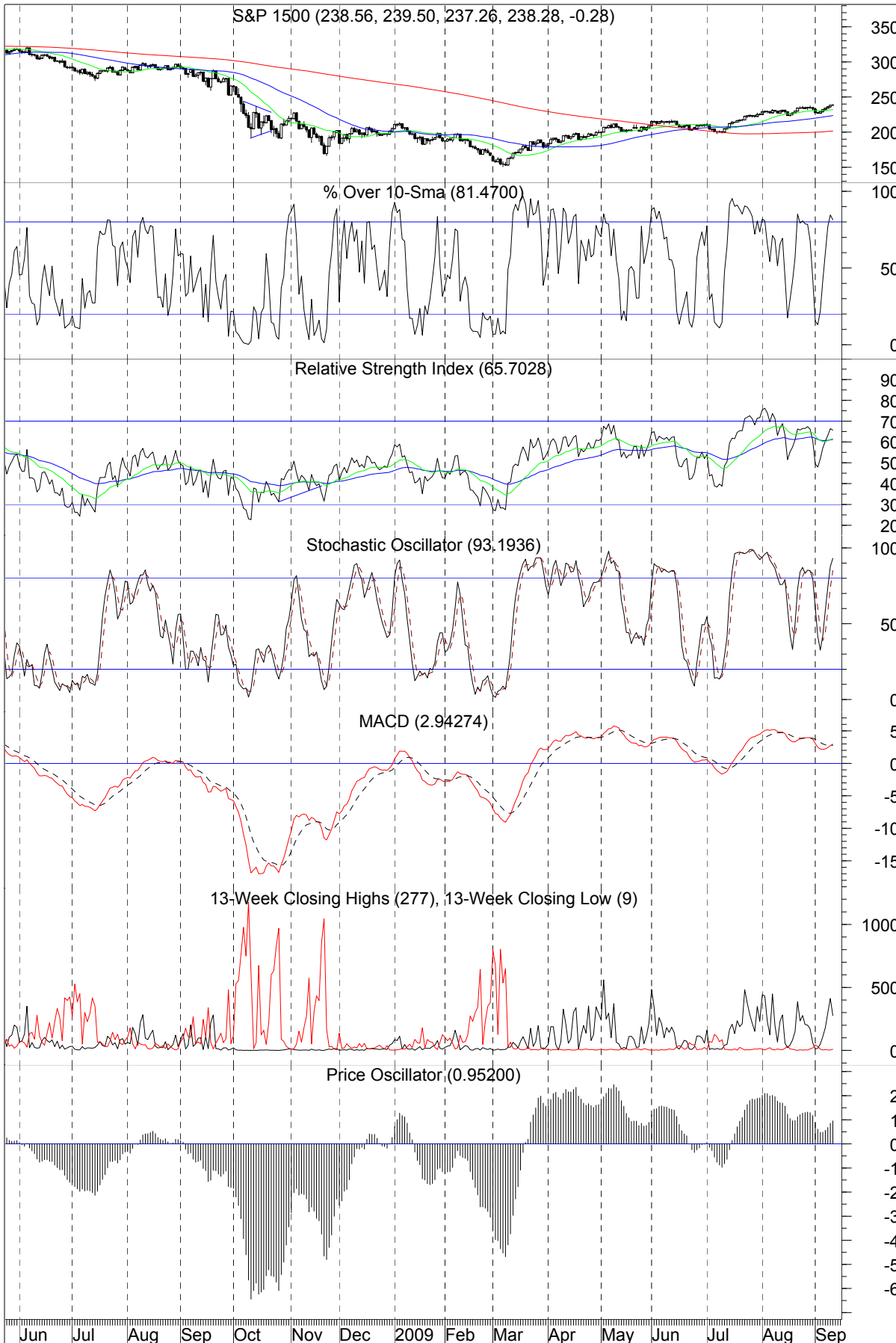
The weekly chart of the Nasdaq 100 shows it breaking through resistance last week.

Unlike the S&P 500, the Nasdaq 100 is well above its 400-sma which is at 1547. It crossed above it in July and has remained there since, while testing it just one time in August.

Momentum indicators remain at high levels but have not turned down yet. The weekly RSI is entering the overbought zone.



The Dow Transportation Index made a new high last week along with the Dow Jones Industrials, confirming the new high in the Industrials according to Dow Theory.

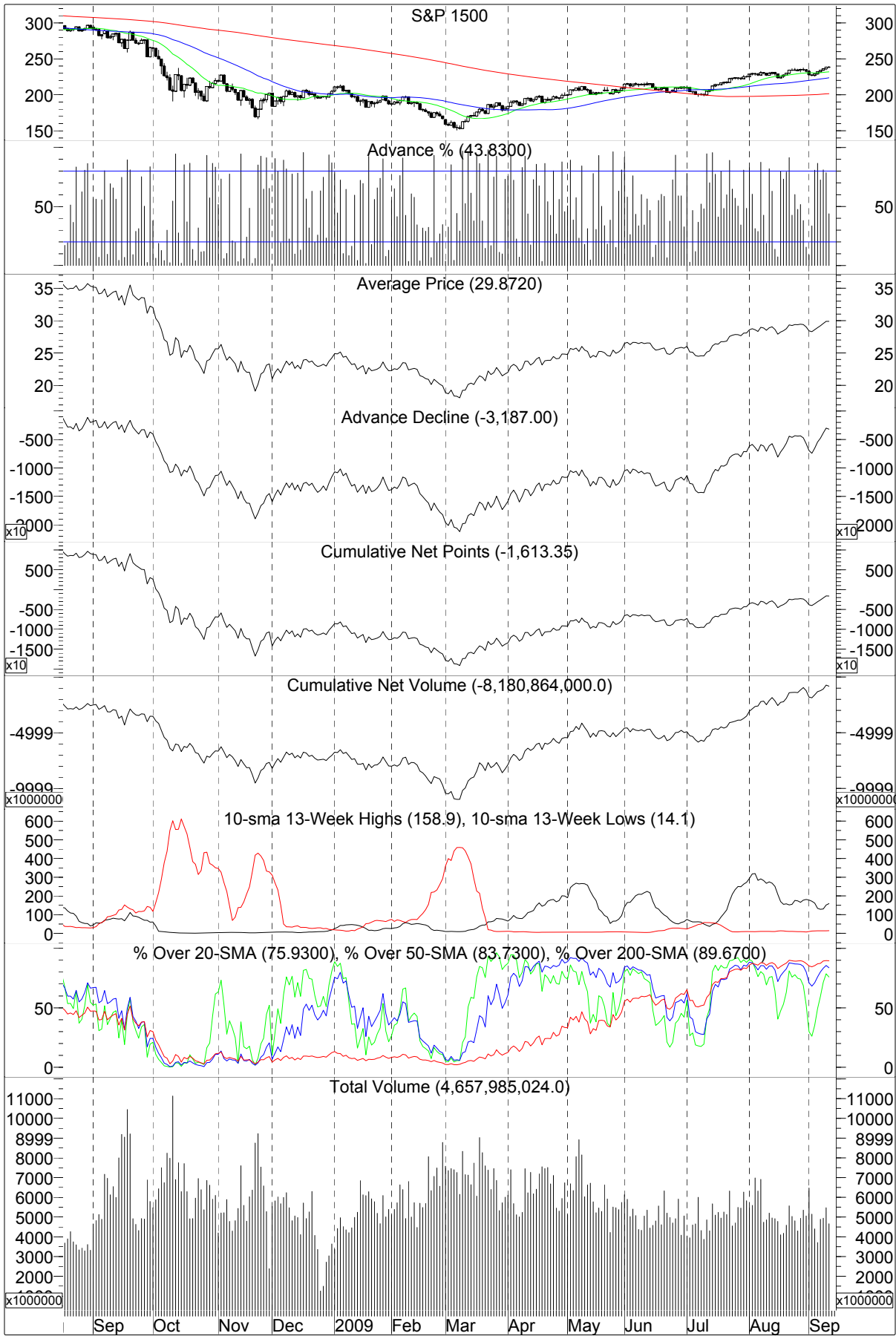


Stocks are overbought with 81.47% of the S&P 1500 over their 10-sma.

The RSI is showing a negative divergence.

Thursday's new highs were only slightly less than at previous new highs, showing increasing selectivity but not a terrible negative divergence.

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

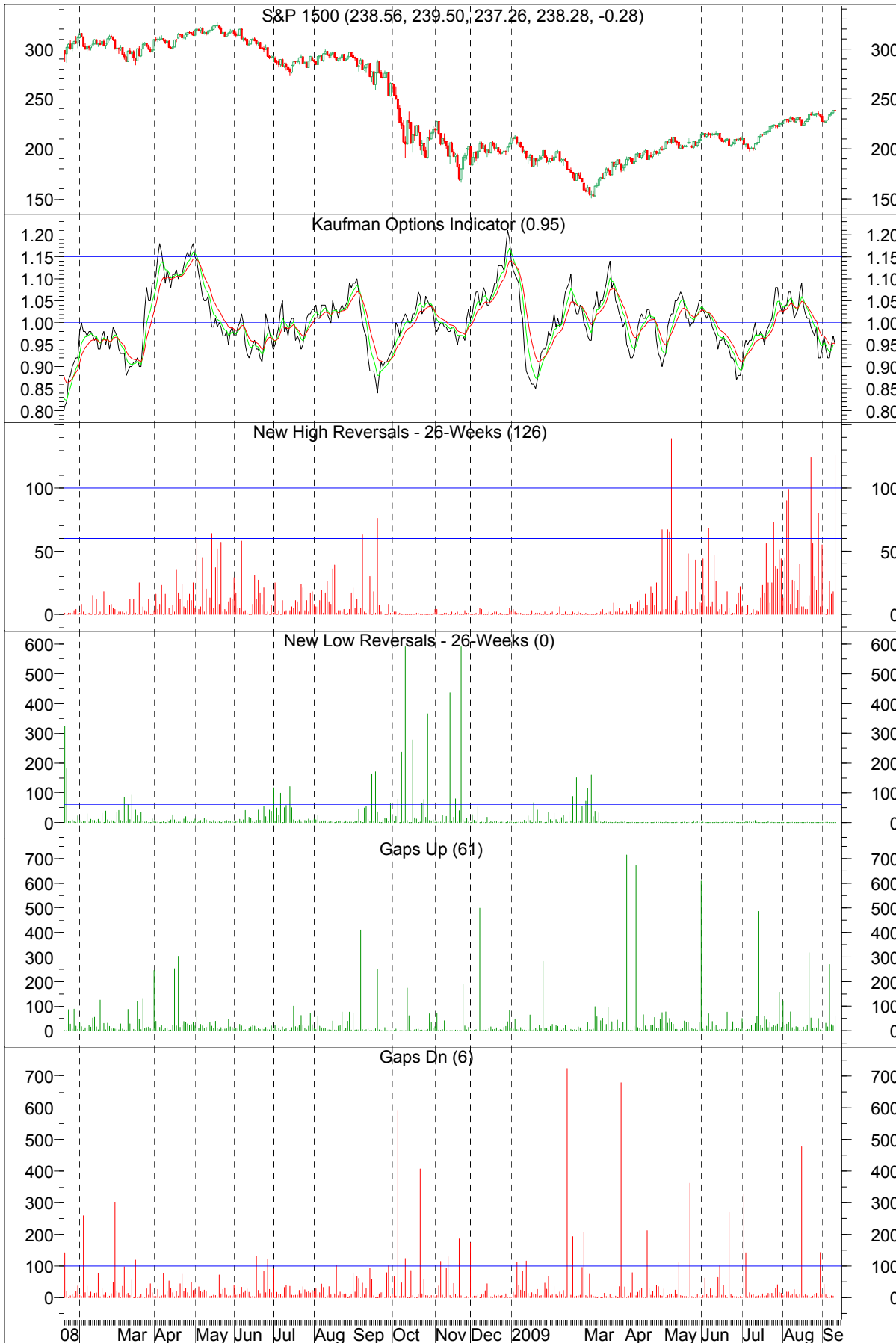


Only 43.83% of stocks traded higher Friday, but the five sessions before that showed very strong breadth.

Average price per share and all of our statistics of market internals made new highs Thursday, confirming the new highs in the S&P 500 index.

In spite of some periods of short-term weakness the percent over 200-sma has remained steady and is currently at 89.67%.

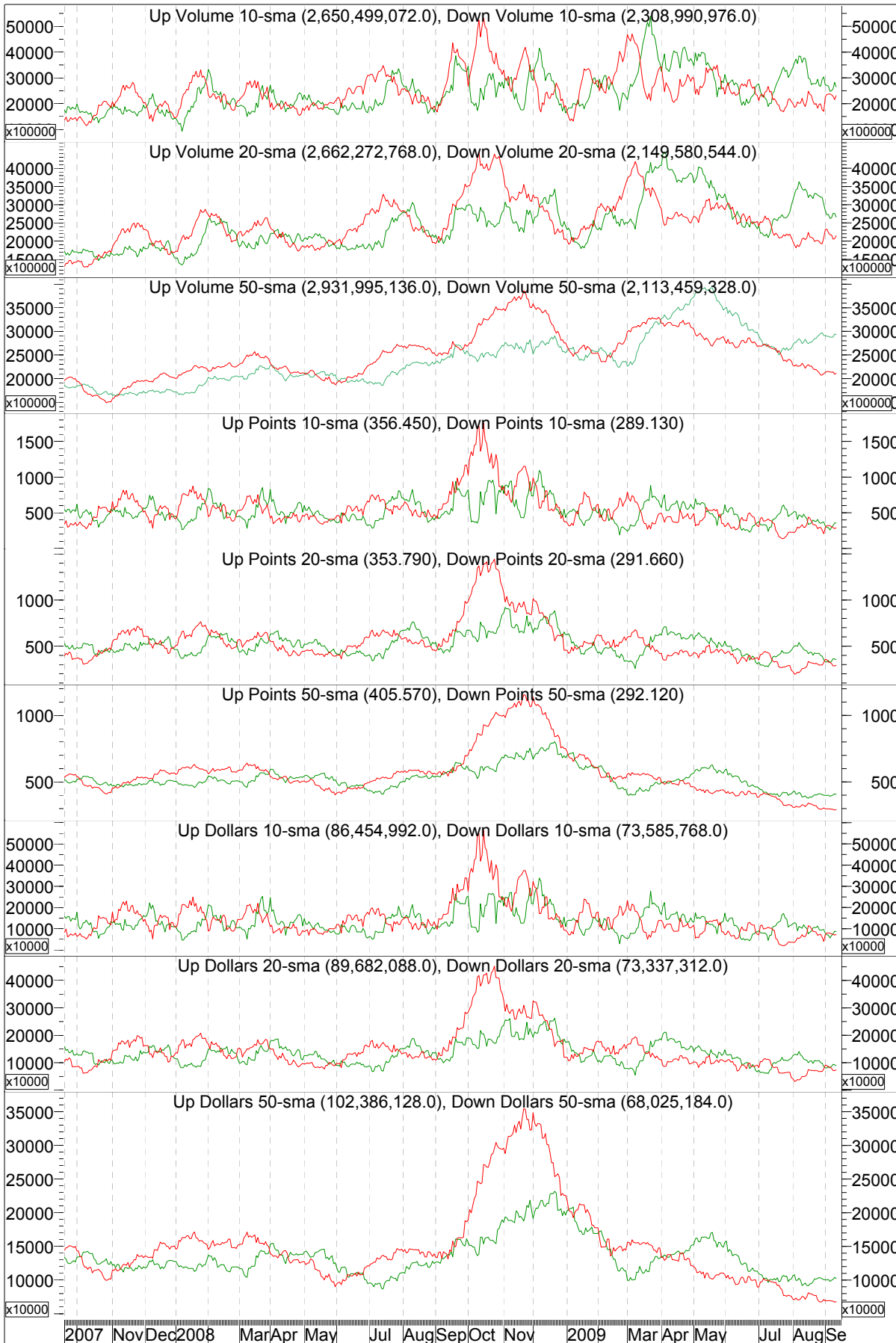
Volume declined on Friday.

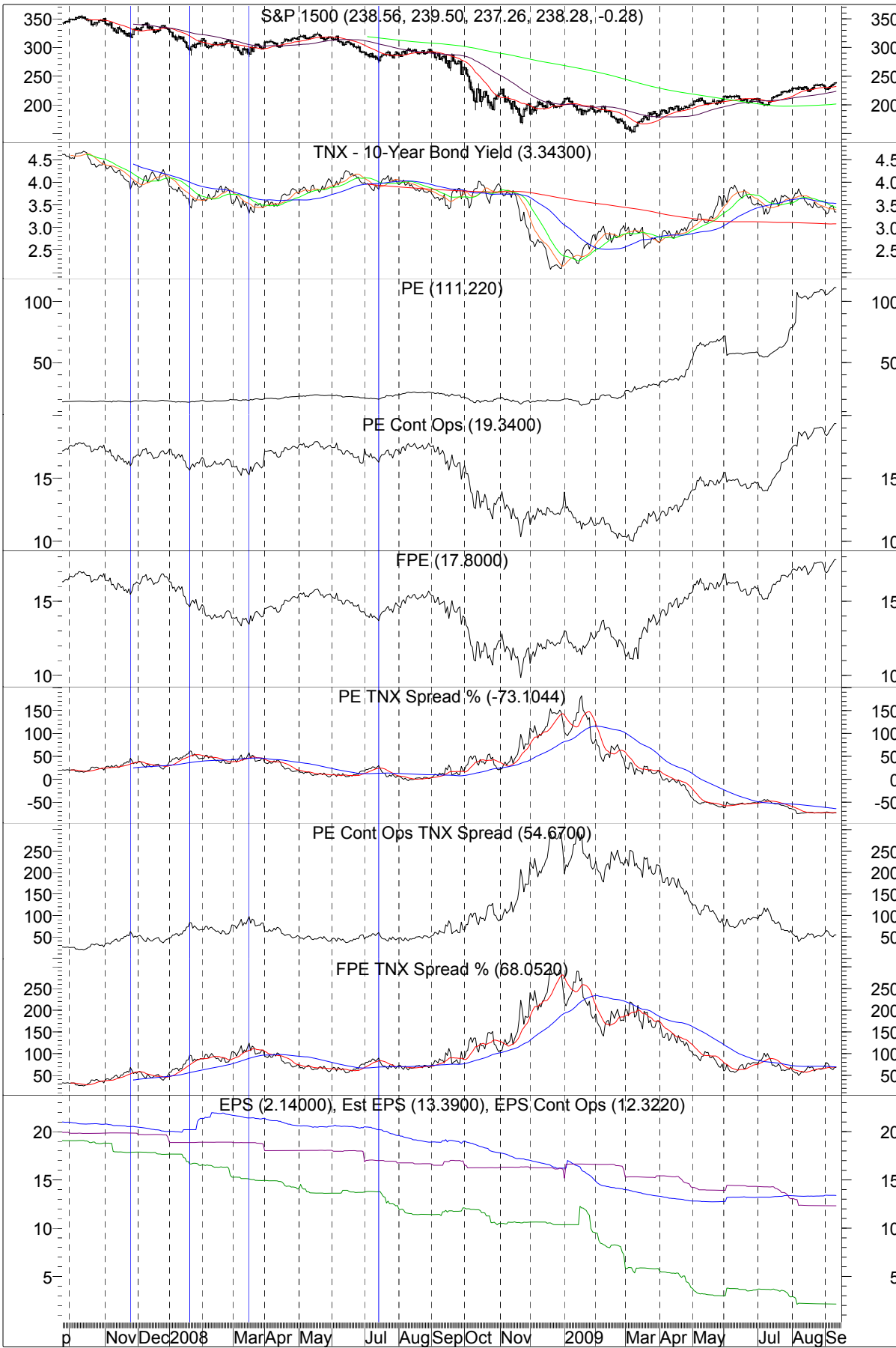


Our proprietary options indicator has been showing pessimism, which we like to see. It jumped up Thursday, showing call buying, but it remains in negative territory. Therefore, we don't believe any pullbacks will be too deep.

126 new high reversals on Friday is a sign of investors increasing desire to take profits. There were 124 on 8/24, which signaled a short-term top but not the end of the rally.

Our statistics of supply (red) versus demand (green) are showing positive crossovers for all time frames. In the short-term statistics of both buying and selling are muted, leaving stocks vulnerable to sharp moves in either direction.





P/E ratios continue to rise and we continue to wonder at what point do these become dangerous levels?

In spite of stocks making new highs spreads between bond and equity yields have been moving sideways due to dropping bond yields.

With earnings season over our earnings metrics are flat lining. They need to start improving soon or this will be a problem for equities.



After hanging on just below important moving averages the U.S. Dollar Index made a sharp move lower. It is not yet oversold.

In spite of U.S. Dollar weakness crude oil has been unable to break resistance and is now a little above its 50-sma (blue) which is at 67.78.

Gold followed through on its breakout from the ascending triangle and recorded its highest print since March 2008. It is short-term overbought on the daily charts, but not on a weekly basis.