

Monday January 31, 2011

Closing prices of January 28, 2011

Stocks were doing well last week until turmoil in Egypt caused a major selloff on Friday. That news, along with some high profile earnings disappointments, gave investors a long-awaited reason to take some chips off the table. The S&P 500 made a 52-week high Friday, but still finished lower for the week, down 0.55%. It was the second consecutive key reversal week for the index.

Friday was a 90% panic-selling down day for stocks, the second since the selloff on January 19th. Due to the 90% down day on the 19th and other technical reasons we warned last week that stocks would be vulnerable to declines and false breakouts, and we were back to viewing this as a short-term trader's market. We repeat that this week, with a little extra caution thrown in due to the developing situation in Egypt.

Fear has returned after a long hiatus, and a sharp pullback will give traders good entry points. Friday saw a flight to safety by investors, and our proprietary options indicator dropped down to 0.90, showing a level of pessimism not seen since 8/31. It can go lower than this, but good rallies can start when investors become fearful.

Earnings season is now well underway with 205 of the S&P 500 having reported so far. Of those, 71.7% have exceeded expectations, 8.3% have been in line, and 20.0% have disappointed. Last quarter 19% of the S&P 500 had worse than expected earnings, the highest percentage since 19.1% in Q2 2009. 70.7% beat estimates last quarter, a respectable number, but still the lowest since Q1 2009. Therefore, in spite of our opinion that this bull market still has a ways to go, we are watchful for deteriorating trends that could change the current positive outlook.

We have been saying for quite a while that we were hoping for a replay of January 2010, when aggregate reported and projected earnings jumped up dramatically. So far projections are following that script, and if the balance of earnings season follows the current trend higher equity valuations will remain attractive. Based on the spread between 10-year bond yields and earnings yields, valuations are still at the level of early December.

The recent move higher of interest rates has the potential to change this picture, as could the possible rise in other cost inputs. This earnings season will give us an idea if company profit margins are starting to be pressured and forecasts in jeopardy. If not, it will be difficult to argue that equities are overvalued. Currently S&P 500 projected earnings for 2011 are nearing \$96. **A conservative 14 P/E using \$96 puts the S&P 500 at 1344. The current S&P 500 P/E is 16.06. A 15 P/E on \$96 would put the index at 1440.** Should first quarter earnings season follow the recent trend and beat estimates handily, those numbers will move higher. Based on current trends this possibility seems reasonable. Estimates for 2012 are now north of \$108, projecting earnings growth of over 13%. A 15 P/E on \$108 equates to 1620 on the S&P 500.

We will be leaving the best three-month period for stocks as January ends, but seasonality remains positive. **As far as the presidential cycle, we have left year two and entered year three. Since 1939 the Dow Jones Industrial Average has not had a single down year three, with the average gain being 16.6%. In addition, based on the S&P 500 since 1914, from the low of year two to the high of year three the average move has been 49.2%. Through the last seven presidential cycles since 1982, the average low-to-high move has been 50.06%. From this year's S&P 500 low of 1010 that would equate to a move to 1500 sometime in 2011. We are not forecasting that, just highlighting that it is difficult to be bearish in the face of such strong historical patterns.**

Based on the S&P 500 the short-term trend is down, while the intermediate-term and long-term trends remain up. Pullbacks that are without intensity should be viewed as entry points for investors. Investors need to be alert for sector rotation as earnings reports come in.

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S&P 500 Cash (1,276.37, 1,276.38, 1,276.34, 1,276.34, -0.04)



After hitting a new high early Friday the S&P 500 plunged, breaking short-term support levels.

30-minute momentum indicators are oversold.

S&P 500 Cash (1,299.63, 1,302.67, 1,275.10, 1,276.34, -23.20)



The daily chart of the S&P 500 shows the huge plunge Friday and the close below the 20-sma for the first time since 11/30.

Daily momentum indicators have rolled over and are not yet oversold.

S&P 500 Cash (1,257.62, 1,302.67, 1,257.62, 1,276.34, +18.70)



The monthly chart of the S&P 500 shows it surpassed the Fibonacci 61.8% retracement level of the recent bear market. The next important level is 1361.50, which is the 76.4% retracement. It also is printing a bearish shooting star candle.

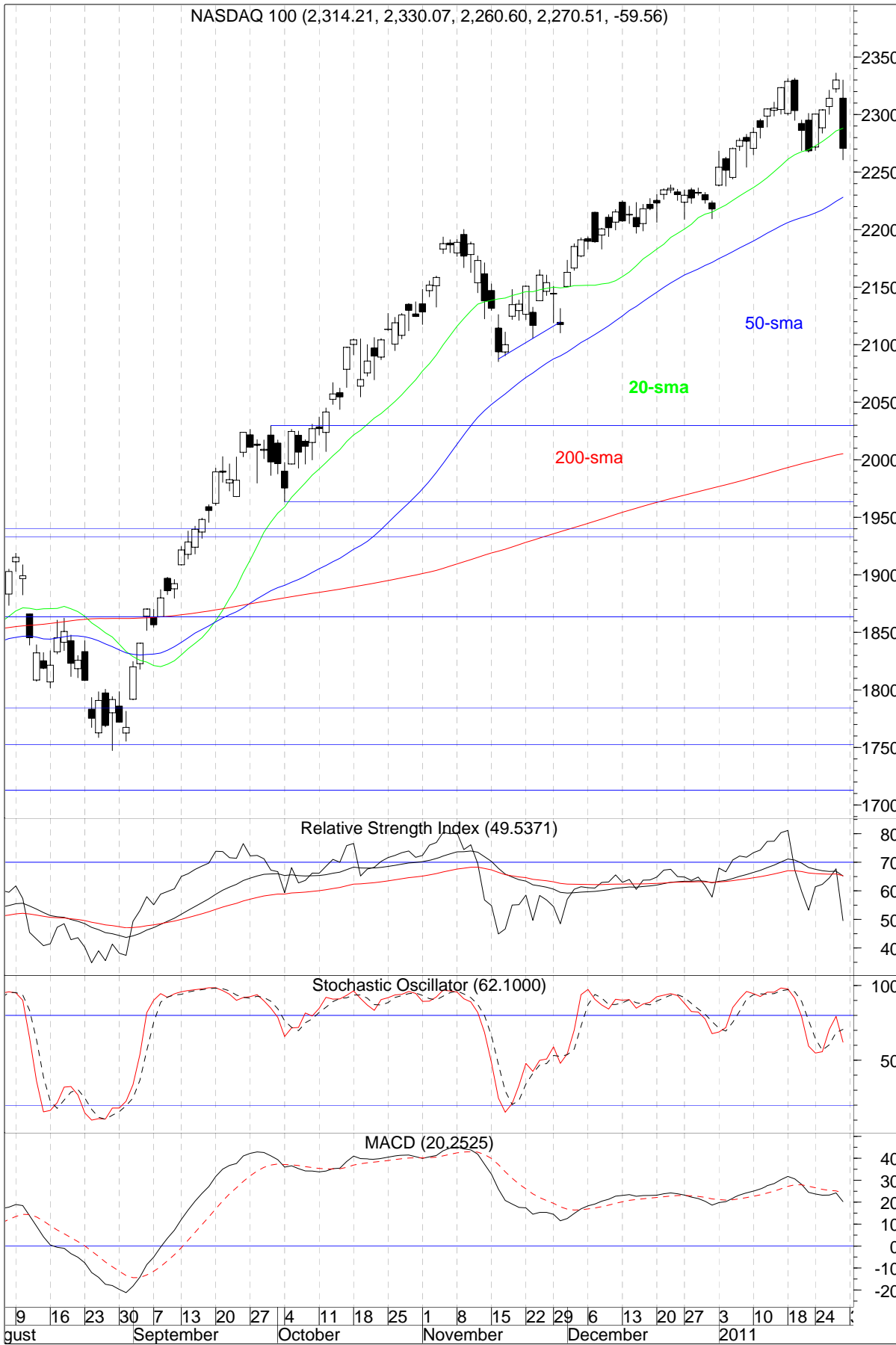
The monthly stochastic is in the overbought zone but the other monthly momentum indicators are not yet at overbought levels.



The weekly chart of the S&P 500 shows it printed a second key reversal week in a row, which is unusual. A key reversal is a new high with a close below the prior close.

Weekly momentum indicators are turning down from high levels.

NASDAQ 100 (2,314.21, 2,330.07, 2,260.60, 2,270.51, -59.56)

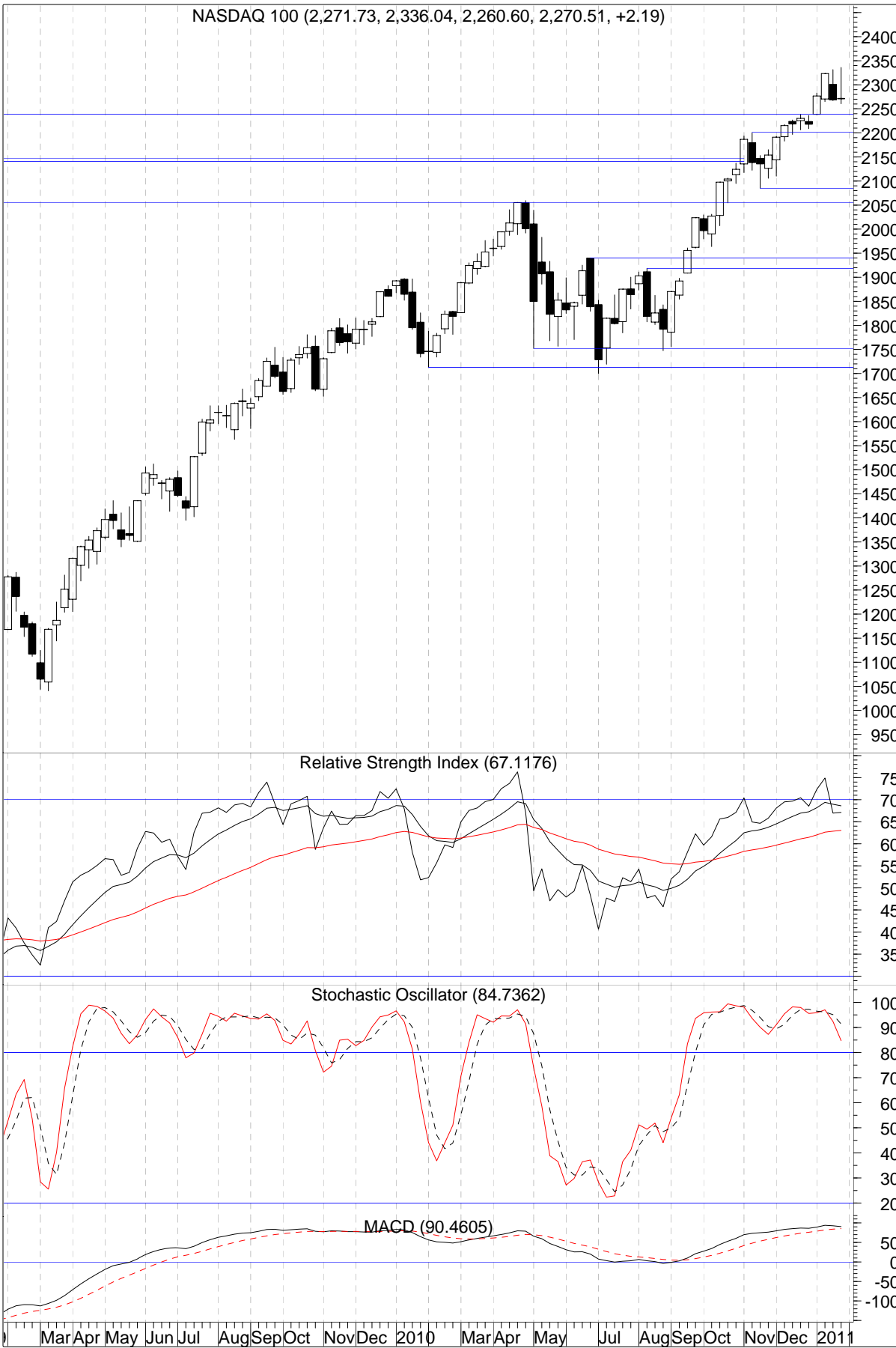


After printing a new high Thursday the Nasdaq 100 plunged Friday closing below its 20-sma.

Daily momentum indicators have dropped from high levels but are pointing down.

9 16 23 30 7 13 20 27 4 11 18 25 1 8 15 22 29 6 13 20 27 3 10 18 24
 gust September October November December 2011

NASDAQ 100 (2,271.73, 2,336.04, 2,260.60, 2,270.51, +2.19)



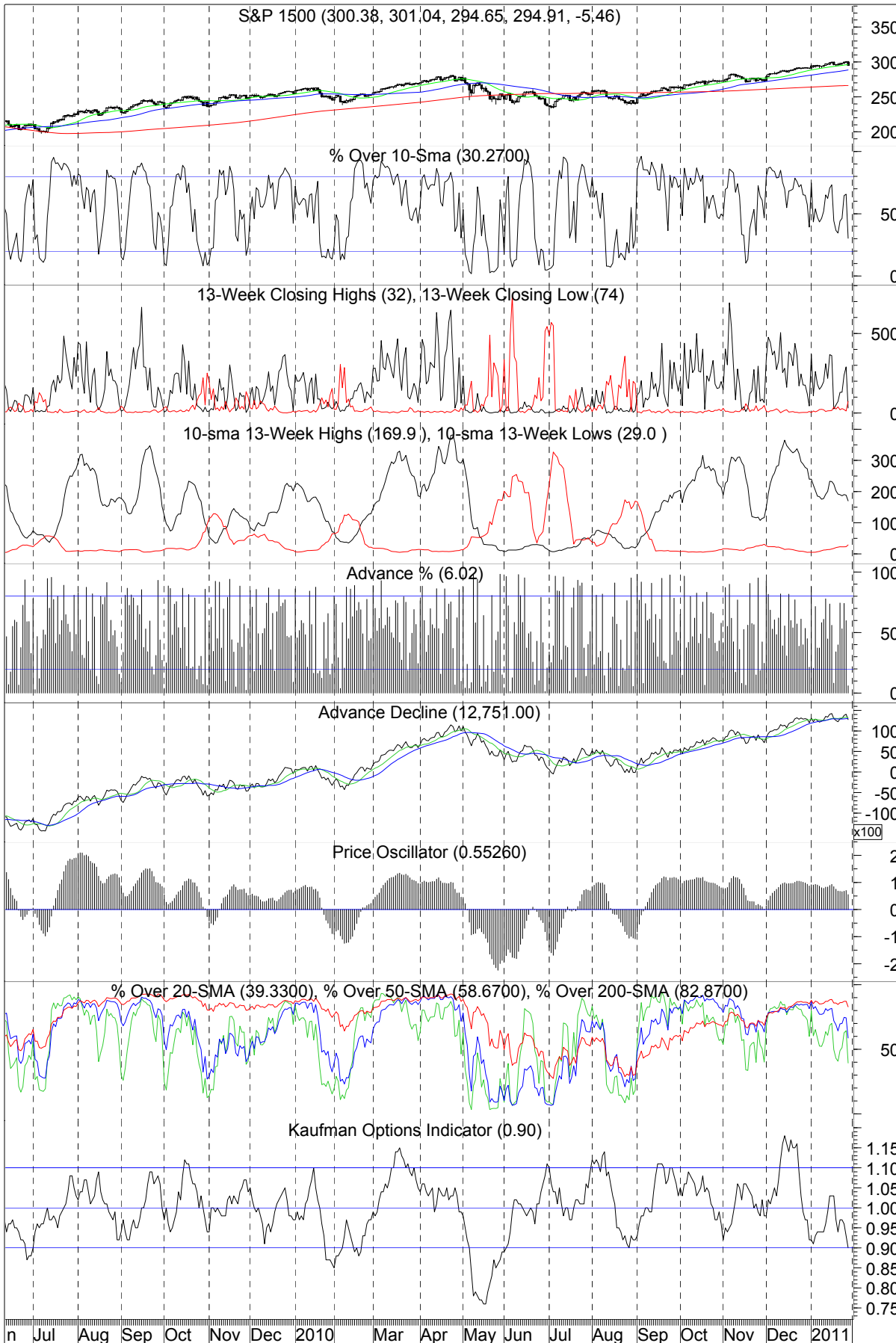
The Nasdaq 100 weekly chart printed a second key reversal week in a row.

Weekly momentum indicators are rolling over from high levels.



The monthly chart of the Nasdaq 100 shows it touched the Fibonacci 38.2% retracement of the bear market of 2000 - 2002 and pulled back. The month isn't over but so far January is printing a bearish shooting star candle.

Monthly momentum indicators haven't turned down but the stochastic is about to crossover negatively from the overbought zone.



The percent over 10-sma is low at 30.27% but is not completely oversold.

Friday's 74 13-week closing lows was the most since 184 on 8/31. Thursday was the first time lows exceeded highs since 11/17.

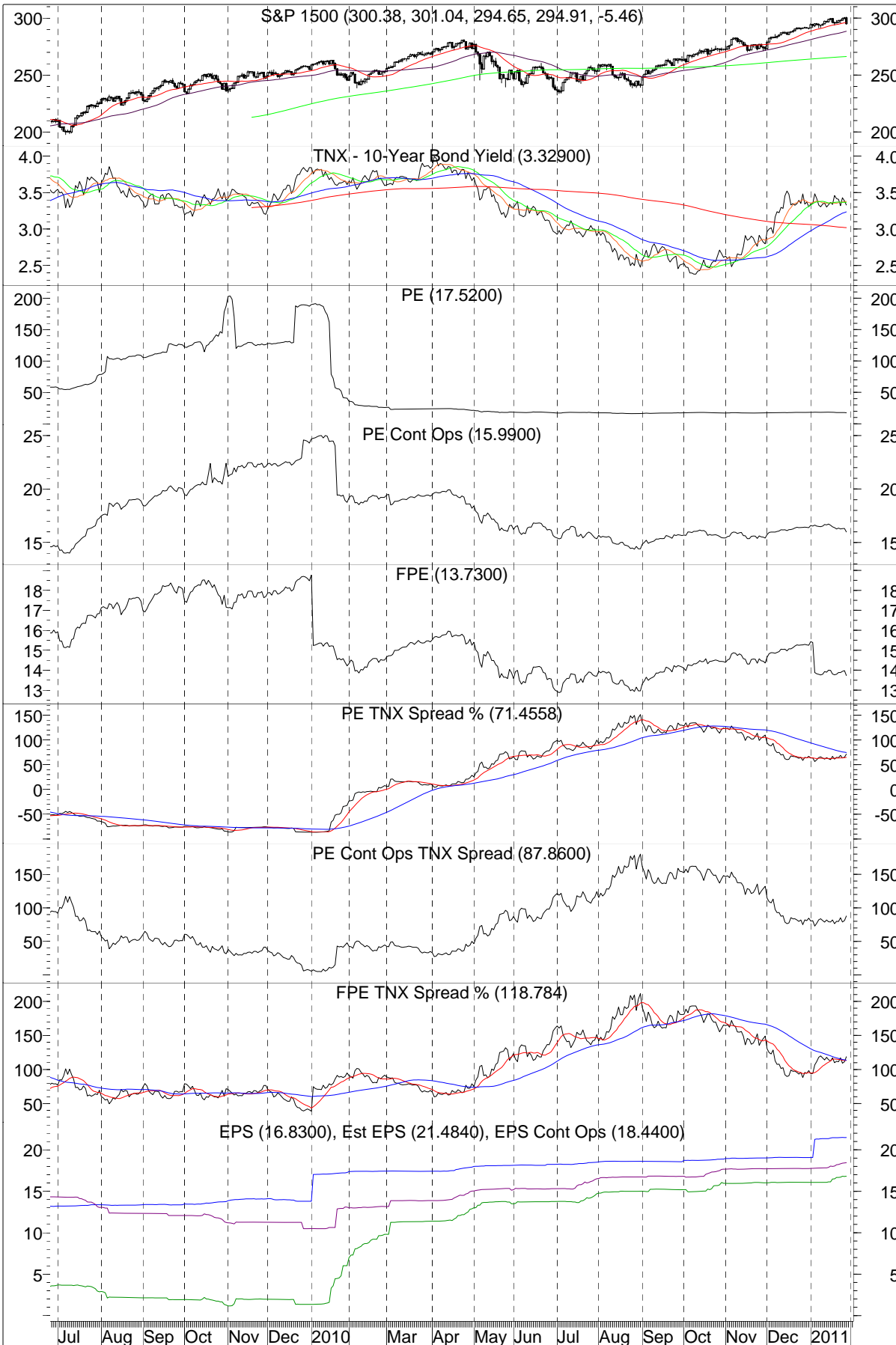
Friday was the second 90% down day since 1/19. Breadth has not been strong, with no days over 80% since 1/3.

In spite of Thursday's new high on the S&P 1500 the AD line did not make a new high.

Our price oscillator remains in positive territory.

Short-term numbers are weak but at 82.87% the number of stocks over their own 200-sma is still bullish.

Our proprietary options indicator is showing pessimism and is at the same level as on 8/31. Good rallies start at low levels, but it can go lower than current readings.



10-year bond yields are in a tight range and nearing the 50-sma. A breakout from the range will target a move near 4%.

P/E ratios have been moving lower as earnings season unfolds.

Spreads between bond and equity yields are widening again as reported and forecast earnings move higher. They remain at levels where stocks should be attractive.

So far 205 of the S&P 500 have reported earnings. 71.7% have surpassed estimates, 8.3% were in line, and 20.0% have fallen short.

Indexes, Sectors, and Industry Groups

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
S&P Smallcap 600	413.37	-2.47%	0.72%	0.72%	-0.57%	-0.57%	-0.57%	426.29	1/14/2011	309.16	2/5/2010
S&P Midcap 400	917.72	-1.88%	0.37%	0.37%	1.15%	1.15%	1.15%	939.56	1/18/2011	681.91	2/5/2010
Nasdaq 100	2270.51	-2.56%	0.10%	0.10%	2.37%	2.37%	2.37%	2336.04	1/27/2011	1700.04	7/1/2010
Nasdaq Composite	2686.89	-2.48%	-0.10%	-0.10%	1.28%	1.28%	1.28%	2766.17	1/18/2011	2061.14	7/1/2010
Dow Jones Industrials	11823.70	-1.39%	-0.41%	-0.41%	2.13%	2.13%	2.13%	12020.52	1/26/2011	9614.32	7/2/2010
S&P 1500	294.91	-1.82%	-0.42%	-0.42%	1.38%	1.38%	1.38%	300.89	1/28/2011	232.54	7/1/2010
NYSE Composite	8062.64	-1.76%	-0.53%	-0.53%	1.24%	1.24%	1.24%	8222.51	1/27/2011	6355.83	7/1/2010
S&P 500	1276.34	-1.79%	-0.55%	-0.55%	1.49%	1.49%	1.49%	1302.67	1/28/2011	1010.91	7/1/2010
Bank of New York Mellon ADR	141.46	-2.33%	-1.03%	-1.03%	0.95%	0.95%	0.95%	145.49	1/27/2011	109.79	5/25/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Energy	530.31	-0.49%	1.16%	1.16%	4.65%	4.65%	4.65%	536.69	1/26/2011	365.74	7/1/2010
Materials	235.51	-1.48%	0.94%	0.94%	-1.71%	-1.71%	-1.71%	243.56	1/3/2011	168.44	7/1/2010
Information Technology	418.82	-2.28%	0.56%	0.56%	3.53%	3.53%	3.53%	430.31	1/27/2011	323.47	7/1/2010
Industrials	311.00	-1.81%	-0.01%	-0.01%	3.28%	3.28%	3.28%	319.15	1/28/2011	232.54	7/6/2010
Telecom Services	123.62	-2.16%	-0.53%	-0.53%	-3.98%	-3.98%	-3.98%	132.76	1/5/2011	98.67	5/6/2010
Utilities	160.88	-1.33%	-0.96%	-0.96%	0.97%	0.97%	0.97%	164.42	10/20/2010	138.57	5/25/2010
Financials	218.56	-1.84%	-1.41%	-1.41%	1.76%	1.76%	1.76%	230.45	4/15/2010	178.83	8/25/2010
Consumer Staples	299.04	-1.06%	-1.64%	-1.64%	-1.50%	-1.50%	-1.50%	306.25	1/26/2011	260.65	7/1/2010
Consumer Discretionary	293.13	-3.15%	-1.74%	-1.74%	-0.81%	-0.81%	-0.81%	303.26	1/27/2011	222.51	2/5/2010
Health Care	365.70	-1.78%	-1.80%	-1.80%	0.25%	0.25%	0.25%	379.04	3/22/2010	318.89	7/1/2010

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Semiconductors & Equipment	359.37	-1.91%	2.55%	2.55%	6.42%	6.42%	6.42%	368.66	1/28/2011	262.69	8/31/2010
Technology Hardware & Equipmen	452.68	-2.31%	1.42%	1.42%	4.13%	4.13%	4.13%	465.05	1/19/2011	350.49	8/27/2010
Real Estate	125.05	-1.73%	1.22%	1.22%	3.70%	3.70%	3.70%	127.88	1/28/2011	84.72	2/10/2010
Energy	530.31	-0.49%	1.16%	1.16%	4.65%	4.65%	4.65%	536.69	1/26/2011	365.74	7/1/2010
Materials	235.51	-1.48%	0.94%	0.94%	-1.71%	-1.71%	-1.71%	243.56	1/3/2011	168.44	7/1/2010
Consumer Durables & Apparel	165.22	-1.65%	0.79%	0.79%	-1.98%	-1.98%	-1.98%	174.61	12/22/2010	124.75	2/5/2010
Capital Goods	338.71	-1.53%	0.57%	0.57%	4.67%	4.67%	4.67%	347.47	1/28/2011	250.06	7/6/2010
Insurance	190.23	-2.34%	0.25%	0.25%	1.07%	1.07%	1.07%	194.88	1/28/2011	156.79	5/25/2010
Commercial & Professional Service	146.58	-1.87%	-0.37%	-0.37%	0.72%	0.72%	0.72%	150.14	1/26/2011	122.63	6/8/2010
Health Care Equip & Services	375.76	-1.85%	-0.48%	-0.48%	4.64%	4.64%	4.64%	383.73	1/27/2011	296.30	8/31/2010
Telecom Services	123.62	-2.16%	-0.53%	-0.53%	-3.98%	-3.98%	-3.98%	132.76	1/5/2011	98.67	5/6/2010
Food & Staples Retailing	199.04	-1.76%	-0.55%	-0.55%	1.71%	1.71%	1.71%	203.40	1/26/2011	162.45	7/1/2010
Software & Services	538.06	-2.36%	-0.69%	-0.69%	2.22%	2.22%	2.22%	554.57	1/27/2011	410.27	7/1/2010
Retailing	498.68	-2.98%	-0.70%	-0.70%	-1.91%	-1.91%	-1.91%	516.57	1/3/2011	379.61	7/1/2010
Utilities	160.88	-1.33%	-0.96%	-0.96%	0.97%	0.97%	0.97%	164.42	10/20/2010	138.57	5/25/2010
Banks	149.69	-1.81%	-1.77%	-1.77%	0.60%	0.60%	0.60%	165.92	4/21/2010	115.69	8/31/2010
Food, Beverage & Tobacco	341.37	-1.09%	-1.84%	-1.84%	-3.14%	-3.14%	-3.14%	356.38	12/20/2010	293.85	2/5/2010
Media	202.89	-2.12%	-1.89%	-1.89%	2.32%	2.32%	2.32%	208.83	1/24/2011	150.49	2/5/2010
Household & Personal Products	375.81	-0.28%	-2.24%	-2.24%	-0.63%	-0.63%	-0.63%	390.72	1/25/2011	339.42	5/6/2010
Transportation	325.05	-2.98%	-2.39%	-2.39%	-1.69%	-1.69%	-1.69%	342.02	1/18/2011	239.94	2/5/2010
Pharmaceuticals, Biotech & Life Sci	331.19	-1.74%	-2.48%	-2.48%	-1.90%	-1.90%	-1.90%	352.33	3/23/2010	299.26	7/1/2010
Diversified Financials	342.81	-1.62%	-2.60%	-2.60%	2.21%	2.21%	2.21%	382.07	4/15/2010	278.07	8/31/2010
Consumer Services	453.49	-2.64%	-3.07%	-3.07%	-3.04%	-3.04%	-3.04%	479.39	12/7/2010	363.27	2/5/2010
Automobiles & Components	116.69	-10.01%	-5.78%	-5.78%	-1.23%	-1.23%	-1.23%	130.31	1/13/2011	74.25	6/29/2010

INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Vietnam VNM	28.46	0.04%	3.72%	8.71%	8.71%	8.71%	30.34	12/13/2010	21.81	8/25/2010
Indonesia IDX	77.99	-3.18%	3.24%	-10.67%	-10.67%	-10.67%	93.14	11/9/2010	59.19	5/25/2010
Switzerland EWL	24.78	-0.76%	0.77%	-1.20%	-1.20%	-1.20%	25.25	1/3/2011	18.70	5/25/2010
Sweden EWD	31.74	-3.41%	0.67%	1.63%	1.63%	1.63%	32.94	1/27/2011	19.00	5/6/2010
Taiwan EWT	15.59	-1.92%	0.45%	-0.19%	-0.19%	-0.19%	15.98	1/28/2011	10.81	6/8/2010
South Korea EWY	61.36	-3.02%	0.41%	0.28%	0.28%	0.28%	63.39	1/28/2011	40.65	5/25/2010
Germany EWG	25.00	-1.92%	0.36%	4.43%	4.43%	4.43%	25.55	1/27/2011	17.97	5/25/2010
Canada EWC	31.01	-0.56%	0.29%	0.03%	0.03%	0.03%	31.66	1/3/2011	22.75	5/6/2010
Austria EWO	22.21	-2.24%	0.18%	-0.54%	-0.54%	-0.54%	22.74	1/27/2011	14.91	6/8/2010
Singapore EWS	13.73	-1.58%	-0.07%	-0.87%	-0.87%	-0.87%	14.56	11/9/2010	10.37	2/5/2010
Japan EWJ	10.92	-1.71%	-0.27%	0.09%	0.09%	0.09%	11.25	1/19/2011	9.15	6/7/2010
Australia EWA	24.57	-1.84%	-0.28%	-3.42%	-3.42%	-3.42%	26.36	11/4/2010	18.26	5/25/2010
Belgium EWK	13.27	-2.64%	-0.90%	1.07%	1.07%	1.07%	14.52	11/4/2010	8.93	5/6/2010
France EWQ	25.60	-3.21%	-1.04%	4.70%	4.70%	4.70%	26.59	11/4/2010	19.24	5/25/2010
Netherlands EWN	21.37	-2.46%	-1.34%	1.33%	1.33%	1.33%	21.96	1/27/2011	16.64	5/25/2010
United Kingdom EWU	17.30	-2.37%	-1.42%	-0.40%	-0.40%	-0.40%	18.02	1/18/2011	13.25	5/25/2010
Italy EWI	17.80	-3.42%	-1.77%	8.67%	8.67%	8.67%	19.04	4/14/2010	13.21	6/7/2010
Spain EWP	40.80	-2.37%	-1.78%	11.05%	11.05%	11.05%	45.29	4/14/2010	29.85	6/8/2010
Russia RSX	38.54	-3.43%	-1.81%	1.66%	1.66%	1.66%	40.85	1/18/2011	26.06	5/25/2010
Hong Kong EWH	19.16	-2.10%	-2.34%	1.27%	1.27%	1.27%	20.24	11/8/2010	14.08	5/21/2010
Emerging Markets EEM	45.33	-3.16%	-2.47%	-4.85%	-4.85%	-4.85%	48.59	11/9/2010	35.19	5/25/2010
BRIC EEB	44.34	-2.49%	-2.61%	-3.90%	-3.90%	-3.90%	48.27	11/9/2010	23.23	5/6/2010
Mexico EWW	60.13	-3.06%	-2.72%	-2.89%	-2.89%	-2.89%	63.46	1/18/2011	44.70	2/5/2010
China 25 FXI	42.03	-2.57%	-2.78%	-2.46%	-2.46%	-2.46%	47.99	11/8/2010	36.24	5/6/2010
Latin America ILF	50.66	-2.82%	-3.06%	-5.94%	-5.94%	-5.94%	54.83	11/5/2010	39.18	5/25/2010
Israel EIS	58.00	-2.90%	-3.09%	-4.16%	-4.16%	-4.16%	61.79	1/19/2011	45.00	5/6/2010
Chile ECH	71.27	-2.64%	-3.14%	-10.46%	-10.46%	-10.46%	80.35	12/20/2010	27.26	5/6/2010
Malaysia EWM	14.18	-1.94%	-3.21%	-1.39%	-1.39%	-1.39%	14.98	1/13/2011	10.18	2/5/2010
Brazil EWZ	72.55	-2.14%	-3.25%	-6.27%	-6.27%	-6.27%	81.55	11/4/2010	57.03	5/25/2010
Thailand THD	58.28	-3.16%	-4.74%	-9.80%	-9.80%	-9.80%	68.70	11/9/2010	37.65	2/5/2010
South Africa EZA	64.80	-4.69%	-4.93%	-13.23%	-13.23%	-13.23%	75.27	1/3/2011	23.00	5/6/2010
India IFN	29.40	-3.61%	-5.80%	-16.26%	-16.26%	-16.26%	36.88	11/8/2010	23.97	5/25/2010
Turkey TUR	58.02	-7.02%	-9.33%	-12.37%	-12.37%	-12.37%	79.00	11/9/2010	44.40	5/6/2010