

Monday September 27, 2010

Closing prices of September 24, 2010

In our report dated September 14th we discussed the rally's impressive breadth and said "This powerful rally has caused a 'breadth thrust move' to be recorded, which is a signal that a major move higher has begun. Based on this we think there is a strong chance the recent trading range will be broken to the upside." We added "the tone of the market may have changed, and stocks may be breaking out of the recent trading range shortly."

That breakout occurred on Monday September 20th. It was an impressive breakout with 94.86% of the S&P 1500 trading higher on the day. It also had the most 13-week closing highs since April 23rd. One problem was that the Transportation Index did not break out also. That changed Tuesday as the transports made a marginal move above the high of its trading range, and on Friday made a weekly closing high. Also, we would like to have seen more robust volume. However, as we said on 9/14, sellers have stepped to the sidelines, and as long as that is the case the path of least resistance will be higher. The recent rally is also impressive in that it is occurring during a period where seasonality is usually negative, driving the notoriously weak month of September up 9.47% so far.

One of the reasons we felt a breakout could occur was that options buyers had not become overly bullish. Unfortunately that has changed, and our proprietary options indicator is showing a lot of call buying. With stocks getting overbought too much bullishness can be a damper on the rally and cause a pullback or at least some consolidation.

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 the upcoming earnings season.

If 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, the November – January period.

Globally the picture for equities is also improving. Of the thirty-one country ETFs we follow, ten just made 52-week highs, with another eight within striking distance. Of the twenty-four S&P industry groups in the U.S. three made 52-week highs last week, those being Real Estate (number one year-to-date), Telecom Services, and Food, Beverage, and Tobacco.

In the short-term, stocks are overbought and there are multiple indicators showing negative divergence so investors need to be careful with entry points. We are still in a period of negative seasonality which lasts through the end of the month, although positive action due to end of the quarter window dressing is a possibility. Then we enter the always fun month of October, so investors will need to remain on their toes.

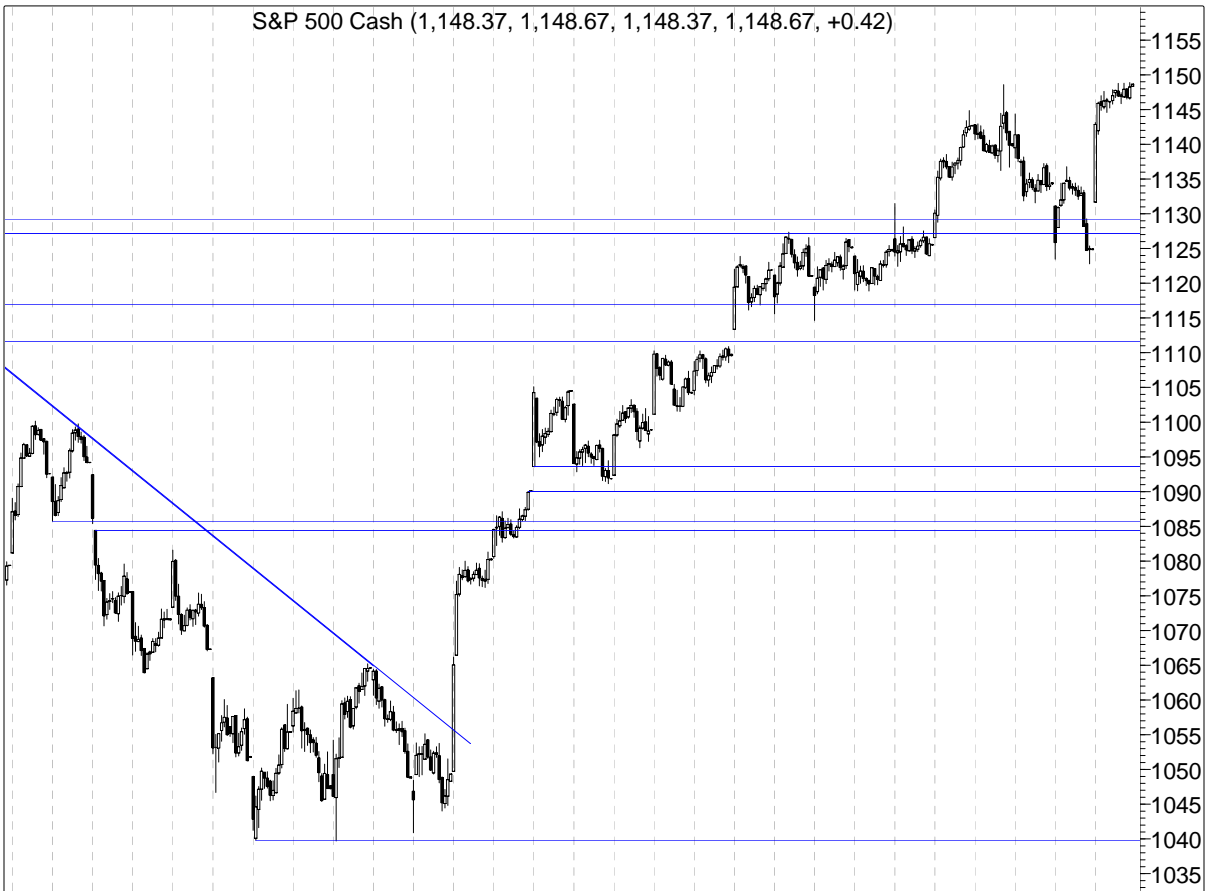
Based on the S&P 500 the short, intermediate, and long-term trends are up. Stocks are overbought and options buyers are showing a high level of bullishness, so stocks can pull back at any time. However, as we said on 9/14, the tone of the market may have changed, so pullbacks that are without intensity should be probably be viewed as entry points for investors.

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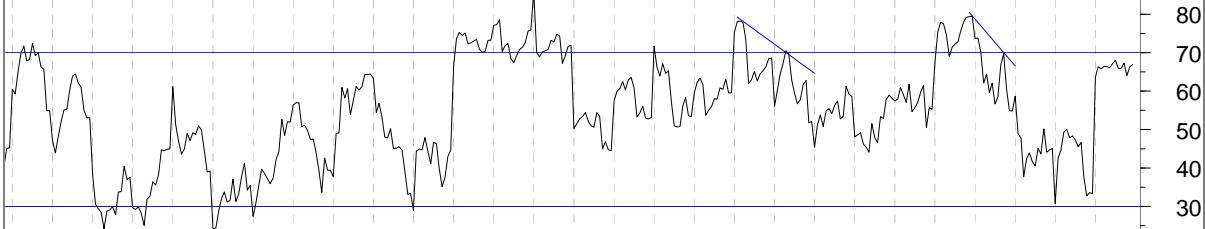
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S&P 500 Cash (1,148.37, 1,148.67, 1,148.37, 1,148.67, +0.42)



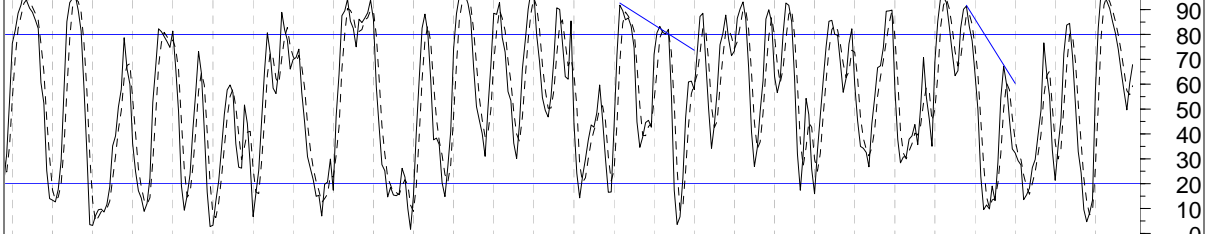
The S&P 500 made a new rally high Friday by a slight margin.

Relative Strength Index (66.9387)

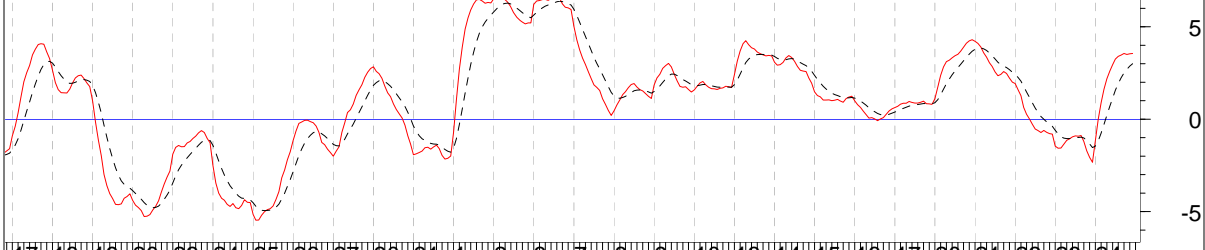


There are negative divergences on the 30-minute momentum indicators.

Stochastic Oscillator (67.8811)



MACD (3.55351)



17 18 19 20 23 24 25 26 27 30 31 1 2 3 7 8 9 10 13 14 15 16 17 20 21 22 23 24
September

S&P 500 Cash (1,131.69, 1,148.90, 1,131.69, 1,148.67, +23.84)



The daily chart of the S&P 500 shows new rally intra-day and closing highs.

The RSI and stochastic are showing negative divergences.

S&P 500 Cash (1,126.57, 1,148.90, 1,122.79, 1,148.67, +23.08)



The weekly chart of the S&P 500 shows another weekly closing high, the highest since 5/7.

The stochastic is entering overbought territory, but the MACD is just starting a positive crossover.



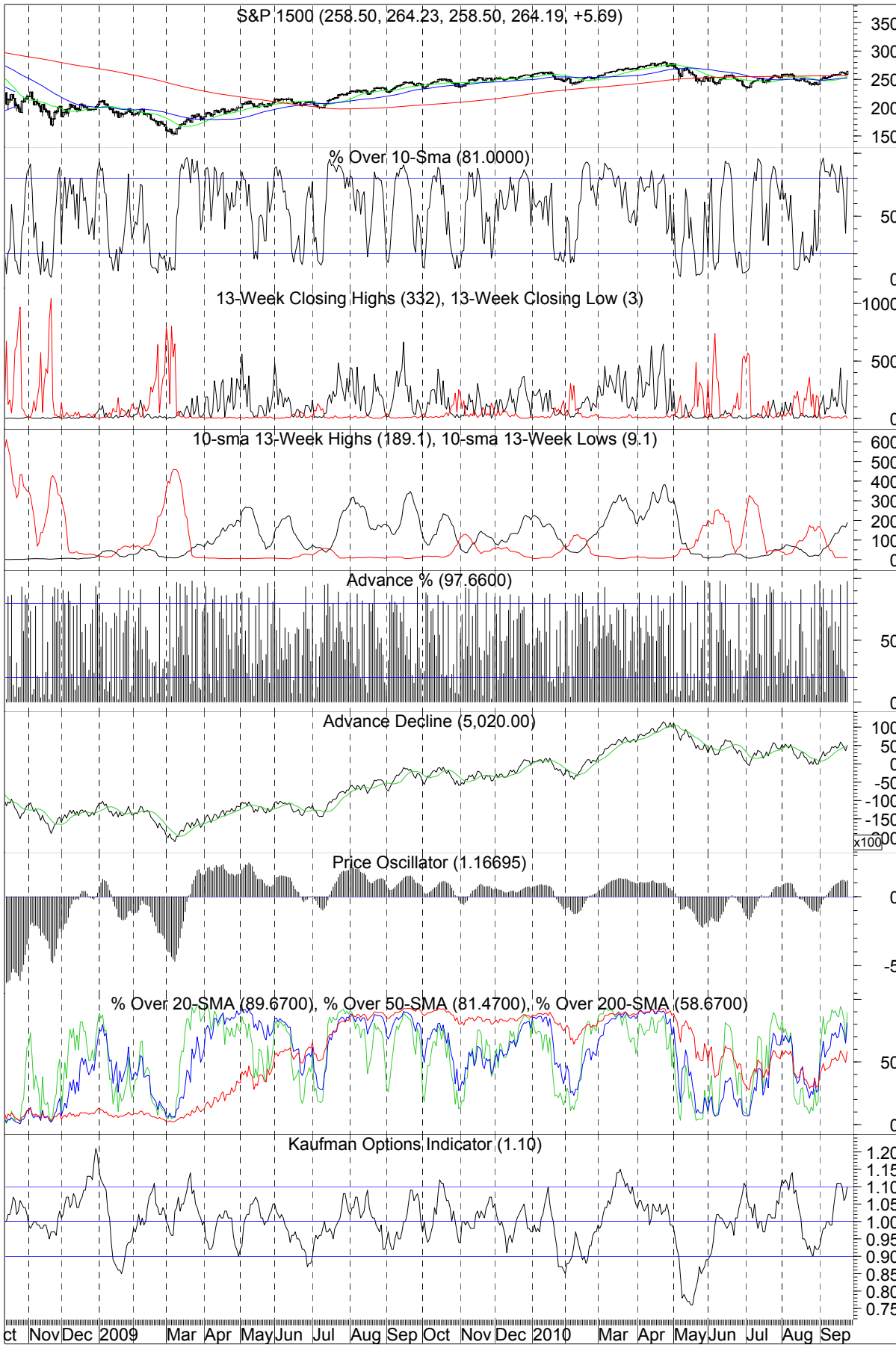
The monthly chart of the S&P 500 shows it is just under a down trend line.

Monthly momentum indicators look good.



The quarterly chart of the S&P 500 is also just under a down trend line.

The monthly stochastic is just at the overbought zone, but the MACD remains at a very low level. A positive crossover from the MACD at these levels would be very welcome.



The percent over 10-sma is showing a negative divergence.

A negative divergence here also as Friday's 332 new highs was much less than Monday's 438.

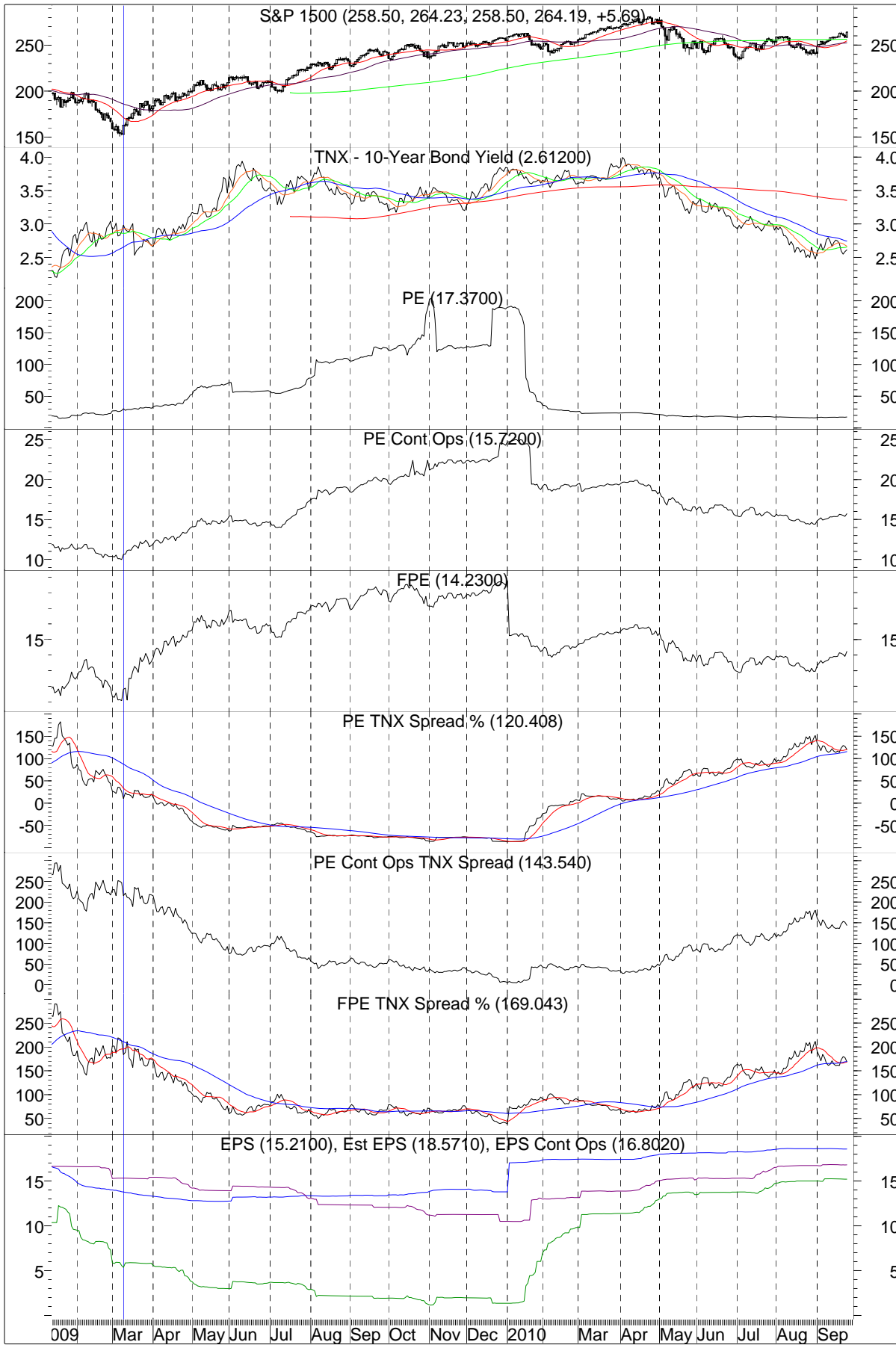
97.66% of the S&P 1500 traded higher Friday.

A slight negative divergence on the AD line also.

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

Options buyers remain a little too optimistic for our liking, which can hurt a rally in the short-term.

ct NovDec 2009 Mar Apr MayJun Jul Aug Sep Oct NovDec 2010 Mar Apr MayJun Jul Aug Sep



10-year bond yields remain below their 20 and 50-sma.

P/E ratios have moved higher but are still in the levels of their recent ranges.

Spreads between equity and bond yields have narrowed but are still at levels where stocks should be attractive.

Earnings forecasts have come down slightly but the big picture will be more visible as Q3 earnings season unfolds. If forecasts, which have flat lined since January, are finally raised stocks will continue to appear to look cheap.

Indexes, Sectors, and Industry Groups

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Nasdaq 100	2023.84	2.10%	3.48%	1.73%	14.51%	16.37%	8.79%	2059.42	4/26/2010	1652.44	11/2/2009
S&P Smallcap 600	357.06	3.38%	2.87%	2.87%	10.81%	8.87%	7.34%	396.63	4/26/2010	294.26	11/2/2009
Nasdaq Composite	2381.22	2.33%	2.83%	1.08%	12.64%	12.89%	4.94%	2535.28	4/26/2010	2024.27	11/2/2009
Bank of New York Mellon ADR	132.96	2.26%	2.64%	2.64%	9.78%	17.65%	-2.49%	142.19	1/11/2010	109.79	5/25/2010
Dow Jones Industrials	10860.26	1.86%	2.38%	0.99%	8.44%	11.11%	4.14%	11258.01	4/26/2010	9430.08	10/2/2009
S&P 1500	264.19	2.20%	2.07%	0.49%	9.59%	11.39%	3.69%	281.21	4/26/2010	232.54	7/1/2010
S&P 500	1148.67	2.12%	2.05%	0.52%	9.47%	11.44%	3.01%	1219.80	4/26/2010	1010.91	7/1/2010
NYSE Composite	7301.04	2.23%	2.05%	0.48%	8.90%	12.85%	1.62%	7743.74	4/15/2010	6355.83	7/1/2010
S&P Midcap 400	796.29	2.53%	1.98%	0.31%	10.34%	11.88%	9.58%	852.90	4/26/2010	651.79	11/2/2009

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Consumer Discretionary	265.64	2.60%	2.91%	2.91%	11.89%	15.64%	13.01%	284.57	4/26/2010	208.45	10/2/2009
Information Technology	370.13	2.14%	2.84%	2.84%	12.80%	12.19%	-0.16%	397.46	4/26/2010	323.47	7/1/2010
Energy	414.52	2.19%	2.54%	2.54%	7.91%	11.02%	-3.59%	464.76	4/26/2010	365.74	7/1/2010
Industrials	272.75	2.80%	2.47%	2.47%	11.99%	14.46%	12.25%	292.21	4/30/2010	220.05	11/2/2009
Health Care	355.89	1.37%	2.40%	2.40%	9.48%	8.88%	-1.75%	384.95	1/20/2010	318.89	7/1/2010
Telecom Services	121.43	0.88%	2.13%	2.13%	7.83%	19.00%	5.92%	121.97	9/21/2010	98.67	5/6/2010
Utilities	159.99	1.58%	1.98%	1.98%	3.00%	11.54%	1.27%	161.50	12/14/2009	138.57	5/25/2010
Materials	206.01	2.44%	1.96%	1.96%	9.55%	19.45%	3.10%	213.87	4/26/2010	168.44	7/1/2010
Consumer Staples	289.95	1.25%	1.54%	1.54%	5.99%	10.40%	5.70%	290.66	9/24/2010	259.91	10/5/2009
Financials	196.72	2.77%	0.10%	0.10%	7.93%	5.97%	1.52%	230.45	4/15/2010	178.83	8/25/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Retailing	460.61	2.99%	4.99%	4.99%	16.10%	19.38%	12.04%	499.94	4/26/2010	365.61	10/2/2009
Technology Hardware & Equipment	409.01	2.22%	4.08%	4.08%	15.11%	12.33%	5.00%	431.10	4/26/2010	349.27	10/2/2009
Semiconductors & Equipment	297.06	3.54%	3.59%	3.59%	12.42%	4.54%	-4.89%	348.04	4/15/2010	262.69	8/31/2010
Health Care Equip & Services	331.41	1.57%	3.53%	3.53%	11.64%	5.23%	-4.55%	371.77	1/20/2010	296.30	8/31/2010
Consumer Durables & Apparel	149.95	2.92%	3.04%	3.04%	13.37%	14.27%	14.38%	164.51	4/26/2010	111.87	9/28/2009
Food & Staples Retailing	182.38	1.81%	2.84%	2.84%	10.61%	10.93%	-0.37%	196.37	3/30/2010	162.45	7/1/2010
Capital Goods	292.81	2.91%	2.66%	2.66%	12.97%	14.19%	12.12%	318.38	4/30/2010	238.52	11/2/2009
Energy	414.52	2.19%	2.54%	0.78%	7.91%	11.02%	-3.59%	464.76	4/26/2010	365.74	7/1/2010
Telecom Services	121.43	0.88%	2.13%	2.13%	7.83%	19.00%	5.92%	121.97	9/21/2010	98.67	5/6/2010
Utilities	159.99	1.58%	1.98%	1.98%	3.00%	11.54%	1.27%	161.50	12/14/2009	138.57	5/25/2010
Materials	206.01	2.44%	1.96%	1.96%	9.55%	19.45%	3.10%	213.87	4/26/2010	168.44	7/1/2010
Transportation	298.73	2.50%	1.95%	1.95%	9.20%	17.65%	17.20%	304.63	5/3/2010	221.60	11/2/2009
Pharmaceuticals, Biotech & Life Scier	338.55	1.27%	1.88%	1.88%	8.48%	10.71%	-0.35%	359.71	1/20/2010	299.26	7/1/2010
Media	181.22	2.55%	1.81%	1.81%	8.66%	11.84%	10.78%	192.83	5/3/2010	140.73	11/3/2009
Commercial & Professional Services	134.95	2.35%	1.73%	1.73%	8.61%	7.91%	0.85%	144.95	4/26/2010	122.63	6/8/2010
Software & Services	475.81	1.69%	1.61%	1.61%	11.03%	14.36%	-4.19%	512.69	4/15/2010	410.27	7/1/2010
Consumer Services	432.05	1.71%	1.34%	1.34%	8.48%	14.26%	16.62%	446.11	4/26/2010	335.30	11/2/2009
Food, Beverage & Tobacco	337.44	1.31%	1.20%	1.20%	5.03%	13.10%	10.10%	338.34	9/24/2010	288.92	9/30/2009
Automobiles & Components	90.84	2.71%	1.19%	1.19%	12.36%	20.25%	16.85%	107.25	4/26/2010	60.18	10/2/2009
Household & Personal Products	367.64	0.59%	1.14%	1.14%	4.11%	4.03%	1.91%	383.05	3/23/2010	332.59	10/5/2009
Insurance	179.98	2.80%	0.55%	0.55%	7.62%	7.51%	9.21%	189.97	4/26/2010	156.74	11/3/2009
Diversified Financials	306.06	2.68%	0.22%	0.22%	8.37%	5.80%	-4.82%	382.07	4/15/2010	278.07	8/31/2010
Real Estate	114.13	3.10%	-0.18%	-0.18%	5.82%	16.09%	21.18%	117.42	9/20/2010	79.91	10/2/2009
Banks	127.69	2.77%	-0.71%	-0.71%	8.34%	-0.25%	1.87%	165.92	4/21/2010	115.69	8/31/2010

INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Sweden EWD	28.98	4.70%	5.45%	19.46%	26.94%	23.32%	28.98	9/24/2010	19.00	5/6/2010
Thailand THD	60.29	1.72%	5.29%	8.98%	30.87%	41.89%	60.30	9/24/2010	37.65	2/5/2010
Israel EIS	55.02	1.74%	5.25%	11.24%	20.74%	1.14%	60.68	3/26/2010	45.00	5/6/2010
Netherlands EWN	20.32	4.10%	5.12%	14.41%	18.76%	-0.69%	21.51	10/15/2009	16.64	5/25/2010
France EWQ	24.18	4.13%	4.88%	15.97%	23.62%	-6.46%	27.32	1/11/2010	19.24	5/25/2010
Austria EWO	19.53	3.72%	4.66%	13.88%	27.90%	-0.15%	23.59	10/15/2009	14.91	6/8/2010
Germany EWG	22.03	3.62%	4.63%	14.09%	17.74%	-1.83%	23.40	10/21/2009	17.97	5/25/2010
Belgium EWK	13.20	3.37%	4.62%	12.92%	21.73%	3.45%	13.95	10/19/2009	8.93	5/6/2010
Italy EWI	16.75	4.04%	4.60%	12.72%	21.38%	-14.15%	21.77	10/19/2009	13.21	6/7/2010
Spain EWP	41.37	4.52%	4.52%	12.39%	29.97%	-13.88%	52.67	11/25/2009	29.85	6/8/2010
South Africa EZA	65.75	1.78%	4.18%	12.59%	24.88%	17.47%	66.04	9/24/2010	23.00	5/6/2010
Hong Kong EWH	17.96	1.99%	3.56%	12.32%	21.60%	14.69%	18.00	9/24/2010	14.08	5/21/2010
Australia EWA	23.95	2.66%	3.47%	13.72%	26.19%	4.86%	25.14	1/11/2010	18.26	5/25/2010
Mexico EWW	53.16	1.43%	2.99%	10.54%	11.00%	8.78%	61.60	5/6/2010	41.55	10/2/2009
Brazil EWZ	73.90	-0.38%	2.87%	9.08%	19.52%	-0.95%	80.93	12/3/2009	57.18	5/25/2010
United Kingdom EWU	16.61	2.72%	2.83%	11.03%	23.59%	2.53%	17.20	11/16/2009	13.25	5/25/2010
South Korea EWY	52.77	1.87%	2.63%	10.42%	18.03%	10.77%	53.15	4/26/2010	40.65	5/25/2010
Switzerland EWL	23.04	1.90%	2.56%	6.82%	15.26%	3.50%	23.63	4/15/2010	18.70	5/25/2010
BRIC EEB	43.62	1.11%	2.52%	8.89%	15.55%	2.73%	44.90	12/4/2009	23.23	5/6/2010
Emerging Markets EEM	44.12	1.85%	2.49%	10.13%	18.22%	6.31%	46.66	4/9/2010	35.21	5/25/2010
Singapore EWS	13.18	1.78%	2.35%	8.39%	17.26%	14.71%	13.22	9/24/2010	10.32	10/2/2009
Indonesia IDX	85.47	3.42%	2.29%	12.56%	19.16%	37.48%	86.09	9/24/2010	54.47	10/28/2009
Turkey TUR	67.46	1.46%	2.24%	11.58%	27.46%	25.16%	67.81	9/22/2010	44.15	11/27/2009
Taiwan EWT	13.40	1.52%	2.24%	10.38%	19.64%	3.32%	13.46	1/6/2010	10.81	6/8/2010
Russia RSX	32.04	1.62%	2.12%	5.67%	14.22%	2.73%	36.91	4/14/2010	26.04	10/2/2009
China 25 FXI	42.85	2.29%	2.08%	9.06%	9.51%	1.40%	46.66	11/16/2009	36.24	5/6/2010
India IFN	36.53	2.76%	1.40%	11.37%	20.76%	18.99%	37.09	9/20/2010	26.61	5/25/2010
Latin America ILF	48.73	0.02%	1.40%	7.79%	17.65%	1.97%	50.25	12/4/2009	39.21	5/25/2010
Japan EWJ	9.87	1.33%	1.27%	5.22%	7.28%	1.33%	10.71	4/15/2010	9.15	6/7/2010
Malaysia EWM	13.72	1.25%	0.95%	6.44%	19.93%	29.19%	13.90	9/22/2010	10.02	9/30/2009
Canada EWC	27.80	1.83%	0.94%	6.51%	11.78%	5.58%	29.00	4/15/2010	22.75	5/6/2010
Vietnam VNM	24.68	2.53%	0.89%	4.18%	-1.04%	-3.18%	32.15	10/22/2009	21.81	8/25/2010
Chile ECH	72.84	0.28%	0.05%	7.67%	28.49%	32.94%	73.75	9/20/2010	27.27	5/6/2010