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The Kaufman Report

Trade what you see, not what you think.

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Thursday April 23, 2009 **Closing prices of April 22, 2009**

Stocks rallied Wednesday until a last hour selloff turned it into a mixed session. On Sunday we said that stocks had arrived at the mother of all inflection points. The S&P 500 index was almost exactly at the apex of a bearish rising wedge and on Friday it entered an important resistance zone at 875 – 878 before pulling back at the close. On Monday in a broad selloff it broke decisively through the support line of the bearish rising wedge. Financials led the way again on Monday, down 11.42%. Since Financials have been the leader of the recent rally, and are the weakest sector over the last five days, can the rally continue without them? We have been recommending that investors play the long side of this rally while keeping stops tight and being careful with entry points. **We said Monday night that with short-term momentum indicators turning down from high levels investors should be defensive. We repeat that advice at this time**. The "V" bottom stocks made in March came after the "omigod everyone's going out of business" decline to the "omigod everyone's not going out of business" rally. Now the question is fair valuation. Based on aggregate earnings before charges, stocks are overvalued. Based on earnings from continuing operations (after charges) and analysts forecasts stocks are cheap. Are the charges really one-time? Will the analysts finally start getting it at least nearly correct? If so, the recent rally is justified and any pullback should not be too deep. **If not, that's what stop loss orders are for, and they should be kept tight**.

The short-term and intermediate-term trends are up, while the long-term trend remains down. This is a bifurcated, 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 (192.40) was down 0.633% Wednesday. Average price per share was up 0.26%. Volume was 110% of its 10-day average and 111% of its 30-day average. 54.13% of the S&P 1500 stocks were up, with up volume at 44.40% and up points at 55.42%. Up Dollars was 47.21% of total dollars, and was 41% of its 10-day moving average. Down Dollars was 72% of its 10-day moving average. The index is up 6.306% in April, up 6.306% quarter-to-date, down 6.112% year-to-date, and down 46.01% from the peak of 356.38 on 10/11/07. Average price per share is $23.86, down 44.81% from the peak of $43.23 on 6/4/07.

Percent over 10-sma: 63.00%. 13-Week Closing Highs: 199. 13-Week Closing Lows: 8.
Put/Call Ratio: 0.780. Kaufman Options Indicator: 1.01.

P/E Yield 10-year Bond Yield Spreads: -14% (earnings bef. charges), 164% (earnings continuing ops), and 128% (projected earnings). Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at $19.18 and are now at $4.90, a drop of 74.45%. Aggregate earnings from continuing operations peaked at $19.95 in September 2007 and are now $15.06, down 24.51%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $12.99, a drop of 40.82%.

134 of the S&P 500 have reported 1st quarter earnings. According to Bloomberg, 67.2% had positive surprises, 6.7% were in line, and 26.1% have been negative. The year-over-year change has been -18.6% on a share-weighted basis, -8.5% market cap-weighted and -33.0% non-weighted. Ex-financial stocks these numbers are -21.5%, -5.7%, and -26.4 %, 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 69.8% that the Fed will *leave rates unchanged* on June 24th, a probability of 21.1% of cutting 25 basis points to 0.0%, and a probability of 9.1% of *raising 25 basis points*.

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The S&P 500 sold off in the afternoon printing a shooting star like candle. It still was a higher high and higher low than Tuesday. A break below Tuesday's low of 826.83 would be bad as it would take out support and the 20-sma. Fibonacci retracement levels of the rally off the March 6 lows are 796 area (38.2%) and 771 (50%).

Momentum indicators are moving down, and the stochastic is nearing the oversold zone.

The intra-day chart of the S&P 500 shows support at the 825 - 829 area.

Momentum indicators are not yet oversold.

The Nasdaq 100 made a new intra-day high Wednesday but sold off in the afternoon. Momentum indicators are still at high levels and coming down, so further weakness or consolidation should be expected. The 200-sma (red) is not far above.

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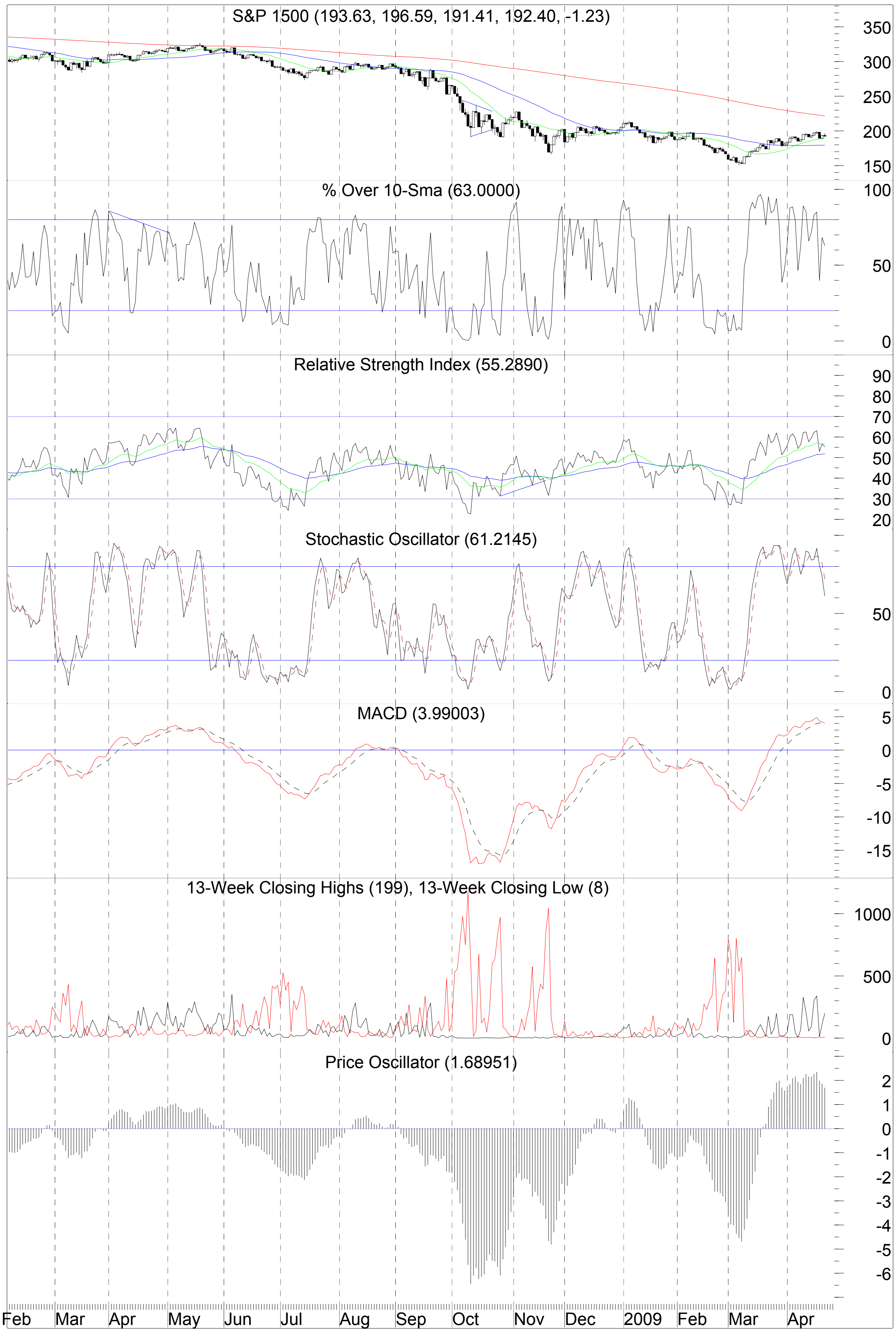

Momentum indicators are still coming down from high levels so more weakness or consolidation is expected.

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