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

Monday August 17, 2009 **Closing prices of August 14, 2009**

Stocks continued to consolidate last week after August 7th when the S&P 500 reached the Fibonacci 38.2% retracement level of the entire bear market from October 2007. For the last few weeks there has been a near universal belief that equities were due for a pullback, and the market rarely cooperates with the consensus. Still, there are growing indications that the long awaited pullback is upon us.

Negative divergences have appeared in the percentage of stocks over their own 10-day moving averages, the number of 13-week closing highs from Thursday's post-March closing high session on the S&P 1500 was only 281 versus 448 on August 7th and 483 on July 23rd, also a negative divergence. Momentum indicators have turned down from high levels, and there remains too much optimism on the part of options buyers. Still, it remains difficult to say if this will result in a sharp pullback or a sideways consolidation, although one way or another the over bullishness needs to get worked off.

This week brings an options expiration so volatility is to be expected, and hopefully a short-term bottom for equities. Thereafter, investors can expect the volatility to remain high as we get into September and October. September is known as the worst month of the year, and October is famous for market crashes. Many market watchers have been calling for a major plunge to occur during this period, although we do not see that happening. A sharp correction is certainly a possibility we will watch for, but as always, the more market participants there are expecting a certain outcome the less likely it is to occur.

For months we have identified two key elements as the primary reasons we have looked for higher prices for equities. They are the enormous global liquidity created by central banks around the world, and the total reluctance of investors to sell their stocks. After the FOMC meeting last week it appears the liquidity factor remains intact at this time, and in spite of a pickup in selling recently and Friday's broad based selloff we need further evidence that investors will dramatically increase their selling before we believe that factor has changed. The pickup in selling is an increase from multi-year lows in many selling statistics, so the current level is not extreme.

Still, we will remain on guard for any signs of a change in trend. In the short-term stocks are vulnerable, so caution is advised regarding entry points and the use of stop losses is recommended. Very aggressive traders can enter short, although they may have to cover quickly as shorting at this time is counter-trend. We think stocks will trade higher after a pullback. We also think there is the potential for a deep correction later this year. However, as we have been saying for some time, we accept the possibility that huge global government intervention along with a possibly healing economy and companies that have become very lean and mean could create a scenario where profits will start to surprise to the upside and the deteriorating earnings trend will start to change. If so, we will be more than happy to delay or even cancel our expected bearishness.

Based on the S&P 500 the short-term, intermediate-term and long-term trends are up. Traders should not hesitate to rotate out of lagging sectors and stocks and into leaders. Aggressive traders can enter short, but they may need to cover quickly since those trades are counter-trend.

IMPORTANT DISCLOSURES

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

Monday August 17, 2009 **Closing prices of August 14, 2009**

The S&P 1500 (229.18) was down 0.934% Friday. Average price per share was down 1.41%. Volume was 88% of its 10-day average and 93% of its 30-day average. 13.83% of the S&P 1500 stocks were up, with up volume at 19.06% and up points at 7.49%. Up Dollars was 1.88% of total dollars, and was 4% of its 10-day moving average. Down Dollars was 248% of its 10-day moving average.

For the week the index was down 0.732% on decreasing and well below average weekly volume.

The S&P 1500 is up 1.758%% in August, up 9.498% quarter-to-date, up 11.833% year-to-date, and down 35.69% from the peak of 356.38 on 10/11/07. Average price per share is $28.63, down 33.77% from the peak of $43.23 on 6/4/07.

Percent over 10-sma: 43.87%. 13-Week Closing Highs: 57. 13-Week Closing Lows: 17.

Put/Call Ratio: 0.951. Kaufman Options Indicator: 1.07.

P/E Ratios: **103.78 (before charges)**, 18.55 (continuing operations), 17.21 (analyst estimates).

*P/E Yield 10-year Bond Yield Spreads: **-73% (earnings bef. charges),** 52% (earnings continuing ops), and 63% (projected earnings).*

Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at $19.18 and are now at $2.21, a drop of 88.48%. Aggregate earnings from continuing operations peaked at $19.95 in September 2007 and are now $12.36, down 38.05%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $13.32, a drop of 39.32%.

463 of the S&P 500 have reported 2nd quarter earnings. According to Bloomberg, 72.3% had positive surprises, 8.2% were in line, and 19.5% have been negative. The year-over-year change has been -29.3% on a share-weighted basis, -21.8% market cap-weighted and -24.9% non-weighted. Ex-financial stocks these numbers are -28.9%, -23.6%, and -27.7 %, 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 rates 25 basis points to 0.00% when they meet on September 23rd. They are pricing in a probability of 72.5% of no change, 22.4% of cutting 25 basis points to 0.00%, and 5.1% of raising 25 basis points to 0.50% when they meet on November 4th.

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

Monday August 17, 2009

The following opinion expresses the views of the editor and not those of John Thomas Financial:

It is not possible to avoid the health care debate going on in the country. We are not going to spell out our ideas about health care reform at this time. Instead, we would rather focus on the process that is taking place. To do this, we present a couple of quotes from Barack Obama when he was campaigning for President.

"That's what I will do in bringing all parties together, not negotiating behind closed doors, but bringing all parties together, and broadcasting those negotiations on C-SPAN so that the American people can see what the choices are, because part of what we have to do is enlist the American people in this process." January 31, 2008 in Los Angeles, Ca.

"People say, 'Well, you have this great health care plan, but how are you going to pass it? You know, it failed in '93. And what I've said is, I'm going to have all the negotiations around a big table. We'll have doctors and nurses and hospital administrators. Insurance companies, drug companies – they'll get a seat at the table, they just won't be able to buy every chair. But what we'll do is, we'll have the negotiations televised on C-SPAN, so that people can see who is making arguments on behalf of their constituents, and who are making arguments on behalf of the drug companies or the insurance companies. And so, that approach, I think is what is going to allow people to stay involved in the process." August 21, 2008 in Chester, Va.

For the record, we are for health care reform. There are many problems that need to be fixed. However, we find it very disingenuous for Mr. Obama to say that those who are against his health care plan are for the status quo and don't want any change. In fact, we have never heard anyone who doesn't believe change is needed in health care.

We are not naïve enough to think that all law making and negotiations can be televised. But if Mr. Obama had kept his promise regarding making the process of reforming health care more transparent maybe there wouldn't be the anger growing around the country that there is now.

More unfortunate is that this appears to be far from an isolated incidence of Mr. Obama not living up to his many campaign promises. Scariest of all is that regarding Mr. Obama's lack of candor, we believe the worst is yet to come.

	Daily	WTD	MTD	QTD	YTD
Dow Jones Industrials	-0.82%	-0.52%	1.63%	10.35%	6.21%
S&P 500	-0.85%	-0.63%	1.68%	9.22%	11.16%
S&P 1500	-0.93%	-0.73%	1.76%	9.50%	11.83%
Nasdaq 100	-1.05%	-0.49%	0.51%	9.09%	33.01%
Bank of New York Mellon ADR	-1.12%	-0.54%	1.50%	11.95%	20.56%
Nasdaq Composite	-1.19%	-0.74%	0.35%	8.20%	25.90%
NYSE Composite	-1.00%	-0.74%	1.77%	10.71%	13.56%
S&P Midcap 400	-1.40%	-1.39%	2.86%	11.74%	20.01%
S&P Smallcap 600	-1.83%	-1.67%	1.17%	11.50%	11.33%

	Daily	WTD	MTD	QTD	YTD
Utilities	-0.03%	0.27%	-0.11%	3.57%	-0.65%
Consumer Staples	-0.10%	0.15%	-0.89%	5.21%	1.60%
Health Care	-0.27%	0.58%	-0.34%	5.40%	4.40%
Telecom Services	-0.31%	-0.50%	-3.22%	0.26%	-6.49%
Financials	-0.49%	-0.81%	9.55%	19.17%	13.50%
Information Technology	-0.92%	0.03%	0.74%	9.94%	36.42%
Energy	-1.38%	-0.83%	-0.68%	3.60%	0.24%
Industrials	-1.50%	-2.01%	2.96%	12.47%	3.83%
Consumer Discretionary	-1.55%	-2.59%	2.14%	11.71%	20.11%
Materials	-2.69%	-1.70%	2.25%	15.85%	30.07%

	Daily	WTD	MTD	QTD	YTD
Food, Beverage & Tobacco	0.15%	-1.20%	-1.19%	4.76%	6.93%
Banks	0.13%	-1.95%	12.74%	18.73%	-7.63%
Utilities	-0.03%	0.27%	-0.11%	3.57%	-0.65%
Household & Personal Products	-0.15%	0.72%	-3.97%	4.51%	-7.42%
Health Care Equip & Services	-0.19%	1.85%	1.25%	7.00%	14.43%
Pharmaceuticals, Biotech & Life Sciences	-0.30%	0.02%	-1.03%	4.71%	0.32%
Telecom Services	-0.31%	-0.50%	-3.22%	0.26%	-6.49%
Software & Services	-0.38%	0.57%	2.02%	5.83%	28.94%
Diversified Financials	-0.40%	0.01%	8.54%	18.35%	30.32%
Food & Staples Retailing	-0.56%	2.37%	2.73%	6.79%	0.89%
Real Estate	-0.94%	-5.56%	9.57%	21.08%	1.06%
Commercial & Professional Services	-0.99%	0.97%	4.10%	6.30%	0.65%
Technology Hardware & Equipment	-1.02%	-0.33%	0.48%	12.22%	42.66%
Transportation	-1.28%	-0.77%	3.35%	14.50%	7.09%
Media	-1.28%	-2.60%	2.65%	9.84%	11.91%
Consumer Services	-1.30%	-1.27%	2.60%	5.66%	6.74%
Insurance	-1.35%	0.08%	9.03%	21.44%	6.61%
Energy	-1.38%	-0.83%	-0.68%	3.60%	0.24%
Capital Goods	-1.62%	-2.64%	2.73%	12.51%	3.25%
Retailing	-1.69%	-2.95%	1.99%	12.13%	29.52%
Automobiles & Components	-1.82%	-3.59%	-1.35%	27.95%	86.18%
Semiconductors & Equipment	-1.98%	-0.17%	-1.70%	13.74%	36.73%
Consumer Durables & Apparel	-2.02%	-2.95%	2.60%	18.45%	17.10%
Materials	-2.69%	-1.70%	2.25%	15.85%	30.07%

On Friday the S&P 500 bounced after getting close to the 982 - 983 support area. The index has stalled after reaching a logical stopping point at the 1014 area, which was the Fibonacci 38.2% retracement of the entire bear market. The 20-sma is at 989 and the 50-sma is at 945. Fibonacci retracements of the rally leg from the July low would be 983 (23.6%), 961 (38.2%), and 943 (50%).

Momentum indicators are a long way from oversold, and are still at relatively high levels.

The Kaufman Report - Wayne S. Kaufman, CMT

The weekly chart also shows the S&P 500 running into the resistance zone. The 80-week moving average is at 1069 and coming into play soon. It is moving down 4 to 5 points per week.

Weekly momentum indicators remain at high levels.

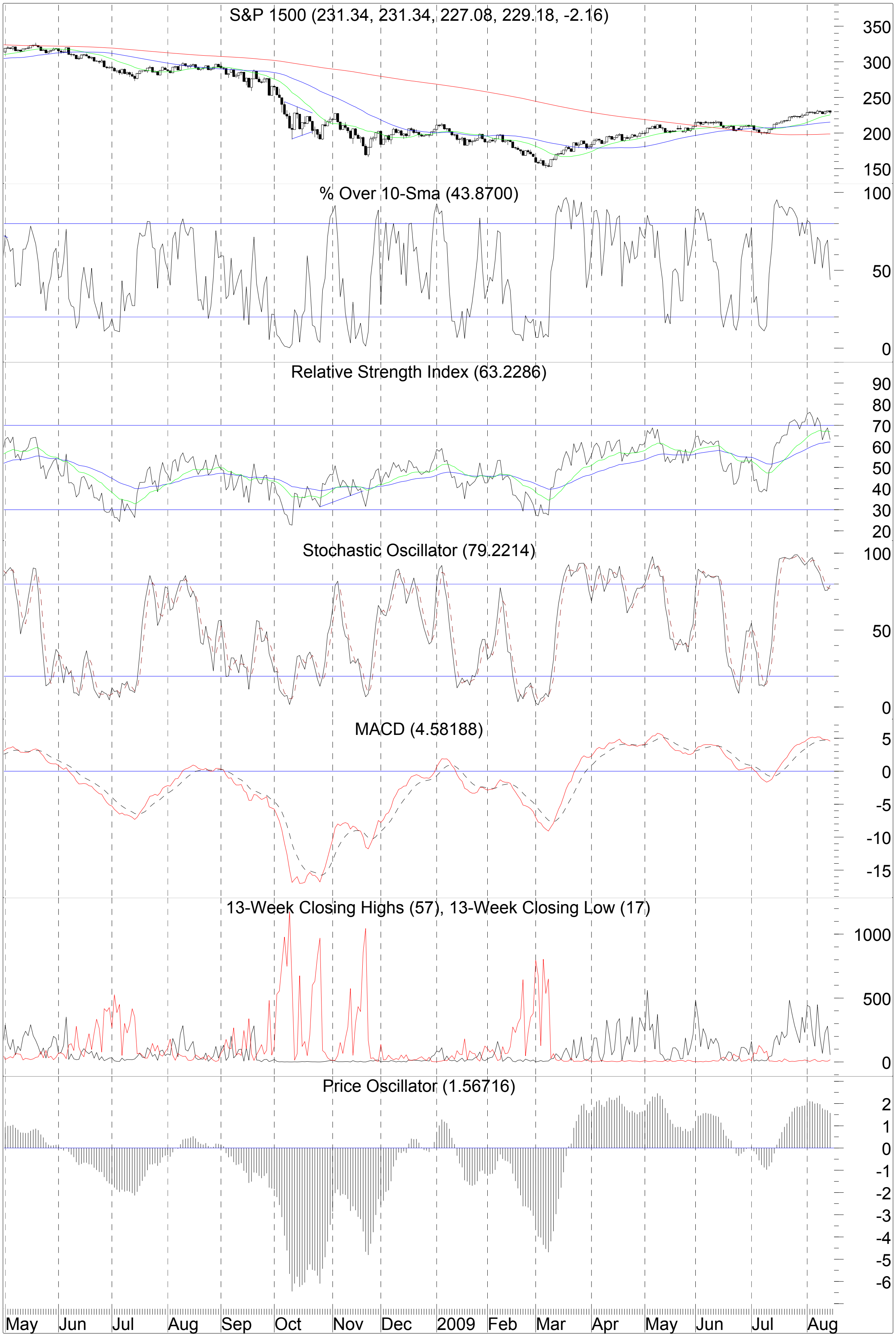
The Nasdaq 100 bounced off its 20-sma Friday, and obviously has seen a big increase in selling at this area.

Weekly momentum indicators are no longer overbought, but look to still be on the way down.

The Kaufman Report - Wayne S. Kaufman, CMT

The Kaufman Report 8/15/2009 John Thomas Financial

The Kaufman Report - Wayne S. Kaufman, CMT

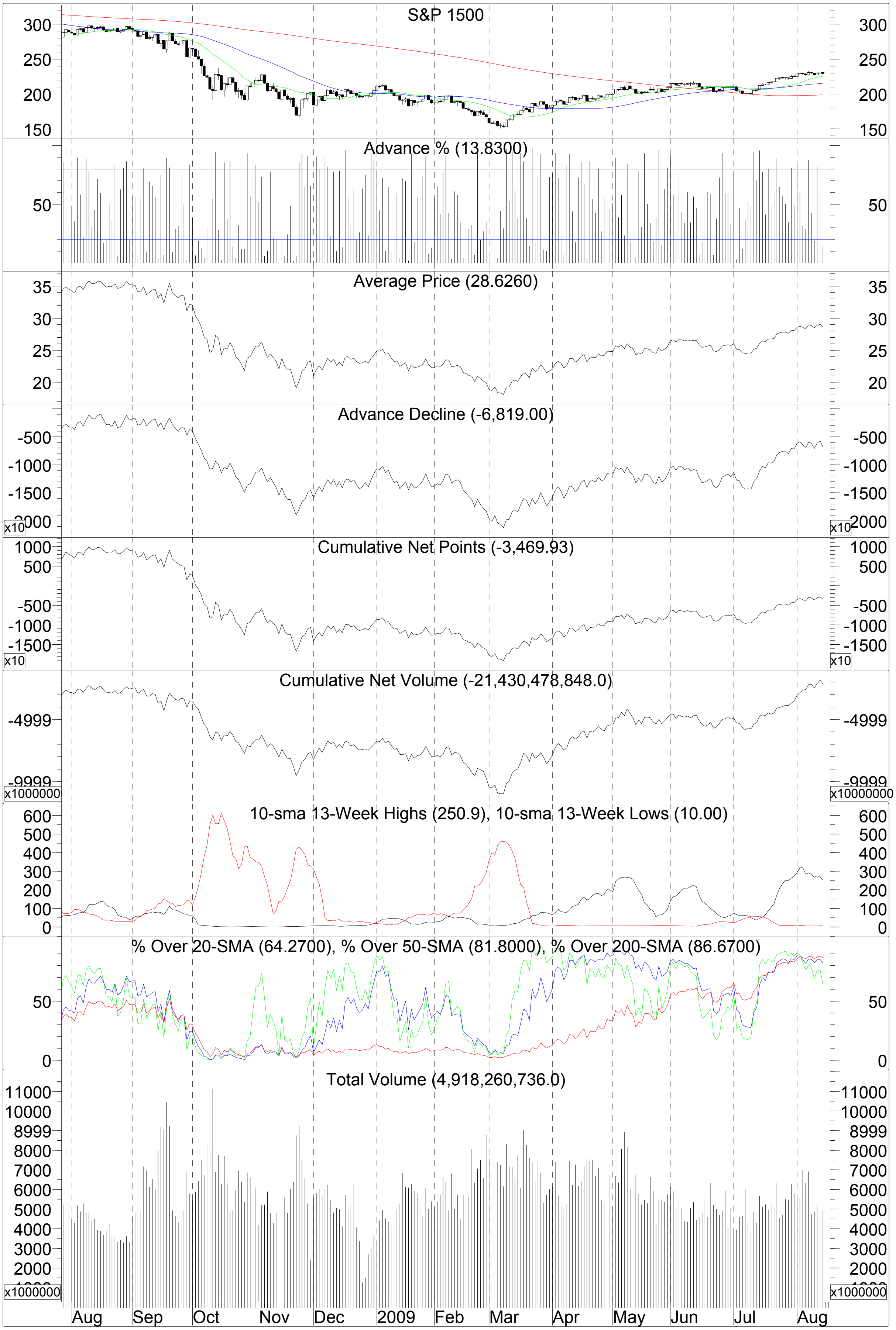


Thursday's post-March closing (not intra-day) high on the index was done with only 69.33% of stocks over their 10-sma, a negative divergence.

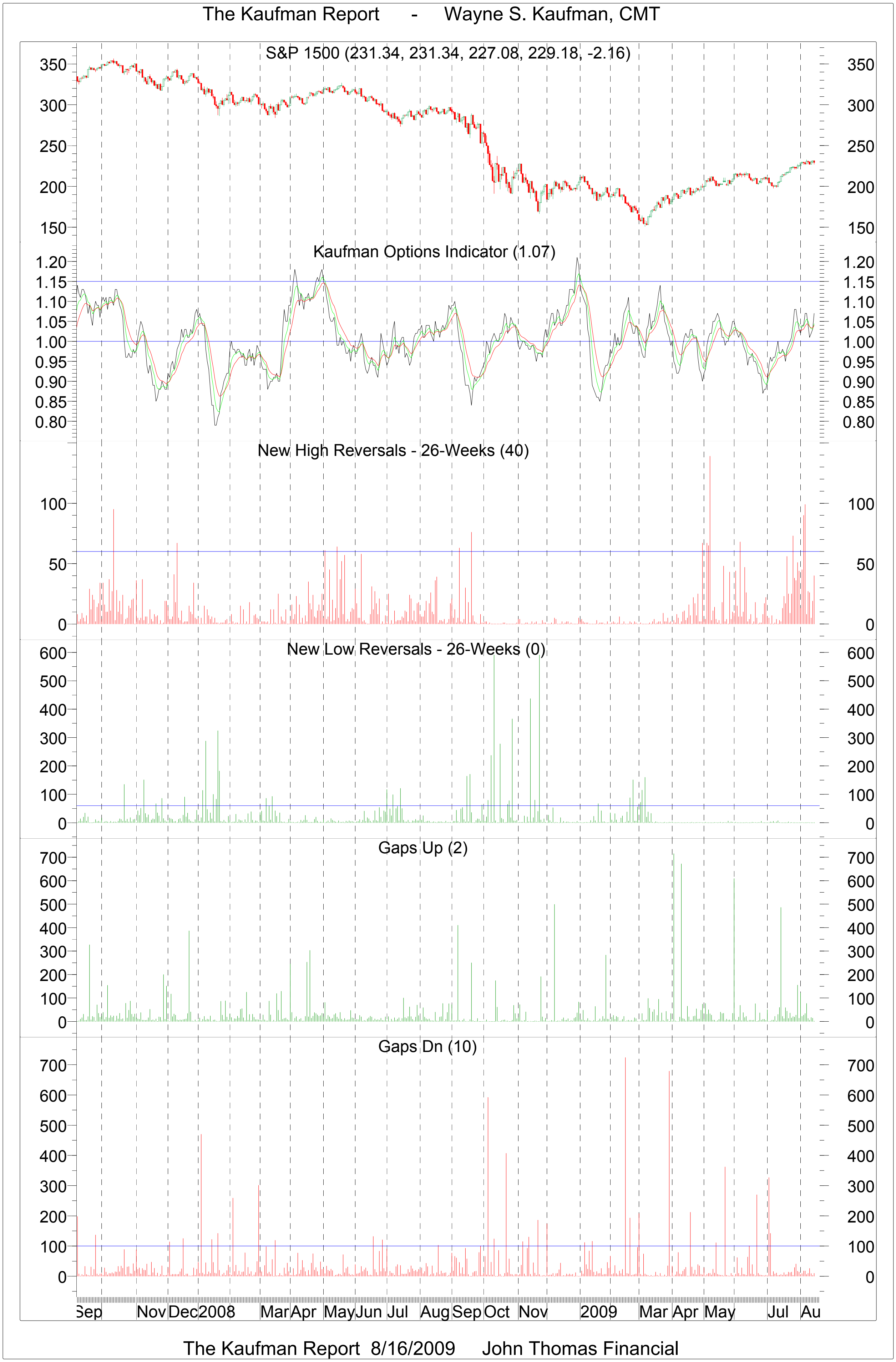
Momentum indicators have rolled over. There is a long way to go before oversold.

Thursday's post-March closing high had 281 stocks making 13-week closing highs, another negative divergence versus the 448 of 8/7 and the 483 of 7/23.

Our price oscillator, a good indicator of trends, is still in positive territory but is weakening after hitting high levels.



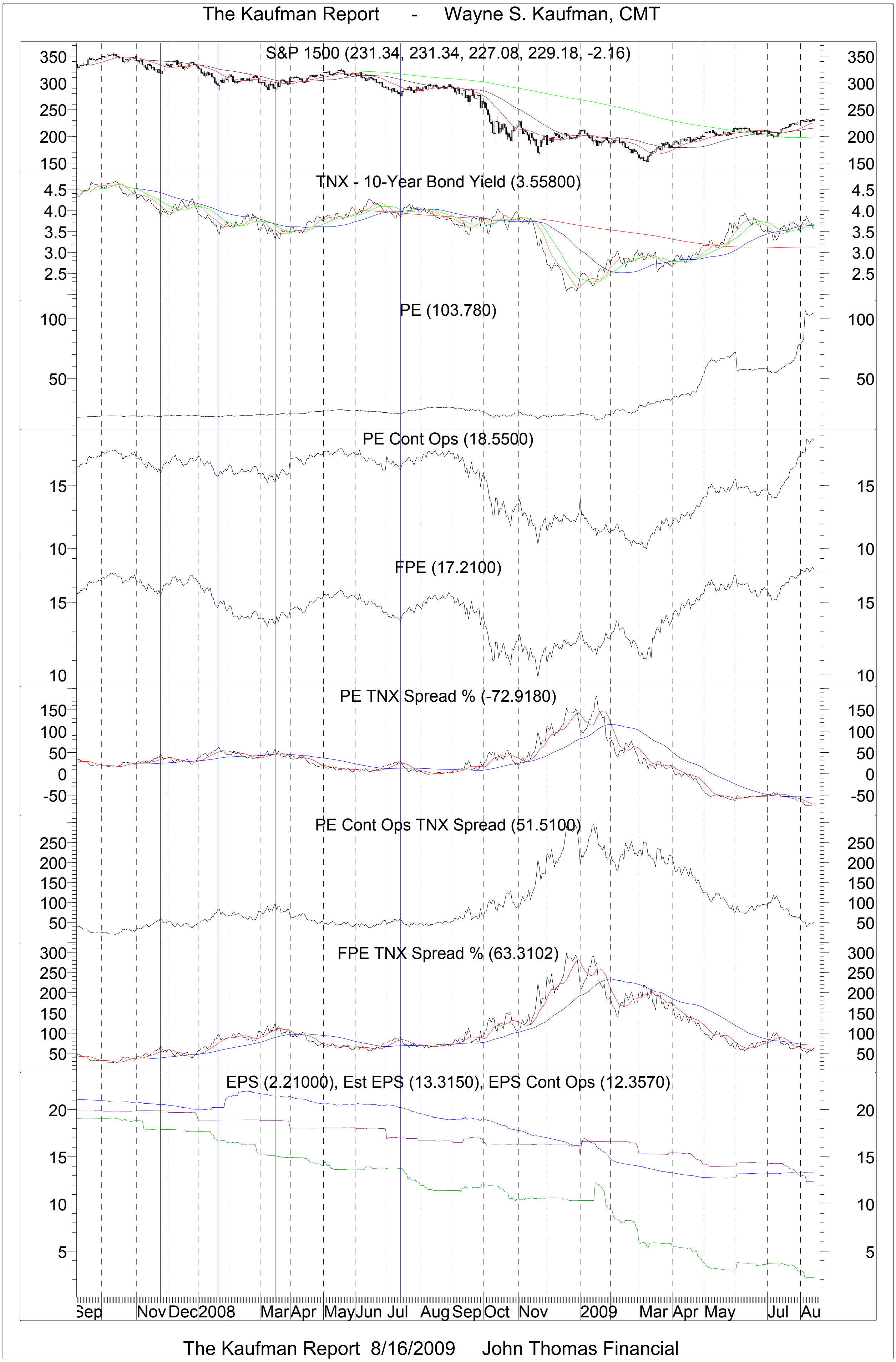
13.83% of stocks traded higher Friday.



At the end of July we warned about our proprietary options indicator hitting an overbullish 1.08. Thereafter stocks have been working off the overbullish condition, but on Friday our indicator stubbornly popped back up to 1.07, still showing too much optimism on the part of options buyers. This leaves stocks vulnerable to a sharp drop.

The big jump in new high reversals in early August shows an increased desire to take profits on the part of investors.

Our statistics of supply (red) versus demand (green) show positive crossovers for all time frames. While there has been an increase in selling statistics recently it remains at low levels. One of the major characteristics of this terrific rally has been a lack of sellers, so we continue to watch this carefully.



P/E ratios remain at very high levels.

The spread between bond yields and earnings before charges is terrible, while the spreads based on earnings from continuing operations and forecast earnings are at levels where stocks should be attractive. When will these charges end and the real profit picture emerge?

Earnings season is 93% over so the inexorable move down in earnings should flatten out for a little while. Estimated earnings are beginning to rise, so lets hope the analysts will be correct this time around. They were way too optimistic ahead of and during the recent bear market.

The U.S. Dollar Index is bouncing from an oversold level and on Friday closed above its 20-sma. On the weekly chart (not shown) a hammer-like candle was printed two weeks ago. Hammers are bottoming candles. There is support in the 77 area, and there is resistance up to the 50-sma at 79.57. We have been saying the near unanimous bearishness would prevent a near-term plunge.

Crude oil plunged to its 50-sma Friday after failing to move above resistance at 73. We said last week a bounce in the Dollar would create weakness for oil, and that remains true.

We have been skeptical about big upside in the near-term for gold due to the near unanimous bullishness. Currently it sits just above 50-sma support which is at 940 with resistance at 972. A move above 1000 would make us much more bullish.