John Thomas Financial
14 Wall Street, 5th Floor
New York, New York 10005
wskaufman@johnthomasbd.com
www.kaufmanreport.com

The Kaufman Report

Trade what you see, not what you think.

Wayne S. Kaufman, CMT
Chief Market Analyst
(800) 257-1537 Toll Free
(212) 299-7838 Direct

Friday April 24, 2009 **Closing prices of April 23, 2009**

Stocks recorded another mixed day Thursday as they continue to consolidate after breaking the support line of the bearish rising wedge. 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 turned into 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 (193.97) was up 0.814% Thursday. Average price per share was up 0.26%. Volume was 96% of its 10-day average and 99% of its 30-day average. 42.59% of the S&P 1500 stocks were up, with up volume at 62.47% and up points at 51.32%. Up Dollars was 60.85% of total dollars, and was 54% of its 10-day moving average. Down Dollars was 50% of its 10-day moving average. The index is up 7.17% in April, up 7.17% quarter-to-date, down 5.35% year-to-date, and down 45.57% from the peak of 356.38 on 10/11/07. Average price per share is $23.88, down 44.76% from the peak of $43.23 on 6/4/07.

Percent over 10-sma: 54.6%. 13-Week Closing Highs: 137. 13-Week Closing Lows: 11.
Put/Call Ratio: 0.907. Kaufman Options Indicator: 1.01.

P/E Yield 10-year Bond Yield Spreads: -11% (earnings bef. charges), 161% (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 $5.05, a drop of 73.67%. Aggregate earnings from continuing operations peaked at $19.95 in September 2007 and are now $14.83, down 25.66%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $12.97, a drop of 40.91%.

188 of the S&P 500 have reported 1st quarter earnings. According to Bloomberg, 68.1% had positive surprises, 6.4% were in line, and 25.5% have been negative. The year-over-year change has been -25.0% on a share-weighted basis, -14.9% market cap-weighted and -33.5% non-weighted. Ex-financial stocks these numbers are -25.6%, -12.8%, and -27.0 %, 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*.

IMPORTANT DISCLOSURES

The S&P 500 is consolidating after breaking the lower trend line of the bearish rising wedge pattern.


S&P 500 Cash (851.96, 851.97, 851.90, 851.92, -0.08)
880
875
870
865
860
855
850
845
840
835
830
825
820
815
810
805
800
795
790
785
780
775
Relative Strength Index (57.4954)
70
60
50
40
30
Stochastic Oscillator (76.3150)
50
MACD (0.01322)
10
5
0
-5
26
27
30
31
1
2
3
6
7
8
9
13
14
15
16
17
20
21
22
23
April


NASDAQ 100 (1,340.77, 1,345.67, 1,321.42, 1,344.41, +8.69)
200-sma
50-sma
20-sma
2050
2000
1950
1900
1850
1800
1750
1700
1650
1600
1550
1500
1450
1400
1350
1300
1250
1200
1150
1100
1050
1000
950
Relative Strength Index (60.8618)
60
50
40
30
Stochastic Oscillator (76.8851)
50
0
MACD (33.7692)
0
-50
-100
August
September
October
November
December
2009
February
March
April

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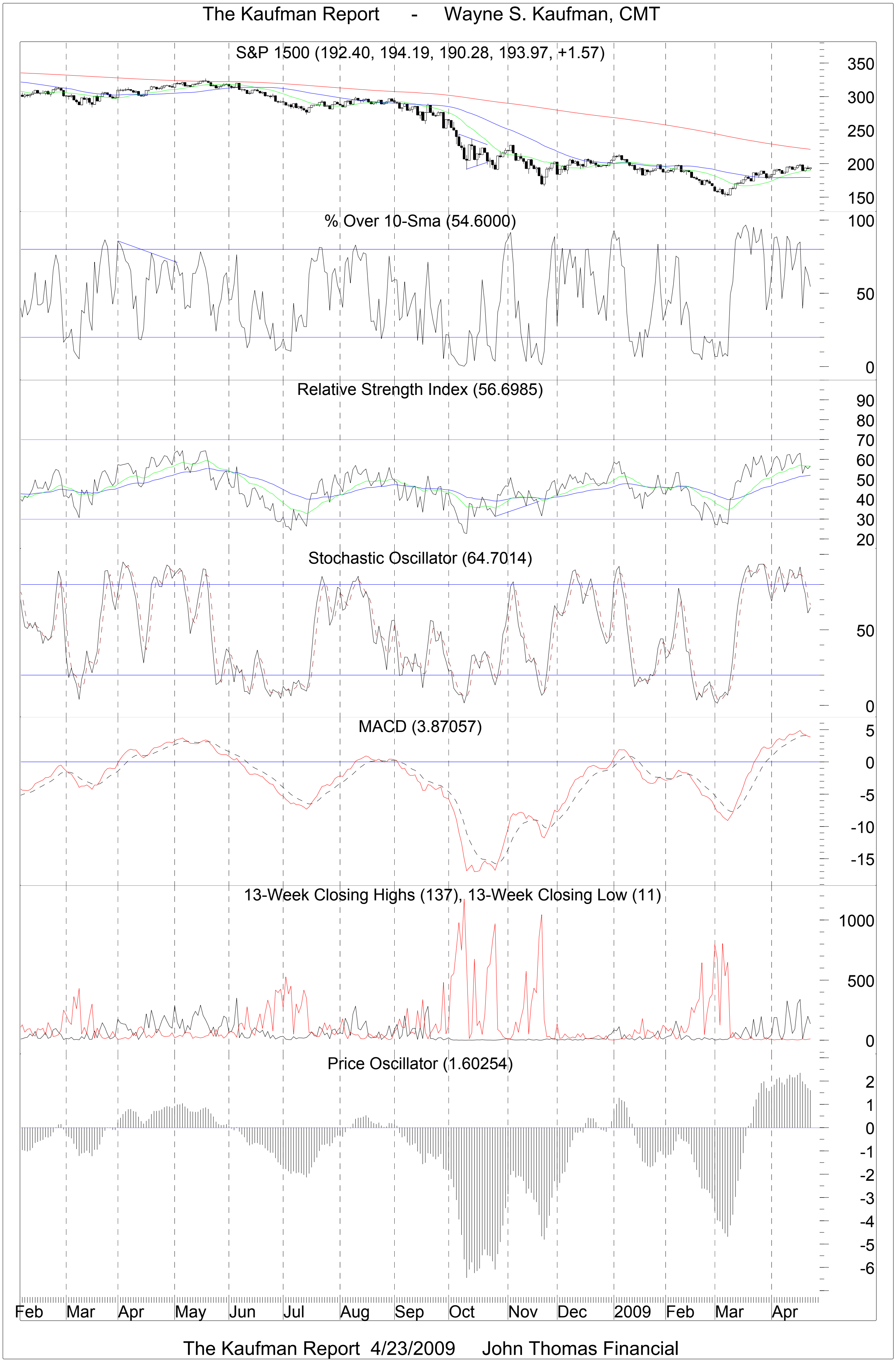
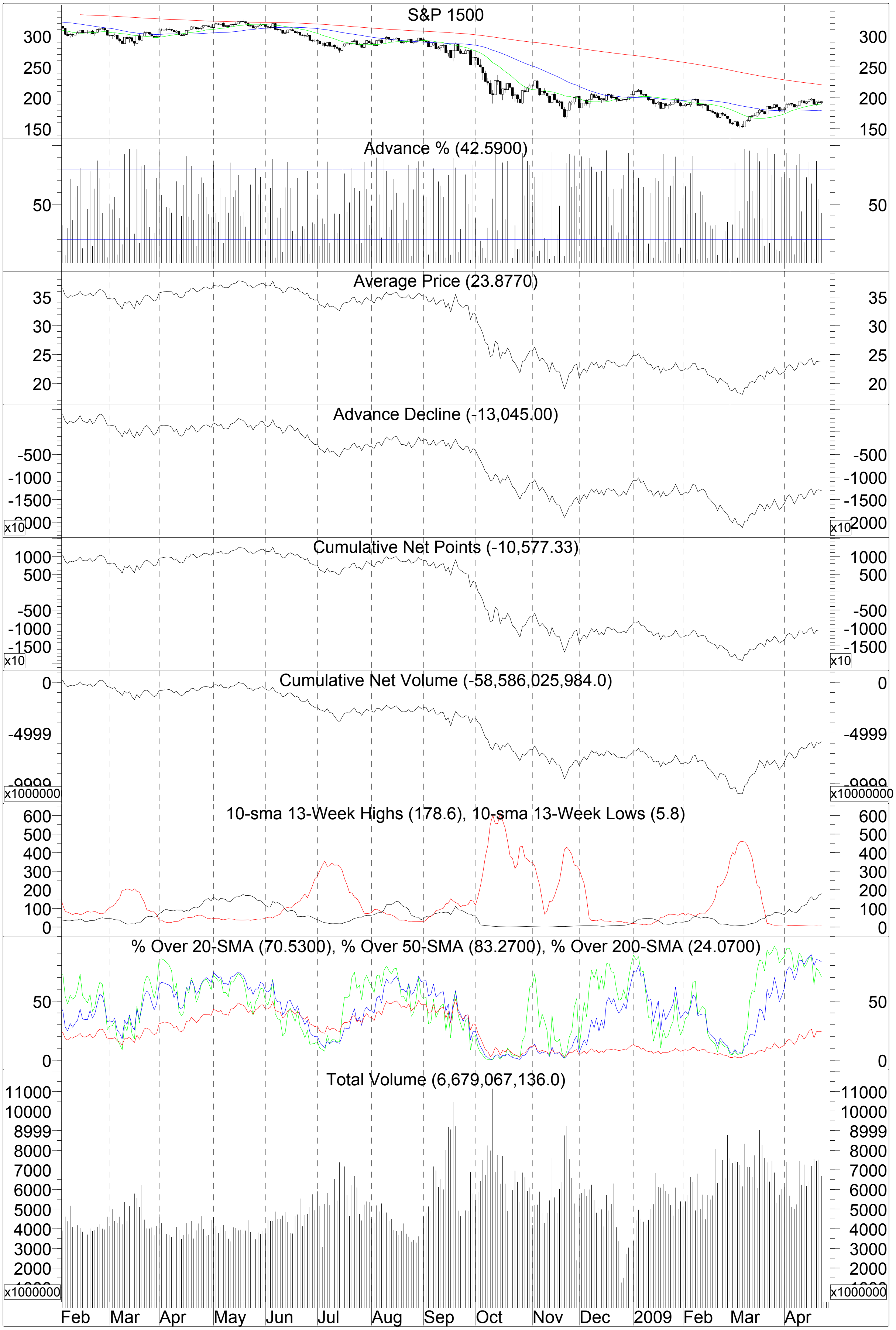


The percent over 10-sma has a negative divergence.



Only 42.59% of stocks traded higher Thursday as small caps lagged.

The 10-sma of 13-week highs is the highest since 6/5/07.

Volume receded during Thursday's unimpressive rally.

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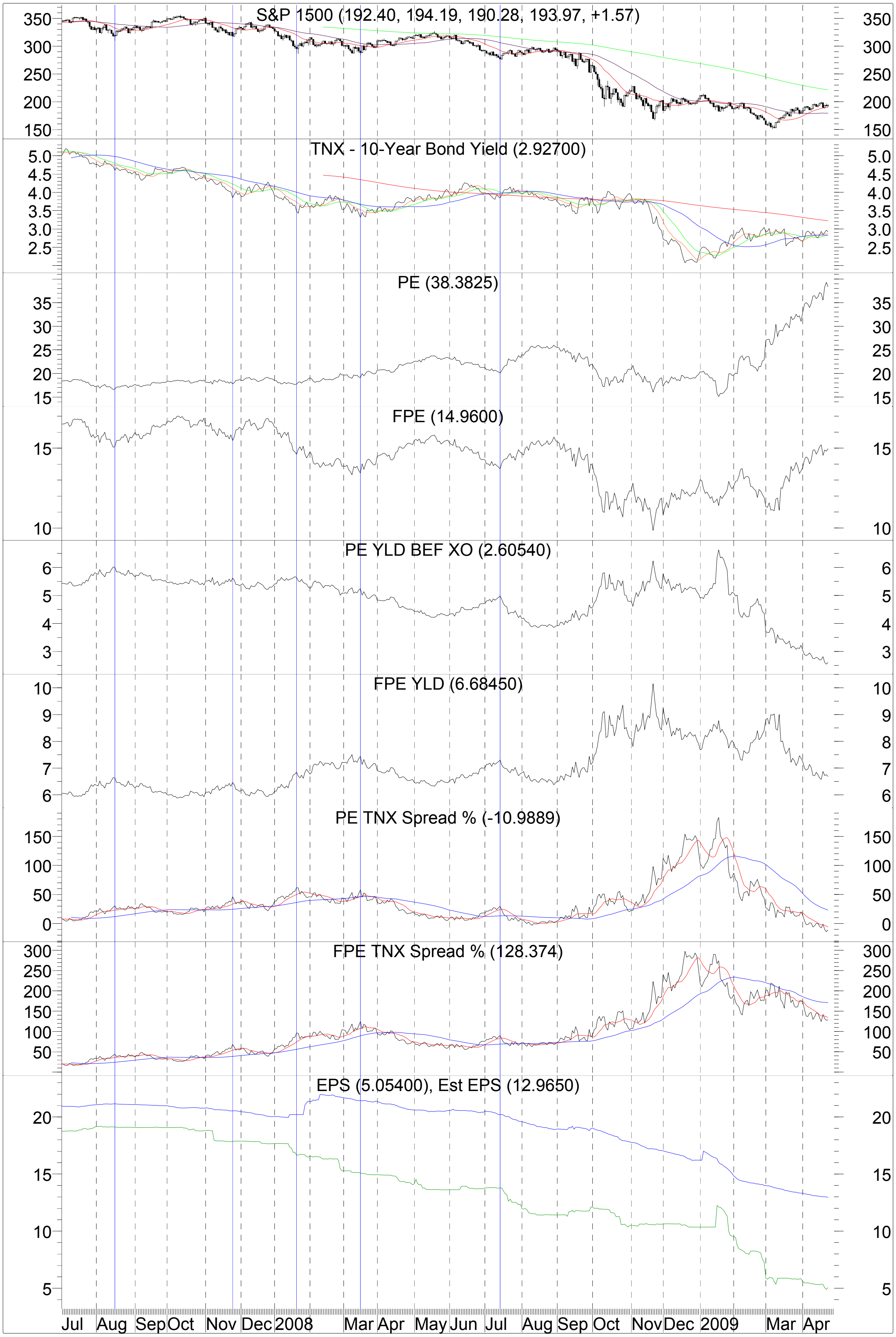

P/E s remain very high.

Spreads between bond and earnings yields remain at low levels.

Earnings and forecasts continue to move lower.