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The Kaufman Report

Trade what you see, not what you think.

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Wednesday April 29, 2009 **Closing prices of April 28, 2009**

Stocks had a mixed session Tuesday ahead of the FOMC meeting. Volume has been light the last two days as the S&P 500 consolidates under important resistance at the 876 – 878 area. There has been a lack of sellers recently, and so far there is no evidence that the buy the dips mentality is no longer present. We are now half way through earnings season and investors have been giving stocks the benefit of the doubt as they ignore bad news and focus on data points and forecasts that give hope that things are turning for the better. This has created a situation where valuations based on reported earnings (before charges) are terrible, while valuations based on earnings from continuing operations (after charges) and analyst forecasts make stocks very attractive.

This disconnect can't last much longer. The P/E based on reported earnings for the S&P 1500 is 44.4, creating an earnings yield of 2.25%. Ten year bond yields are currently 3%, making bonds look far more attractive than stocks. Corporate bond yields look even more attractive. The P/Es based on earnings from continuing operations and projected earnings are 13.32 and 15.14, respectively. Their earnings yields of 7.5% and 6.6% are attractive versus bond yields. The problem is the trend of all three of these earnings metrics is inexorably lower. Investors may be giving stocks the benefit of the doubt at this time, but if reported earnings don't start to move towards the continuing operations numbers and the analyst estimates stocks will look very overvalued and investors may lose their new found optimism.

On April 17th we said stocks had arrived at the mother of all inflection points. Thereafter they broke the support line of the bearish rising wedge pattern we had been highlighting, and we said investors should continue to play the long side while becoming more defensive by using tight stops and being careful with entry points. **We repeat that advice at this time**. ***Stocks remain at an important inflection point***.

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.

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The S&P 1500 (195.02) was **down 0.174%** Tuesday. Average price per share was **up 0.21%.** Volume was 79% of its 10-day average and 80% of its 30-day average. 56.01% of the S&P 1500 stocks were up, with up volume at 36.28% and up points at 55.85%. Up Dollars was 48.58% of total dollars, and was 41% of its 10-day moving average. Down Dollars was 55% of its 10-day moving average. The index is up 7.75% in April, up 7.75% quarter-to-date, down 4.84% year-to-date, and down 45.28% from the peak of 356.38 on 10/11/07. Average price per share is $24.16, down 44.11% from the peak of $43.23 on 6/4/07.

Percent over 10-sma: 59.0%. 13-Week Closing Highs: 127. 13-Week Closing Lows: 6.

Put/Call Ratio: 0.859. Kaufman Options Indicator: 0.93.

P/E Yield 10-year Bond Yield Spreads: ***-25% (earnings bef. charges),*** *150% (earnings continuing ops), and 120% (projected earnings)*. Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at $19.18 and are now at $4.39, a drop of 77.11%. Aggregate earnings from continuing operations peaked at $19.95 in September 2007 and are now $14.64, down 26.62%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $12.88, a drop of 41.32%.

243 of the S&P 500 have reported 1st quarter earnings. According to Bloomberg, 67.5% had positive surprises, 6.2% were in line, and 26.3% have been negative. The year-over-year change has been -27.6% on a share-weighted basis, -15.7% market cap-weighted and -35.0% non-weighted. Ex-financial stocks these numbers are -27.7%, -13.8%, and -29.4 %, 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 68.2% that the Fed will *leave rates unchanged* on June 24th, a probability of 22.9% of cutting 25 basis points to 0.0%, and a probability of 8.9% of *raising 25 basis points*.

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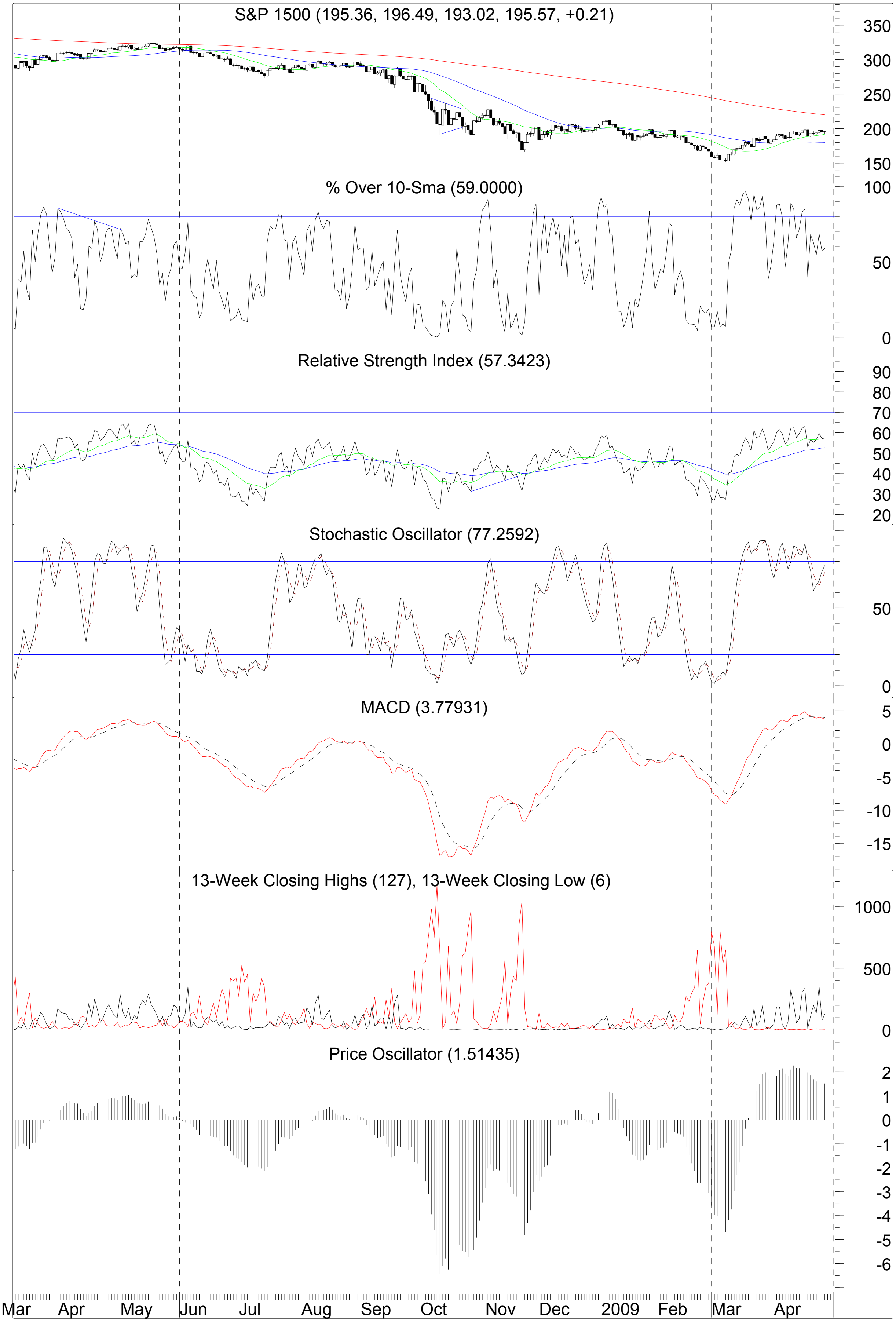
The S&P 500 printed a doji candle on the daily chart, which is a sign of indecision. The index has been consolidating in a tight range underneath important resistance at 786 - 788. A break above the resistance on decent volume would be very bullish. Key support is at the 20-sma at 843, then the 4/21 low of 826.83. A move below that would probably lead to a move to the 50-sma (blue) or lower.

The S&P 500 intra-day chart shows our momentum indicators have come down a lot, with the stochastic almost oversold.

The 200-sma is at 1394, just above the Nasdaq 100. With momentum indicators still at high levels further consolidation or pullback is likely.



Our momentum indicators are no longer at high levels, but could come down further.

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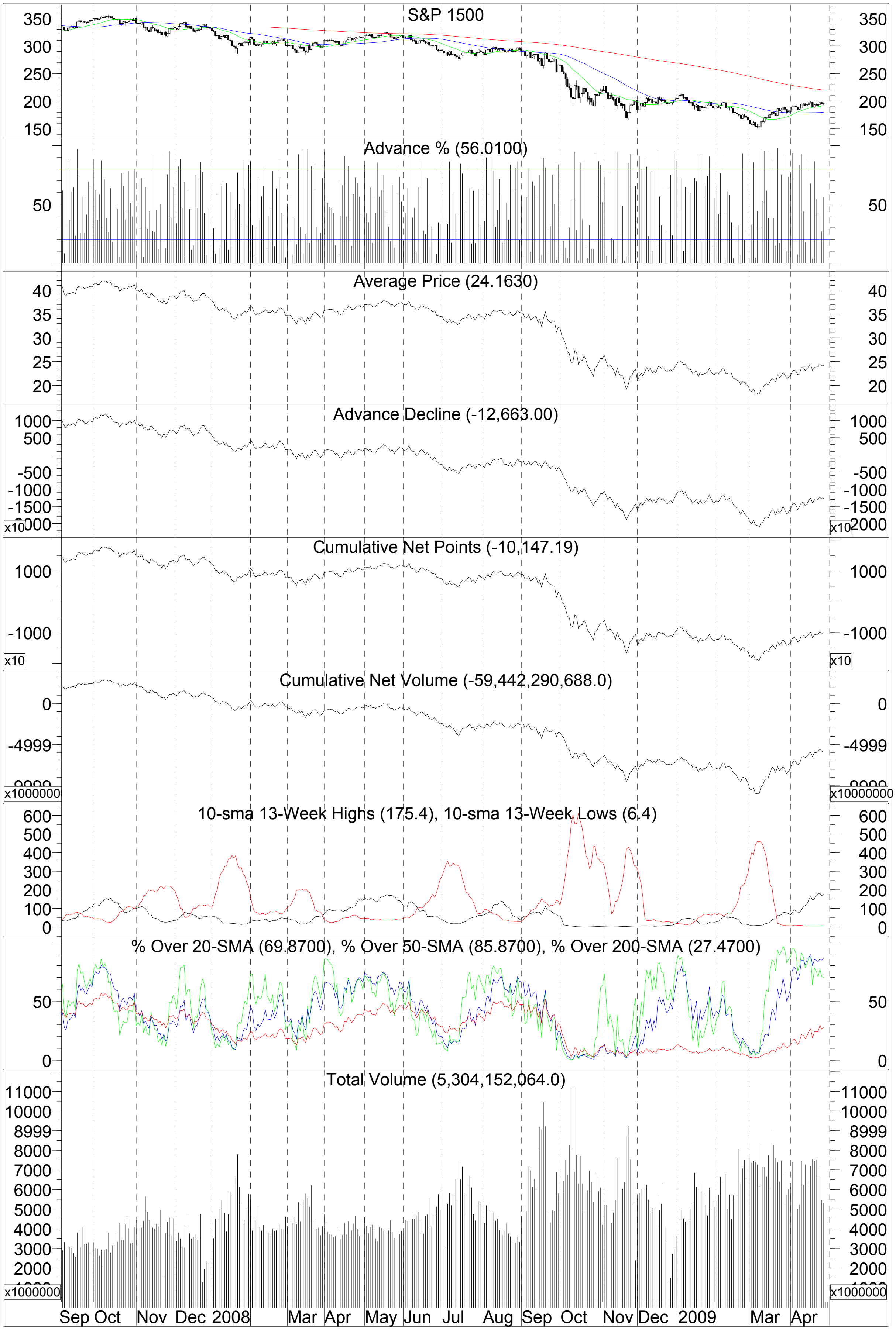

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