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 24, 2009 **Closing prices of August 21, 2009**

Last week we said there were growing indications that the universally awaited pullback was upon us. That turned out to be true, as stocks plunged Monday in a 90% panic-selling down day. In doing so the S&P 500 dropped down the area of its 23.6% Fibonacci retracement of the rally leg from the July low. The swift move lower alleviated an overbought condition, and stocks found their footing at that point. We have been saying we didn't expect any pullback to be deep, and that we thought stocks would trade higher after a pullback. That is what happened as by the end of the week stocks had rocketed to new post-March highs. In doing so they recorded a 90% panic-buying up day on Friday, making the two 90% days perfect book ends in a volatile options expiration week.

For months we have said the most important factors in this tremendous rally have been huge global liquidity and the reluctance of investors to sell equities. Those factors remain intact and in spite of demand statistics for stocks not being impressive, selling statistics remain even more muted. As long as sellers remain unmotivated the path of least resistance is up, and with earnings season now out of the way it will probably take some very negative economic news to create more than minor pullbacks.

Seasonality could be a catalyst for sellers. 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. We do expect volatility to increase over the next couple of months, especially around the time of September options expiration, which is a quadruple-witch.

We will remain on guard for any signs of a change in trend. We think there is the potential for a deep correction later this year. <u>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.</u> If so, we will be more than happy to delay or even cancel our expected bearishness.

<u>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.</u>

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 24, 2009 **Closing prices of August 21, 2009**

The S&P 1500 (234.25) was up 1.883% Friday. Average price per share was up 1.98%. Volume was 106% of its 10-day average and 106% of its 30-day average. 91.4% of the S&P 1500 stocks were up, with up volume at 94.83% and up points at 95.84%. Up Dollars was 99.77% of total dollars, and was 287% of its 10-day moving average. Down Dollars was 1% of its 10-day moving average.

For the week the index was up 2.212% on increasing but well below average weekly volume.

The S&P 1500 is up 4.009% in August, up 11.92% quarter-to-date, up 14.307% year-to-date, and down 34.27% from the peak of 356.38 on 10/11/07. Average price per share is $29.32, down 32.18% from the peak of $43.23 on 6/4/07.

Percent over 10-sma: 85.13%. 13-Week Closing Highs: 386. 13-Week Closing Lows: 0.

Put/Call Ratio: 0.593. Kaufman Options Indicator: 1.01.

P/E Ratios: **107.38 (before charges)**, 18.98 (continuing operations), 17.59 (analyst estimates).

P/E Yield 10-year Bond Yield Spreads: ***-74% (earnings bef. charges),*** *48% (earnings continuing ops), and 60% (projected earnings).*

Aggregate earnings before charges for the S&P 1500 peaked in August 2007 at $19.18 and are now at $2.18, a drop of 88.63%. Aggregate earnings from continuing operations peaked at $19.95 in September 2007 and are now $12.34, down 38.15%. Estimated aggregate earnings peaked at $21.95 in February 2008 and are now $13.32, a drop of 39.32%.

486 of the S&P 500 have reported 2nd quarter earnings. According to Bloomberg, 72.4% had positive surprises, 8.5% were in line, and 19.2% have been negative. The year-over-year change has been -29.0% on a share-weighted basis, -21.4% market cap-weighted and -25.5% non-weighted. Ex-financial stocks these numbers are -28.0%, -23.1%, and -27.5 %, 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.

	Daily	WTD	MTD	QTD	YTD
S&P Smallcap 600	2.27%	2.85%	4.05%	14.68%	14.50%
S&P Midcap 400	1.94%	2.11%	5.02%	14.09%	22.54%
S&P 1500	1.88%	2.21%	4.01%	11.92%	14.31%
NYSE Composite	1.87%	2.12%	3.92%	13.06%	15.97%
S&P 500	1.86%	2.20%	3.91%	11.62%	13.60%
Bank of New York Mellon ADR	1.76%	1.82%	3.35%	13.99%	22.75%
Dow Jones Industrials	1.67%	1.98%	3.65%	12.54%	8.31%
Nasdaq Composite	1.59%	1.78%	2.14%	10.13%	28.15%
Nasdaq 100	1.46%	1.63%	2.15%	10.87%	35.17%

	Daily	WTD	MTD	QTD	YTD
Energy	2.68%	3.20%	2.50%	6.91%	3.45%
Materials	2.58%	1.65%	3.94%	17.77%	32.23%
Industrials	2.52%	2.12%	5.14%	14.86%	6.03%
Financials	2.14%	2.21%	11.97%	21.80%	16.01%
Consumer Discretionary	2.03%	1.90%	4.08%	13.83%	22.39%
Utilities	1.96%	2.08%	1.96%	5.72%	1.41%
Telecom Services	1.80%	1.56%	-1.71%	1.82%	-5.03%
Information Technology	1.53%	1.75%	2.50%	11.87%	38.80%
Health Care	1.15%	2.89%	2.54%	8.45%	7.41%
Consumer Staples	1.09%	1.74%	0.83%	7.05%	3.36%

	Daily	WTD	MTD	QTD	YTD
Insurance	3.06%	3.76%	13.13%	26.01%	10.61%
Media	2.89%	2.73%	5.45%	12.83%	14.96%
Capital Goods	2.71%	2.30%	5.10%	15.10%	5.62%
Energy	2.68%	3.20%	2.50%	6.91%	3.45%
Materials	2.58%	1.65%	3.94%	17.77%	32.23%
Commercial & Professional Services	2.23%	2.47%	6.67%	8.92%	3.13%
Retailing	2.22%	1.29%	3.30%	13.58%	31.19%
Real Estate	2.19%	0.77%	10.41%	22.02%	1.85%
Transportation	2.00%	1.37%	4.77%	16.07%	8.56%
Utilities	1.96%	2.08%	1.96%	5.72%	1.41%
Banks	1.95%	0.76%	13.60%	19.64%	-6.93%
Diversified Financials	1.91%	2.45%	11.19%	21.25%	33.51%
Software & Services	1.90%	1.49%	3.54%	7.40%	30.85%
Telecom Services	1.80%	1.56%	-1.71%	1.82%	-5.03%
Semiconductors & Equipment	1.48%	1.73%	0.00%	15.70%	39.09%
Food, Beverage & Tobacco	1.29%	2.25%	1.03%	7.11%	9.34%
Consumer Services	1.27%	2.72%	5.39%	8.54%	9.65%
Technology Hardware & Equipment	1.26%	1.96%	2.45%	14.42%	45.45%
Pharmaceuticals, Biotech & Life Sciences	1.23%	2.72%	1.67%	7.57%	3.05%
Consumer Durables & Apparel	1.10%	1.71%	4.36%	20.48%	19.10%
Automobiles & Components	1.05%	-0.50%	-1.84%	27.31%	85.24%
Household & Personal Products	0.99%	2.00%	-2.05%	6.60%	-5.57%
Health Care Equip & Services	0.98%	3.24%	4.54%	10.47%	18.14%
Food & Staples Retailing	0.78%	0.50%	3.24%	7.32%	1.39%

After a two day pullback to the 23.5% retracement area the S&P 500 reclaimed the 20-sma and then vaulted to new post-March highs. This is the highest level since 10/14/08. The index has broken through the 38.2% retracement of the entire bear market with the next Fibonacci levels at 1030 (40%) and 1121 (50%).

Momentum indicators quickly worked off an overbought condition and are rising.

The Kaufman Report - Wayne S. Kaufman, CMT

The weekly chart of the S&P 500 shows it has moved into a resistance zone with the 80-week moving average not far above at 1065. It is moving down 4 to 5 points per week, so based on how the S&P 500 performs in the near-term the 80-week sma could be in play shortly.

Weekly momentum indicators remain at high levels.

The Kaufman Report 8/22/2009 John Thomas Financial

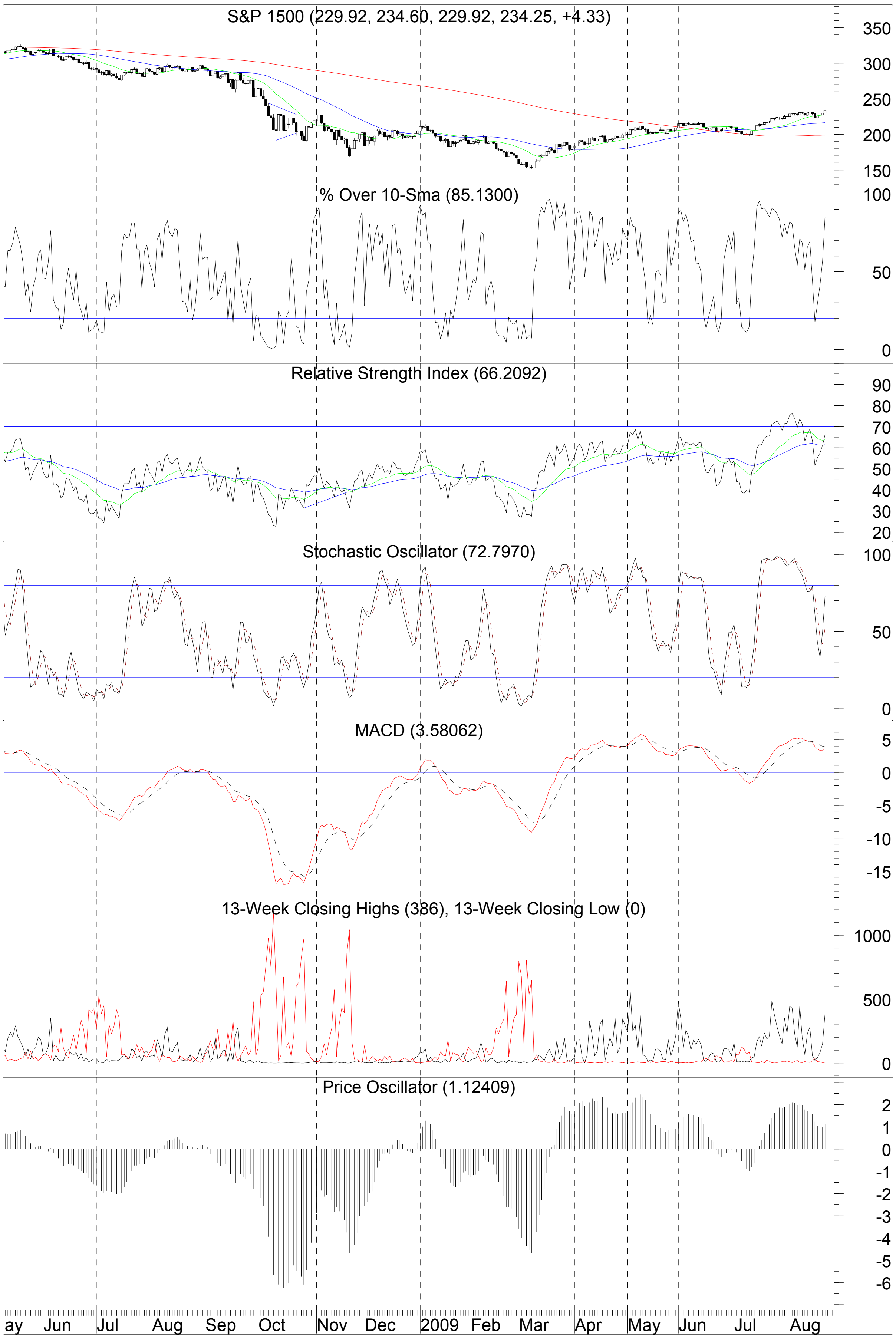
After making a huge gap down Monday August 17th the Nasdaq 100 recovered and vaulted to new post-March highs.

Daily momentum indicators worked off an overbought condition quickly and are rising.

The weekly chart of the Nasdaq 100 shows it is coming up to a resistance zone.

Weekly momentum indicators are at high levels but are still rising.

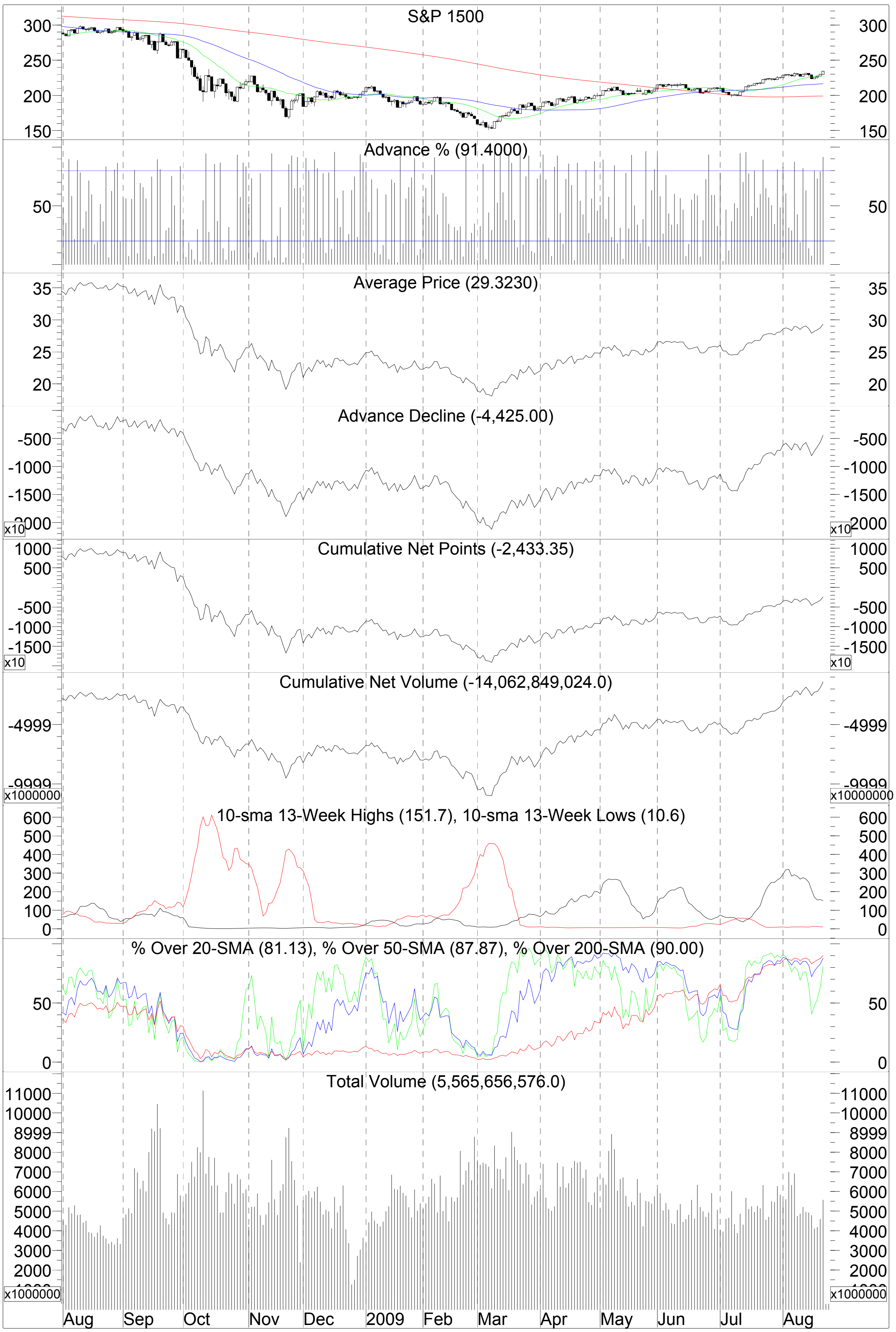
The Kaufman Report - Wayne S. Kaufman, CMT



The percent over 10-sma is back in the overbought zone at 85.13%. It has been in the high 80s and the 90s multiple times since the March bottom.

386 closing highs Friday is less than we have seen during other highs. This negative divergence can be erased quickly, or it can turn into a sign of diminishing leadership.

Our price oscillator, a good indicator of trends, remains in positive territory.

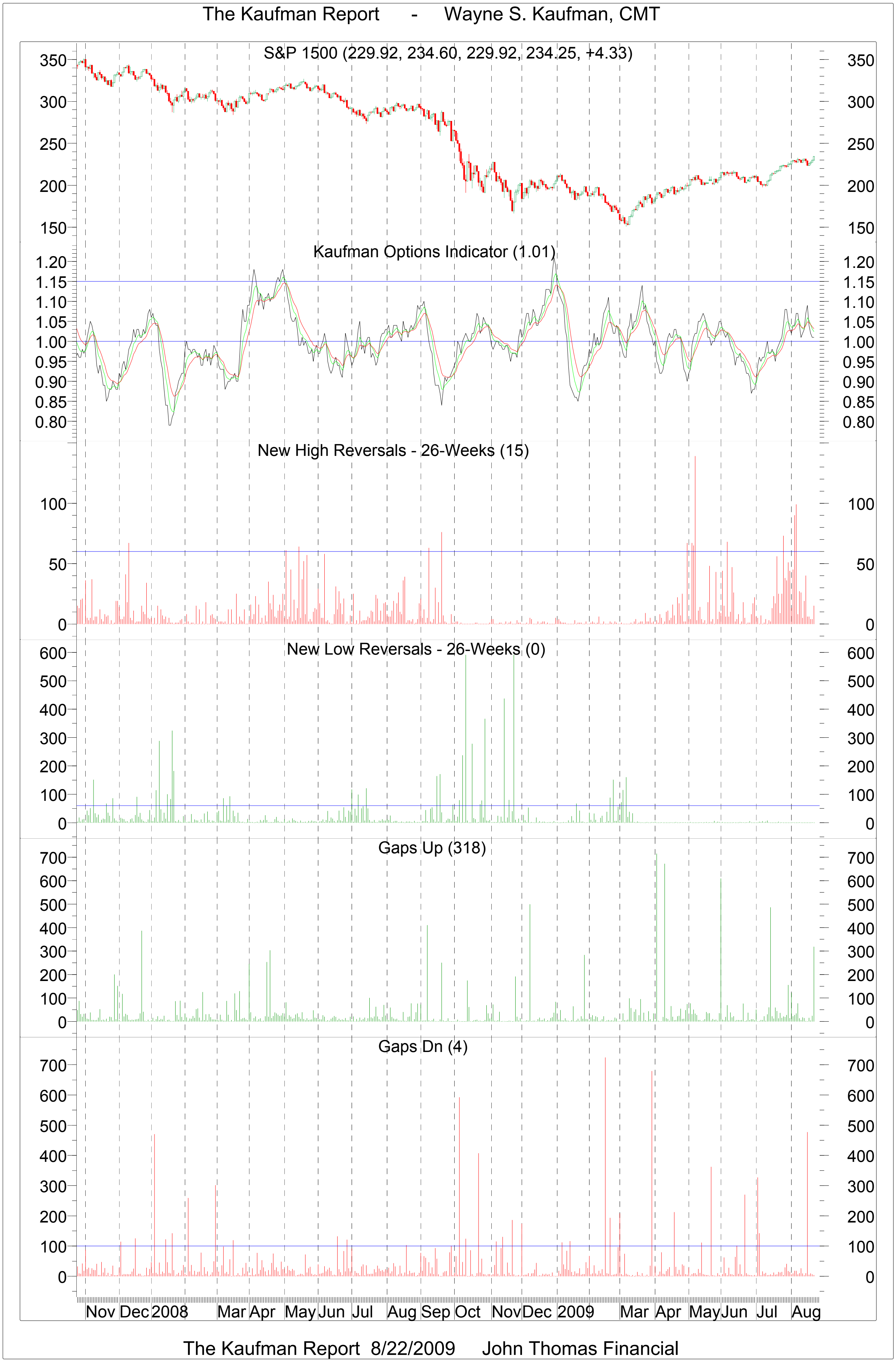


91.4% of the S&P 1500 traded higher Friday.

All of our statistics of market internals made new post-March highs Friday, confirming the high in the S&P 1500 and pointing towards higher prices in the future.

90.0% of stocks are now above their own 200-sma, an incredible number and the highest in this rally.

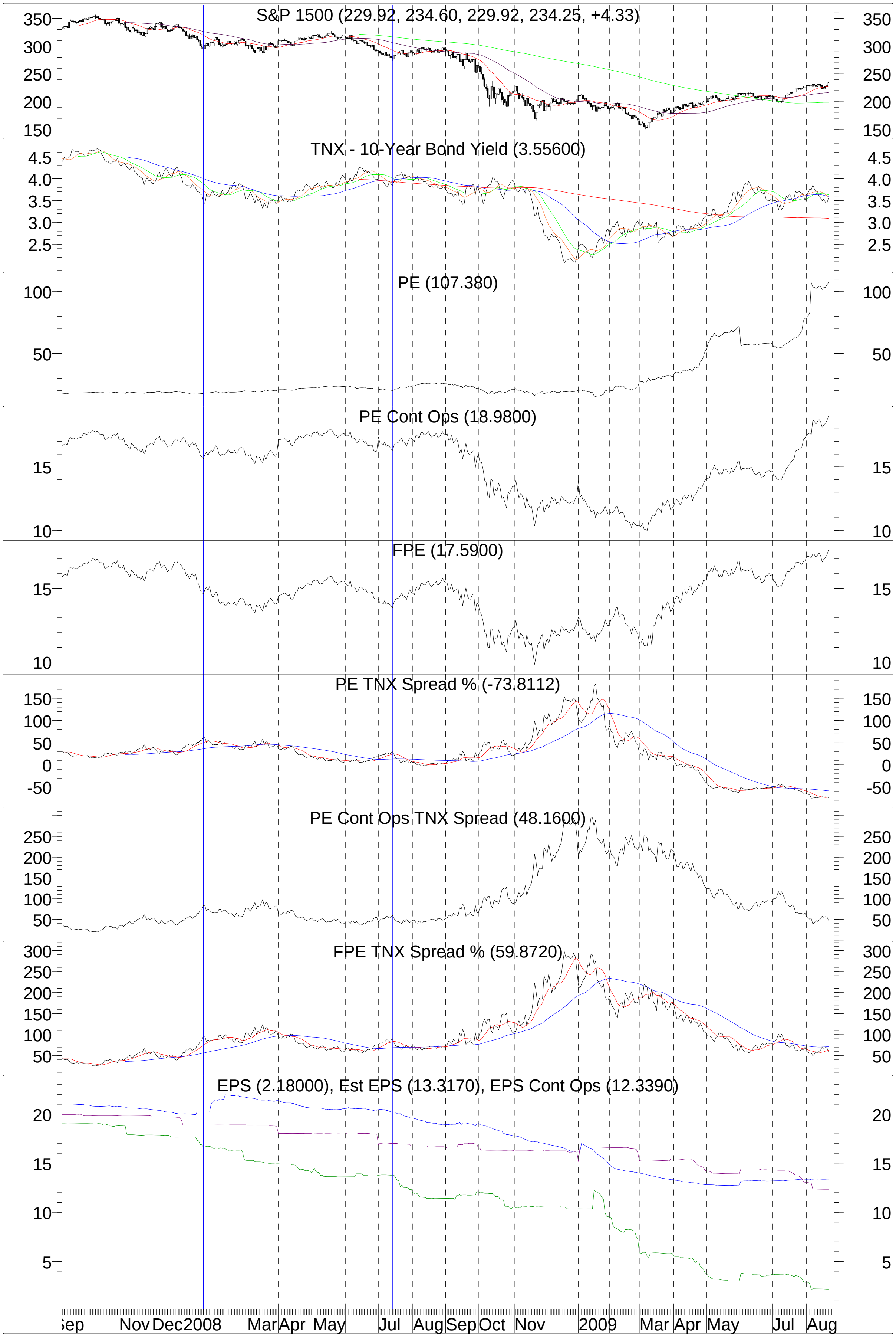
Volume increased Friday.



Our proprietary options indicator reflected the market's volatility last week as it spike to overbullish levels and then dropped rapidly to its current neutral reading.

The put/call ratio was 0.593 on Friday, which may lead to some short-term weakness.

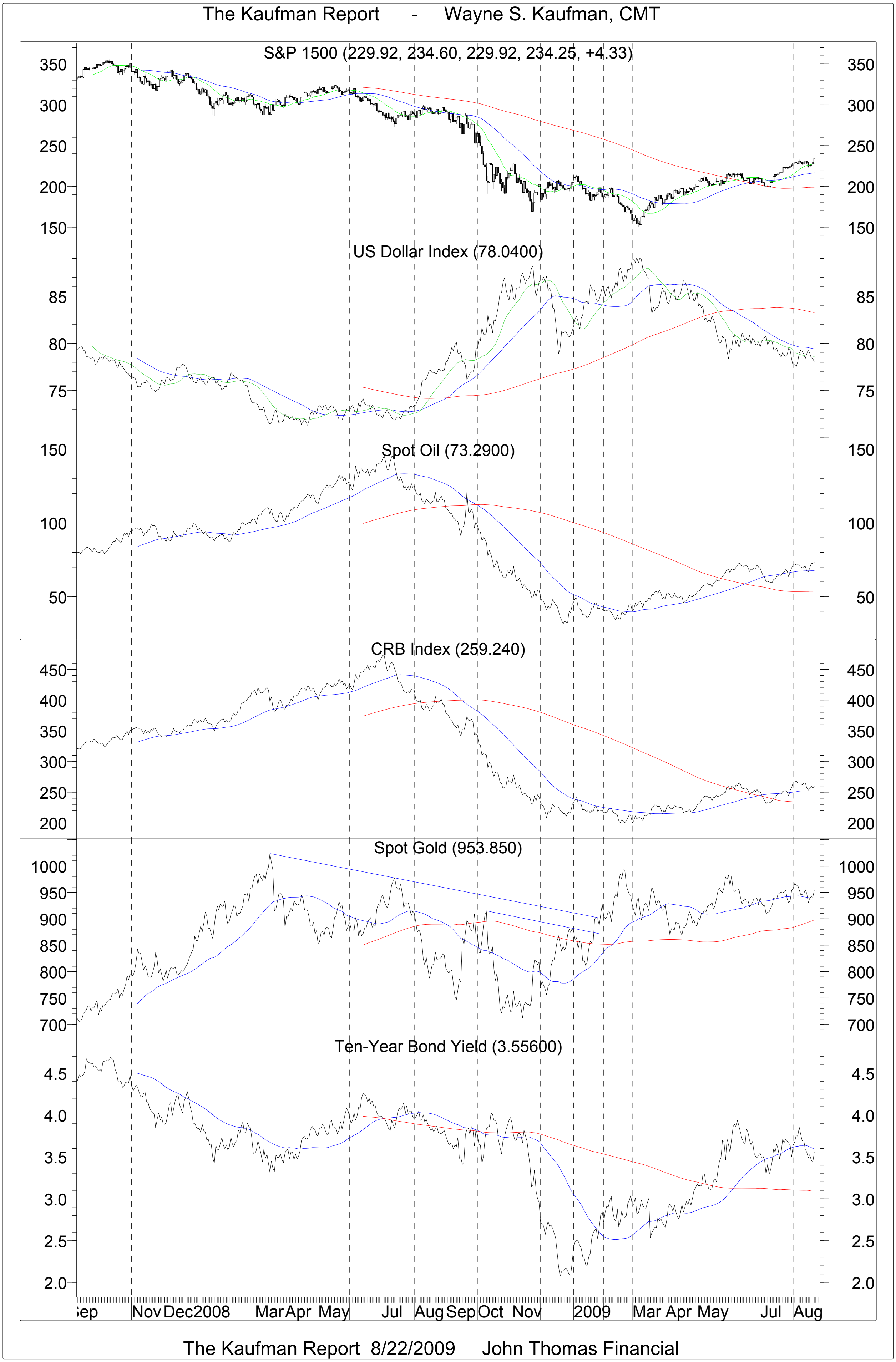
We have repeatedly made the point that one of the major characteristics of the rally off the March lows has been a lack of sellers. That remains the case as our statistics of supply (red) and demand (green) show positive crossovers for all time frames. While buying statistics are not impressive, as long as sellers are even less motivated the path of least resistance remains higher. With earnings season essentially over it will take some very negative economic news to create more than minor pullbacks.



P/E ratios continue their ascent. At what point does this become a problem?

Spreads between bond and earnings yields are terrible for earnings before charges, but based on continuing earnings and forecast earnings they are in an area where stocks would typically be attractive.

Earnings forecasts have leveled off, but earnings before charges and earnings from continuing operations continue their inexorable move lower. They should remain pretty flat until next earnings season, but they need to show improvement soon or stocks will be very vulnerable due to valuations.



The U.S. Dollar index was repelled by its 50-sma (blue) and remains in a down trend. There is support at 77.42.

Crude oil pulled back to its 50-sma and then moved to its highest level since October 2008. The breakout seems weak, but if it doesn't fail the question becomes what will $80 oil do to economic recovery?

Gold has held its 50-sma (blue) and has formed a triangle going back to February (not shown). Current resistance is 971.68 with support at 930.34.