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The Kaufman Report

Trade what you see, not what you think.

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Thursday October 1, 2009

Closing prices of September 30, 2009

What a difference a year makes! Last year at the end of September in The Kaufman Report we said there was the possibility of a market crash in October. While volatility is to be expected in any October, we do not currently see the conditions present that are needed for a repeat of last year's nightmare. That issue of September 29, 2008 is posted on our website for those who want to make comparisons. Still, it is October, and investors should definitely not press the snooze button as a sharp pullback can happen at any time.

We have stressed three characteristics of this bull market. Those are huge global liquidity, the belief held by investors 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. These remain intact, in spite of a pickup in selling recently.

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 will be tested. 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. Bad economic news or disappointing earnings could certainly change investor's desire to hang onto stocks.

We have been stressing for the last two weeks that investors need to be cautious regarding entry points, and we reiterate that at this time. However, equities are no longer overbought, and our options indicator has dropped down to neutral. Therefore, we may be seeing some decent entry points shortly.

Of interest on the monthly charts is oil posting its highest monthly close since October 2008, gold with its highest monthly close ever, and natural gas with a key reversal month and a bullish engulfing candle on its monthly chart.

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. We have been saying 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 and still enter short positions with that same caveat.

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	Daily	WTD	MTD	QTD	YTD
Bank of New York Mellon ADR	0.16%	-1.05%	5.04%	19.28%	28.45%
Nasdaq 100	0.08%	-0.31%	5.77%	16.36%	41.87%
Nasdaq Composite	-0.08%	-0.42%	5.64%	15.66%	34.58%
NYSE Composite	-0.23%	-0.77%	4.03%	17.03%	20.04%
Dow Jones Industrials	-0.31%	-0.37%	2.27%	14.98%	10.66%
S&P 500	-0.33%	-0.36%	3.57%	14.98%	17.03%
S&P 1500	-0.38%	-0.39%	3.78%	15.46%	17.92%
S&P Midcap 400	-0.58%	-0.43%	5.57%	19.52%	28.38%
S&P Smallcap 600	-1.11%	-1.13%	5.03%	18.30%	18.12%

	Daily	WTD	MTD	QTD	YTD
Information Technology	0.19%	-0.13%	4.47%	16.70%	44.80%
Consumer Staples	0.17%	0.37%	3.26%	10.50%	6.70%
Telecom Services	-0.31%	0.10%	2.82%	3.95%	-3.05%
Consumer Discretionary	-0.43%	0.24%	5.16%	18.85%	27.78%
Health Care	-0.46%	0.42%	0.90%	8.91%	7.87%
Materials	-0.50%	-1.60%	4.73%	21.00%	35.85%
Financials	-0.50%	-0.56%	1.93%	25.14%	19.19%
Energy	-0.52%	-0.86%	4.60%	9.49%	5.94%
Utilities	-0.86%	-0.26%	1.05%	4.95%	0.68%
Industrials	-0.87%	-1.96%	6.57%	21.24%	11.93%

	Daily	WTD	MTD	QTD	YTD
Consumer Durables & Apparel	1.22%	1.99%	7.11%	29.72%	28.24%
Semiconductors & Equipment	0.70%	-1.34%	-0.14%	19.53%	43.69%
Food, Beverage & Tobacco	0.35%	0.39%	4.11%	10.08%	12.36%
Technology Hardware & Equipment	0.30%	0.16%	5.58%	19.88%	52.39%
Household & Personal Products	0.27%	1.04%	5.42%	13.03%	0.13%
Consumer Services	0.18%	2.38%	5.78%	12.52%	13.67%
Software & Services	-0.14%	-0.05%	4.80%	11.80%	36.21%
Retailing	-0.16%	-0.83%	3.55%	17.04%	35.18%
Banks	-0.24%	-1.38%	1.47%	20.70%	-6.10%
Food & Staples Retailing	-0.31%	-0.30%	-0.35%	9.01%	2.98%
Telecom Services	-0.31%	0.10%	2.82%	3.95%	-3.05%
Pharmaceuticals, Biotech & Life Sciences	-0.32%	1.29%	1.45%	8.48%	3.93%
Diversified Financials	-0.45%	-0.72%	1.60%	24.21%	36.76%
Materials	-0.50%	-1.60%	4.73%	21.00%	35.85%
Energy	-0.52%	-0.86%	4.60%	9.49%	5.94%
Health Care Equip & Services	-0.78%	-1.49%	-0.32%	9.90%	17.52%
Real Estate	-0.80%	-2.05%	7.27%	31.71%	9.94%
Commercial & Professional Services	-0.83%	-0.09%	3.49%	11.62%	5.69%
Insurance	-0.83%	1.55%	1.29%	30.67%	14.71%
Utilities	-0.86%	-0.26%	1.05%	4.95%	0.68%
Capital Goods	-0.86%	-1.78%	8.13%	23.68%	13.50%
Transportation	-0.89%	-3.21%	2.17%	16.13%	8.61%
Media	-1.48%	-0.01%	7.46%	20.72%	22.99%
Automobiles & Components	-2.03%	-2.07%	-1.82%	22.93%	78.86%

INTERNATIONAL ETFs

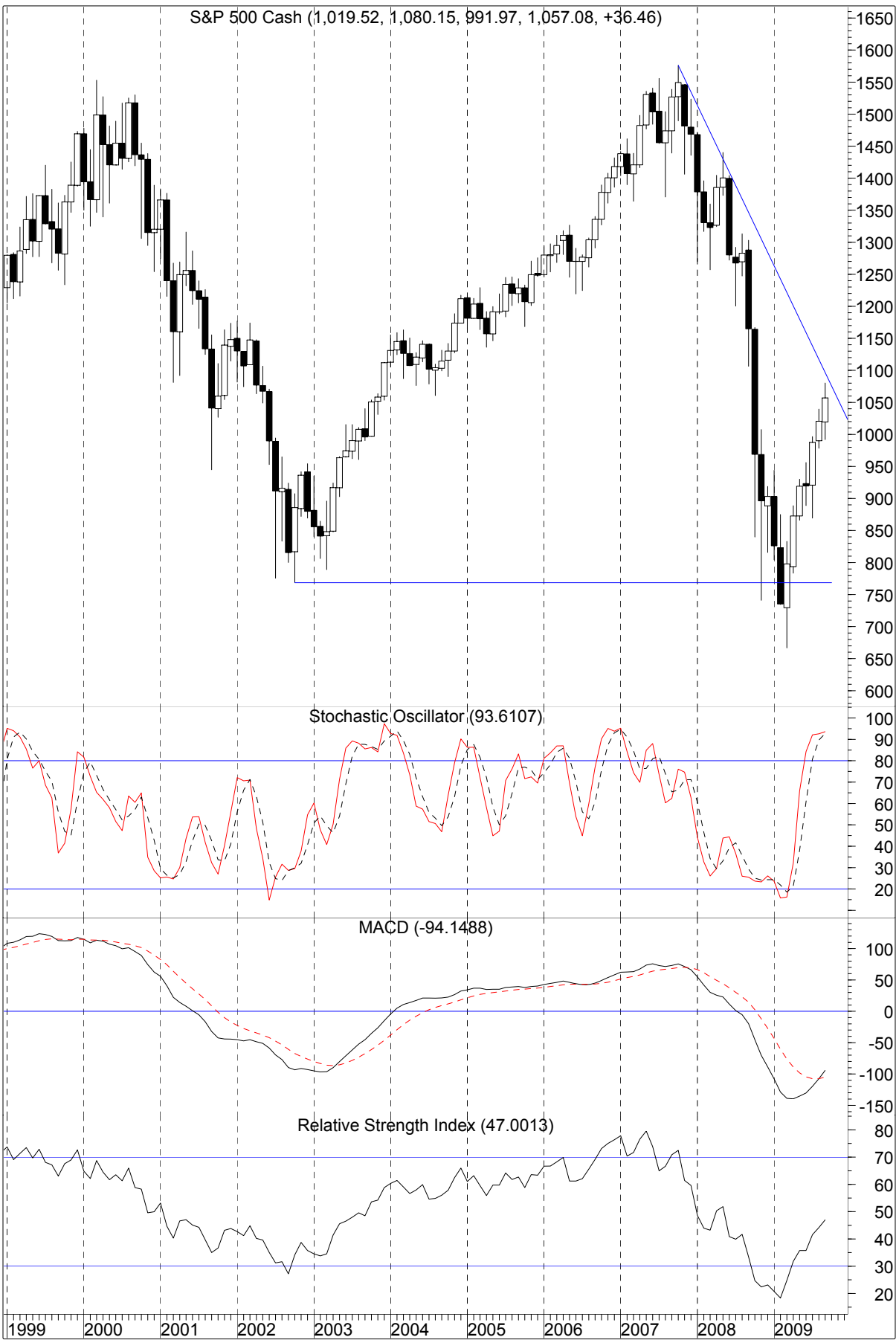
	Daily	WTD	5-Days	MTD	QTD	YTD
Taiwan EWT	2.16%	2.45%	2.41%	13.65%	22.10%	62.32%
Brazil EWZ	1.59%	2.99%	2.97%	16.20%	27.69%	93.31%
Austria EWO	1.48%	1.51%	1.48%	7.92%	35.85%	68.51%
Canada EWC	1.27%	-0.89%	-0.86%	7.15%	18.95%	46.18%
Latin America ILF	1.16%	2.50%	2.46%	11.83%	23.52%	68.47%
Belgium EWK	1.01%	0.39%	0.39%	7.80%	28.74%	48.80%
Switzerland EWL	0.70%	-0.66%	-0.64%	4.52%	22.64%	17.15%
BRIC EEB	0.67%	0.69%	0.67%	12.68%	21.24%	68.60%
Australia EWA	0.62%	1.95%	1.94%	11.49%	34.52%	61.31%
MSCI Emerging Markets EEM	0.62%	0.58%	0.57%	10.20%	20.73%	55.83%
Hong Kong EWH	0.58%	0.13%	0.13%	7.63%	12.95%	49.66%
Singapore EWS	0.56%	0.57%	0.56%	5.08%	19.18%	52.48%
France EWQ	0.53%	-0.43%	-0.42%	6.61%	26.87%	24.08%
South Korea EWY	0.53%	0.34%	0.34%	13.92%	36.19%	69.40%
Japan EWJ	0.51%	-1.50%	-1.49%	-2.74%	5.41%	3.76%
Netherlands EWN	0.50%	0.15%	0.15%	8.21%	31.05%	34.32%
Germany EWG	0.14%	-0.28%	-0.27%	6.12%	23.41%	15.45%
Italy EWI	0.05%	0.85%	0.84%	6.86%	25.68%	24.53%
United Kingdom EWU	-0.06%	-1.76%	-1.71%	3.75%	17.41%	26.61%
Malaysia EWM	-0.20%	-0.78%	-0.78%	4.75%	13.93%	39.09%
Sweden EWD	-0.26%	-3.99%	-3.86%	1.05%	25.10%	48.91%
Mexico EWW	-0.34%	0.68%	0.67%	2.95%	18.50%	35.36%
Spain EWP	-0.38%	-0.83%	-0.81%	4.75%	24.36%	32.25%
Vietnam VNM	-1.03%	0.17%	0.17%	5.96%		
China 25 FXI	-1.06%	-3.40%	-3.31%	4.10%	6.65%	40.67%

S&P 500 Cash (1,061.02, 1,063.40, 1,046.47, 1,057.08, -3.53)



The S&P 500 bounced off its 20-sma Wednesday after an early plunge.

Momentum indicators are no longer overbought.



The monthly chart of the S&P 500 shows the stochastic in the overbought zone. However, the RSI and MACD are not at high levels, and the MACD just had a positive crossover.

NASDAQ 100 (1,723.91, 1,731.44, 1,691.76, 1,718.99, +1.32)



The Nasdaq 100 also bounced off its 20-sma Wednesday.

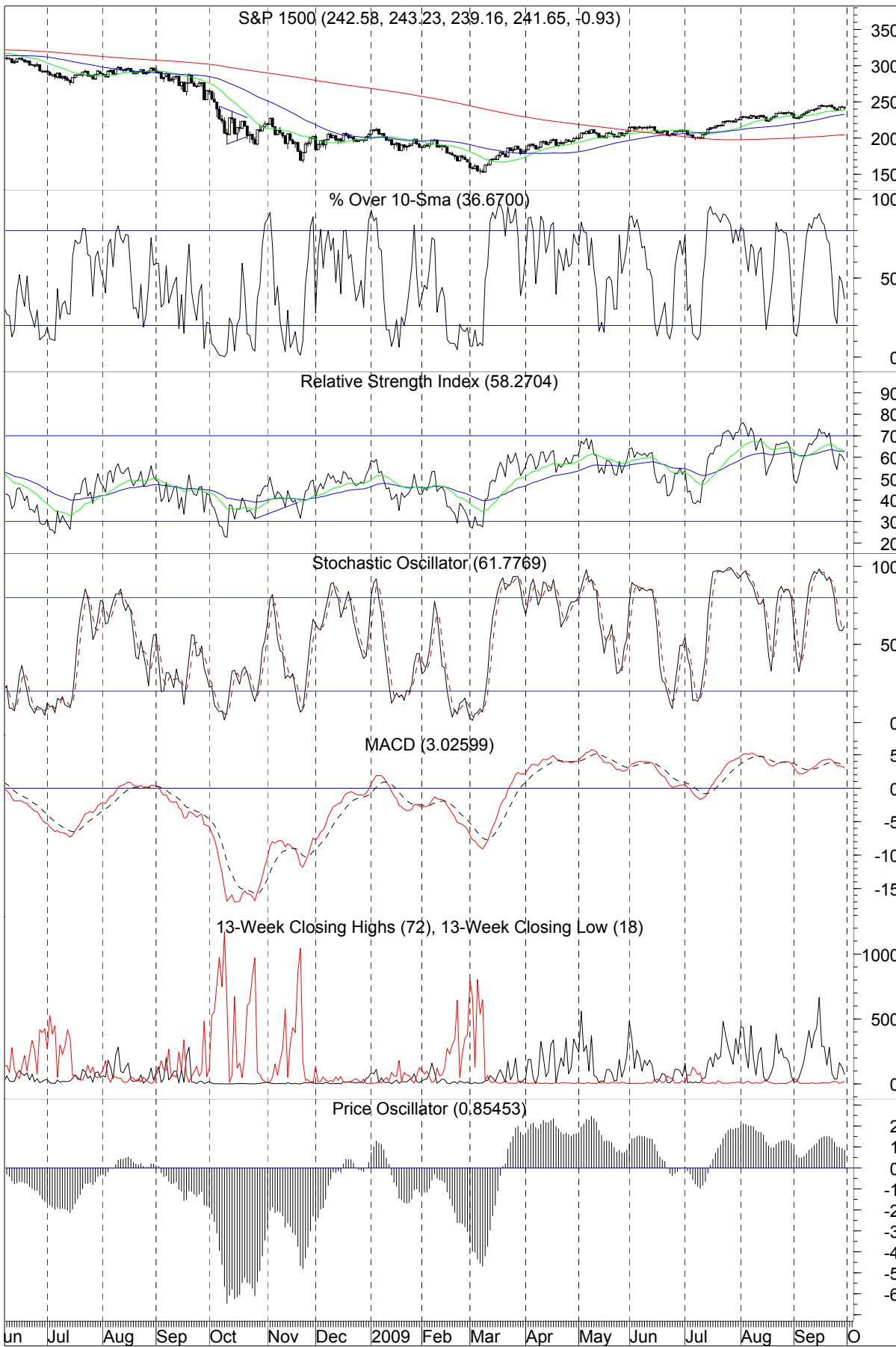
Momentum indicators are no longer overbought.

The stochastic is showing a positive crossover while the MACD has a negative one.

NASDAQ 100 (1,620.09, 1,754.54, 1,585.56, 1,718.99, +93.80)

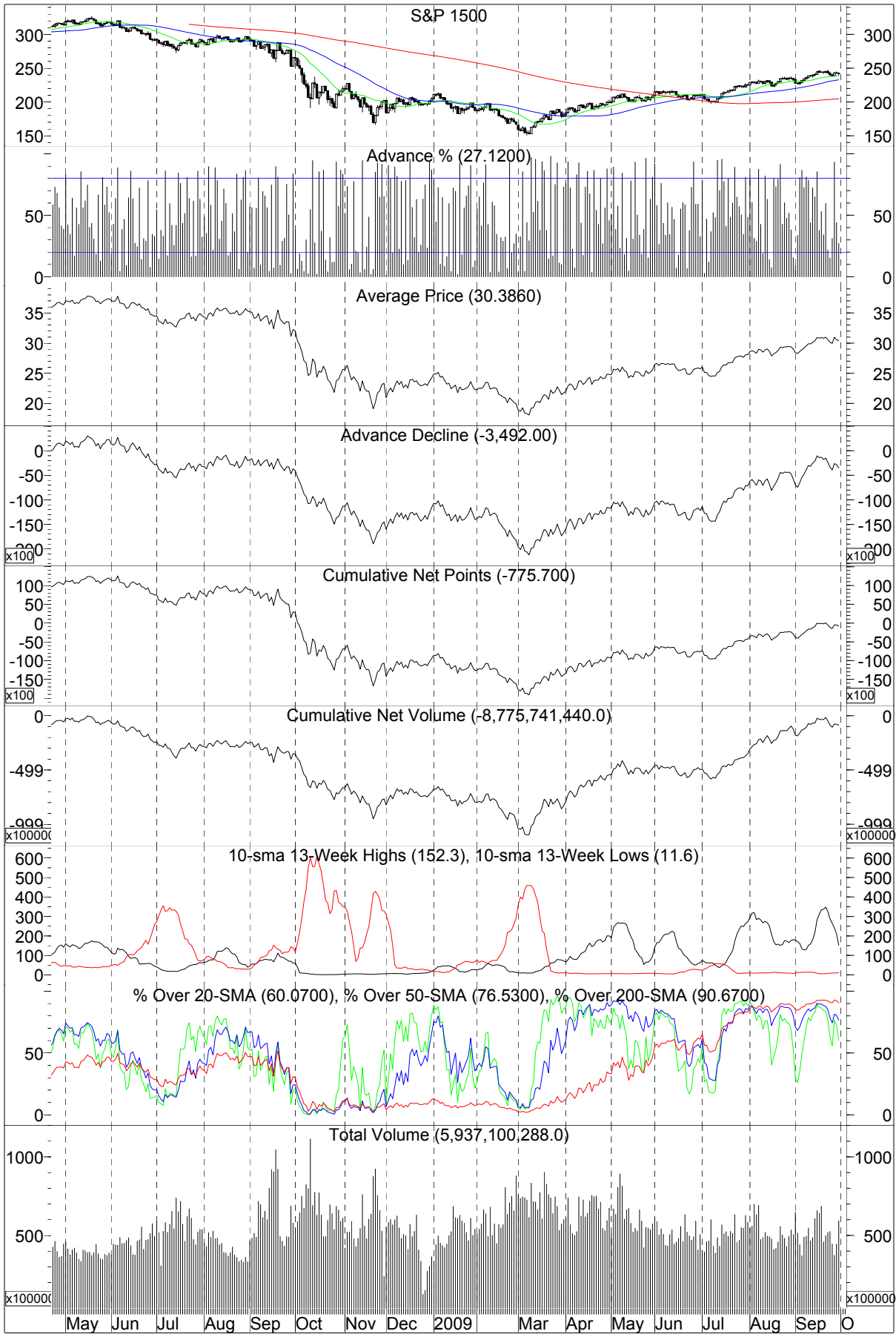


The monthly chart of the Nasdaq 100 shows it breaking through one resistance line and now right at another. Momentum indicators are not at high levels and with the MACD showing a positive crossover from low levels they appear to have a lot of room to move higher.



Momentum indicators are no longer at overbought or high levels, but with the exception of the percent over 10-sma they did not reach oversold levels either.

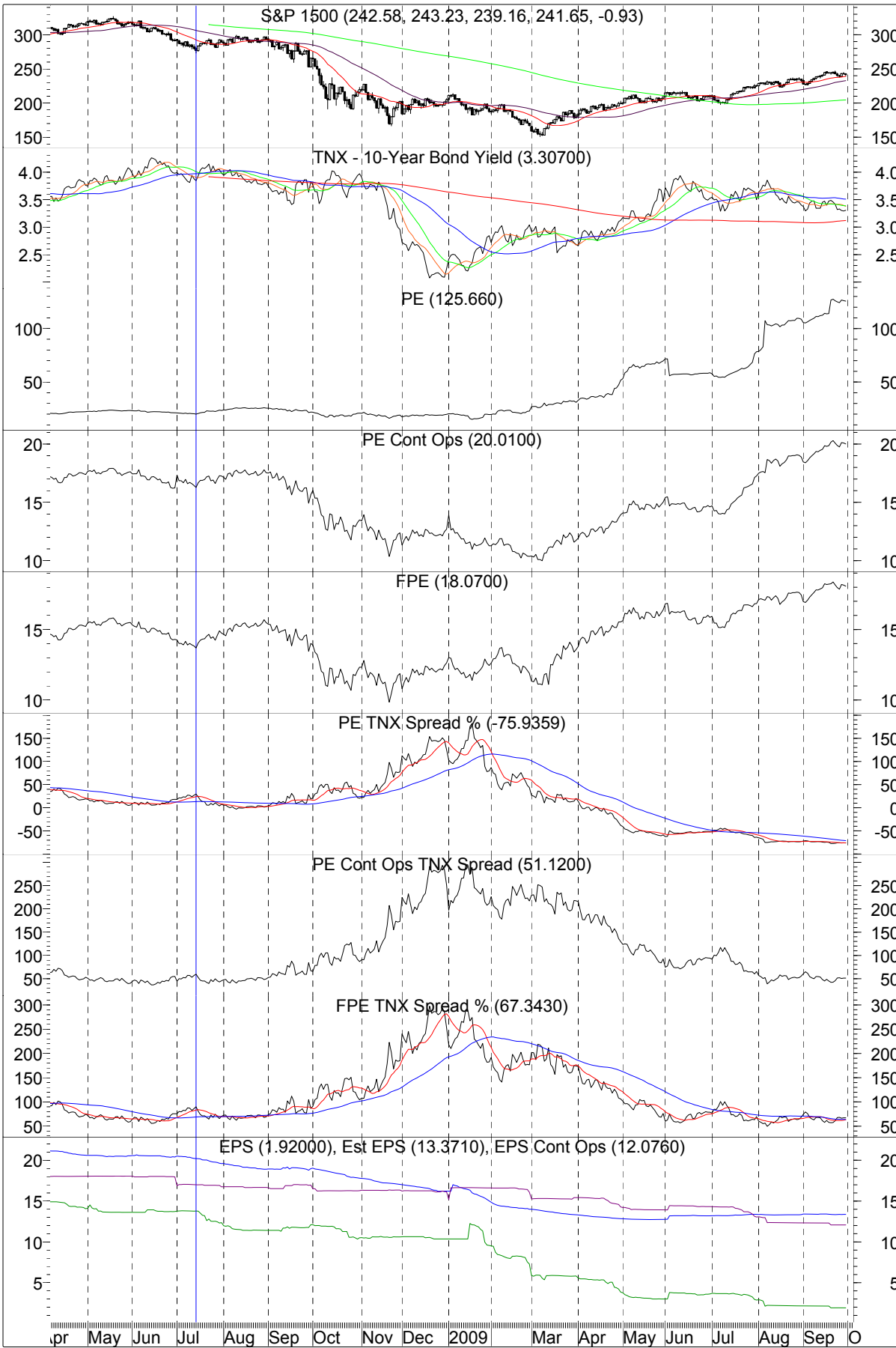
Our price oscillator, a good indicator of trends, remains in positive territory.



The Kaufman Report - Wayne S. Kaufman, CMT



Our proprietary options indicator warned of the recent weakness when it showed too much bullishness among options buyers. It has dropped rapidly to the neutral line, which is helpful, but we prefer when it shows pessimism.



We have voiced our concerns regarding valuations many times, and these indicators are moving sideways as there is little new earnings information. That will change as we enter Q3 earnings season.



The U.S. Dollar Index bounced from oversold levels, but it is finding resistance at the 20-sma (green).

Oil continues to move sideways, but it printed its highest monthly close since October 2008. Natural gas (not shown) printed a bullish engulfing candle on its monthly chart.

Gold is consolidating after becoming short-term overbought. It appears to be breaking out on its monthly chart (not shown) and printed an all-time monthly closing high in September.