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The Kaufman Report

Trade what you see, not what you think.

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Monday April 27, 2009 **Closing prices of April 24, 2009**

Last week we said stocks had arrived at the mother of all inflection points. They responded with a broad selloff last Monday which broke the support line of the bearish rising wedge pattern, but the buy the dips mentality which has dominated this rally continued, and by week's end Monday's selloff had been almost completely erased. ***Therefore, stocks remain at an important inflection point***. **We have been recommending that investors play the long side of this rally while keeping stops tight and being careful with entry points. We repeat that advice at this time**. There are signs that the rally is weakening, such as negative divergences on daily charts and weekly charts being overbought. At the same time, a greater number of stocks made a new rally high Friday. For months almost all stocks have trended in the same direction. It is possible we are entering a period of a split market, where the possibility of major financial institutions going bankrupt no longer drags down the stock of companies which continue to do well. 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 (197.45) was up 1.794% Friday. Average price per share was up 2.42%. Volume was 102% of its 10-day average and 106% of its 30-day average. 80.23% of the S&P 1500 stocks were up, with up volume at 75.02% and up points at 89.83%. Up Dollars was 95.88% of total dollars, and was 187% of its 10-day moving average. Down Dollars was 9% of its 10-day moving average. The index is up 9.094% in April, up 9.094% quarter-to-date, down 3.65% year-to-date, and down 44.60% from the peak of 356.38 on 10/11/07. Average price per share is $24.46, down 43.42% from the peak of $43.23 on 6/4/07.

Percent over 10-sma: 54.6%. 13-Week Closing Highs: **354, the most since 2/20/07** . 13-Week Closing Lows: 7.
Put/Call Ratio: 0.834. Kaufman Options Indicator: 1.01.

P/E Yield 10-year Bond Yield Spreads: -13% (earnings bef. charges), 149% (earnings continuing ops), and 118% (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 $14.73, down 26.17%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $12.91, a drop of 41.18%.
201 of the S&P 500 have reported 1st quarter earnings. According to Bloomberg, 68.7% had positive surprises, 6.0% were in line, and 25.4% have been negative. The year-over-year change has been -28.1% on a share-weighted basis, -15.9% market cap-weighted and -34.9% non-weighted. Ex-financial stocks these numbers are -28.9%, -13.8%, and -27.9 %, respectively.

Federal Funds futures are pricing in a probability of 76.0% that the Fed will *leave rates unchanged*, and a probability of 24.0% 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

I, Wayne S. Kaufman, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Economic News

4/24/09 – Durable Goods Orders for March came in at -0.8% versus the -1.5% estimate and +2.1% for February. Ex-transportation it was -0.6% versus the -1.2% estimate. New Home Sales for March were 356K versus the 337K estimate and February's 358K, a MoM drop of 0.6% versus the -1.2% estimate. Most economists are taking the slowdown in the economic contraction as a sign the economy is bottoming.

4/23/09 – Initial Jobless Claims for w/e 4/18 were 640K matching the 640K estimate. Continuing claims for w/e 4/11 were 6,137K versus the 6,120K estimate, the 12th consecutive record. The four-week moving average of initial claims fell from 651K to 646,750. Existing Home Sales for March were 4.57 million annualized versus the 4.65 million estimate. Existing Home Sales MoM for March were -3.0% versus the -1.5% estimate.

4/22/09 – MBA Mortgage Applications for w/e April 17th were +5.3% versus -11.0% the prior week. The refi index was +7.7% while the purchase index was -4.2%. The House Price Index MoM for February was +0.7% versus the -0.7% estimate and the prior month's +1.7%.

4/21/09 – ABC Consumer Confidence for w/e April 19th was -47 versus the -50 estimate.

4/20/09 – Leading Indicators for March were -0.3% versus the -0.2% estimate. They have not risen in the past nine months. Coincident Indicators were -0.4%, and Lagging Indicators were -0.4%. Of the ten indicators making up the leading index, three were positive. Those were real, in order of contribution, money supply, interest rate spread, and consumer expectations. Negative were building permits, stocks prices, supplier deliveries, average weekly manufacturing hours, average weekly unemployment claims, and new orders for non-defense capital goods.

4/17/09 – The University of Michigan Confidence number came in at 61.9 versus the 58.5 estimate. March was 57.3.

4/16/09 – **Initial Jobless Claims for w/e 4/11 were 610K versus the 660K estimate. This was the lowest number since January**. Continuing Claims were a record 6,022K versus the 5,893K estimate. Housing Starts for March were 510K annualized versus the 540K estimate. **Single family homes were started at a 358K annual rate, the same rate as the prior month**. Building Permits were 513K versus the 549K estimate. The Philadelphia Fed Index for April was -24.4 versus the -32.0 estimate.

4/15/09 – MBA Mortgage Applications for w/e 4/10 were -11%. The prior week was +4.7%. Consumer Price Index for March MoM was -0.1% versus the +0.1% estimate. Ex Food & Energy it was +0.2% versus the +0.1% estimate. **CPI YoY was -0.4% versus the -0.1% estimate, the first annual decline since 1955.** Ex Food & Energy YoY it was +1.8% versus the +1.7% estimate. Empire Manufacturing Index for April was -14.65, better than the -35.00 estimate and the March -38.23, which was the lowest since 2001. Net Long-term TIC Flows for February were $22.0 billion versus the $14.0 billion estimate and January's -$43.0 billion as international investors bought long-term securities, mostly notes and bonds. Total Net TIC Flows were -$97.0 billion versus January's -$148.9 billion. Industrial Production for March was -1.5% versus the -0.9% estimate and February's -1.5%. **Capacity Utilization for March was 69.3%, the lowest ever, versus the 69.6% estimate and February's 70.9%.** NAHB Housing Market Index for April came in at 14 versus the estimate of 10 and March's 9.

4/14/09 – Producer Price Index for March MoM was -1.2% versus the 0.0% estimate. Ex Food & Energy it was 0.0% versus the 0.1% estimate. YoY the PPI was -3.5% versus the -2.2% estimate. Ex Food & Energy it was +3.8% versus the +4% estimate. Advance Retail Sales for March were -1.1% versus the +0.3% estimate. Retail Sales Less Autos was -0.9% versus the 0.0% estimate. Business Inventories for February were -1.3% versus the -1.2% estimate, the sixth consecutive monthly decrease. At the current rate of sales there is 1.43 months of inventory, the lowest since November. ABC Consumer Confidence for w/e 4/12 was -51 versus the -50 estimate and the prior -50.

Economic News

4/11/09 – China's bank loans increased more than six-times versus one year ago and money supply grew 25.5% in a sign that the government's stimulus plan was beginning to have an effect.

4/10/09 – The Monthly Budget Statement for March showed a deficit of $192.3 billion versus the estimate of -$165.0 billion as tax payments dropped and the government spent more to reveive the economy. The deficit for the first six months of this fiscal year already exceeds the record set in the entire prior year.

4/9/09 – The Trade Balance for February was -$26.0 billion versus the -$36.0 billion estimate and January's -$36.2 billion. It was the smallest trade gap since November 1999, the smallest with China in three years, and the smallest with Japan since 1984. The Import Price Index for March MoM was 0.5%, the first rise in eight months, versus the 0.9% estimate. YoY it was -14.9%, the biggest drop on record, versus the -14.7% estimate. Excluding energy prices fell for the third straight month, down 0.7%. Initial Jobless Claims for w/e 4/4 were 654K versus the 660K estimate and down from the prior 674K. Continuing Claims for w/e 3/28 were a record 5,840K versus the 5,810K estimate and the prior 5,745K. U.S. March ICSC Chain Store Sales YoY in March were -2.1% versus the -0.8% estimate.

4/8/09 – MBA Mortgage Applications for w/e 4/3 rose 4.7% for the fifth straight gain and above the prior +3.0%. Wholesale Inventories for February dropped 1.5%, more than the -0.7% estimate and the -0.7% in January. Sales at U.S. wholesalers rose for the first time in since June and contributed to the inventory drop. At the current sales pace distributors have 1.31 months of inventory on hand, the lowest since November. Stockpiles of durable goods fell 1.2%, the biggest decline on record, as durable sales climbed 2%, the most since April 2008.

4/7/09 – IBD/TIPP Economic Optimism for April was reported at 49.1 versus the estimate of 45.8 and above the prior 45.3. Consumer Credit for February was -$7.5 billion versus the -$3.0 billion estimate and down from the $8.1 billion increase in January. ABC Consumer Confidence for w/e 4/5 was -50 versus the -49 estimate and the prior -49.

4/3/09 – Nonfarm Payrolls for March lost 663K jobs versus the 660K estimate and up from the prior 651K for February. Unemployment for March came in as expected at 8.5%, up from 8.1% in February and the highest level since 1983. Manufacturing Payrolls for March were -161K versus the estimate of -162K, and slightly better than February's -169K. Average Hourly Earnings for March MoM were in line at +0.2%, while YoY they were +3.4% versus the +3.5% estimate. Average Weekly Hours for March were 33.2 versus the 33.3 estimate. The ISM Non-Manufacturing Composite for March was 40.8 versus the 42.0 estimate.

4/2/09 – Initial Jobless Claims for w/e 3/28 were 669K versus the estimate of 650K. Continuing Claims for w/e 3/21 were 5,728K versus 5,590K. Factory Orders for February were up 1.8% versus the estimate of +1.5%, the first increase in seven months. Excluding transportation equipment orders rose 1.6%.

4/1/09 – MBA Mortgage Applications for w/e 3/27 were +3% from the prior week, rising for the fourth consecutive week as 30-year fixed mortgage rates fell to a record low 4.61%. Challenger Job Cuts YoY for March was up 180.7%. ADP Employment Change report for March showed a loss of 742K jobs versus the -663K estimate and up from -706K in February. ISM Manufacturing for March came in at 36.3 versus the estimate of 36 for a third consecutive increase, while ISM Prices Paid was 31.0 versus the estimate of 33.0. Construction Spending MoM for February was -0.9% versus the estimate of -1.9%. Pending Home Sales MoM for February was up 2.1% versus an estimate of 0.0%. Pending Home Sales is considered a leading indicator. Total Vehicle Sales for March were 9.9 million versus the estimate of 9.2 million, while Domestic Vehicle Sales for March were 7.1 million versus the 6.5 million estimate.

3/31/09 – S&P/CaseShiller Home Price Index for January was 146.40 versus the 147.20 estimate and down from December's 150.56. The S&P/CaseShiller Composite-20 Index for January showed a YoY decline of 18.97% versus the -18.60 estimate December's -18.60%. This was the fastest drop on record for home prices in 20 U.S. cities. All 20 cities showed decreases led by -35% in Phoenix and -32.5% in Las Vegas. Chicago Purchasing Manager Index for March was 31.4 versus the 34.3 estimate and February's 34.2. Consumer Confidence for March came in at 26.0 versus the 28.0 estimate and February's 25.3. February's number was the lowest since records began in 1967. The Milwaukee Purchasing Manager's Index for March was 30.0, up from February's 29.0.

3/30/09 – Dallas Fed Manufacturing Activity for March was -49% versus the estimate of -52%, and an improvement from February's -57.3%.

The daily chart of the S&P 500 shows it remains just under a resistance zone at 876 - 878. Last week it bounced off its 20-sma (green) multiple times.

The S&P 500 intra-day chart shows momentum indicators have turned down from high levels, indicating possible weakness early Monday.

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The S&P 500 was down 0.388% last week breaking a string of six up weeks. It remains just under an important resistance zone at 876 - 878.

The stochastic is in overbought territory.

The Nasdaq 100 is up seven weeks in a row. It is now just under its 200-sma (not shown) which is at 1399.

The weekly chart of the Nasdaq 100 shows the stochastic in overbought territory. It can stay there for a number of weeks.

The ADR Index has negative divergences on its momentum indicators.

ADRs are outperforming the S&P 500 but underperforming Nasdaq.

Financials are at an area of resistance on the daily chart.

Momentum indicators are coming down from high or overbought levels.

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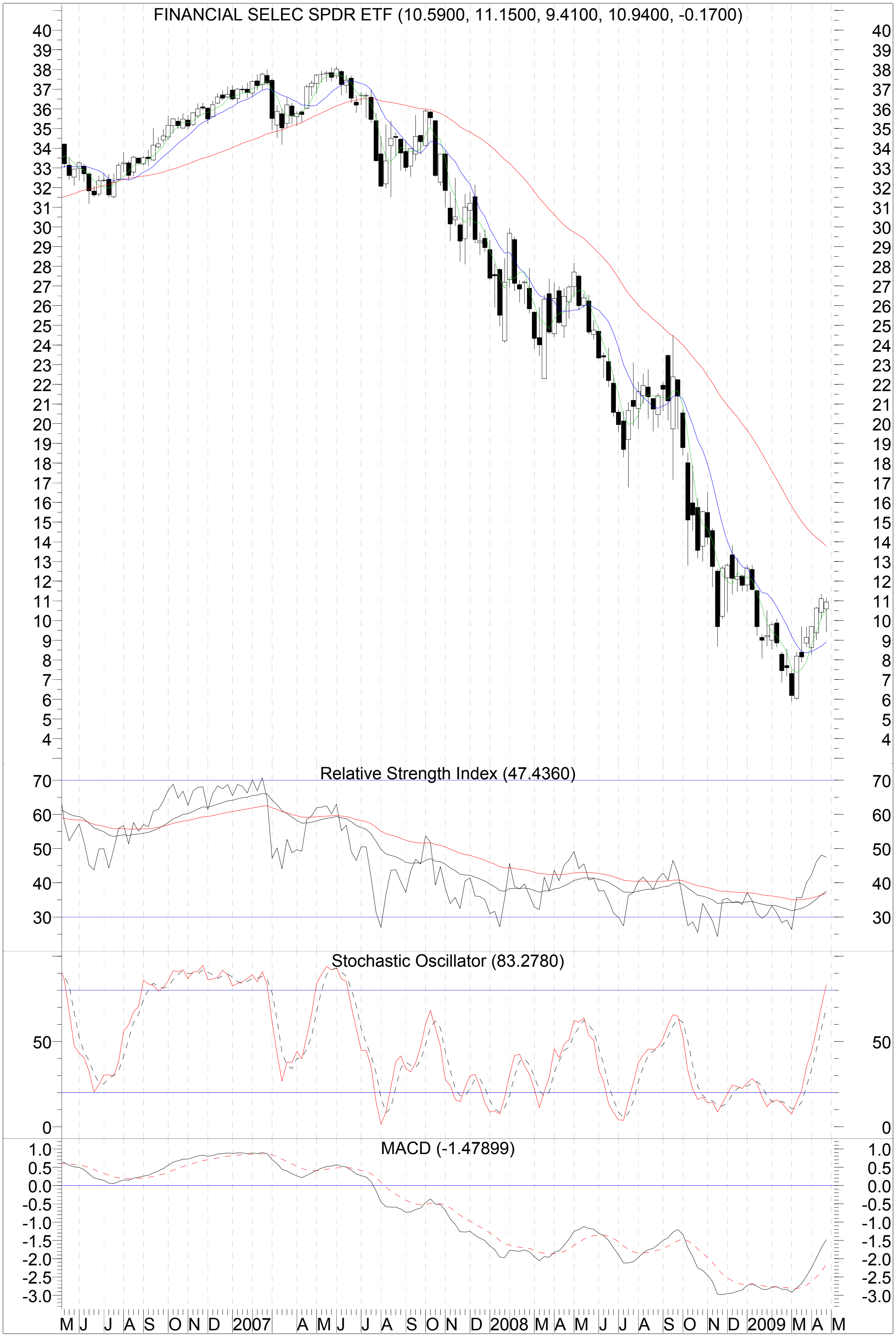
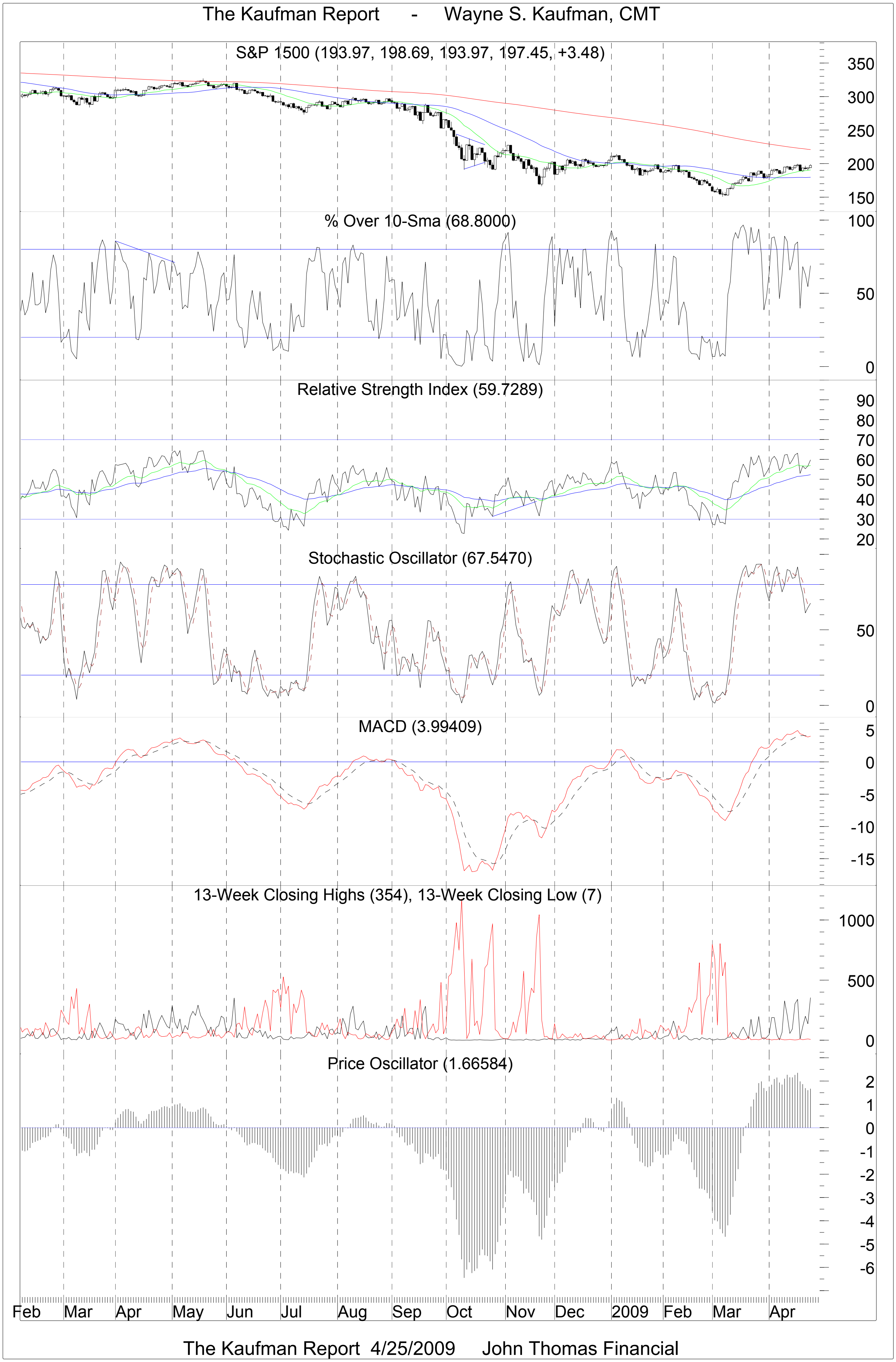


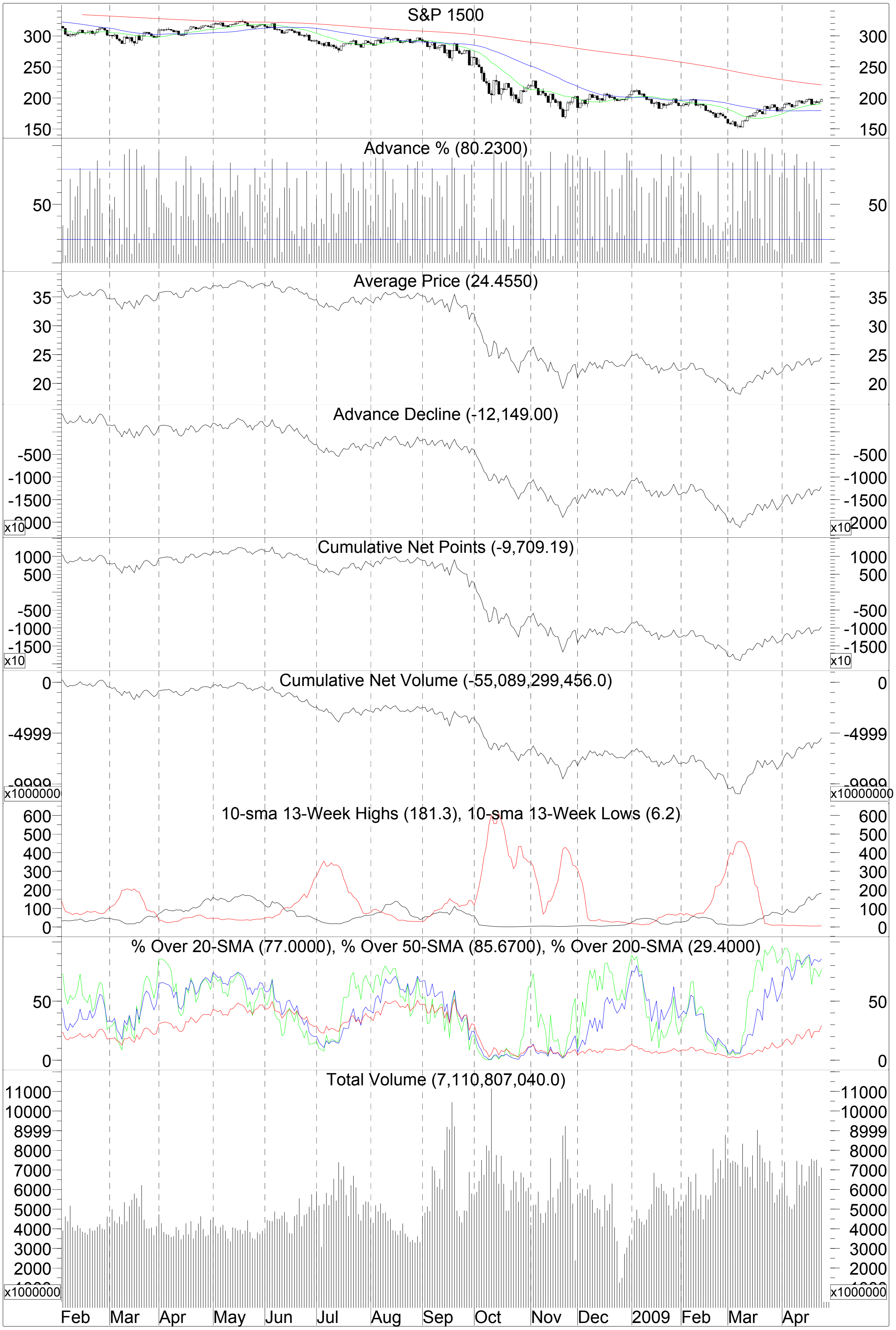
Financials have been leading this rally but they were down 1.32% last week and printed a hanging man candle on the weekly chart. It is a bearish candle but requires confirmation in the following week. If Financials can't keep rallying can the market as a whole continue higher?

The stochastic is entering the overbought zone, and the RSI is at an area where it has topped in the past.



There is a negative divergence on the percent over 10-sma as well as our other momentum indicators. This contrasts with the number of stocks making new 13-week closing highs (see below).

13-week closing highs made a new rally high Friday with the highest number since 2/20/07.



80% of the S&P 1500 traded higher Friday.

All of our statistics of market breadth are making new rally highs, which points to higher prices inn the future. The only negative here is the AD line, which is lagging the other indicators.

The 10-sma of 13-week closing highs is the highest since 2/20/07.

The percent over 20-sma has crossed under the percent over 50-sma, which can be the start of some weakness. The percent over 200-sma is the highest since 10/1/08.

Volume expanded a little during Friday's rally.

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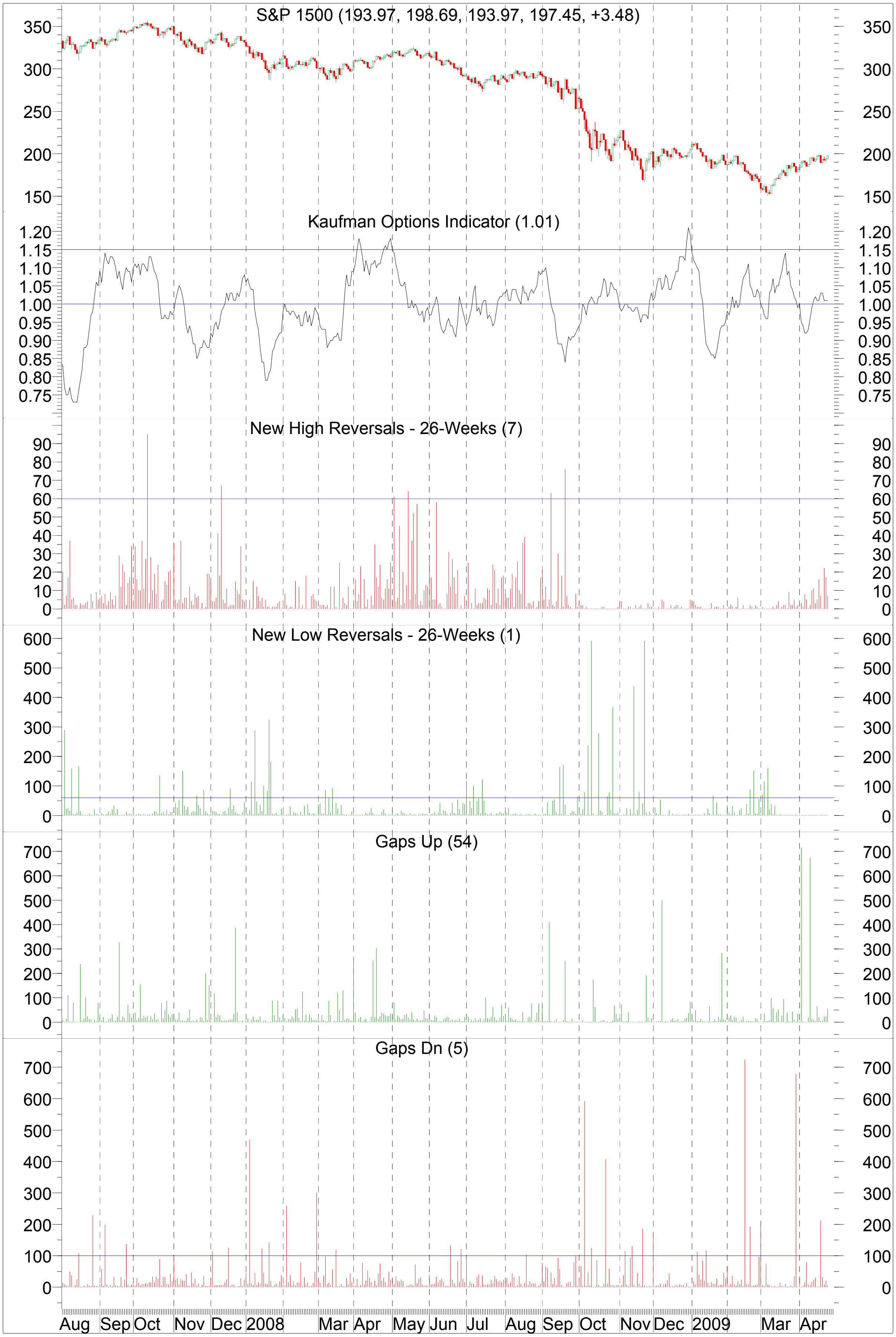

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Our proprietary options indicator is just above neutral.

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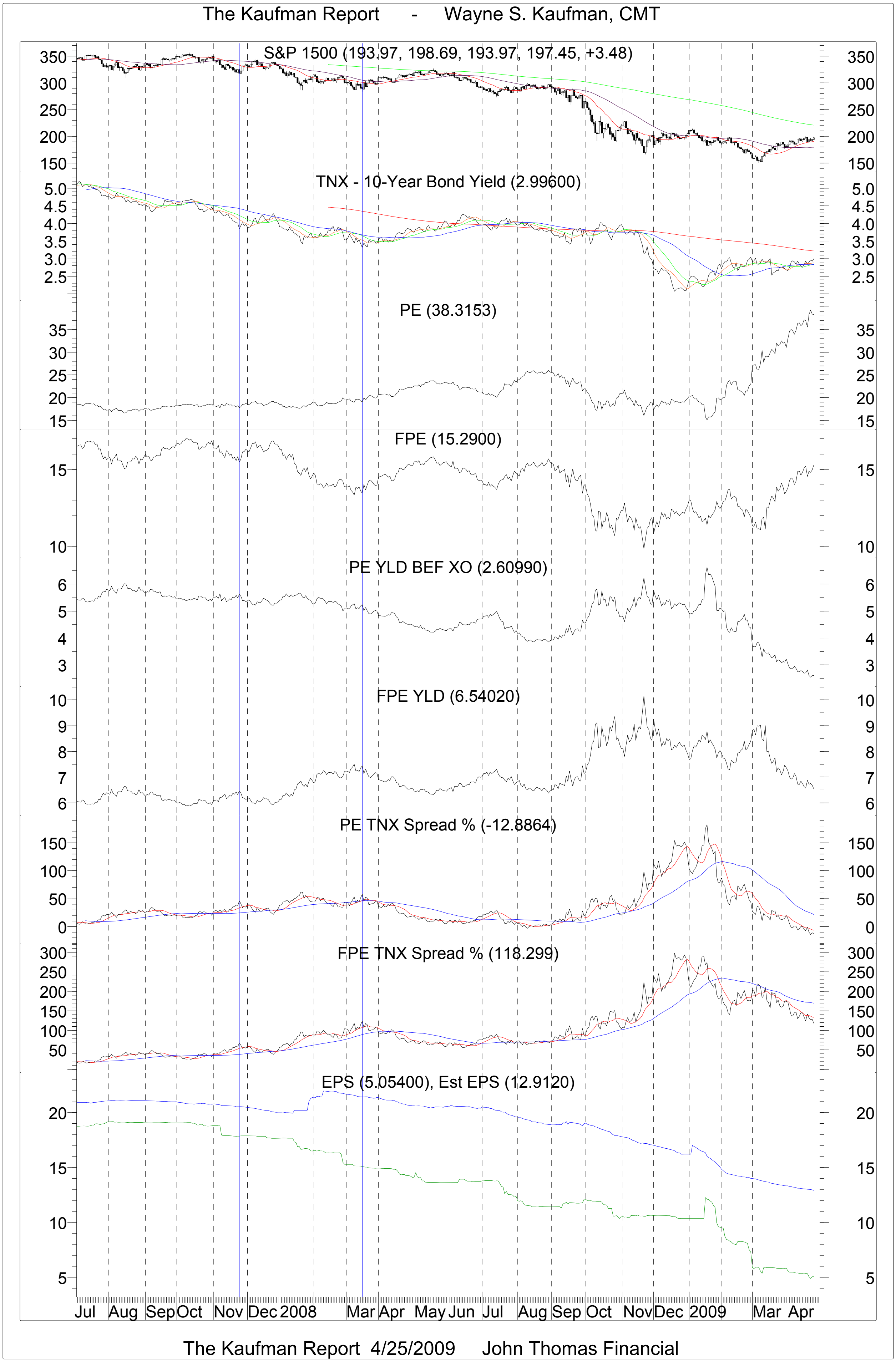
Our statistics of supply (red) versus demand (green) shows positive crossovers for all statistics for all time frames. While demand statistics in April have not been that impressive, sellers seem to have stepped to the sidelines. With earnings season 40% over and another big week of reports starting, if catalysts for sellers don't appear soon the path of least resistance for stocks may continue to be higher.



P/E ratios are high versus their recent ranges.

Spreads between equity and bond yields remain at low levels.

Estimates (blue) and reported earnings before charges (green) continue to move lower.

The U.S. Dollar Index couldn't get through its 50-sma (blue) and looks toppy on longer-term charts.

Crude oil bounced off its 50-sma (blue). There may be some short-term weakness but longer-term charts are bottoming.

Gold bounced off its 200-sma (red) and made a double bottom. It has resistance overhead at the 50-sma (blue).