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The Kaufman Report

Trade what you see, not what you think.

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Thursday April 17, 2009 **Closing prices of April 16, 2009**

The S&P 500 traded higher again Thursday, making new rally intra-day and closing highs. All ten S&P sectors advanced, refreshingly led by Consumer Discretionary +3.43% and Information Technology +3.19% instead of Financials. The index is now just below important resistance at the 875 – 878 area, and is still in the bearish rising wedge which will be reaching a conclusion soon. A decisive break of the support line would probably mean that the long awaited correction of the recent rally is beginning. Conversely, a break above resistance at the 875 – 878 area would be very bullish. We said early in this rally that a market that didn't pull back from overbought conditions could be in the early phase of a strong rally. The rally is now in its sixth week, and breadth remains impressive with 87.2% of the stocks in the S&P 1500 over their own 50-day moving averages, the highest number seen in years. Some negative divergences have shown up, such as the number of new highs and percent over 10-day moving average. We have been recommending that investors continue to play the long side of this rally while keeping stops tight and being careful with entry points. **We repeat that advice at this time**.

The short-term and intermediate-term trends are up, while the long-term trend remains down. This continues to be an opportunistic trader's market, with adept traders able to take advantage long or short. Traders should not hesitate to rotate out of lagging sectors and stocks and into leaders.

The S&P 1500 (196.95) was up 1.70% Thursday. Average price per share was up 2.46%. Volume was 103% of its 10-day average and 95% of its 30-day average. 85.82% of the S&P 1500 stocks were up, with up volume at 79.27% and up points at 92.28%. Up Dollars was 97.92% of total dollars, and was 146% of its 10-day moving average. Down Dollars was 6% of its 10-day moving average. The index is up 8.82% in April, up 8.82% quarter-to-date, down 3.89% year-to-date, and down 44.74% from the peak of 356.38 on 10/11/07. Average price per share is $24.05, down 44.37% from the peak of $43.23 on 6/4/07.

Percent over 10-sma: 83.20%. 13-Week Closing Highs: 303. 13-Week Closing Lows: 2.
Put/Call Ratio: 0.755. Kaufman Options Indicator: 1.01.

P/E Yield 10-year Bond Yield Spreads: -5% (earnings before charges), 180% (earnings continuing ops), and 134% (projected earnings). Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at $19.18 and are now at $5.30, a drop of 72.37%. Aggregate earnings from continuing operations peaked at $19.95 in September 2007 and are now $15.31, down 23.26%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $13.06, a drop of 40.50%.

53 of the S&P 500 have reported 1st quarter earnings. According to Bloomberg, 64.2% had positive surprises, 7.5% were in line, and 28.3% have been negative. The year-over-year change has been -18.0% on a share-weighted basis, -0.8% market cap-weighted and -13.5% non-weighted. Ex-financial stocks these numbers are -16.7%, 0.9%, and -12.5 %, respectively.

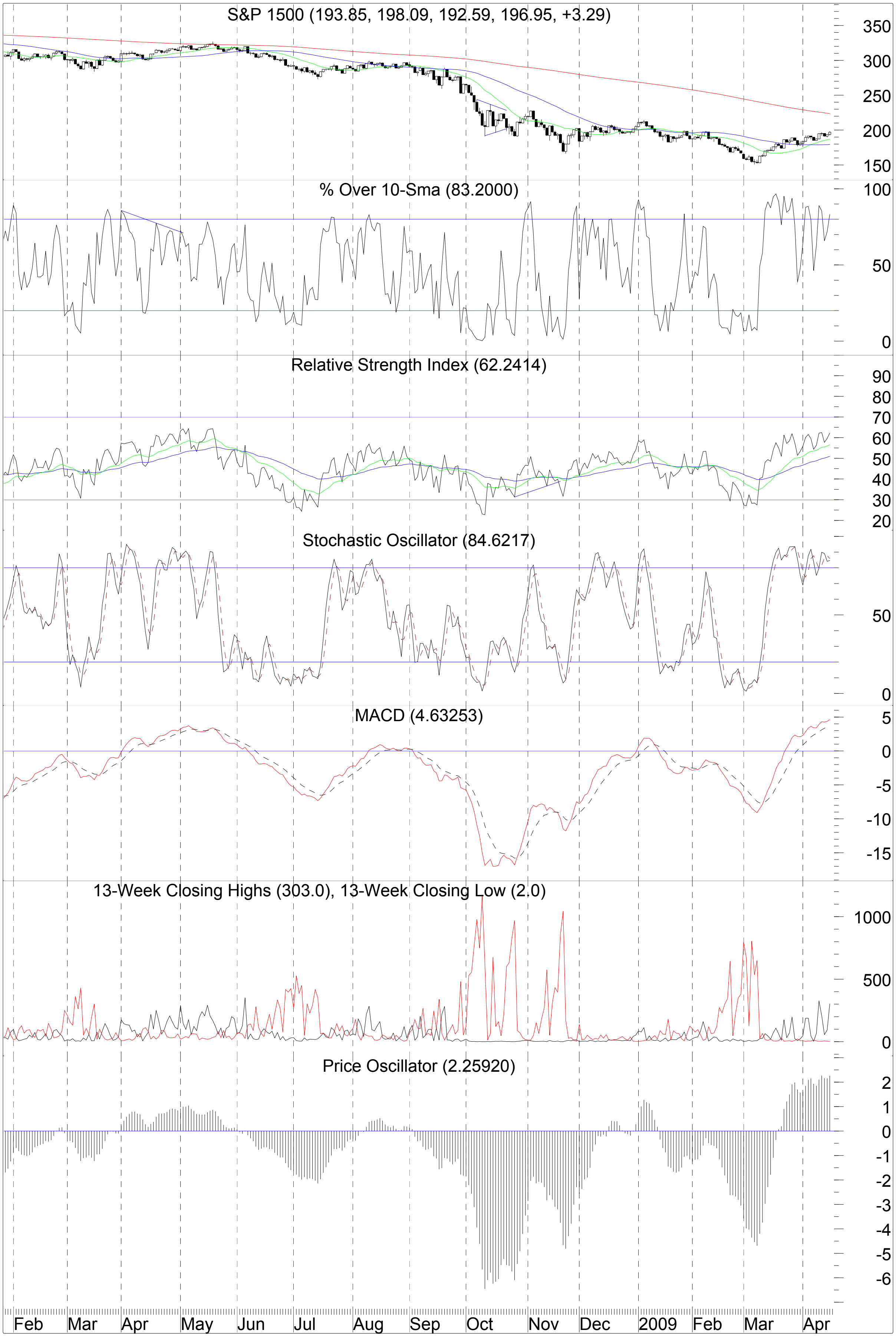
Federal Funds futures are pricing in a probability of 74.0% that the Fed will *leave rates unchanged*, and a probability of 26.0% of cutting *25 basis points to 0.0%* when they meet on April 29th. They are pricing in a probability of 67.3% that the Fed will *leave rates unchanged* on June 24th, a probability of 22.4% of cutting 25 basis points to 0.0%, and a probability of 10.3% of *raising 25 basis points*.

IMPORTANT DISCLOSURES

The S&P 500 is just under important resistance as the bearish rising wedge is reaching a conclusion. The index made new intra-day and closing rally highs. A move through the resistance would be a tremendous sign of strength. A decisive break of the support line would probably mean the long-awaited correction of this six week rally has begun. Weekly charts (not shown) however are still not overbought or showing signs of turning down.

The intra-day chart on the S&P 500 shows our momentum indicators at high levels where a pull back is likely. Also, there is a bearish engulfing candle on the chart. Of course earnings news trumps everything, and we are in the heart of earnings season.

The Nasdaq 100 tested the upper channel line Wednesday then made a new rally high Thursday. The 200-sma (red) will be coming into play soon.


S&P 1500 (193.85, 198.09, 192.59, 196.95, +3.29)
350
300
250
200
150
% Over 10-Sma (83.2000)
100
50
0
Relative Strength Index (62.2414)
90
80
70
60
50
40
30
20
Stochastic Oscillator (84.6217)
50
0
MACD (4.63253)
5
0
-5
-10
-15
13-Week Closing Highs (303.0), 13-Week Closing Low (2.0)
1000
500
0
Price Oscillator (2.25920)
2
1
0
-1
-2
-3
-4
-5
-6
Feb
Mar
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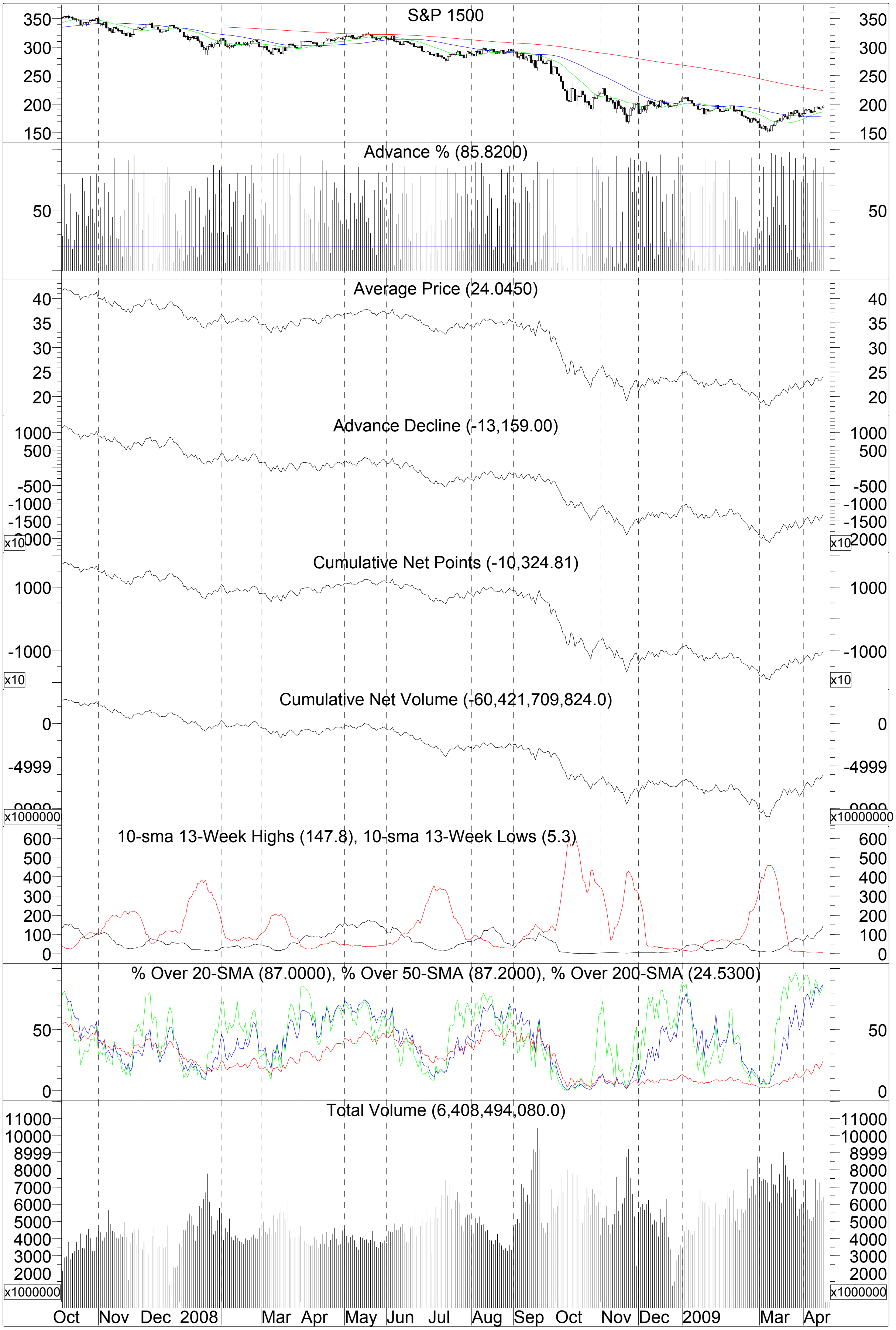

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